

*Ord.*  
**2013-0383**

**INTRODUCED BY: V.J. ST. PIERRE, JR., PARISH PRESIDENT**

**ORDINANCE NO. 13-10-19**

An ordinance to authorize St. Charles Parish to publicly advertise and receive sealed bids for an oil, gas and mineral lease regarding the application by Merlin Oil & Gas, Inc. involving various properties in Sections 11 and 14, T12S-R8E, St. Charles Parish, Louisiana.

**WHEREAS,** Merlin Oil & Gas, Inc., c/o Mark K. Miller, P. O. Box 52928, Lafayette, LA 70505 has filed an application with St. Charles Parish for the public advertisement and receipt of sealed bids for an oil, gas and mineral lease covering the following described land situated in St. Charles Parish, Louisiana, to-wit: Those certain portions of ground situated in the Parish of St. Charles, State of Louisiana, Sections 11 and 14, T12S-R8E in that part thereof known as Cloverleaf Subdivision, as per plan by Murphy Engineering, Inc., based on survey of J. J. Krebs and Sons, Inc., dated September 21, 1972, a copy of which is on file in COB 138, folio 628, #43633 in the Office of the Clerk of Court, St. Charles Parish, Louisiana, being more particularly described as follows: Lots 10, 11, 12 Square 2; Lots 8, 9, 10, 11, 12 Square 8; Lot 23 Square 2; Lots 18 and 19 Square 3; Lot 10 Square 11 and Lot 20 Square 11, said lots containing 2.697 acres, more or less; and,

**WHEREAS,** it is the desire of St. Charles Parish to publicly advertise and receive sealed bids for an oil, gas and mineral lease regarding the application by Merlin Oil, & Gas, Inc.

**THE ST. CHARLES PARISH COUNCIL HEREBY ORDAINS:**

**SECTION I.** That St. Charles Parish be authorized to publicly advertise and receive sealed bids for an oil, gas and mineral lease, all in accord with the provisions and procedures contained in LRS 30:151, et seq, regarding the application by Merlin Oil & Gas, Inc. on the various properties described above, located in Sections 11 & 14, T12S-R8E.

**SECTION II.** That the Parish President is hereby authorized to execute any and all documents necessary to complete said transaction on behalf of St. Charles Parish.

The foregoing ordinance having been submitted to a vote, the vote thereon was as follows:

YEAS: SCHEXNAYDRE, FAUCHEUX, WILSON, WOODRUFF, HOGAN, COCHRAN, FLETCHER, FISHER-PERRIER

NAYS: NONE

ABSENT: BENEDETTO

And the ordinance was declared adopted this 21st day of October, 2013 to become effective five (5) days after publication in the Official Journal.

ACTING CHAIRMAN: \_\_\_\_\_  
SECRETARY: \_\_\_\_\_  
DLVD/PARISH PRESIDENT: 10/22/13  
APPROVED:  DISAPPROVED: \_\_\_\_\_  
PARISH PRESIDENT: W. St. Pierre  
RETD/SECRETARY: 10/24/13  
AT: 1:40 pm RECD BY: \_\_\_\_\_

RESCINDED  
By Ord. 13-12-4  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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

**STATE OF LOUISIANA  
PARISH OF EAST BATON ROUGE**

State Agency Lease No. ^^  
Louisiana State Lease Form Revised 2000

**WHEREAS**, under the provisions of Sub-Part B of Chapter 2, Title 30 of the Louisiana Revised Statutes of 1950, as amended, and other applicable laws, the State Mineral and Energy Board of the State of Louisiana (sometimes hereinafter referred to as "Mineral Board" or "Board"), acting pursuant to the request of ^^, advertised for bids for a lease covering oil, gas and other liquid or gaseous minerals in solution and 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 ^^ at a meeting of the State Mineral and Energy Board of the State of Louisiana; and

**WHEREAS**, by resolution duly adopted, the State Mineral and Energy Board accepted the bid of ^^ whose mailing address is ^^ (hereinafter referred to as "Lessee") as being the most advantageous to said state agency:

**NOW THEREFORE**, be it known and remembered that the State Mineral and Energy Board of the State of Louisiana, acting under said authority, and acting for and in behalf of the ^^ as Lessor, does hereby lease, let, and grant exclusively unto the said Lessee, and Lessee's successors and assigns, the property described below for the purpose of exploring by any method, including but not limited to geophysical and geological exploration for formations or structures and prospecting and drilling for and producing oil, gas, and any other liquid or gaseous minerals in solution and produced with oil or gas, hereinafter sometimes referred to for convenience as oil, gas or other liquid or gaseous mineral. In connection therewith Lessee shall have the right to use so much of the property as may be reasonably necessary for such operations, including but not limited to storing minerals and fluids in facilities or by means other than subsurface storage; laying pipelines; dredging canals; and building roads, bridges, docks, tanks, power stations, telephone and electric transmission lines, and other structures and facilities. The leased property, situated in the Parish of ^^ State of Louisiana, is more fully described as follows:

<legal\_description>

This lease excludes free sulphur, potash, lignite, salt and other solid minerals. Lessee shall not have any rights to explore, drill for, mine, produce or take any action whatsoever in regard to any such solid mineral deposits.

Notwithstanding any language herein to the contrary, the rights granted herein exclusively to the mineral 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 mineral lease and includes all or a portion of the surface area encompassed within the geographical boundary of the leased premises herein. The said seismic permittee shall owe the mineral Lessee no duty to share seismic or geophysical information acquired under the predating permit nor to reimburse the mineral Lessee for surface usage, but said seismic permittee shall not unreasonably interfere with the mineral Lessee's exercise of its rights acquired hereunder and shall owe the mineral Lessee reasonable reimbursement for any actual damages caused by the seismic or geophysical operations carried out under the predating permit.

Further, in accordance with Article XII, Section 10 of the Constitution of Louisiana, and notwithstanding any language herein to the contrary, the rights granted herein exclusively to the mineral Lessee shall be subject to the surface usage for integrated coastal protection or hurricane and flood protection projects promulgated, funded and effected through the State of Louisiana, the Louisiana Coastal Protection and Restoration Authority, the Louisiana Office of Coastal Protection and Restoration, and the Department of Natural Resources and its divisions, whether solely or in conjunction with other state, local or federal governmental agencies or with private individuals or entities. Lessee shall hold the State of Louisiana, its political subdivisions, the Louisiana State Mineral and Energy Board, the Department of Natural Resources and its divisions, the Louisiana Coastal Protection and Restoration Authority, the Louisiana Office of Coastal Protection and Restoration, the United States, and each of their agents and employees, and all other relevant agencies free and harmless from any claims for loss or damages to the rights of any party arising under this lease or any other contract, lease, permit, or license granted to any individual or other entity for any purpose on state lands or water bottoms from diversions of freshwater or sediment, depositing of dredged or other materials, integrated coastal protection project, or any other actions, taken for the purpose of management, preservation, enhancement, creation, protection, or restoration of coastal wetlands, water bottoms, or related public or renewable resources. The mineral Lessee, in the exercise of its exclusive rights granted hereunder, shall utilize the best technology available, including directional drilling so as to minimize interference with the ongoing surface usage entailed in the development, construction and maintenance of the said integrated coastal protection and/or hurricane and flood protection projects which will now or may utilize all or a portion of the premises leased for mineral exploration and development herein. Rights to geothermal resources are specifically excluded from this lease.

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

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

3. If actual drilling operations are not commenced hereunder on the leased premises in good faith on or before one year from the date hereof, this lease shall then terminate unless Lessee on or before the expiration of that period shall pay or tender to the Lessor the sum of ^^ Dollars (hereinafter called "rental") which shall not be less than one-half of the above cash payment and which shall extend for twelve (12) months the time within which drilling operations may be commenced. Thereafter, annually, in like manner and upon like payments or

tenders, all of Lessee's rights hereunder may be maintained without actual drilling operations for successive periods of twelve (12) months each during the primary term. Payment or tender of rental may be made by check or draft of Lessee made payable to the order of Lessor and delivered or mailed by registered mail to the Lessor on or before the rental paying date.

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

(b) If at the expiration of the primary term oil, gas or other liquid or gaseous mineral is not being produced hereunder but on or before that date (or on or before the end of ninety (90) days following cessation of production or abandonment of a well, if a well be abandoned or production should cease within ninety (90) days prior to the expiration of the primary term) Lessee commences actual drilling or reworking operations on the leased premises in an effort to make the premises produce any such minerals (or production is commenced or resumed during such ninety (90) day period), then this lease shall continue in force so long as such operations are being conducted in good faith without lapse of more than ninety (90) days between cessation of operations and their recommencement whether on the same well or wells or on a different well or wells successively or so long as the production so commenced or resumed is obtained in paying quantities. If at any time or times after the expiration of the primary term production hereunder should for any reason cease or terminate, Lessee shall have the right at any time within ninety (90) days from cessation of production to resume production or actual drilling or reworking operations in an effort to make the leased premises again produce any of such minerals, in which event this lease shall remain in force so long as such operations are continued as above provided. If as a result of any such operations, oil, gas, or other liquid or gaseous minerals be found and produced or the production of any of them be restored, this lease shall continue in force so long as any of them is produced hereunder in paying quantities or this lease is otherwise being maintained as herein provided.

(c) This lease may be maintained in force by directional drilling operations (deviation from vertical), in which event 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.

(d) Wherever used in this lease, "actual drilling operations" means actual drilling (commenced by spudding in) of a new well, or the good faith deepening, sidetracking, or the plugging back or attempted recompletion in a separate interval of an existing well (all such operations being commenced by actual downhole operations); and "reworking operations" means reconditioning, cleaning out, or otherwise attempting in good faith to establish, increase, or restore production in an existing well by downhole operations. "Installation of equipment" to complete a well as a producer, as that phrase is used herein, shall not include the installation of flow lines or other surface facilities of any kind whatsoever needed to produce the well, but refers to that equipment necessary to maintain downhole completion activity. Once commenced, any such operations shall be deemed to continue so long as they are conducted in good faith without lapse of more than ninety (90) days. Actual drilling operations shall be deemed to terminate on the last day actual operations of any kind, such as drilling, testing, or installation of equipment are conducted in good faith for the purpose of attempting to discover minerals or to complete a well as a producer. Reworking operations shall be deemed to terminate on the last day such operations are conducted in good faith for the purpose of establishing, increasing, or restoring production. "Paying Quantities" as used in this lease means paying quantities as defined by Article 124 of the Louisiana Mineral Code, provided that in addition thereto, and notwithstanding the provisions of Article 125 of said Code, the royalties payable on such production must also be sufficient to constitute a serious or adequate consideration to Lessor to maintain this lease in effect.

5. The obligations set forth in this Article are applicable only to wells drilled on property which is not part of a pooled unit containing all or any portion of the leased property. Such property is hereinafter described in this Article 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 (which need not be consecutive) during any period of thirty (30) days, or produces its monthly allowable during such thirty (30) day period, 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 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 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 of 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 provisions of Article 6 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 Article 6(g). 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 on which 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, Lessee agrees to drill any and all wells necessary to protect the leased premises from drainage of oil, gas, or other liquid or gaseous mineral by a well or wells on adjoining property or to take any other steps reasonably necessary to protect the leased premises against such drainage, including, but not limited to, obtaining the formation of appropriate drilling or production units. If Lessee is the operator of or has a working interest in any well on adjoining property, Lessee shall be obligated to begin actual drilling operations for a well on the leased premises or to take such other steps as may be reasonable 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 be obligated to begin such operations or take such other steps only within ninety (90) days after receipt of written notice from the Board.

(c) In those instances in which notice is expressly required under paragraph (a) or (b), above, damages, if due, shall be computed only from the date on which notice is received or, if Lessee commences compensatory payments, the date on which such payments are discontinued. In those instances in which 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. 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.

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

(a) <sup>^</sup>of the value, as hereinafter provided, of all oil, including condensate or other liquid mineral, produced and saved or utilized by methods considered ordinary production methods at the time of production. The value of such oil shall not be less than the average price for oil of like grade and quality posted for the field in which this lease is situated. If there is no price posted for the field in which this lease is situated, the value of such oil shall be not less than the average of prices posted for oil of like grade and quality for the three fields nearest to the field in which this lease is situated for which such prices are posted. If Lessee enters into an oil sales contract which, at the time of execution, provides for a price equal to or in excess of the appropriate average price referred to in the two preceding sentences, the price payable under the terms of the contract at the time such oil is run shall be the value of such oil, even though the appropriate average changes during the life of the contract; however, any such contract must have been prudently negotiated under the circumstances existing at the time of execution. If Lessee is unable, after diligent effort, to sell such oil for a price equal to or in excess of the appropriate average price and Lessee consequently negotiates a contract to sell such oil to an independent party at a lesser price, the value of such oil for the duration of any such contract (but not in excess of one year) shall be the price received by Lessee under such contract.

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

If Lessee delivers such oil at a point outside the field in which this lease is situated, Lessee may deduct from the value of such oil the actual costs of transportation from the field to the point of delivery by means of facilities belonging to an independent party. If such transportation is by means of facilities owned by one other than an independent party, Lessee may deduct the actual cost of such transportation, but only if such cost is no greater than the fair value of the services performed; if actual cost is greater than fair value, the fair value shall determine the amount deductible; however, if the facilities used are regulated as a common carrier by a state or federal regulatory agency, the authorized tariff chargeable for the services rendered and paid by Lessee shall be deemed the fair value of such services. If such transportation is by means of any facilities owned by Lessee, Lessee may deduct from the value of production a reasonable sum for such services, computed as follows: the amount deductible shall include only (1) the direct cost of 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.

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

(b) <sup>^</sup> of the value as hereinafter provided, of all gas, including casinghead gas, produced and saved or utilized by methods considered as ordinary production methods at the time of production. When such gas is sold by Lessee to an independent party under an arms' length contract prudently negotiated under the facts and circumstances existing at the time of its execution, the value of such gas and of gas utilized by Lessee shall be the price received by Lessee for such gas under the contract. If the purchaser is not an independent party but the contract would have been considered prudently negotiated under the facts and circumstances existing at the time of its execution if made with an independent party, then the value of the gas shall be the price received by Lessee under the contract; if the contract would not have been considered prudently negotiated if made with an independent party, the value of such gas shall be its fair value at the time of

production but not 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 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 quantities of gas. In all other cases the value of such gas shall be the average stated in the last clause of the preceding sentence.

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 producing function at the time such gas is produced. Without limiting the foregoing sentence and without regard to classification as production costs or otherwise, the following costs are not to be deducted from the value of production: (1) costs incurred for gathering or transporting production in the field; or (2) costs incurred for dehydrating, decontaminating, or in any way processing production to make it marketable by methods considered ordinary at the time such gas is produced. The performance of any producing function or any function mentioned in clause (2) of the foregoing sentence at a commingled facility in or outside the field in which this lease is situated shall not make the cost of any such function deductible. Without regard to classification as production costs or otherwise, 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.

If Lessee delivers such gas at a point outside the field in which this lease is situated, Lessee may deduct from the value of such gas a reasonable sum for transportation from the field to the point of delivery by means of facilities belonging to an independent party, not in excess of actual cost. If such transportation is by means of facilities owned by one other than an independent party, Lessee may deduct the actual cost of such transportation, but only if such cost is no greater than the fair value of the services performed; if actual cost is greater than fair value, the fair value shall determine the amount to be deducted. If such transportation is by means of any facilities owned by lessee, lessee may deduct from the value of production a reasonable sum for such services, computed as follows: the amount deductible shall include only (1) the direct cost of 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.

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

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

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

When the cost of processing is not met by retention by the processor of a share of the products or in any other case in which Lessee is to deduct from the value of such products the cost of processing, the charges shall be determined as follows. If the gas is processed by an independent party or parties under a contract prudently negotiated under the facts and circumstances existing at the time of execution, the charges deducted shall be those provided in such contract. In all other cases, including processing by those other than an independent party or parties and those in which Lessee itself or in conjunction with others owns the plant, the charges should be determined by contract between Lessee and Lessor. In the absence of such a contract the charges to be deducted shall include only the 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.

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

(d)(i) If at any time or times (during or after the primary term) there is on the leased premises a well or wells capable of producing gas in paying quantities, which fact has been duly verified and confirmed in accordance with Lessor's requirements for proof thereof, but gas is not being used or marketed therefrom because of the lack of a reasonable market or marketing facilities or governmental restrictions and if this lease is not then being otherwise maintained by separate operations or production, this lease shall, nevertheless, remain in full force and effect for a period of ninety (90) days after cessation of such production or such operations or the shutting in of such well. If, on or before the expiration of the ninety (90) day period, production or operations shall not have been commenced or resumed, Lessee, in order to maintain the lease in force thereafter, shall commence semi-annual payments to the Lessor at the rate and in the manner provided

hereinbelow and thereby maintain the lease in full force and effect during the periods covered by such payments; however, if the ninety (90) day period should expire during the first year of the primary term or during any year for which a rental has previously been paid, the initial payment hereunder shall not be required until the next anniversary date of the lease. The first payment, if made, shall be tendered on or before the expiration of the ninety (90) day period or the appropriate anniversary date, as the case may be, and shall maintain this lease for six (6) months, commencing from the expiration of the ninety (90) day period or the anniversary date. Subsequent payments shall be made at six (6) month intervals thereafter (herein referred to as "shut-in payment dates"). Unless additional payment periods are earned as hereinafter provided, Lessee's right to make such payments shall continue for six (6) semi-annual periods (the total of which is herein called "initial payment period"). Each semi-annual payment shall be at the rate of twenty-five dollars (\$50.00) per acre for the number of acres then covered by this lease, but no payment shall be less than five hundred dollars (\$1,000.00). Each payment shall maintain this lease in full force and effect for a period of six (6) months, and during each period for which a payment has been made, it shall be considered that gas is being produced hereunder for all purposes hereof, but especially under the provisions of Articles 2, 4, 7, and 9; however, if the provisions of this paragraph 6(d)(i) are in conflict with those of any other articles hereof, the provisions of this paragraph shall be controlling.

(d)(ii) If at any time or times (during or after the primary term) there is on the leased premises, or off the leased premises, but affecting the leased premises by means of a unit including all or a portion of this leased premises, a well or wells capable of producing oil in commercial quantities, which fact has been duly verified and confirmed in accordance with Lessor's requirements for proof thereof, but oil is not being used, produced, or marketed therefrom because of the lack of a marketing contract after reasonable attempts to secure same, or lack of production or marketing facilities, and if this Lease is not then being otherwise maintained by separate operations or production, this Lease shall, nevertheless, remain in full force and effect for a period of ninety (90) days after cessation of such production or such operations, or the shutting in of such well. If, on or before the expiration of the ninety (90) day period, production or operations shall not have been commenced or resumed, Lessee, in order to maintain the Lease in force thereafter, shall pay one or more semi-annual payments at the rate and in the manner provided herein below and thereby maintain the Lease in full force and effect during the period or periods covered by the payment or payments. If the ninety (90) day period should run during the first year of the primary term or during any year for which a rental has previously been paid or from which a rental has been exempted by drilling or production across an anniversary date, the initial payment hereunder shall not be required until the next anniversary date of the lease. However, if operations or production ceases after the primary term, the first payment shall be made on or before the expiration of the ninety (90) day period and shall maintain this Lease for six (6) months, commencing from the expiration of the ninety (90) day period [Initial Oil Shut-in Period]. Should the securing of a marketing contract or production or marketing facilities not be accomplished during the Initial Oil Shut-in Period and production of oil established, despite diligent effort by Lessee and recognition of such effort on the part of the Lessee by the Board, the Board may grant an additional Oil Shut-in period, or periods, as warranted under the same terms herein stated and for the same consideration as herein below set forth. Failure to make or tender the Oil Shut-in payment on or before an Oil Shut-in payment due date shall terminate this lease.

The initial Oil Shut-in semi-annual shut-in payment, and any subsequent Oil Shut-in payment which may be granted, shall be at the rate of Fifty Dollars (\$50.00) per acre multiplied times the then existing number of acres covered by this lease and being maintained by the shut-in well, but no such payment shall be less than One Thousand Dollars (\$1,000.00). Each payment shall maintain this Lease in full force and effect for a period of six (6) months, and during each period for which a payment has been made, it shall be considered that oil is being produced hereunder for all purposes hereof; however if the provisions of this paragraph are in conflict with those of any other paragraph hereof, the provisions of this paragraph shall be controlling.

If on any Oil Shut-in payment date, actual drilling operations are being conducted on or actual production of oil in paying quantities is being obtained from the lease premises, no Oil Shut-in payment shall be due.

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

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

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

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

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

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

(e) <sup>^</sup> of any and all other liquid or gaseous minerals in solution and produced with oil or gas and saved or utilized, which are not specifically mentioned herein, said royalties to be delivered or paid when marketed or utilized as is the accepted practice in such matters.

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

(g) The first payment of royalty shall be made within one hundred twenty (120) days following commencement of production from, or allocation of production to the leased premises, except that in the case of any production from or allocable to the leased premises, which has occurred prior to the date of 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 date of this lease. Thereafter, royalty on oil, including condensate or other liquid mineral, produced and saved at the well by ordinary production methods shall be paid by the 25th of each month for production of the previous month; and royalty on gas, including liquids or other products extracted or processed from gas other than by ordinary production methods, or other liquid or gaseous mineral not specifically mentioned shall be paid on or before the 25th day of the second month following that in which produced or extracted or processed. In the event any royalty payment is not correctly or timely made, the remedies provided by L.A.R.S. 31:137 through 142 relative to notice, damages, 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.

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

7. (a) Lessee may surrender 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 or surrender shall reduce or otherwise affect the amount of rentals provided for in Article 3 of this lease. Nor shall any release of the lease, in whole or in part, relieve original Lessee or any of its successors or assigns of any obligations to plug and abandon wells, clean up the well or production site, or any other obligations arising under Commissioner of Conservation rulings or regulations pertaining to the status of well sites.

(b) In the event of initial cancellation or forfeiture of this lease Lessee may retain forty (40) acres around each well capable of producing oil and one hundred sixty (160) acres around each well producing gas and around each shut-in well capable of producing gas in paying quantities (including wells drilled under this lease by directional drilling). If any well is then being worked on or being drilled, Lessee shall have the right to complete such operations, and in the event any such operations result in completion of a well capable of producing oil or gas in paying quantities, Lessee may retain acreage around each such well as above provided. Retained acreage around any well shall form as near a square tract as is practical. If any acreage covered by this lease shall have been included in a unit established by the Commissioner of Conservation, or by conventional agreement, or if any such acreage shall have been assigned to a producing or shut-in well under statewide allowable orders of the Commissioner and such acreage is actually being drained by the well or would be drained by it if the well were produced, Lessee may retain all the acreage included in such unit or units or so assigned for allowable purposes. Thereafter, each area so retained by Lessee shall be subject to the terms of this lease as regards future maintenance thereof.

(c) Within ninety (90) days after expiration or termination by its own terms of this lease or any portion thereof, 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, its successors or assigns, hereby waives any further notice of default or otherwise and confesses judgment as regards the liquidated damages accruing as herein set forth.

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

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

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

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

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

12. Lessee shall be obligated to plug and abandon all wells on the premises no longer necessary for operations or production on this lease, and to remove from the premises all structures and facilities serving said wells, all at Lessee's sole risk, cost and expense and subject to compliance with laws, rules and regulations. Failure of Lessee to do so within a reasonable time shall subject Lessee to and make Lessee liable for any and all costs or expenses of any kind incurred by the State for removing said facilities, but in no instance shall title to or ownership of said facilities automatically vest in or transfer to the State nor shall said facilities be deemed "improvements" to the leased premises for purposes of vesting title in same to the State. Prior to the date of first production from any site on this lease, Lessee shall create or cause to be created, under the direction of the Commissioner of Conservation pursuant to the Memorandum of Understanding among the Department of Natural Resources, the Commissioner of Conservation and the State Mineral and Energy Board dated August 8, 1995, a Site Specific Trust Account to be funded in a manner satisfactory to the Commissioner of Conservation in accordance with the rules and regulations promulgated under L.R.S. 30:80, et seq. The Site Specific Trust Account shall be reassessed and, if necessary, modified by the Secretary of the Department of Natural Resources and the Commissioner of Conservation prior to the date of first production of each additional well. In connection therewith, the right of Lessee to draw and remove casing from wells and to further remove any facilities no longer utilized in the operations or production on this lease is recognized, provided such right is exercised by Lessee not later than one year after termination of this lease or portion thereof on which the well is located. If such right of salvage is not timely exercised, Lessee shall be subject to and liable for any costs or expenses of any kind incurred by the State in removing or disposing of casing or other facilities, but under no circumstances shall title to said salvage transfer to or vest in the State nor shall it be forfeited by Lessee to the State. In addition to restoration of the leased premises as contemplated and required by this lease, Lessee shall be responsible for all damages to the leased premises, and in addition and without limitation for all damages to any timber, crops, roads, buildings, fences, and other improvements thereon. Lessee shall furnish bond as may be required at any time or times by Lessor, or such other security in lieu thereof as may be acceptable to Lessor, conditioned upon faithful performance of such obligations. In connection therewith, the right of Lessee to draw and remove casing from wells is recognized, provided such right is exercised by Lessee not later than one year after termination of this lease or portion thereof on which the well is located. If such right of salvage is not timely exercised, then the same shall be forfeited and said casing shall become the property of Lessor. In addition to restoration of the leased premises as contemplated and required by this lease, Lessee shall be responsible for all damages to the leased premises, and in addition thereto and without limitation for all damages to any timber, crops, roads, buildings, fences and other improvements thereon.

13. "If at any time this Lease is being validly maintained under any of its provisions and Lessee is in the process of either: A) commencing lease operations which are herein defined as spudding a well [turning-to-the-right], downhole drilling, or downhole reworking operations, or B) diligently, timely and in good faith performing requisite tasks to commence lease operations including, but not necessarily limited to, towing the required type of rig to a drill site, obtaining permitting from all necessary parties, or satisfying conditions and obligations under any validly enacted law, statute or regulation of an agency of the Federal Government, the State of Louisiana or any of its political subdivisions having proper jurisdiction, or C) producing in commercial quantities, and Lessee is prevented from continuing A, B, or C by the occurrence of a Force Majeure event, as herein below defined, and Lessee cannot maintain this Lease beyond any critical date under any other operative provisions of this Lease — such as the payment of a pro-rata rental based on the number of months remaining until the next anniversary date divided by twelve (12) and/or the full rental for a year if the force majeure effect prevails for an entire rental period [all during the primary term of the lease and only where rental payments may hold the lease], payment of deferred development or payment of shut-in/in-lieu royalty — then, and only then, shall the critical date be postponed on a day-for-day basis for so long as the effects of the Force Majeure prevail, providing that Lessee: i) has given the Office of Mineral Resources reasonable, timely written notice of the Force Majeure event occurrence [notice given beyond three months shall be deemed unreasonable barring consequential extenuating circumstances] which shall contain the date and type of the occurrence of the Force Majeure event, its effects in preventing continuation of A, B, or C above, the steps being taken to mitigate and eliminate those effects and an estimated time for resuming of A, B, or C above, and ii) is diligently, reasonably and in good faith attempting to mitigate and eliminate the effects of the fortuitous event and resume A, B, or C above, and iii) has exhausted Lease provisions other than Force Majeure which may serve to maintain the Lease in full force and effect. The interpretation and operation of any term of this Force Majeure clause is at the sole, reasonable discretion of the Mineral Board and/or its duly authorized staff. The operation of Force Majeure alone shall not maintain this Lease in full force and effect for more than one year from date of the fortuitous event unless extended by, and at the sole discretion of, the State Mineral and Energy Board.

Force Majeure, as herein utilized shall be defined as a fortuitous event such as: 1) a major storm, major flood, or other, similar natural disaster, or 2) a major accident such as a blowout, fire, or explosion beyond Lessee's control and not ultimately found to be the fault of Lessee [that is, due to Lessee's negligent or intentional commission or omission, or failure to take reasonable and timely, foreseeable preventative measures which would have mitigated or negated the effects of the fortuitous event], or 3) the lack of availability of any required equipment — such as the specific type of rig necessary to accomplish the task or specific types of casing or drill stem pipe — after Lessee has diligently, timely and in good faith attempted to secure same, or 4) the unreasonable delay by the Federal Government or any of its agencies, or the State of Louisiana or any of its agencies or political subdivisions (including, but not limited to, various departments, boards, commissions, parish governments and municipalities, each having proper authority and jurisdiction) in granting necessary permits, or 5) a valid order of any Federal or State court of competent jurisdiction, or 6) 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 the Lease are necessarily passed as part of production [and providing there is no other reasonably economical method of carrying on production]".

14. If on the date of this lease all or any portion of the leased premises is included in a unit established by order of the Commissioner of Conservation, Lessee agrees to pay royalty on all oil, gas or other liquid or gaseous mineral produced and saved or utilized and attributable to the leased premises from the date of such unit regardless whether all development and operating costs chargeable to the leased premises have been paid.



15. Lessee hereby agrees to indemnify, hold harmless and defend Lessor against any and all claims, demands or suits for bodily injury, death, property damage or loss of any kind by Lessee or Lessee's employees, agents, subcontractors and their employees or agents and by any third parties which arise out of or result from or which are in any way connected with Lessee's operations, whether resulting from the sole or concurrent negligence of Lessor, Lessee or other parties operating hereunder.

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

17. Notwithstanding any provisions to the contrary in this Lease, this Lease is granted and accepted without any warranty of title and without any recourse against Lessor whatsoever, either expressed or implied. It is expressly agreed that the Lessor shall not be required to return any payments received hereunder or be otherwise responsible to Lessee therefor.

18. In the event of any 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 of the nature of said adverse claim in reasonable detail, identifying the adverse claimant, and the basis and extent of Lessee's accountability to said adverse claimant for any oil, gas or other liquid or gaseous mineral produced from or attributable to such portion of the leased premises. Pending final and definitive adjudication or other settlement of said title dispute or litigation the royalties payable hereunder on oil, gas or other liquid or gaseous mineral produced from or attributable to only such portion of the leased premises may be reduced by Lessee, with prior written consent of Lessor, to one-half (1/2) of the royalties on production of said minerals herein elsewhere stipulated, but not below the minimum royalties of one-eighth (1/8th) on said minerals as required by L.R.S. 30:127, said reduced royalties on said minerals to be computed and paid or delivered to Lessor in the same manner as the royalties on said minerals herein elsewhere stipulated. Pending final and definitive adjudication or other settlement of said dispute or litigation, Lessee shall pay or deliver and Lessor shall accept said reduced royalties on production of said minerals as full payment of all royalties due hereunder on production of said minerals from said portion of the leased premises; and, Lessee shall have no right to suspend, fail to pay or recover said reduced royalties on production of said minerals. When said title dispute or litigation shall be finally resolved, whether by final and definitive judgment of court or other settlement, then the payment or delivery of said reduced royalties on production of said minerals shall cease, effective as of the effective date of said final and definitive adjudication or other settlement; and, from and after the effective date thereof, but not retroactively, royalties on said production of said minerals shall be paid or delivered in accordance with said final and definitive adjudication or other settlement and pursuant to the other provisions of this lease. All of the foregoing provisions of this paragraph are subject to Lessee's right to release as otherwise provided in this lease.

19. This lease is subject to the provisions of La. R.S. 30:127(G), and access by the public to public waterways through the state lands covered by the lease shall be maintained and preserved for the public by the lessee.

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

21. To the extent that this lease contains any "acreage retention" clause or clauses, lessee may not retain acreage where the state has been successful in obtaining a final, unappealable judgment dissolving the lease for reasons other than non-development.

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

### 23. Deferred Development

Notwithstanding anything to the contrary herein contained, it is understood and agreed that in the event during the primary term of this Lease, or within one (1) year thereafter (if the lease is then in force and effect), a portion of the property covered hereby is integrated and included or placed by itself or with other lands in a pooled or combined unit, whether by order of a governmental agency or by conventional contract, then unit drilling operations or unit reworking operations or unit production from a well situated on lands or property embraced in such unit or units (hereinafter collectively called "unitized operations"), shall serve to maintain this Lease in force and effect as to the entirety of the leased premises, subject however to the following express requirements in lieu of reasonable development of the "outside acreage", as hereinafter defined, which is not otherwise maintained under the terms of this Lease all as set out more completely hereinbelow in this Paragraph 23. If on the anniversary date of the Lease next ensuing after the commencement of unitized operations (or if the first date of unitized operations is less than 90 days prior to the anniversary date, then on the expiration of 90 days after such first date of unitized operations) the Lease is not being maintained under its terms by means other than unitized operations, the Lease shall terminate on said anniversary date (or at the end of said 90 day period, as the case may be) as to all outside acreage unless on or before said anniversary date (or the end of said 90 day period, as the case may be) Lessee pays or tenders to Lessor, as a deferred development payment, a sum of money equal to one-half of the rate per acre of the cash payment paid for the Lease multiplied by the number of acres then comprising the outside acreage, which tender or payment shall maintain this Lease in effect as to such outside acreage not otherwise maintained under the terms of the Lease until the next ensuing anniversary date. By similar tender or payment of a deferred development payment on or before each succeeding anniversary date this Lease may so be maintained in force during the remainder of the primary term (if any) and for two years thereafter as to such outside acreage. After the expiration of the periods during which the Lease may be maintained by deferred development payments as above provided, if this Lease at any time is not being maintained in effect by other than unitized operations, it shall terminate as to all outside acreage not otherwise so maintained under the provisions of this Lease, provided that if a unit or units are created after the expiration or said periods the effect of which is to convert non-unitized operations as hereinafter defined, into unitized operations, it shall be regarded for all purposes of this Lease as though there had been on the effective date of such unit or units a cessation of production on the outside acreage. If at any time during the primary term of the Lease or within one year thereafter there is a cessation of all non-unitized operations as hereinafter defined, whether same occurs as the result of the actual cessation of such operations or as the result of non-unitized operations being converted into unitized operations, then Lessee, in lieu of resuming non-unitized operations as provided in this Lease, may elect to maintain the Lease in effect as to the outside acreage by tendering or paying a deferred development payment, computed as hereinabove provided, on the next ensuing anniversary date of this Lease (or within 90 days from the cessation of non-unitized

operations if such cessation should occur less than 90 days prior to such anniversary date). If at any time during the second year after the primary term of the Lease, there is a cessation of non-unitized operations as hereinafter defined, whether same occurs as the result of the actual cessation of such operations or as the result of non-unitized operations being converted into unitized operations, then the entire Lease shall nevertheless remain in effect until the next ensuing anniversary date.

Nothing contained in this Paragraph 23 is intended to create nor shall have the effect of creating several or separate leases, or in any manner to extend, increase or limit the obligation of Lessee to protect the leased premises from drainage as stated in the Lease, or otherwise. If at any time, either during the primary term of the Lease or the limited extension of the Lease beyond its primary term as provided above in this Paragraph 23, as to the outside acreage not otherwise held under the terms hereof, Lessee conducts non-unit drilling operations or non-unit reworking operations or obtains non-unit production from the leased premises (collectively defined as "non-unitized operations"), then the provisions of this paragraph shall not thereafter apply so long as said non-unitized operations shall continue.

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

For purposes of this paragraph the following definitions shall apply:

(a) The term "anniversary date" shall mean the date of this Lease and the same date of each next ensuing year or years.

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

#### 24. Environmental and Other Considerations

Lessee hereby agrees, as one of the obligations of this lease, that in exercising the rights granted it under the Lease, it will comply with and be subject to all applicable environmental and other laws and regulations validly adopted or issued by the State of Louisiana, or its agencies, or by the United States, or its agencies. Lessee further agrees that it will comply with all minimum water quality standards validly adopted by said governmental authorities with respect to oil pollution and noxious chemicals and waste being introduced into affected water areas. Further, in conducting all operations under this Lease requiring dredging, filling, or local navigation in order to explore, develop or exploit shallow-water areas, Lessee shall comply with the applicable requirements of the appropriate Louisiana state agency charged with the environmental management of said area. Finally, it is understood and agreed that on depletion of production or completion of operations under this Lease, the Lessee shall remove all structures which would impede commercial fishing and crawling, including, without limitation, all submerged materials, equipment or debris placed on the leased premises by or for the account of Lessee; and the affected water bottoms shall, to the extent reasonably possible of accomplishment, be returned or restored 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 in this lease, involving issuance of advance certifications, permits or approvals, 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.

#### 25. Notice

Except in the situations where specific time periods are established for performance, Lessee shall not be in default under the Lease with respect to the violation of any provision of this lease until 30 days after written notice of such violation is received from Lessor, and Lessee has not corrected or commenced to correct such violation.

#### 26. Severability

In the event that any provision of this lease is declared to be illegal or unconstitutional, its nullity shall in no way impair the validity of the Lease or of other portions of the lease not declared illegal or unconstitutional; provided that Lessee shall not directly or indirectly institute or cause to be instituted any action seeking to declare the nullity or the unenforceability of this lease or any part hereof.

St. Charles Parish  
2.697 +/- Acres  
St. Charles Parish, LA



POB  
X=2,307,399.29  
Y=486,533.47

X=2,311,250.17  
Y=486,533.47

T12S - R8E

X=2,307,399.29  
Y=481,429.41

X=2,311,250.17  
Y=481,429.41

1 in = 1,000 ft

NAD 1927 State Plane South FIPS 1702

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