

Proposed New Lease Form Provisions

- 1. Title Disputes**
- 2. Offset Wells**
- 3. Environmental Language**
- 4. Plugging and Abandoning**

Highlighted wording indicates changes from the current lease form.

Title Disputes

ISSUE:

- The proper procedure for satisfying royalty payment obligations in the event of a title dispute is presently unclear.

PRESENT LEASE FORM:

- Allows Board to reduce royalties payable directly to OMR.

NEW LEASE FORM:

- Lease form articulates the existing Board policy.
- Board may allow the entire amount of royalties payable to be deposited in interest bearing account or registry of court instead of paying OMR.

PROPOSED WORDING FOR PROVISION:

ARTICLE 17—TITLE DISPUTES

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 requested by Lessor, including the identity of the adverse claimant(s) and the nature of the dispute.

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

1. Request and obtain authorization from the State Mineral and Energy Board to suspend the direct payment of royalties due on the production attributable to the disputed acreage, deposit the royalty payments into an interest bearing escrow account at a FDIC insured financial institution having a presence within the State of Louisiana and otherwise fully comply with the title dispute protocol approved by the Board; or
2. Initiate a concursus proceeding and deposit the royalty payments attributable to the disputed acreage into the court's registry; or
3. Take other action as authorized by the Board.

Lessor shall accept the funds so deposited as royalty payments attributable to the disputed acreage such that Lessee shall not be held in default in payment of such royalties if properly computed and timely made in accordance with the terms and provisions of this Lease, pursuant to a Court Order or in accordance with the Board's authorization.

Nothing herein is intended to waive, release, relinquish or in any way diminish whatever rights the Lessor may have to review, examine, audit, dispute, challenge or contest any payments made or not made by or on behalf of a 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 royalties 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.

Upon termination of any escrow authority, concursus proceeding or other action authorized by the Board, royalty payments due on the production attributable to the disputed acreage shall be made in accordance with the terms of any settlement, compromise or final, definitive adjudication, and pursuant to the terms and provisions of this Lease.

Offset Wells

ISSUE:

- Language pertaining to the Lessee's responsibility to protect lease premises from drainage for an offsetting well(s) greater than 660 feet from the lease needs to be clarified.

PRESENT LEASE FORM:

- Language does specifically state the Lessee's obligation to protect the lease from drainage for well(s) completed greater than 660 feet from the lease.

NEW LEASE FORM:

- Clarifies that should the Lessee know or have reason to know based on geological, geophysical, or other relevant data that drainage of the lease is occurring, Lessee has the obligation to protect the lease from drainage.

PROPOSED WORDING FOR PROVISION:

ARTICLE 5—OFFSET WELLS

The obligations set forth in this Article are applicable to wells only drilled on property other than the Leased Premises, and which are not part of a pooled unit containing all or any portion of the Leased Premises or drilled on offsetting state lands or waterbottoms at a lesser royalty rate. Furthermore, the obligations shall be applicable to other state leases that have a lower royalty than the Leased Premises. Such non-unitized property is hereinafter referred to as "adjoining property."

(a) If at any time during or after the Primary Term there is completed on adjoining property a well located within six hundred and sixty (660) feet of the Leased Premises (or within any spacing or pooling unit distance greater than 660 feet established by the Commissioner of Conservation) and such well produces oil, gas, or other liquid or gaseous mineral in paying quantities for twenty (20) days (that need not be consecutive) during any period of thirty (30) days, or produces its monthly allowable during such thirty (30) day period, Lessee agrees that the following rebuttable presumptions will arise: (1) that the Leased Premises are thereby being drained; (2) that the Leased Premises are not being reasonably protected from drainage by any well or wells on the Leased Premises or land pooled therewith; and, (3) that an offsetting well on the Leased Premises would be economically feasible. If Lessee is the operator of or has a working interest in the wells on the adjoining property, Lessee will begin actual drilling operations for a well on the Leased Premises within ninety (90) days after the end of the above thirty (30) day period. In all other cases Lessee shall be required to begin such operations only within ninety (90) days after receipt of written notice from the Board through its staff of the expiration of the above thirty (30) day period. No offset well shall be necessary if, on or before the maturity date of the offset obligation or any deferred maturity date as hereinafter provided, any of the stated presumptions is rebutted or a unit for the well in question embracing all or part of the Leased Premises is formed by agreement with the Board or by order of the Commissioner of Conservation.

In lieu of commencing operations for an offset well as above provided, Lessee may, at Lessee's option, commence compensatory payments equal to the royalties herein provided, computed on one-half (1/2) of the oil, gas, or other liquid or gaseous mineral produced by the well in question on and after the date operations would have otherwise been commenced, value to be determined in accordance with the

royalty payment provisions of this Lease. Such payments may be commenced on or before sixty (60) days after the date operations would otherwise have been commenced, but shall include any accrued compensatory payments. Thereafter, payments shall be due monthly in accordance with royalty payment provisions herein. Lessee shall not be in default in either commencing compensatory payments or in making further payments as above provided if, despite due diligence, Lessee is unable timely to obtain the production information on which such payments are to be based. In any such case, however, Lessee must, on or before the due date of the payments, notify the Board in writing of Lessee's inability to make such payment, the reasons therefor, and Lessee's intent to make such payment at the earliest reasonable time. Compensatory payments may be continued, at Lessee's discretion, for not more than one year from the date that offset operations would otherwise have been commenced. At the end of that time, or within thirty (30) days from the end of any lesser period for which payments are made, Lessee shall comply with this offset obligation if the producing well continues to produce in paying quantities or to produce its allowable and the other conditions making this obligation operative are existent. The right to make compensatory payments is intended to permit Lessee to evaluate further the producing well, and the making of such payments shall not of itself be sufficient to maintain this Lease if the Lease is not otherwise being maintained in force and effect; however, the making of any such payments shall not prejudice Lessee's right to rebut any of the above enumerated presumptions.

(b) In addition to the specific offset drilling obligation above provided, should Lessee know or have reason to know by examination of geological, seismic or other relevant data that drainage of the leased premises is occurring, Lessee agrees to protect the Leased Premises from drainage of oil, gas, or other liquid or gaseous minerals by a well or wells on adjoining property that may be more than six hundred and sixty (660) feet from the Leased Premises, by whatever means necessary, including the drilling of a well or wells on the Leased Premises, or obtaining the formation of appropriate drilling or production units, or to take any other steps reasonably necessary to protect the Leased Premises against such drainage. If Lessee is the operator of or has a working interest in any such well on adjoining property, Lessee shall be obligated to take such other steps as may be reasonably necessary to protect the Leased Premises within ninety (90) days from the time Lessee knows or reasonably should know that drainage is occurring. In all other cases Lessee shall not be obligated to begin such operations or take such other steps until receipt of written notice from the Board.

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

Environmental Language

ISSUE:

- Environmental requirements in current lease form do not meet current industry standards.

PRESENT LEASE FORM:

- Environmental language is brief and outdated.

NEW LEASE FORM:

- Requires site cleanup to be in compliance with all state and federal laws and regulations.
- Specifies responsibility and clean-up requirements.
- Requires reasonable precautions to be taken to prevent fire or explosion.

PROPOSED WORDING FOR PROVISION:

ARTICLE 13—ENVIRONMENTAL LAWS AND REGULATIONS

(a) Lessee hereby agrees that in exercising the rights granted it under the Lease, it will comply with and be subject to all applicable State and Federal environmental laws and regulations. Lessee further agrees that it will comply with all minimum water quality standards validly adopted by said governmental authorities with respect to pollution, noxious chemicals, and waste being introduced into affected water areas. Further, in conducting all operations under this Lease requiring dredging, filling, or navigation in order to conduct oil and gas exploration and production operations, Lessee shall comply with the applicable requirements for the permitting of such activities in said area.

(b) For the purpose of this Lease, any material now or hereinafter designated as or containing components now or hereinafter designated as hazardous, toxic, dangerous, or harmful, and/or that are subject to regulation as hazardous, toxic, dangerous, or harmful material by any federal or state law, regulation, statute, or ordinance shall be transported, stored, and handled in accordance and compliance with the provisions of applicable federal or state law including, but not limited to, 42 U.S.C. 6901, et seq. (RCRA), 42 U.S.C. 9601, et seq. (CERCLA), existing presently or as subsequently enacted or amended.

ARTICLE 14—RESPONSIBILITY FOR ENVIRONMENTAL DAMAGE

(a) Lessee shall be responsible for any pollution or other damage to any portion of the environment that occurs as a result or consequence of Lessee's occupation, oil and gas exploration, production operations, and use of the premises, irrespective of whether such pollution or damage may be due to negligence or to the inherent nature of Lessee's activities or operations. Lessee shall use the highest degree of care and all proper safeguards to prevent pollution resulting from drilling, construction, transportation, and other oil and gas exploration and production operations pursuant to this Lease. Lessee shall use all means at its disposal to recapture all escaped pollutants and shall be solely responsible for all damages, if any, to aquatic or marine life, wildlife, birds, and any public or private property that may result from any such pollution occasioned by Lessee's operations hereunder. Lessee shall report all unpermitted discharges of pollutants pursuant to any federal or state statutes and regulations and to Louisiana Department of Environmental Quality and Louisiana Office of Conservation within five (5) calendar days or the time required by federal or state laws, whichever is earlier.

All reasonably necessary preparations and precautions shall be made by Lessee in order to prevent fire and explosion and to prevent contamination of any portions of the total environment of the Leased Premises, provided that nothing herein shall be construed as lessening or reducing Lessee's obligations under other applicable statutes, rules, and regulations of the State of Louisiana and the United States of America.

(b) Lessee shall indemnify, defend, and hold harmless Lessor and its employees, officers, and agents with respect to any and all damages, costs, liabilities, fees (including reasonable attorneys' fees and costs), penalties (civil or criminal), and cleanup costs arising out of or in any way related to Lessee's use, disposal, transportation, generation, sale, and location upon or affecting the Leased Premises of Hazardous Substances as defined in Section 13(b) of this Lease. This indemnity shall extend to actions of Lessee's employees, agents, assigns, subleases, contractors, subcontractors, licensees, and invitees. Lessee shall further indemnify, defend, and hold harmless Lessor from any and all damages, costs, liabilities, fees (including reasonable attorneys' fees and costs), penalties (civil or criminal), and cleanup costs arising out of or related to any breach of the provisions of this Lease concerning Hazardous Substances and/or negligent operations. This indemnity is in addition to, and in no way limits, the general indemnity contained in Article 23 of this Lease.

(c) Further, in conducting any operations under this Lease requiring dredging, filling, or navigation in order to conduct oil and gas exploration and production operations, Lessee shall comply with the applicable requirements for the permitting of such activities in said area. Lessee agrees that, upon completion of oil and gas exploration and production operations under this Lease, Lessee shall remove all facilities, materials, and equipment that would impede commercial fishing and trawling, including, without limitation, all submerged materials, equipment, or debris placed on the Leased Premises by or for the account of Lessee; and Lessee shall return or restore, to the extent reasonably possible of accomplishment, all affected water bottoms to a condition as nearly equivalent to that which existed before said operations were conducted and/or structures were constructed. Lessee further agrees that in exercising the rights granted hereunder and in discharging the obligations undertaken, it will allow sufficient lead time in the planning of its activities to permit the affected regulatory agencies to make appropriate review of the proposed operations.

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

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

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

Plugging and Abandoning

ISSUE:

- Leased premises need to be restored after operations have ceased.
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PRESENT LEASE FORM:

- Lessee is obligated to plug and abandon all wells on the premises no longer necessary for operations or production.
- Lessee is obligated to remove all structures and facilities from the premises.
- Work must be performed within one year of lease termination.

NEW LEASE FORM:

- Cleanup must be performed within one year from termination of lease, but obligation does not terminate at that time.
- Requires Lessee to submit a list of plugged and unplugged wells on lease.
- Provides for liquidated damage penalty to ensure compliance.

PROPOSED WORDING FOR PROVISION:

Article 12 – Abandonment and Restoration

A. Lessee, its successors, transferees and assigns, no later than one year from the expiration or termination of all or any portion of this Lease, regardless of whether a formal Release has been duly recorded as required by Article 11 hereof, shall be obligated to: (1) plug and abandon all wells on the Leased Premises or portion thereof that are no longer necessary for operations or production, (2) remove from the Leased Premises or portion thereof all structures and facilities serving said wells, and (3) restore the Leased Premises or portion thereof to its original condition, all at Lessee's sole risk, cost and expense, and subject to compliance with all applicable laws, rules and regulations. Lessor recognizes Lessee's right and obligation 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. Under no circumstance shall Lessee or its agent be permitted to salvage and/or remove equipment, machinery, structures or facilities servicing said wells until the wells are plugged and abandoned in accordance with all applicable laws, rules and regulations.

B. Failure of Lessee to satisfy the rights, duties and obligations set forth in Paragraph A above during the designated one year period shall render Lessee liable for any and all costs and expenses incurred by Lessor for plugging and abandoning all wells, removing or disposing of said casing, structures and facilities and restoring the Leased Premises or portion thereof to its original condition. However, under no circumstance shall title to or ownership of said casing, structures or facilities be forfeited to, vest in or transfer to Lessor, nor shall said casing, structures or facilities be deemed "improvements" to the Leased Premises for ownership purposes.

C. After one year from the expiration or termination of all or any portion of this Lease, Lessee may not trespass upon the Leased Premises to remove any machinery, equipment, structures or facilities, draw casing from any well nor initiate plugging and abandonment or cleanup obligations without the express approval of the Board. Lessee shall remain obligated under this Lease to appear before the Board to

request an extension of time and present an abandonment plan and schedule to fulfill its obligations to properly plug and abandon all wells, remove from the premises all structures and facilities serving said wells and restore the Leased Premises to as near as possible its pre-lease condition. The Board may grant Lessee temporary access to the Leased Premises to carry out its plan, or the Board may exercise its option to pursue any and all other means at its disposal to satisfy these obligations.

D. In addition to restoration of the Leased Premises as contemplated and required by this Lease, 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 or any successor statute.

E. Failure of Lessee to satisfy the rights, duties and obligations set forth in Paragraph A above shall subject Lessee, after notice, to assessment of a liquidated damage in the amount of One Hundred (\$100.00) Dollars per day, commencing one year (365 days) from the expiration or termination date of the Lease or portion thereof, whichever is applicable. This liquidated damage shall continue until all such rights, duties and obligations are fully satisfied, unless Lessee, prior to expiration of the designated one year period, requests and, for good cause shown, receives approval of an extension of time from the Board to satisfy these rights, duties and obligations. Lessee will be notified of this liquidated damage assessment on a quarterly basis.