

**RATIFICATION AND JOINDER OF OPERATING AGREEMENT  
MACONDO PROSPECT**

WHEREAS, BP Exploration & Production Inc. ("BP"), as Operator, and MOEX Offshore 2007 LLC ("MOEX"), as Non-Operator, are parties to that certain Operating Agreement dated October 1, 2009 (the "Operating Agreement"), covering an offshore Gulf of Mexico block ("Block") and lease ("Lease") described on Exhibit "A", attached hereto and made a part hereof; and

WHEREAS, BP, Anadarko E&P Company LP ("AEP"), and Anadarko Petroleum Corporation ("APC") executed that certain Lease Exchange Agreement dated October 1, 2009, covering the Block and Lease (the "LEA Agreement"); and

WHEREAS, pursuant to such LEA Agreement, AEP and APC have been assigned, and BP, AEP, and APC have executed, certain Assignments of Record Title Interest (the "Assignments") dated effective October 1, 2009, ("Effective Time"), covering the Lease; and

WHEREAS, said LEA Agreement and Assignments stipulated that the record title interest so assigned to AEP and APC in the Lease would be subject to the Operating Agreement; and

WHEREAS, BP, AEP, and APC desire to eliminate any ambiguity as to the applicability of the Operating Agreement governing the Lease.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, AEP and APC do hereby ratify, confirm, and adopt and join the Operating Agreement effective as of the Effective Time, subject to the following working interest ownership percentages of the Lease by BP, MOEX, AEP, and APC:

BP EXPLORATION & PRODUCTION INC.	65.00%
MOEX OFFSHORE 2007 LLC	10.00%
ANADARKO E&P COMPANY LP	22.50%
ANADARKO PETROLEUM CORPORATION	2.50%

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1 of 3

Ratification and Joinder of Operating Agreement  
Macondo Prospect  
BP / MOEX / AEP / APC

**TREX-01243A**

ANA-MDL-000030610

EXECUTION PAGE FOR THE RATIFICATION AND JOINDER OF OPERATING  
AGREEMENT DATED October 1, 2009, BY AND BETWEEN BP EXPLORATION &  
PRODUCTION INC., ANADARKO E&P COMPANY LP AND ANADARKO PETROLEUM  
CORPORATION

Executed this 17<sup>th</sup> day of Dec, 2009, but effective as of the Effective Time.

BP EXPLORATION & PRODUCTION INC.

Kemper Howe  
Signature

Kemper Howe  
Printed Name

Attorney-in-Fact  
Title

ANADARKO E&P COMPANY LP

Steve Wallace  
Signature

Steve Wallace  
Printed Name

Attorney-in-Fact  
Title

ANADARKO PETROLEUM CORPORATION

Steve Wallace  
Signature

Steve Wallace  
Printed Name

Agent and Attorney-in-Fact  
Title

MOEX Offshore 2007 LLC

Naoki Ishii  
Signature

Naoki Ishii  
Printed Name

President  
Title

Exhibit "A"

Attached to and made a part of that certain Ratification and Joinder of Operating Agreement dated October 1, 2009, by and between BP Exploration & Production Inc., Anadarko E&P Company LP and Anadarko Petroleum Corporation

OCS-G	Area/Block	Lease Date	Acres	Royalty
32306	Mississippi Canyon/252	6/1/2008	5760	18.75%

**MACONDO PROSPECT  
OFFSHORE DEEPWATER  
OPERATING AGREEMENT**

*OS-2702-0A*

**TREX-01243B**



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**OPERATING AGREEMENT**  
**OUTER CONTINENTAL SHELF – GULF OF MEXICO**

This Agreement, effective as of October 1, 2009 (the "Effective Date"), is between BP Exploration & Production Inc. ("BP") and MOEX Offshore 2007 LLC ("MOEX"), the signers of this Agreement, each referred to individually as a "Party" and collectively as the "Parties."

Whereas the Parties own one or more Leases, identified in Exhibit "A" (*Description of Leases*), and desire to explore, appraise, develop, and operate the Leases for the production of Hydrocarbons;

Now, therefore, in consideration of the premises and mutual promises in this Agreement, the Parties agree to explore, appraise, develop, and operate the Contract Area under the following provisions:

## **ARTICLE 1 – CONTRACT APPLICATION**

### 1.1 Application in General

This Agreement governs the rights and obligations of the Parties relating, without limitation, to the exploration, appraisal, development, operation, production, treatment, gathering, and storage of Hydrocarbons. This Agreement does not apply to the fabrication or installation of Export Pipelines.

## 1.2 Application to the Contract Area

This Agreement applies to the entire Contract Area. Unless otherwise provided in this Agreement, all the rights and obligations in and under the Leases comprising the Contract Area, all property and rights acquired pursuant to this Agreement, and all Hydrocarbons are owned by the Parties according to their respective Working Interest or Participating Interest, as applicable.

## **ARTICLE 2 – DEFINITIONS**

### **2.1 Additional Testing, Logging, or Sidewall Coring**

Testing (excluding Production Testing), logging, or sidewall coring that is in addition to that approved by virtue of a previously approved well or subsequent operation.

### **2.2 Affiliate**

A corporation, company, limited liability company, partnership, or other legal entity that:

- (a) is owned or controlled by a Party,
- (b) is owned or controlled by another corporation, company, limited liability company, partnership, or other legal entity that is owned or controlled by a Party,
- (c) owns or controls a Party, or
- (d) is owned or controlled by a corporation, company, limited liability company, partnership, or other legal entity that owns or controls a Party.

For the purposes of this definition, ownership or control means the ownership, directly or indirectly, of fifty percent (50%) or more of the shares, voting rights, or interest in a corporation, company, limited liability company, partnership, or other legal entity.

### **2.3 Agreement**

This operating agreement, together with its attached Exhibits.

### **2.4 Annual Operating Plan**

The operational plan and estimate of Costs for activities and operations, as described in Article 6.4 (*Annual Operating Plan*).

### **2.5 Appraisal Operation**

An operation (including, but not limited to, an operation after an Appraisal Well has reached its Objective Depth but before the attempted completion of the well) conducted under Article 11 (*Appraisal Operations*).

1     **2.6     Appraisal Well**

2     A well proposed and drilled as an Appraisal Operation [including, but not limited  
3     to, a substitute well for an Appraisal Well abandoned under Article 11.1.4 (*AFE*  
4     *Overruns and Substitute Well*)].

5     **2.7     Authorization for Expenditure (AFE)**

6     A written description and Cost estimate of a proposed activity or operation  
7     accompanying a proposal for that activity or operation.

8     **2.8     Complete Recoupment**

9     The point in time when the Participating Parties have been reimbursed, through  
10    Hydrocarbon Recoupment, through Disproportionate Spending, or through a  
11    lump sum cash settlement, an amount equal to the Non-Participating Party's  
12    Non-Participating Interest Share of the Costs of the Non-Consent Operation  
13    multiplied by the applicable percentage provided in Article 16 (*Non-Consent*  
14    *Operations*).

15    **2.9     Confidential Data**

16    All proprietary geophysical, geological, geochemical, drilling, or engineering data  
17    acquired or derived from operations conducted under this Agreement and all  
18    analyses, compilations, maps, models, interpretations, and other documents that  
19    reflect or incorporate that data. The term also includes, but is not limited to:

- 20    (a)   the provisions of this Agreement, subject to Exhibit "I"; and
- 21    (b)   commercial, contractual, and financial information acquired or derived from  
22    activities or operations conducted under this Agreement;

23    however, the term does not include the fact that the Operator has let a contract  
24    for an activity or operation to be conducted under this Agreement. The term  
25    excludes "Confidential Information" as that term is defined in Exhibit "G."

26    **2.10    Contract Area**

27    The OCS Leases, or portions thereof, listed on Exhibit "A."

28    **2.11    Costs**

29    The monetary amount of all expenditures (or indebtedness) incurred by the  
30    Operator and the Participating Parties in the conduct of activities and operations,  
31    determined under this Agreement.

1       **2.12    Deepen or Deepening**

2           An operation to drill an existing well (including sidetracking a well) deeper than  
3           the stratigraphic equivalent of the Objective Depth of any prior operation  
4           conducted in the well.

5       **2.13    Deeper Drilling**

6           The drilling of an Appraisal Well or Development Well below the Deepest  
7           Producible Reservoir in existence when the well is proposed.

8       **2.14    Deepest Producing Reservoir**

9           The deepest Producing Reservoir in existence when a drilling or Deeper Drilling  
10          proposal is made.

11      **2.15    Define AFE**

12          The AFE for the Define Stage.

13      **2.16    Define Stage**

14          The stage of a Development Phase during which the Operator, with the  
15          assistance of the Project Team, if applicable, will (a) commence the  
16          implementation of a Development Plan, (b) complete enough of the detailed  
17          design of the Development System to enable contractors to formulate their bids  
18          on the components of the Development System, and (c) submit an Execution  
19          AFE to the Parties for their review and approval.

20      **2.17    Development Operation**

21          *An operation (including, but not limited to, a Recompletion, a Workover, the attempted*  
22          *completion of an Exploratory Well or an Appraisal Well, or an operation after a Development Well*  
23          *has reached its Objective Depth) conducted under Article 13 (Development Operations)*  
24          *or under Article 11.6 (Operations Before the Approval of the Development Plan).*

25      **2.18    Development Phase**

26          The proposals, activities, and operations associated with determining the  
27          feasibility of development and the design, fabrication or acquisition, and  
28          installation of a Development System.

29      **2.19    Development Plan**

30          The plan for a Development Phase, as described in Article 12 (*Development*  
31          *Phases*).

1       **2.20   Development System**

2           A Production System and its associated Facilities.

3       **2.21   Development Well**

4           A well proposed and drilled as a Development Operation [including, but not  
5           limited to, a substitute well for a Development Well abandoned under Article  
6           13.1.4 (*AFE Overruns and Substitute Well*)].

7       **2.22   Disproportionate Spending**

8           The payment of the Costs of an activity or operation by a Participating Party in  
9           excess of its Participating Interest Share of the Costs of that activity or operation  
10          in order to settle an Underinvestment previously incurred by that Participating  
11          Party.

12       **2.23   Election, Elect, Elects, Elected, Electing**

13          A response or deemed response by a Party to a proposal requiring approval  
14          under Article 8.2.2 (*Approval by Election*), or the act by a Party of responding to a  
15          proposal requiring approval under Article 8.2.2 (*Approval by Election*).

16       **2.24   Enhanced Recovery Project Team AFE**

17          The AFE that is to accompany a proposal for the formation of a Project Team  
18          whose sole scope of work is the design of an enhanced recovery and/or  
19          pressure maintenance program.

20       **2.25   Execution AFE**

21          A collection of AFEs, which, according to the submitting Party's estimates, will  
22          cover all of the Costs of the Execution Stage (which do not include the Costs of  
23          Development Wells), and which shall be deemed by the Parties to have been  
24          submitted as one AFE.

25       **2.26   Execution Stage**

26          The final stage of a Development Phase during which the Operator, with the  
27          assistance of the Project Team, if applicable, will complete the implementation  
28          of the Development Plan, implement the Execution AFE, and commence the  
29          first production of Hydrocarbons for that particular Development Phase.

30       **2.27   Exploratory Operation**

31          An operation (including, but not limited to, an operation after an Exploratory Well  
32          has reached its Objective Depth but before the attempted completion of the

1 well, except for Production Testing) conducted under Article 10 (*Exploratory*  
2 *Operations*).

### 3 **2.28 Exploratory Well**

4 A well proposed and drilled as an Exploratory Operation [including, but not  
5 limited to, a substitute well for an Exploratory Well abandoned under Article  
6 10.1.4 (*AFE Overruns and Substitute Well*)].

### 7 **2.29 Export Pipelines**

8 Pipelines to which a gathering line or lateral line downstream of the  
9 Development System is connected and which are used to transport  
10 Hydrocarbons or produced water to shore.

### 11 **2.30 Facilities**

12 Production equipment located downstream of the wellhead connections, which  
13 is installed on or outside the Contract Area in order to enhance, handle, or  
14 process Hydrocarbon production or transport Hydrocarbons to processing  
15 facilities. Facilities include, but are not limited to, control umbilicals, disposal  
16 wells and their associated components, flowlines, and gathering lines or lateral  
17 lines and their associated components that are paid for by the Joint Account.  
18 Facilities exclude (1) Production Systems, (2) Export Pipelines, (3) the equipment  
19 procured and utilized for an enhanced recovery and pressure maintenance  
20 program described in Article 12.11 (*Enhanced Recovery and/or Pressure*  
21 *Maintenance Program Proposals*), and (4) the facilities referred to in Article 15.2  
22 (*Facilities to Take in Kind*).

### 23 **2.31 Feasibility AFE**

24 The AFE for the Feasibility Stage.

### 25 **2.32 Feasibility Stage**

26 The stage of a Development Phase during which the Operator, with the  
27 assistance of the Feasibility Team, will attempt to find at least one scenario for  
28 the development of Hydrocarbons, which is technologically and economically  
29 feasible.



1       **2.33   Feasibility Team**

2       A group of employees, contractors, and/or consultants of the Participating  
3       Parties or their respective Affiliates that assists the Operator during the  
4       Feasibility Stage.

5       **2.34   Force Majeure**

6       An event or cause that is reasonably beyond the control of the Party claiming the  
7       existence of such event or cause, which includes, but is not limited to, a flood,  
8       storm, hurricane, loop current/eddy, or other act of God; a fire, loss of well  
9       control, oil spill, or other environmental catastrophe; a war, a civil disturbance, a  
10      terrorist act, a labor dispute, a strike, a lockout; an inability to immediately  
11      comply with a law, order, rule, or regulation; a governmental action or delay in  
12      granting necessary permits or permit approvals; and the inability to secure  
13      materials or a rig.

14      **2.35   HSE**

15      Health, safety, and environment.

16      **2.36   Hydrocarbon Recoupment**

17      An amount to be recovered by the Participating Parties from all or part of the  
18      Non-Participating Interest Share of the proceeds from the sale of future  
19      Hydrocarbon production equal to the Non-Participating Interest Share of the  
20      Costs of the Non-Consent Operation multiplied by the applicable percentage in  
21      Article 16 (*Non-Consent Operations*).

22      **2.37   Hydrocarbons**

23      The oil, gas, and associated liquid and gaseous by-products (except helium) that  
24      may be produced from a well bore on the Contract Area.

25      **2.38   Joint Account**

26      The account maintained by the Operator under this Agreement, showing the  
27      charges paid and credits received in connection with the activities and  
28      operations conducted under this Agreement.

29      **2.39   Lease**

30      Each OCS federal oil and gas lease (or portion thereof) identified in Exhibit "A"  
31      and each oil and gas lease covering one or more OCS blocks, or portions  
32      thereof, in the Contract Area that is acquired during the term of this Agreement

1 by the Operator and the Non-Operating Parties (including substitutions for and  
2 replacements of existing Leases).

3 **2.40 MMS**

4 The Minerals Management Service, United States Department of Interior, or its  
5 successor agency.

6 **2.41 News Release**

7 A press release or other public announcement or disclosure by a Party  
8 containing a reference, either directly or by implication, to this Agreement or the  
9 activities or operations herein contemplated, including, but not limited to, any  
10 public release via print media, broadcast news, internet, extranet, public  
11 networks or service providers, and discussions with journalists.

12 **2.42 Non-Consent Operation**

13 An activity or operation proposed and approved under this Agreement in which  
14 one or more Parties, having the contractual right to do so, Elect or Vote not to  
15 participate, except when an activity or operation is approved by Vote and the  
16 approval binds all Parties.

17 **2.43 Non-Operating Party**

18 A Party other than the Operator.

19 **2.44 Non-Participating Party**

20 A Party who, having the contractual right to do so, Elects or Votes not to  
21 participate in sharing the Costs, risks, and benefits (including the rights to  
22 Hydrocarbons) of an activity or operation proposed and approved under this  
23 Agreement, except when an activity or operation is approved by Vote and the  
24 approval binds all Parties.

25 **2.45 Non-Participating Interest Share**

26 The percentage of participation in the Costs, risks, and benefits (including rights  
27 to Hydrocarbons) that a Non-Participating Party would have had in a proposed  
28 activity or operation if all Parties had participated in that proposed activity or  
29 operation.

30 **2.46 Objective Depth**

31 For each well, the shallower of the total footage to be drilled by that well (as  
32 measured in true vertical subsea depth) or the penetration by the drill bit to the

1 base of the deepest target formation or interval in that well, as that depth or  
2 target formation or interval is stated in the AFE for the well.

### 3 **2.47 OCS**

4 The Outer Continental Shelf of the Gulf of Mexico.

### 5 **2.48 Offsite Host Facilities**

6 Production equipment that is (a) used to process or handle Hydrocarbon  
7 production and (b) owned by one or more third parties or by one or more  
8 Participating Parties in an Execution AFE (under which that production  
9 equipment is to be utilized for Hydrocarbon production), whose respective  
10 ownership interests in the production equipment are not exactly the same as  
11 their respective Participating Interest Shares in the Execution AFE.

### 12 **2.49 Operator**

13 The Party designated in Article 4.1 (*Designation of the Operator*), a successor  
14 Operator selected under Article 4.5 (*Selection of Successor Operator*), and, if  
15 applicable, a substitute Operator selected under Article 4.2 (*Substitute*  
16 *Operator*).

### 17 **2.50 Overinvested Party**

18 A Party entitled to receive its Participating Interest Share of an Underinvestment.

### 19 **2.51 Participating Interest Share**

20 A Participating Party's percentage of participation in:

21 (a) the Costs, risks, and benefits (including rights to Hydrocarbons) of an  
22 approved activity or operation; or,

23 (b) if applicable, interests to be assigned to the Parties.

24 A Participating Party's percentage of participation is either the proportion,  
25 expressed as a percentage, that the Participating Party's Working Interest bears  
26 to the total Working Interests of all Participating Parties or such different basis  
27 for Cost sharing or assignment as the Participating Parties agree upon.

### 28 **2.52 Participating Party**

29 A Party who, having the contractual right to do so, participates in the sharing of:

1 (a) the Costs, risks, and benefits (including rights to Hydrocarbons) of an  
2 approved activity or operation; or,

3 (b) if applicable, the interests to be assigned to the Parties.

4 The term includes a Party who does not Vote to participate in a proposed activity  
5 or operation, but is nonetheless bound to participate in that proposed activity or  
6 operation if it is approved by Vote.

7 **2.53 Post-Production Project Team AFE**

8 An AFE submitted in association with the continuance of the Project Team under  
9 Article 12.8 (*Post-Production Project Team AFEs*).

10 **2.54 Producible Reservoir**

11 An underground accumulation of Hydrocarbons (a) separate from and not in  
12 Hydrocarbon communication with another accumulation of Hydrocarbons, and  
13 (b) into which a Producible Well has been drilled.

14 **2.55 Producible Well**

15 A well on the Contract Area that:

16 (a) produces Hydrocarbons;

17 (b) meets, according to the MMS, the "well producibility criteria" in Title 30  
18 CFR 250.116 or any succeeding order or regulation issued by an  
19 appropriate governmental authority; or

20 (c) the Participating Parties in the subject well unanimously agree is a  
21 Producible Well.

22 **2.56 Production System**

23 A system or combination of systems on the Contract Area to develop, produce,  
24 store, distribute, and initiate the transportation of Hydrocarbons. The term  
25 includes:

26 (a) an offshore surface structure, whether fixed, compliant, or floating;

27 (b) a subsea structure or template designed as a guide to or to provide  
28 structural rigidity to one or more wells;

- 1 (c) any combination of the items mentioned in clauses (a) and (b);
- 2 (d) any other type of structure designed to develop and produce
- 3 Hydrocarbons; and
- 4 (e) all associated components of the items mentioned above, including, but
- 5 not limited to, a drilling rig, mooring lines, and anchor piles.

6 Production System excludes Facilities, mobile offshore drilling units, and the

7 facilities referred to in Article 15.2 (*Facilities to Take in Kind*).

8 **2.57 Production Testing**

9 Operations for the controlled flow of Hydrocarbons to the surface for the

10 purpose of measuring flow rates or flowing pressures, or gaining other

11 subsurface data.

12 **2.58 Project Team**

13 A group of employees, contractors, and/or consultants of the Participating

14 Parties or their respective Affiliates, who assists the Operator in carrying out the

15 scope of work for the Selection Stage, Define Stage, and Execution Stage and

16 the scope of work under Articles 12.8 (*Post-Production Project Team AFEs*) and

17 12.11 (*Enhanced Recovery and/or Pressure Maintenance Program Proposals*).

18 **2.59 Recompletion**

19 A Development Operation in a single well bore in which a completion in one

20 Producing Reservoir is abandoned in order to attempt a completion in a different

21 Producing Reservoir. To "Recomplete" means to conduct a Recompletion.

22 **2.60 Selection AFE**

23 The AFE for the Selection Stage.

24 **2.61 Selection Stage**

25 The stage of a Development Phase during which the Operator, with the

26 assistance of the Project Team, if applicable, will determine whether to:

- 27 (a) install a Development System on the Contract Area, or
- 28 (b) tie-back to, and utilize,

1 (i) a Development System resulting from a previous Development  
2 Phase or

3 (ii) a development system and/or facilities located outside the  
4 Contract Area

5 in order to produce Hydrocarbons.

6 **2.62 Sidetracking**

7 An operation to directionally control or intentionally deviate a well to change the  
8 bottomhole location to another bottomhole location not deeper than the  
9 stratigraphic equivalent of the Objective Depth of an operation previously  
10 conducted in the well, unless the intentional deviation is done to straighten the  
11 hole, drill around junk, or overcome other mechanical difficulties. To "Sidetrack"  
12 means to conduct a Sidetracking.

13 **2.63 Transfer of Interest**

14 A conveyance, assignment, transfer, farmout, exchange, or other disposition of  
15 all or part of a Party's undivided Working Interest.

16 **2.64 Underinvested Party**

17 A Party with an Underinvestment.

18 **2.65 Underinvestment**

19 A monetary obligation incurred under this Agreement to be settled under Article  
20 16.9 (*Settlement of Underinvestments*).

21 **2.66 Vote**

22 As a noun, a response or deemed response by a Party to a proposal requiring  
23 approval under Article 8.2.1 (*Approval by Vote*); as a verb, to respond to a  
24 proposal requiring approval under Article 8.2.1 (*Approval by Vote*).

25 **2.67 Well Plan**

26 A detailed written description accompanying a proposal to drill an Exploratory  
27 Well, Appraisal Well, or Development Well, or to conduct a Workover,  
28 Recompletion, well repair, or subsequent operation at Objective Depth, which  
29 must include, at a minimum:

30 (a) the surface and target bottomhole locations of the operation, if applicable;

- 1 (b) the expected commencement date of the operation and the anticipated  
2 time necessary to conclude the operation;
- 3 (c) the total vertical subsea depth to be drilled, along with the specified  
4 Objective Depth (and the target zones to be penetrated), if applicable;
- 5 (d) the proposed drilling plan, if applicable, and the proposed completion plan,  
6 including the casing program and directional details, if applicable;
- 7 (e) details of all coring, logging, and other evaluation operations to be  
8 conducted, if applicable; and
- 9 (f) information about the drilling rig to be used, including day rates, water  
10 depth rating, and other limitations relevant to the operations to be  
11 conducted, if applicable.

## 12 **2.68 Working Interest**

13 The record title leasehold interest or, where applicable, the operating rights of  
14 each Party in and to each Lease (expressed as the percentage provided in  
15 Exhibit "A"). If a Party's record title interest is different from its operating rights,  
16 the Working Interest of each Party is the interest provided in Exhibit "A."

## 17 **2.69 Workover**

18 A Development Operation conducted in an existing well after the well has been  
19 completed in one or more Producing Reservoirs to restore, maintain, or improve  
20 production from one or more of those Producing Reservoirs.

# 21 **ARTICLE 3 – EXHIBITS**

## 22 **3.1 Exhibits**

23 All references in this Agreement to "Exhibits" without further qualification mean  
24 the Exhibits listed below and attached to this Agreement. Each Exhibit is made  
25 a part of this Agreement and is incorporated into this Agreement by this  
26 reference. If any provision of an Exhibit conflicts with any provision of the body  
27 of this Agreement, the provision of the body of this Agreement shall prevail,  
28 with the exception of Exhibits "C," "D," and "G," each provision of which shall  
29 prevail over any provision of the body of this Agreement, except as provided in  
30 Article 6.2.4 (*Long Lead Well Operation AFEs*). If any provision of Exhibit "C"

1 conflicts with any provision of Exhibit "G," the provision of Exhibit "G" shall  
2 prevail. If any provision of Exhibit "C" conflicts with any provision of Exhibit  
3 "D," the provision of Exhibit "C" shall prevail.

4 **Exhibit "A"** Description of Leases, Working Interests of the Parties, and  
5 Representatives

6 **Exhibit "B"** Insurance Provisions

7 **Exhibit "C"** Accounting Procedure

8 **Exhibit "D"** Gas Balancing Agreement

9 **Exhibit "E"** Certification of Non-segregated Facilities

10 **Exhibit "F"** Security Interest Provisions

11 **Exhibit "G"** Project Team and Technology Sharing

12 **Exhibit "H"** Dispute Resolution Procedure

13 **Exhibit "I"** Well Data Trade and Confidentiality Agreement

14 ~~**Exhibit "J"** Tax Partnership~~ **INTENTIONALLY DELETED**

15 **Exhibit "K"** Health, Safety and Environment

16 **Exhibit "L"** Geophysical Operations Provisions

## 17 **ARTICLE 4 – SELECTION OF OPERATOR**

### 18 **4.1 Designation of the Operator**

19 BP Exploration & Production Inc. is designated as the Operator of the Contract  
20 Area. The Parties shall promptly execute and file all documents required by the  
21 MMS in connection with the designation of BP Exploration & Production Inc. as  
22 Operator or with the designation of any other Party as a substitute or successor  
23 Operator. Unless agreed otherwise by all the Parties, the Operator shall be  
24 classified as the designated applicant for oil spill financial responsibility  
25 purposes, and each Non-Operating Party shall promptly execute the appropriate  
26 documentation reflecting that classification and promptly provide that  
27 documentation to the Operator for filing with the MMS.



## **4.2 Substitute Operator**

### **4.2.1 Substitute Operator if Operator is a Non-Participating Party**

Except as otherwise provided in Article 4.2.3 (*Circumstances Under Which the Operator Must Conduct a Non-Consent Operation*), if the Operator is a Non-Participating Party in a Non-Consent Operation, the Participating Parties may approve by Vote the designation of any Participating Party as the substitute Operator. The substitute Operator shall serve as the Operator only (a) for the Non-Consent Operation (if the Non-Consent Operation is the drilling of a well, through the release of the drilling rig for that well), (b) of the Lease affected by the Non-Consent Operation, and (c) with the same authority, rights, obligations, and duties as the Operator, subject to the limitations in (a) and (b). If a Non-Operating Party is the only Participating Party in a Non-Consent Operation, then the Non-Operating Party shall be designated as the substitute Operator for that Non-Consent Operation, with no Vote required, unless the Non-Operating Party elects not to accept the designation. A Non-Operating Party, who is a Participating Party, shall not be designated as a substitute Operator against its will. If a substitute Operator is not designated under the foregoing procedures, the Operator shall, upon the unanimous agreement of the Participating Parties, conduct the Non-Consent Operation on behalf of the Participating Parties and at the Participating Parties' sole Cost and risk under Article 16 (*Non-Consent Operations*). If the Participating Parties do not approve by Vote a substitute Operator to conduct the Non-Consent Operation or do not unanimously agree that the Operator shall conduct the Non-Consent Operation on behalf of the Participating Parties, then the proposal of the Non-Consent Operation shall be deemed withdrawn, with the effect as if the proposal for the Non-Consent Operation had never been proposed and approved.

### **4.2.2 Substitute Operator if Operator Fails to Commence Drilling Operations**

If the Operator fails to timely commence an Exploratory Well in accordance with Article 10.1.3 (*Timely Operations*), an Appraisal Well in accordance with Article 11.1.3 (*Timely Operations*) or a Development Well in accordance with Article 13.1.3 (*Timely Operations*), the non-operating Participating Parties may select a substitute Operator in the

1 same manner as the selection of a successor Operator under Article  
2 4.5 (*Selection of Successor Operator*), and the substitute Operator  
3 shall serve as the Operator only (a) for the drilling of that well through  
4 the release of the drilling rig for that well, (b) of the Lease on which the  
5 well is drilled, and (c) with the same authority, rights, obligations, and  
6 duties as the Operator, subject to the limitations in (a) and (b).

7 **4.2.3 Circumstances Under Which the Operator Must Conduct a Non-**  
8 **Consent Operation**

9 If:

- 10 (a) a drilling rig is on location and the Operator becomes a Non-  
11 Participating Party (i) in a supplemental AFE pursuant to the terms  
12 of Article 6.2.2 (*Supplemental AFEs*), or (ii) after reaching  
13 Objective Depth as provided in Article 10.2 (*Exploratory*  
14 *Operations at Objective Depth*), Article 11.2 (*Appraisal Operations*  
15 *at Objective Depth*), or Article 13.2 (*Development Operations at*  
16 *Objective Depth*), or
- 17 (b) the Operator becomes a Non-Participating Party in an operation to  
18 be conducted on or from a Development System operated by the  
19 Operator,

20 the Operator, as a Non-Participating Party, shall conduct the Non-  
21 Consent Operation on behalf of the Participating Parties and at the  
22 Participating Parties' sole Cost and risk under Article 16 (*Non-Consent*  
23 *Operations*).

24 **4.2.4 Operator's Conduct of a Non-Consent Operation in Which it is a**  
25 **Non-Participating Party**

26 When, under Article 4.2.1 (*Substitute Operator if Operator is a Non-*  
27 *Participating Party*) or Article 4.2.3 (*Circumstances Under Which the*  
28 *Operator Must Conduct a Non-Consent Operation*), the Operator  
29 conducts a Non-Consent Operation in which it is a Non-Participating  
30 Party, it shall follow the practices and standards in Article 5 (*Rights and*  
31 *Duties of Operator*). The Operator shall not be required to proceed with  
32 the Non-Consent Operation until the Participating Parties have  
33 advanced the Costs of the Non-Consent Operation to the Operator.

1 The Operator shall never be obligated to expend any of its own funds  
2 for the Non-Consent Operation.

3 **4.2.5 Appointment of a Substitute Operator**

4 After expiration of all applicable response periods for the Non-Consent  
5 Operation and selection of a substitute Operator, each Party shall  
6 promptly provide the substitute Operator with the appropriate MMS  
7 designation of operator forms and certification of oil spill financial  
8 responsibility forms. The Operator and the substitute Operator shall  
9 coordinate the change of operatorship to avoid interfering with ongoing  
10 activities and operations, if any, including but not limited to, lease  
11 maintenance activities and operations.

12 **4.2.6 Redesignation of Operator**

13 Within fifteen (15) days after conclusion of the Non-Consent Operation,  
14 all Parties shall execute and provide the Operator with the appropriate  
15 MMS designation of operator forms and certification of oil spill financial  
16 responsibility forms to return operatorship to the Operator, thereby  
17 superseding the Parties' designation of the substitute Operator under  
18 Article 4.2.5 (*Appointment of a Substitute Operator*).

19 **4.3 Resignation of Operator**

20 Subject to Article 4.5 (*Selection of Successor Operator*), the Operator may resign  
21 at any time by giving written notice to the Parties, except that the Operator may  
22 not resign during a Force Majeure or an emergency that poses a threat to life,  
23 safety, property, or the environment. If the Operator ceases to own a Working  
24 Interest, the Operator automatically shall be deemed to have resigned as the  
25 Operator without any action by the Non-Operating Parties.

26 **4.4 Removal of Operator**

27 The Operator may be removed under the following circumstances:

28 **4.4.1 Removal Upon Assignment**

29 If the Operator assigns part of its Working Interest (excluding an  
30 interest assigned to an Affiliate) and the assignment reduces the  
31 Operator's Working Interest to less than the Working Interest of a  
32 Non-Operating Party, whether accomplished by one or more

1 assignments, then the removal of the Operator requires approval by  
2 Vote.

3 **4.4.2 Removal for Cause by Vote**

4 Under the following circumstances, the removal of the Operator shall  
5 be approved by Vote, excluding the Vote of the Operator:

- 6 (a) the Operator is found liable by a final judicial decision or a final  
7 decision under binding arbitration for an act of gross negligence  
8 or willful misconduct regarding the Contract Area;
- 9 (b) the Operator commits a substantial breach of a material provision  
10 of this Agreement and fails to cure the breach within thirty (30)  
11 days after receipt of written notice of the breach from a Non-  
12 Operating Party. If the breach specified in the notice reasonably  
13 cannot be corrected within the thirty (30) day period, but the  
14 Operator within said period begins action to correct the breach  
15 and thereafter diligently carries the corrective action to  
16 completion, the Operator shall not be removed. The Operator  
17 shall not be removed under this Article 4.4.2 if the Operator is  
18 able to prove the non-existence of the alleged breach within thirty  
19 (30) days after receipt of written notice of the alleged breach;
- 20 (c) the Operator becomes insolvent or unable to pay its debts as  
21 they mature, makes an assignment for the benefit of its creditors,  
22 commits an act of bankruptcy, or seeks relief under laws  
23 providing for the relief of debtors;
- 24 (d) a receiver is appointed for the Operator or for substantially all of  
25 its property or affairs; or
- 26 (e) the Operator fails to timely commence the fabrication or  
27 acquisition of the Development System in accordance with Article  
28 12.7.9 (*Timely Operations for Development Systems*).

29 **4.4.3 Timing of Vote to Remove Operator**

30 A Vote to remove the Operator for cause as provided in this Article 4.4  
31 shall be taken within ninety (90) days after the Non-Operating Party's  
32 actual knowledge of the cause.

#### 1       **4.5     Selection of Successor Operator**

2       Upon the resignation or removal of the Operator, a successor Operator shall be  
3       approved by Vote, subject to this limitation on the Voting right of Operator: if  
4       the resigned or removed Operator is not entitled to Vote, fails to Vote, or Votes  
5       only to succeed itself, then the successor Operator shall be approved by Vote  
6       after excluding the Vote of the resigned or removed Operator. If the Operator  
7       assigns all or a part of its Working Interest, then under Article 4.3 (*Resignation of*  
8       *Operator*) or Article 4.4.1 (*Removal Upon Assignment*) the Party who acquired all  
9       or a part of the former Operator's Working Interest shall not be excluded from  
10      Voting for a successor Operator. If there are only two Parties to this Agreement  
11      when the Operator resigns or is removed, then the Non-Operating Party  
12      automatically has the right, but not the obligation, to become the Operator. If no  
13      Party is willing to become the Operator, this Agreement shall terminate under  
14      Article 26.1 (*Term*).

#### 15      **4.6     Effective Date of Resignation or Removal**

16      The resignation or removal of the Operator shall become effective as of 7:00  
17      a.m. on the first day of the month following a period of ninety (90) days from,  
18      and inclusive of, the day of the Parties' receipt of the applicable notice, unless a  
19      longer period is required for the Parties to obtain approval of the designation of  
20      the successor Operator, and certification for oil spill financial responsibility  
21      purposes by the MMS, in which case the resignation or removal of the Operator  
22      shall become effective at 7:00 a.m. on the day immediately following MMS  
23      approval. The resignation or removal of the outgoing Operator shall not prejudice  
24      any rights, obligations, or liabilities of the outgoing Operator which accrued  
25      during its tenure. The outgoing Operator and the successor Operator may  
26      charge the Joint Account for the reasonable Costs incurred in connection with  
27      the change of operatorship, except when the change of operatorship results  
28      from a merger, consolidation, reorganization, or sale or transfer to an Affiliate of  
29      the Operator.

#### 30      **4.7     Delivery of Property**

31      On the effective date of resignation or removal of the Operator, the outgoing  
32      Operator shall deliver to the successor Operator custodianship of the Joint  
33      Account and possession of all items purchased for the Joint Account under this  
34      Agreement; all Hydrocarbons that are not the separate property of a Party; all  
35      equipment, materials, and appurtenances purchased for the Joint Account under

1 this Agreement; and all books, records, and inventories relating to the Joint  
2 Account (other than those books, records, and inventories maintained by the  
3 outgoing Operator as the owner of a Working Interest). The outgoing Operator  
4 shall further use its reasonable efforts to transfer to the successor Operator, as  
5 of the effective date of the resignation or removal, its rights as Operator under  
6 all contracts exclusively relating to the activities or operations conducted under  
7 this Agreement, and the successor Operator shall assume all obligations of the  
8 Operator that are assignable under the contracts. The Parties may audit the  
9 Joint Account and conduct an inventory of all property and all Hydrocarbons that  
10 are not the separate property of a Party, and the inventory shall be used in the  
11 return of, and the accounting by the outgoing Operator of, the property and the  
12 Hydrocarbons that are not the separate property of a Party. The inventory and  
13 audit shall be conducted under Exhibit "C."

## 14 **ARTICLE 5 – RIGHTS AND DUTIES OF OPERATOR**

### 15 **5.1 Exclusive Right to Operate**

16 Except as otherwise provided, the Operator has the exclusive right and duty to  
17 conduct (or cause to be conducted) all activities or operations under this  
18 Agreement. In performing services under this Agreement for the Non-Operating  
19 Parties, the Operator is an independent contractor, not subject to the control or  
20 direction of Non-Operating Parties, except as provided in Article 8.2 (*Voting and*  
21 *Election Procedures*) or Article 8.5 (*Approved by Unanimous Agreement*). The  
22 Operator is not the agent or fiduciary of the Non-Operating Parties. With the  
23 exception of any Feasibility Team or Project Team formed under this Agreement,  
24 the Operator shall select and determine the number of employees, Affiliates,  
25 contractors, and/or consultants used in conducting activities or operations under  
26 this Agreement and the hours of labor and the compensation for those  
27 employees, Affiliates, contractors, and/or consultants. All of those employees,  
28 Affiliates, contractors, and/or consultants shall be the employees, Affiliates,  
29 contractors, and/or consultants of the Operator. The Operator shall contract for  
30 and employ any drilling rigs, tools, machinery, equipment, materials, supplies,  
31 and personnel reasonably necessary for the Operator to conduct the activities or  
32 operations provided for in this Agreement; however, if a substitute Operator is  
33 designated to drill a well, the substitute Operator may utilize a rig, which it owns  
34 or has under contract, for the drilling of that well.

## 1      **5.2      Workmanlike Conduct**

2      The Operator shall timely commence and conduct all activities or operations in a  
3      good and workmanlike manner, as would a prudent operator under the same or  
4      similar circumstances. **THE OPERATOR SHALL NOT BE LIABLE TO THE**  
5      **NON-OPERATING PARTIES FOR LOSSES SUSTAINED OR LIABILITIES**  
6      **INCURRED, EXCEPT AS MAY RESULT FROM OPERATOR'S GROSS**  
7      **NEGLIGENCE OR WILLFUL MISCONDUCT. UNLESS OTHERWISE**  
8      **PROVIDED IN THIS AGREEMENT, THE OPERATOR SHALL CONSULT WITH**  
9      **THE NON-OPERATING PARTIES AND KEEP THEM INFORMED OF**  
10     **IMPORTANT MATTERS.** The Operator shall never be required to conduct an  
11     activity or operation under this Agreement that it, as a reasonable and prudent  
12     operator in similar circumstances, believes would be unsafe or would endanger  
13     persons, property, or the environment.

## 14     **5.3      Drilling Operations**

15     The Operator may have drilling operations conducted by qualified and  
16     responsible independent contractors who are not an Affiliate of the Operator and  
17     are employed under competitive contracts. A competitive contract is a contract,  
18     or any extension thereof (a) that was entered into within five (5) years before the  
19     commencement of drilling operations and (b), that contains terms, rates, and  
20     provisions that, when the contract was entered into, did not exceed those  
21     generally prevailing on the OCS for operations involving drilling rigs of an  
22     equivalent type, operating in similar environments and water depths, equipped  
23     to the Operator's standard conditions, and capable of drilling the proposed well  
24     or conducting other required operations within the schedule in the well AFE.  
25     The Operator may employ its own or its Affiliate's equipment, personnel, drilling  
26     rig, Workover rig, and snubbing unit in the conduct of those operations, either  
27     under Exhibit "C" or under a written agreement among the Participating Parties.  
28     If the Operator's or its Affiliate's equipment, personnel, drilling rig, Workover rig,  
29     or snubbing unit is employed in conducting operations under this Agreement,  
30     the terms, conditions, and rates for that employment shall be consistent with  
31     those currently prevailing in competitive contracts for the deepwater OCS.

## 32     **5.4      Liens and Encumbrances**

33     The Operator shall endeavor to keep the Leases, Production Systems, Facilities,  
34     and other equipment purchased for the Joint Account under this Agreement and  
35     the Hydrocarbons free from liens and encumbrances (except those provided in

Exhibit "F") that might arise by reason of the activities or operations conducted under this Agreement. If a lien is placed on the Leases, Production Systems, Facilities, other equipment, or any Hydrocarbons, the Operator shall make reasonable efforts to remove the lien.

## **5.5 Records**

The Operator shall keep accurate books, accounts, and records of activities or operations under this Agreement in compliance with the Accounting Procedure in Exhibit "C." Unless otherwise provided in this Agreement, all records of the Joint Account shall be available to a Non-Operating Party at all reasonable times during the Operator's normal office hours under Exhibit "C." The Operator shall use good-faith efforts to ensure the settlements, billings, and reports rendered to each Party under this Agreement are complete and accurate. The Operator shall notify the other Parties promptly upon the discovery of any error or omission pertaining to the settlements, billings, and reports rendered to each Party. This provision does not affect a Party's audit rights under this Agreement. This provision shall also apply to each Non-Operating Party's books, accounts, and records kept to support its charges to a Project Team.

## **5.6 Reports to Government Agencies**

The Operator shall make timely reports to all governmental authorities to which it has a duty to make reports and shall furnish copies of the reports to the Participating Parties. The Operator shall provide each Non-Operating Party with a copy of each notice, order, and directive received from the MMS. As soon as reasonably practicable, each Party shall give written notice to the other Parties before each meeting with government authorities of which it has notice and that affect the Contract Area.

## **5.7 Information to Participating Parties**

The Operator shall, as soon as reasonably practicable and to the extent that the information has then been obtained or received by the Operator, furnish each Participating Party the following information about well operations:

- (a) a copy of each application for a permit to drill and all amendments to that application;
- (b) drilling and Workover reports, which shall include, but not be limited to, the current depth, the corresponding lithological information, data on drilling



1 fluid characteristics, information about drilling difficulties or delays (if any),  
2 mud checks, mud logs, and Hydrocarbon information, casing and  
3 cementation tallies, and estimated cumulative Costs, to be sent by  
4 facsimile or electronic transmission within eight (8) hours (exclusive of  
5 Saturdays, Sundays, and federal holidays) of well operations conducted in  
6 the preceding twenty-four (24) hour period; provided, however, the  
7 information and data set forth in this Article 5.7(b) shall be provided in "real  
8 time" if it is available to the Operator in "real time" and a Participating  
9 Party has contractual rights to utilize the "real time" system that the  
10 Operator is utilizing and has agreed to pay any incremental expenses  
11 associated with its accessing that information and data from that "real time  
12 system";

13 (c) a complete report of all core data and analyses;

14 (d) copies of logs and surveys as run, including all digitally recorded data;

15 (e) copies of well test results, bottomhole pressure surveys, Hydrocarbon  
16 analyses, and other similar information, including PVT analyses;

17 (f) copies of reports made to regulatory agencies;

18 (g) forty-eight (48) hours' advance notice of logging, coring, or testing  
19 operations (or, if conditions do not permit that much advance notice, as  
20 much advance notice as is reasonably possible);

21 (h) upon written request, and if sufficient quantities are available, samples of  
22 cutting and sidewall cores, marked as to depth, to be packaged and  
23 shipped at the expense of the requesting Party;

24 (i) copies of drilling prognoses;

25 (j) if conventional cores are taken, access to the rig to inspect and evaluate  
26 said cores; and

27 (k) samples of Hydrocarbons, if sufficient quantities are available, after  
28 performing routine tests.

29 Upon written request, the Operator shall use reasonable efforts to furnish to a  
30 requesting Participating Party any additional available information (including a

complete slabbed section of all recovered cores, if requested and available), acquired by the Operator for the Participating Parties, not otherwise furnished under this Article (not including any derivative information independently developed at Operator's sole cost and risk). The Costs of gathering and furnishing the additional available information shall be charged to the Participating Party that requested it.

#### **5.8 Completed Well Information**

Operator shall, as soon as reasonably practicable, furnish to each Participating Party the following information pertaining to each completed well, provided, however, the following information shall be provided in "real time" if it is available to the Operator in "real time" and a Participating Party has contractual rights to utilize the "real time" system that the Operator is utilizing and has agreed to pay any incremental expenses associated with its accessing that information from that "real time system":

- (a) monthly report of production and injection;
- (b) copies of routine reports made to regulatory agencies;
- (c) report on the status of wells not producing and not abandoned;
- (d) report on Hydrocarbons produced during Production Testing;
- (e) bottomhole pressure data and surface pressure data; and
- (f) composite of all logs run (for example, TDT, Carbon-Oxygen, Spinner Surveys, and Casing Collar).

#### **5.9 Information to Non-Participating Parties**

The Operator shall furnish to each Non-Participating Party:

- (a) as soon as reasonably practicable, copies of all non-confidential reports made to regulatory agencies, and
- (b) if applicable, after Complete Recoupment, the information specified in Articles 5.7 (*Information to Participating Parties*) and 5.8 (*Completed Well Information*).

1       **5.10   Health, Safety, and Environment:**

2       With the goal of achieving safe and reliable activities and operations in  
3       compliance with all applicable laws and regulations, including avoiding significant  
4       and unintended impact on (i) the health or safety of people, (ii) property, or (iii)  
5       the environment, the Operator shall, with the support and cooperation of the  
6       Non-Operators, while it conducts activities or operations under this Agreement:

- 7       (a)   design and manage activities or operations to standards intended to  
8            achieve sustained reliability and promote the effective management of HSE  
9            risks;
- 10       (b)   apply structured HSE management systems and procedures consistent  
11            with those generally applied in the petroleum industry to effectively  
12            manage HSE risks and pursue sustained reliability of operations under this  
13            Agreement; and
- 14       (c)   conform with locally applicable HSE related statutory requirements that  
15            may apply.

16       In fulfilling its duties and obligations hereunder, the Operator shall act in  
17       accordance with the provisions of Exhibit "K."

18                   **ARTICLE 6 – EXPENDITURES AND ANNUAL OPERATING**  
19                   **PLAN**

20       **6.1   Basis of Charges to the Parties**

21       Except as otherwise provided in this Agreement, the Operator shall pay all Costs  
22       of all activities and operations under this Agreement, and each Participating  
23       Party shall reimburse the Operator in proportion to its Participating Interest Share  
24       for the Costs of these activities and operations. All charges, credits, and  
25       accounting for expenditures shall be made under Exhibit "C." Funds received by  
26       the Operator under this Agreement may be commingled with the Operator's  
27       own funds.

28       **6.2   AFEs**

29       The Operator shall not undertake an activity or operation whose Costs are Five  
30       Hundred Thousand dollars (\$500,000.00) or more, unless an AFE has been

1 included in a proposal for an activity or operation and the proposal has been  
2 approved by Vote, Election, or unanimous agreement, whichever is applicable,  
3 or the Operator is exercising one of its discretionary powers under this  
4 Agreement. An approved proposal grants the Operator authority to commit or  
5 expend funds on the approved proposal for the account of the Participating  
6 Parties. For an activity or operation whose Costs are in excess of Two Hundred  
7 Fifty Thousand dollars (\$250,000.00), but less than Five Hundred Thousand  
8 dollars (\$500,000.00), the Operator shall furnish the Participating Parties with an  
9 AFE for information purposes only. Notwithstanding the foregoing, in the event  
10 of an emergency, or if in the sole discretion of the Operator a perceived  
11 emergency exists that poses an imminent threat to life, safety, property, or the  
12 environment, the Operator may immediately make those expenditures for the  
13 Joint Account as, in its opinion as a reasonable and prudent operator, are  
14 necessary to deal with the emergency, but only to the extent necessary to  
15 stabilize the situation and alleviate the imminent threat. The Operator shall  
16 report to the Participating Parties, as promptly as possible, the nature of the  
17 emergency, the action taken, and the Costs incurred.

#### 18 **6.2.1 AFE Overrun Notice**

19 For informational purposes only, the Operator shall provide an AFE  
20 overrun notice to all the Participating Parties if it appears (based upon  
21 Operator's reasonable estimate) that the actual total Costs associated  
22 with an original AFE will exceed the estimated total expenditures in  
23 that original AFE by more than ten percent (10%), but will not require  
24 the submission of a supplemental AFE under Article 6.2.2  
25 (*Supplemental AFEs*).

#### 26 **6.2.2 Supplemental AFEs**

27 Except as provided in Article 6.2.3 (*Further Operations During a Force*  
28 *Majeure*), if it appears (based upon the Operator's reasonable estimate)  
29 that the actual Costs associated with an original AFE or its approved  
30 supplemental AFEs will exceed the relevant permitted over-  
31 expenditure set forth below, the Operator shall promptly submit a  
32 supplemental AFE to the Participating Parties. A supplemental AFE  
33 shall include the dollar amount of the permitted over-expenditure from  
34 the previously approved AFE as part of the dollar amount of that  
35 supplemental AFE. Subject to Article 8.6.1 (*Well Proposals*,

1                   *Recompletions, and Workovers*), after receipt of the supplemental AFE  
2                   each Participating Party has the right to make an Election as to its  
3                   further participation in the approved activity or operation. If a proposed  
4                   supplemental AFE is approved by Election, the Operator shall continue  
5                   to conduct the approved activity or operation associated with the  
6                   supplemental AFE at the sole Cost and risk of the Participating Parties  
7                   in the supplemental AFE. Any Participating Party making an Election  
8                   not to participate in an approved supplemental AFE becomes a Non-  
9                   Participating Party in the activity or operation associated with the  
10                  original AFE once the actual Costs expended on the activity or  
11                  operation exceed the permitted over-expenditure amount of the last  
12                  AFE in which the Non-Participating Party Elected to participate, without  
13                  regard to whether all the activities or operations (including plugging and  
14                  abandonment) in the original AFE have been conducted at the time of  
15                  its Election not to participate. A Non-Participating Party in a  
16                  supplemental AFE is subject to the same Hydrocarbon Recoupment  
17                  premium, Underinvestment, or acreage forfeiture provision in Article 16  
18                  (*Non-Consent Operations*) that would apply to a Party Electing or  
19                  Voting not to participate in the originally approved activity or operation,  
20                  except a Hydrocarbon Recoupment premium or an Underinvestment  
21                  shall apply only to the Costs of the approved activity or operation not  
22                  borne by the Non-Participating Party. If a supplemental AFE is not  
23                  approved by Election, the Operator shall conclude the activity or  
24                  operation as soon as practical, and each Participating Party will be  
25                  responsible for its Participating Interest Share of the Costs of the  
26                  activity or operation, including Costs in excess of the permitted over-  
27                  expenditure amount.

#### 28                  **6.2.2.1 Permitted Over-expenditures on Well Operations**

29                   The permitted over-expenditure for an Exploratory Operation,  
30                   an Appraisal Operation, or a Development Operation is an  
31                   amount equal to ten percent (10%) of the estimated total  
32                   Costs in the original AFE for that operation or its approved  
33                   supplemental AFEs for wells.

1                   **6.2.2.2   Permitted Over-expenditures on the Feasibility AFE, a**  
2                   **Post-Production Project Team AFE, or an Enhanced**  
3                   **Recovery Project Team AFE**

4                   The permitted over-expenditure for the Feasibility AFE, a  
5                   Post-Production Project Team AFE, or an Enhanced Recovery  
6                   Project Team AFE is an amount equal to fifteen percent  
7                   (15%) of the estimated total Costs in the original AFE for that  
8                   activity or its approved supplemental AFEs.

9                   **6.2.2.3   Permitted Over-expenditures on a Selection AFE or Define**  
10                  **AFE**

11                  The permitted over-expenditure for the Selection AFE or the  
12                  Define AFE is an amount equal to fifteen percent (15%) of  
13                  the estimated total Costs in the original AFE for that activity  
14                  or its approved supplemental AFEs.

15                  **6.2.2.4   Permitted Over-expenditures on an Execution AFE**

16                  The permitted over-expenditure for the Execution AFE is an  
17                  amount equal to fifteen percent (15%) of the estimated total  
18                  Costs in the original AFE for that activity or its approved  
19                  supplemental AFEs. The “cumulative estimated total Costs  
20                  in the original AFE for that activity” is the total dollar amount  
21                  of the Execution AFE, its approved supplemental AFEs and all  
22                  approved Long Lead Development System AFEs.

23                  **6.2.2.5   Permitted Over-expenditures on All Other AFEs**

24                  The permitted over-expenditure for all other AFEs is an  
25                  amount equal to fifteen percent (15%) of the estimated total  
26                  Costs in the original AFE for that activity or operation or its  
27                  approved supplemental AFEs.

28                  **6.2.3     Further Operations During a Force Majeure**

29                  No Party is permitted to make an Election not to participate in further  
30                  activities or operations under Article 6.2.2 (*Supplemental AFEs*) during  
31                  a Force Majeure or during an emergency that poses a threat to life,  
32                  safety, property, or the environment, but may make an Election not to  
33                  participate in further activities or operations that are to be conducted

1 after the termination of the Force Majeure or emergency.  
2 Notwithstanding any contrary provision of this Agreement, if Costs  
3 arising as a result of Force Majeure or emergency cause the amount of  
4 an original AFE and its approved supplemental AFEs to exceed their  
5 permitted over-expenditure in Article 6.2.2 (*Supplemental AFEs*), no  
6 supplemental AFE will be required; however, once stabilization takes  
7 place and Force Majeure or emergency expenditures are no longer  
8 being incurred, the Operator shall submit to the Participating Parties a  
9 supplemental AFE for the activities or operations that are to be  
10 conducted after termination of the Force Majeure or emergency in  
11 order for them to make an Election under Article 6.2.2 (*Supplemental*  
12 *AFEs*) as to their participation in those activities or operations.

#### 13 **6.2.4 Long Lead Well Operation AFEs**

14 In addition to the Operator's right under Article 12.6 (*Long Lead*  
15 *Development System AFEs*) to submit Long Lead Development  
16 System AFEs for long lead-time items prior to the submission of the  
17 Execution AFE, the Operator may submit an AFE to the Parties, which  
18 will allow the Operator to make advance commitments for or  
19 purchases of equipment or services, which are commercially  
20 reasonable and necessary to facilitate the early and orderly  
21 commencement of any kind of well or well operation (including any  
22 associated tie-back Facilities) ("Long Lead Items") (a "Long Lead Well  
23 Operation AFE").

##### 24 **6.2.4.1 Approval of a Long Lead Well Operation AFE**

25 Each Long Lead Well Operation AFE requires the unanimous  
26 agreement of the Parties.

##### 27 **6.2.4.2 Non-Participating Parties in the Operations Associated** 28 **with the Long Lead Well Operation AFE**

29 If a Party, who participated in a Long Lead Well Operation  
30 AFE, does not participate in an approved well or well  
31 operation, for which Long Lead Items were procured under  
32 that AFE, the Operator shall reimburse that Party its  
33 Participating Interest Share of the Costs of those Long Lead  
34 Items within thirty (30) days of the approval of that well or

1 well operation, provided, however, that Party's share of those  
2 Costs shall be included in the calculation of any Hydrocarbon  
3 recoupment to which it is subject as a result of that well or  
4 well operation. The Operator shall invoice the Participating  
5 Parties in that well or well operation for their proportionate  
6 share of the reimbursement under this Article 6.2.4.2 in  
7 accordance with Exhibit "C."

8 **6.2.4.3 Disposition of Items Associated with the Long Lead Well**  
9 **Operation AFE**

10 Notwithstanding the provisions of Exhibit "C," the  
11 Participating Parties in an approved well or well operation for  
12 which Long Lead Items were procured shall approve by Vote  
13 the disposition of those Long Lead Items if they are not  
14 utilized for the approved well or well operation. If the  
15 disposition is approved, the disposition will be binding on all  
16 Participating Parties in that well or well operation. The  
17 disbursement of the proceeds realized from the disposition of  
18 those Long Lead Items shall take place in accordance with  
19 Exhibit "C."

20 **6.3 Security Rights**

21 Addressed in Exhibit "F" of this Agreement and is incorporated into this  
22 Agreement by this reference.

23 **6.4 Annual Operating Plan**

24 **6.4.1 Effect and Content of Annual Operating Plan**

25 The Annual Operating Plan is for informational and planning purposes  
26 and does not obligate any Party to any course of action or expenditures  
27 or constitute a Vote, Election, or unanimous agreement to participate in  
28 any specific activity or operation. To the extent known on the date of  
29 submission of the Annual Operating Plan, the Annual Operating Plan  
30 shall include the following items, without limitation:



#### **6.4.1.1 Capital Budget**

- (a) a list of proposed wells to be drilled including their anticipated order, drilling time, depths, surface and bottomhole locations, objective sands, type of well (Development, Appraisal), purpose of well (production, injection), and estimated Costs;
- (b) capital well operations listed by well, with their estimated Cost;
- (c) capital projects that have estimated gross Costs greater than three million dollars (\$3,000,000.00). The term "capital project" includes addition of new equipment and expansion or upgrades of existing equipment; and
- (d) an estimated total amount (in aggregate) for capital projects.

#### **6.4.1.2 Expense Budget**

- (a) expense well operations listed by well, with their estimated Cost;
- (b) expense projects that have estimated gross Costs greater than three million dollars (\$3,000,000.00). The term "expense project" includes repair, replacement, inspection, and maintenance of existing equipment;
- (c) an estimated total amount (in aggregate) for expense projects; and
- (d) estimated Operations and Maintenance (O&M) expenditures for the year may be shown in the aggregate. O&M expenses include the ongoing, everyday expenditures necessary to operate the field.

#### **6.4.1.3 Operator Forecasts and Informational Items**

- (a) production forecasts;

- (b) injection forecasts;
- (c) fuel gas forecasts;
- (d) scheduled or planned downtime exceeding three (3) days;
- (e) data collection programs;
- (f) Facility constraint and ullage forecast;
- (g) geochemical or geophysical survey(s) or special test(s) that might be contemplated; and
- (h) other areas deemed of significance by the Operator.

#### **6.4.2 Submission of Draft Annual Operating Plan**

Beginning in the year in which a Development Plan is approved, and in each subsequent year, the Operator shall develop and submit to the Non-Operating Parties, by July 1<sup>st</sup>, a draft Annual Operating Plan for the next calendar year. The Annual Operating Plan process will be used (a) as a reporting mechanism by which the Operator will inform the Non-Operating Parties of results of the previous year's activities and operations, (b) to review ongoing activities and operations, and (c) for the remainder of the current year and the next succeeding calendar year, to forecast and plan activities and operations and to forecast anticipated Hydrocarbon production volumes, operating expenses, and capital expenditures.

#### **6.4.3 Review of Draft Annual Operating Plan**

The Non-Operating Parties may provide suggested changes, additions, or deletions to the Annual Operating Plan to the Operator and all other Parties in writing before September 1<sup>st</sup> of each year. The Operator will then make changes that it deems necessary (if any) and submit the final Annual Operating Plan to the Non-Operating Parties no later than November 1<sup>st</sup> of each year, at which time the Annual Operating Plan is deemed adopted by all Parties.

## **ARTICLE 7 – CONFIDENTIALITY OF DATA**

### **7.1 Confidentiality Obligation**

Confidential Data acquired or obtained by a Party shall be kept confidential during the term of this Agreement and for an additional period of one hundred eighty (180) days after termination of this Agreement and shall not be disclosed to a third party, unless it is disclosed under Article 7.1.1 (*Exceptions to Confidentiality*) or 7.1.2 (*Permitted Disclosures*). Each Party shall maintain the secrecy of the Confidential Data, using the standard of care it normally uses in protecting its own confidential information and trade secrets.

#### **7.1.1 Exceptions to Confidentiality**

The confidentiality obligation shall not apply to Confidential Data that is:

- (a) now or later becomes part of the public domain (other than as a result of a wrongful act or omission by a Party);
- (b) now or later becomes available to a Party on a non-confidential basis from a source, other than a Party, that is legally permitted to disclose the item of Confidential Data;
- (c) known to a Party on a non-confidential basis before disclosure of the Confidential Data to it under this Agreement or to which that Party was otherwise entitled at the time of disclosure; or
- (d) independently developed by employees, Affiliates, contractors, and/or consultants of a Party who have not had access to the Confidential Data.

#### **7.1.2 Permitted Disclosures**

##### **7.1.2.1 Operator's Permitted Disclosures**

The Operator may disclose items of Confidential Data to those third parties as may be necessary to conduct activities and operations under this Agreement, if the third parties are bound by written agreement to keep the Confidential Data secret for the period of time set forth in the Operator's service agreement with those third parties or two (2) years if a service agreement does not exist with those third parties.

1 Notwithstanding the foregoing, should the Operator disclose  
2 Confidential Data to an Affiliate, then the Affiliate shall require  
3 its Affiliate to handle, hold, and protect the Confidential Data  
4 as if it were a Party to this Agreement.

5 **7.1.2.2 All Parties' Permitted Disclosures**

6 Subject to the restriction that a third party shall be bound by  
7 written agreement not to use or disclose the Confidential  
8 Data for a period of two (2) years, except for the express  
9 purpose for which the disclosure is to be made, all Parties  
10 may disclose, in whole or in part, the Confidential Data to the  
11 following receiving parties, who may remove the Confidential  
12 Data from the custody and premises of the Party making  
13 such disclosure:

- 14 (a) to its Affiliate;
- 15 (b) to a bona fide, financially responsible, prospective  
16 assignee of any portion of the Party's Working Interest  
17 (including but not limited to an entity with whom a Party  
18 or its Affiliates is conducting bona fide negotiations  
19 directed toward a merger, consolidation or a sale of a  
20 Party's or an Affiliate's shares or substantially all of its  
21 assets on the OCS);
- 22 (c) to potential contractors, professional consultants, or  
23 outside legal counsel engaged by or on behalf of the  
24 Party and acting in a capacity where that disclosure is  
25 essential to the contractor's, consultant's, or outside  
26 legal counsel's work;
- 27 (d) to a bank or other financial institution to the extent  
28 appropriate to a Party arranging financing for its  
29 obligations under this Agreement;
- 30 (e) to the extent required by a Lease, or by law, order,  
31 decree, regulation, or rule (including, without limitation,  
32 those of any regulatory agency, securities commission,

1 stock exchange, judicial, or administrative proceeding).  
2 If a Party is required to disclose Confidential Data under  
3 this Article 7.1.2.2(e), the Party shall promptly provide all  
4 other Parties to this Agreement written notice of those  
5 proceedings so that the non-disclosing Parties may seek  
6 a protective order or other remedy. A disclosing Party  
7 shall furnish only such Confidential Data as is legally  
8 required and will use its reasonable efforts to obtain  
9 confidential treatment for any Confidential Data  
10 disclosed;

11 (f) to an entity allocating or desiring to transport, process,  
12 or purchase Hydrocarbons produced under this  
13 Agreement for the purpose of making Hydrocarbon  
14 reserve estimates or other technical evaluations or  
15 allocating Hydrocarbon products to source points;

16 (g) to third parties for benchmarking studies and industry  
17 performance reviews; provided that the Confidential  
18 Data disclosed does not include competitive information  
19 or data and the studies blind the identities of the  
20 participants and the origin of the Confidential Data; and

21 (h) to a contractor for the purpose of offsite storage of  
22 Confidential Data.

23 **7.1.3 Limited Releases to Offshore Scout Association**

24 The Operator may disclose Confidential Data to the Offshore Oil  
25 Scouts Association at their weekly meetings. The Confidential Data  
26 that may be disclosed is limited to information concerning well  
27 locations, well operations, and well completions to the extent  
28 reasonable and customary in industry practice or required under the by-  
29 laws of the Offshore Oil Scouts Association.

30 **7.1.4 Continuing Confidentiality Obligation**

31 A Party who ceases to own a Working Interest remains bound by the  
32 confidentiality and use obligations of this Agreement as to Confidential

1 Data obtained through this Agreement under Article 7.1 (*Confidentiality*  
2 *Obligation*).

## 3 **7.2 Ownership of Confidential Data**

4 Except as otherwise provided for in this Article 7, all Confidential Data produced  
5 as a result of an activity or operation shall be the property of all Participating  
6 Parties in that activity or operation. A Non-Participating Party has no rights in or  
7 access to Confidential Data produced or derived from a Non-Consent Operation  
8 unless and until Complete Recoupment has taken place.

### 9 **7.2.1 Trades of Confidential Data**

10 Any Participating Party may propose the exchange or trade of any  
11 Confidential Data or other similar data and information owned by a third  
12 party. Upon approval of said exchange or trade by Vote of the  
13 Participating Parties, that approval shall bind all Participating Parties,  
14 and the Operator shall utilize the Well Data Trade and Confidentiality  
15 Agreement in Exhibit "I" in order to consummate that exchange or  
16 trade with the third party. The Operator shall promptly provide all  
17 Participating Parties copies of the third party data obtained along with  
18 copies of any agreement relating to that exchange or trade.

### 19 **7.2.2 Ownership of Non-Consent Data**

20 After Complete Recoupment has taken place and a Non-Participating  
21 Party has become a Participating Party in an activity or operation, that  
22 Non-Participating Party shall become an owner of the Confidential Data  
23 and information resulting from that activity or operation. Within fifteen  
24 (15) days after Complete Recoupment, the Operator shall furnish that  
25 Confidential Data and information to the former Non-Participating Party.

## 26 **7.3 Access to the Lease and Rig**

27 Except as provided in Article 6.3(b) (*Default*) in Exhibit "F," each Participating  
28 Party may attend meetings between the Operator and any contractors  
29 constructing the Production System or Facilities specified in the Execution AFE  
30 as well as access to the construction sites. Except as otherwise provided in  
31 Article 6.3(b) (*Default*) in Exhibit "F," each Participating Party shall have access  
32 to all drilling rigs, Production Systems, and Facilities to observe and inspect  
33 operations and wells in which it participates (and the pertinent records and other  
34 data). Access by the Participating Party to a drilling rig, Production System, or

1 Facility serving a Contract Area shall be scheduled through the Operator at least  
2 forty-eight (48) hours in advance (or, if conditions do not permit that much  
3 advance scheduling, with as much advance scheduling as is reasonably  
4 possible). Each Party's access will be at reasonable times and may not  
5 unreasonably interfere with operations at the site.

#### 6 **7.4 Development of Proprietary Information and/or Technology**

7 The ownership, use, treatment, and disclosure of proprietary information or  
8 technology, including, but not limited to, drilling technology, production  
9 technology, production systems and facilities, and their transportation and  
10 installation, pipelines, flowlines, and offshore oil and gas transportation that are  
11 charged to the Joint Account shall be handled under Exhibit "G."

### 12 **ARTICLE 8 – APPROVALS AND NOTICES**

#### 13 **8.1 Classes of Matters**

14 Action will be taken on a proposed activity or operation only after the procedures  
15 and approval requirements in this Agreement have been satisfied. There are  
16 four general classes of activities or operations under this Agreement: (a) those  
17 requiring approval by Vote, (b) those requiring approval by Election, (c) those  
18 requiring approval by unanimous agreement, and (d) those within the discretion  
19 of the Operator.

##### 20 **8.1.1 Voting and Electing Interest**

21 If all Parties are entitled to make an Election or Vote, each Party has an  
22 Electing interest or a Voting interest equal to its Working Interest or its  
23 Participating Interest Share, as applicable. If a Party does not have a  
24 right to make an Election or Vote, each of the other Parties has an  
25 Electing interest or a Voting interest, as applicable, equal to its Working  
26 Interest or its Participating Interest Share, as applicable, divided by the  
27 total Working Interest or Participating Interest, as applicable, of those  
28 Parties who have a right to make an Election or Vote.

#### 29 **8.2 Voting and Election Procedures**

30 The Parties shall Vote or make an Election on proposals requiring a Vote or  
31 Election in the order in which those proposals are submitted, except as specified  
32 in Articles 10.2 (*Exploratory Operations at Objective Depth*), 11.2 (*Appraisal*

1       *Operations at Objective Depth*), and 13.2 (*Development Operations at Objective*  
2       *Depth*). Subject to Article 6.2 (*AFEs*), after receipt of a notice properly given for  
3       an activity or operation requiring a Vote or Election, the Parties entitled to make  
4       that Vote or Election (a) may Vote or make an Election in accordance with this  
5       Article 8.2 (*Voting and Election Procedures*) and Article 8.7 (*Giving and Receiving*  
6       *Notices and Responses*) or (b) shall be deemed to have Voted or made an  
7       Election as provided in Article 8.6.5 (*Failure to Vote or Make an Election*).

8       A Vote or Election to participate in a proposal is evidenced by a Party making a  
9       written affirmative response to the proposal or by a Party's execution of the AFE  
10      associated with the proposal. Except as otherwise provided in this Agreement,  
11      a Vote or Election not to participate in a proposal is evidenced by a Party's  
12      written negative response to the proposal, a Party's failure to make a timely  
13      written affirmative response to the proposal or to timely execute the AFE  
14      associated with the proposal, or a Party's failure to timely make a subsequent  
15      Vote or Election under Article 8.3 (*Second Opportunity to Participate*).

16      **8.2.1     Approval by Vote**

17              Approval by Vote shall be decided by a Vote of the Parties as follows:

- 18              (a)   when one Party or two Parties are entitled to Vote, approval by  
19                  Vote shall require an affirmative Vote of one or more Parties with  
20                  a Voting interest of fifty-one percent (51%) or more, or if two  
21                  Parties entitled to Vote have the same Voting interest, the  
22                  affirmative Vote of all Parties entitled to Vote; and
- 23              (b)   when more than two Parties are entitled to Vote, approval by  
24                  Vote shall require an affirmative Vote of two (2) or more Parties  
25                  entitled to Vote with a combined Voting interest of fifty percent  
26                  (50%) or more.

27      **8.2.2     Approval by Election**

28              Approval by Election shall be decided by an affirmative Election by one  
29              or more Parties, entitled to make an Election, with a combined Electing  
30              interest of ten percent (10%) or more.



### 8.3 Second Opportunity to Participate

Unless otherwise provided to the contrary in this Agreement, if an activity or operation is approved by Vote or Election but is not approved by all of the Parties, a Party who Voted or Elected not to participate in the approved activity or operation may make a subsequent Vote or Election to participate in the approved activity or operation within forty-eight (48) hours (exclusive of Saturdays, Sundays, and federal holidays) of its receipt of the original Voting or Election results from the Operator. If a Party does not exercise its right to make a subsequent Vote or Election to participate, it shall become a Non-Participating Party in the approved activity or operation. If (a) all the Parties entitled to do so make an original Vote or Election or a subsequent Vote or Election to participate in a proposed activity or operation or (b) an approval by Vote is binding on all Parties, then the Operator shall commence the activity or operation in accordance with the applicable timely operations provisions of this Agreement.

### 8.4 Participation by Fewer Than All Parties

If, after the period in which a Party may make a subsequent Vote or Election to participate, there is at least one Non-Participating Party in the approved activity or operation, each Party who made an original or a subsequent Vote or Election to participate in the approved activity or operation shall, within forty-eight (48) hours (exclusive of Saturdays, Sundays, and federal holidays) of its receipt of the subsequent Voting or Election results,

- (a) limit its participation in the approved activity or operation to its Working Interest share, or
- (b) agree to bear its Participating Interest Share of the approved activity or operation

by written correspondence to the Operator. Failure to submit that written correspondence shall be deemed a written correspondence under (a). If a Party, who made an original or a subsequent Vote or Election to participate in the approved activity or operation, submits or is deemed to have submitted a written correspondence under (a) and the other Parties who made an original or a subsequent Vote or Election to participate in the approved activity or operation do not agree to bear all of the remaining Costs of the approved activity or operation within thirty (30) days after the written correspondence period, the proposal of the approved activity or operation and all Votes and Elections in

1 regard to the approved activity or operation shall be deemed withdrawn. Once  
2 the Parties, who made an original or a subsequent Vote or Election to participate  
3 in an approved activity or operation in which there is a Non-Participating Party,  
4 agree to bear all of the Costs of the approved activity or operation, the Operator  
5 shall commence the activity or operation at the sole Cost and risk of the  
6 Participating Parties in accordance with the applicable timely operations  
7 provisions of this Agreement. Notwithstanding the foregoing, the election  
8 periods in Articles 10.2 (*Exploratory Operations at Objective Depth*), 11.2  
9 (*Appraisal Operations at Objective Depth*), and 13.2 (*Development Operations at*  
10 *Objective Depth*) shall govern in the event of a conflict.

#### 11 **8.5 Approval by Unanimous Agreement**

12 After receipt of a notice for a proposal that requires unanimous agreement, each  
13 Party entitled to approve (or disapprove) that activity or operation may indicate  
14 its approval or disapproval by providing a written statement in a response.  
15 Unless otherwise specifically provided, failure of a Party to make such a  
16 response is deemed its disapproval.

#### 17 **8.6 Response Time for Notices**

18 After receipt of an AFE or notice under this Article 8, the Parties may (a) submit  
19 their Vote or (b) make an Election or (c) submit a written statement, whichever is  
20 applicable. If requested in writing by a Party entitled to (a) submit their Vote or  
21 (b) make an Election or (c) submit a written statement on an AFE or notice, the  
22 Operator shall give prompt notice of the results of those Votes, Elections or  
23 written statements to each Party entitled to (a) submit their Vote or (b) make an  
24 Election or (c) submit a written statement, as applicable. Except as otherwise  
25 provided in this Agreement, the response times for each type of proposal shall  
26 be as follows:

##### 27 **8.6.1 Well Proposals, Recompletions, and Workovers**

28 When a well, Recompletion, or Workover is proposed, each Party  
29 entitled to Vote or make an Election or submit a written statement,  
30 whichever is applicable, has thirty (30) days after receipt of the  
31 proposal (inclusive of Saturdays, Sundays, and federal holidays) to  
32 respond to it. If a drilling rig is on location and day rate rig charges are  
33 being charged to the Joint Account and if a Party, who is entitled to do  
34 so, has proposed the immediate commencement of a substitute well

1 or a supplemental AFE to a well, or a Recompletion or Workover in or  
2 through the same well bore in which the previous operation was  
3 conducted or has submitted a supplemental AFE to a well, and if the  
4 rig that is on location is to conduct the operation or is to be utilized  
5 under the supplemental AFE, a Party entitled to Vote or make an  
6 Election or submit a written statement has forty-eight (48) hours after  
7 receipt of the proposal (inclusive of Saturdays, Sundays, and federal  
8 holidays) to respond to it. The response times for subsequent  
9 operations at Objective Depth are provided in Article 10.2 (*Exploratory*  
10 *Operations at Objective Depth*), Article 11.2 (*Appraisal Operations at*  
11 *Objective Depth*), and Article 13.2 (*Development Operations at*  
12 *Objective Depth*).

### 13 **8.6.2 Execution AFE**

14 Each Party entitled to make an Election on an Execution AFE has one  
15 hundred twenty (120) days after the date of its receipt of the Execution  
16 AFE to make that Election.

### 17 **8.6.3 Other AFE Related Operations**

18 Except as otherwise provided in Articles 8.6.1 (*Well Proposals,*  
19 *Recompletions, and Workovers*), 8.6.2 (*Execution AFE*), and 12.7.7  
20 (*Approval of Major Modifications*), the response time to a proposed  
21 AFE, activity, or operation will depend upon the gross AFE amount.  
22 Response times will be as follows:

- 23 (a) AFE of five hundred thousand \$500,000.00 or more but less than  
24 twenty million dollars \$20,000,000.00; response will be made  
25 within thirty (30) days after receipt of said proposal;
- 26 (b) AFE of twenty million dollars \$20,000,000.00 or more but less  
27 than fifty million dollars \$50,000,000.00; response will be made  
28 within sixty (60) days after receipt of said proposal; and
- 29 (c) AFE of fifty million dollars \$50,000,000.00 or more; response will  
30 be made within ninety (90) days after receipt of said proposal.

1       **8.6.4     Other Proposals**

2       For all other proposals requiring notice, and all supplemental AFEs  
3       other than those subject to Article 8.6.1 (*Well Proposals,*  
4       *Recompletions, and Workovers*), each Party has thirty (30) days after  
5       receipt of the proposal to respond to it.

6       **8.6.5     Failure to Vote or Make an Election**

7       Unless otherwise specifically provided, failure of a Party to Vote or  
8       make an Election, whichever is applicable, within the period required  
9       by this Agreement is deemed to be a Vote or Election not to  
10      participate.

11      **8.6.6     Suspensions of Operations and Suspensions of Production**

12      Notwithstanding any contrary provision in Article 8.6 (*Response Time*  
13      *for Notices*), if the MMS grants a Suspension of Production ("SOP"), a  
14      Suspension of Operations ("SOO"), or similar regulatory grant for all or  
15      part of the Contract Area, and if the SOP, SOO, or grant requires the  
16      commencement of an activity or operation before the expiration of the  
17      period for Voting, making an Election, or submitting a written  
18      statement, as provided in Article 8.5 (*Approval by Unanimous*  
19      *Agreement*) for that activity or operation, the Parties shall cast their  
20      Votes, make their Elections, or submit their written statement on the  
21      activity or operation at least ten (10) days (inclusive of Saturdays,  
22      Sundays and federal holidays) before the commencement date  
23      required in the SOO, SOP, or grant.

24      **8.6.7     Standby Charges**

25      The Participating Parties in a well or well operation conducted  
26      immediately prior to the delivery of (a) a proposal for a substitute well  
27      or a subsequent operation in a well or (b) a supplemental AFE are  
28      responsible for charges associated with the well or well operation that  
29      accrue before that delivery. All charges, which accrue after that  
30      delivery, are the responsibility of the Participating Parties in the  
31      substitute well, subsequent operation, or supplemental AFE. If (a) the  
32      proposal of a substitute well or subsequent operation or (b) the  
33      supplemental AFE is not approved, the Participating Parties in the well  
34      or well operation conducted immediately prior to the delivery of that

1                   proposal or supplemental AFE are responsible for the charges that  
2                   accrue after that delivery.

### 3       **8.7    Giving and Receiving Notices and Responses**

4       Except as otherwise provided in this Agreement, all notices and responses  
5       required or permitted by this Agreement shall be in writing and shall be delivered  
6       in person or by mail, courier service, or facsimile transmission, with postage and  
7       charges prepaid, addressed to the Parties at the addresses in Exhibit "A." A  
8       notice is deemed delivered only when received by the Party to whom it was  
9       directed, and the period for a Party to deliver a response begins on the date the  
10      notice is received. "Receipt" of a written notice means actual delivery of the  
11      notice to the Party's address or transmission to the facsimile number provided in  
12      Exhibit "A." A response is deemed delivered when it is deposited in the United  
13      States mail, delivered to a courier, transmitted by facsimile transmission, or is  
14      personally delivered to a Party.

15      However, when a drilling rig is on location and day rate rig charges are being  
16      charged to the Joint Account, notices or responses pertaining to operations  
17      utilizing a drilling rig shall be given orally or by telephone. "Receipt" of an oral or  
18      telephone notice means actual and immediate communication to the Party to be  
19      notified. All telephone or oral notices or responses permitted by this Agreement  
20      shall be confirmed immediately thereafter by facsimile transmission. A message  
21      left on an answering machine or with an answering service or other third person  
22      is not adequate telephone or oral notice or response. If a Party is unavailable to  
23      receive a notice or response required to be given orally or by telephone, the  
24      notice or response may be delivered by facsimile transmission.

### 25      **8.8    Content of Notices**

26      A notice requiring a response shall indicate the appropriate response time  
27      specified in Article 8.6 (*Response Time for Notices*). A well proposal notice shall  
28      include the type of well being proposed, (for example, Exploratory Well,  
29      Appraisal Well, or Development Well), a Well Plan, and an AFE that includes the  
30      Costs of permanently plugging and abandoning the well. If a proposed activity  
31      or operation is subject to Article 16.4 (*Non-Consent Operations to Maintain*  
32      *Contract Area*), the notice shall specify that the proposal is a Contract Area  
33      maintenance activity or operation.

1       **8.9 Designation of Representatives**

2       The names, addresses, and telephone and facsimile numbers of a designated  
3       representative and alternate for each Party to whom notices or responses shall  
4       be directed, are provided in Exhibit "A." The designated representative and the  
5       alternate may be changed by written notice to the other Parties.

6       **8.10 Meetings**

7       Any Party may call a meeting. Except in an emergency, no meeting shall be  
8       called on less than five (5) days' advance notice (inclusive of Saturdays, Sundays,  
9       and federal holidays), and the notice shall include a proposed agenda. The  
10      Operator shall be chairman of each meeting and take minutes of each meeting.  
11      Only matters included in the agenda may be considered at a meeting unless  
12      unanimously agreed to by the Parties.

13      **8.11 Obligations of Well Participation**

14      Subject to Article 6.2 (AFEs), a Participating Party in an Exploratory Well, an  
15      Appraisal Well, or a Development Well is responsible for its Participating Interest  
16      Share of all necessary Costs in the original well AFE, which shall include only the  
17      Cost to drill, test (except Production Testing), and log the well to its Objective  
18      Depth, or shallower depth if applicable, and to plug and abandon the well.

19                                   **ARTICLE 9 – NEWS RELEASES**

20      **9.1 Proposal of News Releases**

21      Any Party may propose for issuance a News Release about the activities or  
22      operations covered by this Agreement by submitting the text of the News  
23      Release to the Parties. A News Release proposal requires the unanimous  
24      agreement of the Parties. The Parties shall respond to a News Release proposal  
25      within seventy-two (72) hours of their receipt of it by agreeing or disagreeing  
26      with the text of the proposed News Release, or by submitting alternative text for  
27      the News Release. If a Party submits alternative text for the News Release, the  
28      Parties shall have forty-eight (48) hours to agree or disagree with any of the  
29      proposed texts of the News Release. If a Party fails to respond, the Party shall  
30      be deemed to have not approved any of the proposed News Releases.

1           **9.1.1     Operator's News Release**

2           If the Parties do not unanimously agree to any of the texts of a  
3           proposed News Release within the time period set forth in Article 9.1  
4           *(Proposal of News Releases)*, the Operator has the exclusive right for  
5           forty-eight (48) hours, following the last response under Article 9.1  
6           *(Proposal of News Releases)*, to submit a News Release on the subject  
7           matter of the original proposal to the Parties in accordance with this  
8           Article 9.1.1. If the News Release pertains to a well or an operation in  
9           a well, the Operator must limit the content of the News Release to the  
10          following information:

- 11           (a)   the name of the well or operation and the water depth;
- 12           (b)   the location of the well by protraction area, block, and adjacent  
13               state;
- 14           (c)   the lease bonus paid and the lease acquisition date;
- 15           (d)   the result of a Production Test, if conducted;
- 16           (e)   the participants in, and their Working Interest in, the well or  
17               operation; and
- 18           (f)   the surrounding acreage controlled by the participants.

19          If the News Release does not pertain to a well or an operation in a  
20          well, it may only contain information that is not Confidential Data or  
21          Confidential Information (as defined in Exhibit "G") and does not  
22          substantially undermine the Parties' competitive advantage in the area  
23          surrounding, or trend or play pertaining to, the Contract Area. The  
24          Operator shall transmit the News Release to the Non-Operating Parties  
25          not less than seventy-two (72) hours (exclusive of Saturdays, Sundays,  
26          and federal holidays) before the time at which the Operator wishes to  
27          issue it. Any Party may have its name excluded from the News  
28          Release by notifying the Operator of that desire within forty-eight (48)  
29          hours of that Party's receipt of the News Release.

1           **9.1.2     Non-Operating Party's News Release**

2           If the Operator does issue the News Release within forty-eight (48)  
3           hours of the termination of the seventy-two (72) hour period referred to  
4           in Article 9.1.1 (*Operator's News Release*), any Participating Party may  
5           prepare and issue its own News Release, using the content guidelines  
6           and procedures provided in Article 9.1.1 (*Operator's News Release*),  
7           simultaneously with or following the Operator's News Release. If the  
8           Operator does not issue the News Release within forty-eight (48)  
9           hours of the termination of the seventy-two (72) hour period referred to  
10          in Article 9.1.1 (*Operator's News Release*), any Participating Party may  
11          prepare and issue its own News Release, using the content guidelines  
12          and procedures provided in Article 9.1.1 (*Operator's News Release*).

13          **9.2     Emergency New Releases**

14          In an emergency involving extensive property damage, loss of human life, or  
15          other clear emergency and where there is insufficient time to obtain approval  
16          from the other Parties, the Operator may furnish factual information necessary  
17          to satisfy legitimate public interest or governmental authorities having  
18          jurisdiction. The Operator shall immediately notify the Parties of the information  
19          furnished in response to the emergency.

20          **9.3     Mandatory News Releases**

21          Each Party has the right to issue a News Release which contains information not  
22          otherwise permitted under Article 9 (*News Releases*) in order to comply with the  
23          laws, orders, rules, or regulations of the country in which its parent company is  
24          incorporated; provided, however, prior to issuing that News Release, that Party  
25          must submit, not less than seventy-two (72) hours (exclusive of Saturdays,  
26          Sundays, and federal holidays) before issuance of the News Release, the text of  
27          that News Release to the other Parties and a statement from a licensed attorney  
28          in the country, with whose laws, orders, rules, or regulations the Party is  
29          complying, verifying that the News Release (including its content) is required  
30          under those laws, orders, rules, or regulations.



## **ARTICLE 10 – EXPLORATORY OPERATIONS**

### **10.1 Proposal of Exploratory Wells**

Any Party may propose drilling an Exploratory Well within the Contract Area by giving notice of the proposal (along with the associated AFE and Well Plan) to the other Parties. Each proposed Exploratory Well requires approval by Election.

Each Non-Participating Party in an Exploratory Well will be subject to either an acreage forfeiture or Hydrocarbon Recoupment as provided in Article 16 (*Non-Consent Operations*).

#### **10.1.1 Revision of Well Plan**

A revision to an approved well proposal, Well Plan, or AFE prior to the commencement of actual drilling operations on an Exploratory Well requires the unanimous agreement of the Participating Parties. In the absence of unanimous agreement on a proposed revision to the Well Plan or AFE, the Well Plan and AFE will stand as approved. Only a major revision to an approved Well Plan or AFE will give a Non-Participating Party an additional opportunity to participate in an Exploratory Well prior to the commencement of actual drilling operations. A revision is deemed a major revision if the Objective Depth of an Exploratory Well is changed, or the proposed bottom hole location is moved more than 1000', or both, in which case each Non-Participating Party in the well may, for a period of twenty (20) days after receipt of the revised Well Plan and revised AFE, notify the Operator in writing that it will participate in the revised Exploratory Well. For the avoidance of doubt, any revisions to the Well Plan subsequent to the commencement of actual drilling operations shall not give any Non-Participating Party the opportunity to participate in the Exploratory Operation.

A Non-Participating Party timely submitting its participation notification under this Agreement due to a major revision in a Well Plan (a) shall become an Underinvested Party for Costs incurred on the modified Exploratory Well prior to the approved major modification and (b) with regard to that well, shall no longer be subject to Article 16 (*Non-*

1           *Consent Operations*). The Non-Participating Party's Underinvestment  
2           obligation, resulting from its participation decision, shall be calculated  
3           as follows: actual Costs expended on that Exploratory Well multiplied  
4           by the Non-Participating Party's percentage Participating Interest Share  
5           in the modified Exploratory Well. If the Non-Participating Party  
6           forfeited and assigned its right, title, and interest in the Contract Area  
7           by not participating in that Exploratory Well, then within thirty (30) days  
8           after the Operator's receipt of the Non-Participating Party's  
9           participation notification under this Agreement, the Participating Parties  
10          in the original Exploratory Well proposal shall assign to the Non-  
11          Participating Party one hundred percent (100%) of the Non-  
12          Participating Party's former Working Interest in the Contract Area.

#### 13       **10.1.2    Automatic Revision of the Well Plan**

14           During the drilling of an Exploratory Well, the Well Plan may be revised  
15           by the Operator as is necessary for it to employ prudent oilfield  
16           practices or to conduct safe operations, and those revisions will not  
17           require the approval of the Participating Parties as long as the  
18           Operator's revisions carry out the scope and intent of the approved  
19           Well Plan and AFE, except as provided in Article 6.2.2 (*Supplemental*  
20           *AFEs*).

#### 21       **10.1.3    Timely Operations**

22           Except as provided below, drilling operations on an Exploratory Well  
23           shall be commenced within one hundred eighty (180) days after the  
24           end of the period for the approval of the Exploratory Well. If the  
25           Operator, except for an occurrence of Force Majeure, does not  
26           commence drilling operations on the Exploratory Well within that one  
27           hundred eighty (180) day period, the approved Exploratory Well  
28           proposal shall be deemed withdrawn, with the effect as if the  
29           Exploratory Well had never been proposed and approved.

30           If a Party submits an identical Exploratory Well proposal (except for any  
31           necessary modifications resulting from a change in the drilling rig to be  
32           utilized by the Operator) within ninety (90) days after the deemed  
33           withdrawal of the approved original Exploratory Well proposal and if  
34           that identical Exploratory Well proposal is approved and if the Operator

1 is a Participating Party in the identical Exploratory Well proposal, the  
2 Operator shall commence drilling operations on that well within ninety  
3 (90) days after the end of the response period for that proposal. If the  
4 Operator, except for an occurrence of Force Majeure (excluding the  
5 inability to secure materials or a drilling rig), fails to commence drilling  
6 operations on the identical Exploratory Well within that ninety (90) day  
7 period, the approved identical Exploratory Well proposal shall be  
8 deemed withdrawn, with the effect as if the identical Exploratory Well  
9 proposal had never been proposed and approved, and the Non-  
10 Operating Parties may then select a substitute Operator under Article  
11 4.2.2 (*Substitute Operator if Operator Fails to Commence Drilling*  
12 *Operations*). Within sixty (60) days of the selection of the substitute  
13 Operator, the substitute Operator shall propose the drilling of an  
14 identical Exploratory Well (except for any necessary modifications  
15 resulting from a change in the drilling rig to be utilized by the substitute  
16 Operator), and it shall commence drilling operations on that well within  
17 one hundred eighty (180) days after the end of the period for the  
18 approval of that Well.

19 If a Party submits an identical Exploratory Well proposal (except for any  
20 necessary modifications resulting from a change in the drilling rig to be  
21 utilized by the Operator) within ninety (90) days after the deemed  
22 withdrawal of the approved original Exploratory Well proposal and if  
23 that identical Exploratory Well proposal is approved and if the Operator  
24 is not a Participating Party in the identical Exploratory Well proposal,  
25 the approved identical Exploratory Well proposal shall be deemed  
26 withdrawn, with the effect as if the identical Exploratory Well proposal  
27 had never been proposed and approved, and the Non-Operating Parties  
28 may then select a substitute Operator under Article 4.2.1 (*Substitute*  
29 *Operator if Operator is a Non-Participating Party*). Within sixty (60)  
30 days of the selection of the substitute Operator, the substitute  
31 Operator shall propose the drilling of an identical Exploratory Well  
32 (except for any necessary modifications resulting from a change in the  
33 drilling rig to be utilized by the substitute Operator), and it shall  
34 commence drilling operations on that well within ninety (90) days after  
35 the end of the period for the approval of that Well.

1 If an approved original or identical Exploratory Well proposal is deemed  
2 withdrawn due to a failure to timely commence drilling operations on  
3 that well, all Costs incurred, which are attributable to the preparation  
4 for, or in furtherance of, that Exploratory Well, will be chargeable to the  
5 Participating Parties. Drilling operations for an Exploratory Well under  
6 this Article 10.1.3 shall be deemed to have commenced on the date  
7 the rig arrives on location or, if the rig is already on location, the date  
8 when actual drilling operations for the approved Exploratory Well are  
9 undertaken.

#### 10 **10.1.4 AFE Overruns and Substitute Well**

11 Once an Exploratory Well is commenced, the Operator shall drill the  
12 well with due diligence to its Objective Depth, subject to:

- 13 (a) all supplemental AFEs required under Article 6.2.2 (*Supplemental*  
14 *AFE*s ),
- 15 (b) the Operator encountering mechanical difficulties, uncontrolled  
16 influx of subsurface water, loss of well control, abnormal well or  
17 formation pressures, pressured or heaving shale, granite or other  
18 practicably impenetrable substances, or other similar conditions in  
19 the well bore or damage to the well bore that, in the Operator's  
20 sole opinion, render further well operations impractical, and
- 21 (c) the unanimous agreement of the Participating Parties to cease  
22 drilling an Exploratory Well before reaching Objective Depth.

23 If an Exploratory Well is abandoned due to the conditions described  
24 under Article 10.1.4(b), then any Participating Party in the abandoned  
25 Exploratory Well may, within thirty (30) days after abandonment of that  
26 Exploratory Well, propose the drilling of a substitute well for the  
27 abandoned Exploratory Well by giving notice of the proposal (along  
28 with the associated AFE and Well Plan) to all other Participating Parties  
29 in the abandoned Exploratory Well, and that proposal requires approval  
30 by Election of the Participating Parties in the abandoned Exploratory  
31 Well. Notwithstanding any contrary provision of Article 10.4  
32 (*Conclusion of Exploratory Operations*), the substitute well shall be an  
33 Exploratory Well. The Well Plan for the substitute Exploratory Well

1 shall be substantially the same as the Well Plan for the abandoned  
2 Exploratory Well and shall also take into account the conditions that  
3 rendered further drilling of the abandoned Exploratory Well impractical.

4 Each Non-Participating Party in a substitute Exploratory Well or an  
5 approved supplemental AFE for an Exploratory Well will be subject to  
6 either an acreage forfeiture or Hydrocarbon Recoupment, as provided  
7 in Article 16 (*Non-Consent Operations*).

8 **10.2 Exploratory Operations at Objective Depth**

9 After an Exploratory Well has been drilled to its Objective Depth and all  
10 operations in the controlling AFE have been conducted or terminated (except  
11 temporary abandonment and permanent plugging and abandonment) and all logs  
12 and test results have been distributed to the Participating Parties, the Operator  
13 shall promptly notify the Parties entitled to make an Election on an operation  
14 proposed under this Article 10.2 of its proposal to conduct subsequent  
15 operations in the well. Except for a proposal to permanently plug and abandon  
16 the well, the Operator's proposal shall include an associated AFE and a plan for  
17 the operation. The Parties entitled to make that Election are:

- 18 (a) the Participating Parties, and
- 19 (b) the Non-Participating Parties in the original well proposal if (1) the  
20 subsequent Exploratory Operation proposal is made at the well's Objective  
21 Depth and is for a Sidetrack or Deepening and (2) Article 16.2 (*Acreage*  
22 *Forfeiture Provisions*) was not applicable to the drilling of that Exploratory  
23 Well.

24 The Operator's proposal shall be for one of the following operations:

- 25 (a) conduct Additional Testing, Sidewall Coring, or Logging of the formations  
26 encountered prior to setting production casing;
- 27 (b) Sidetrack the well bore to conventionally core the formations encountered;
- 28 (c) Deepen the well to a new Objective Depth;

- 1 (d) Sidetrack the well (however, if in the Operator's sole opinion a casing  
2 string is required to Deepen the well, then option "d" shall have priority  
3 over Deepening the well to a new Objective Depth);
- 4 (e) conduct Production Testing;
- 5 (f) conduct other operations on the well not listed;
- 6 (g) temporarily abandon the well; or
- 7 (h) permanently plug and abandon the well.

8 If an Exploratory Well is temporarily abandoned under (g), then any additional  
9 operation in that well shall be proposed as a new well operation. A proposal to  
10 complete an Exploratory Well that has been temporarily abandoned under clause  
11 (g) shall be deemed a Development Operation proposal.

12 If the Operator fails to submit its proposal to the Participating Parties within  
13 twenty-four (24) hours (inclusive of Saturdays, Sundays, and federal holidays)  
14 after receipt of all logs and test results from an Exploratory Well by the  
15 Participating Parties, then any Participating Party may make a proposal. In that  
16 event, the procedures in this Article 10.2 shall apply to that proposal, and any  
17 reference in this Article 10.2 to the "Operator's proposal" shall include a  
18 proposal made by a Participating Party.

19 **10.2.1 Response to Operator's Proposal**

20 A Participating Party may, within twenty-four (24) hours (inclusive of  
21 Saturdays, Sundays, and federal holidays) of its receipt of the  
22 Operator's proposal, make a separate proposal (along with an  
23 associated AFE and a plan for the operation, except if the proposal is to  
24 permanently plug and abandon the well) for one of the operations in  
25 Article 10.2 (*Exploratory Operations at Objective Depth*), and the  
26 Operator, immediately after the expiration of the twenty-four (24) hour  
27 period for making a separate proposal shall provide the Parties entitled  
28 to make an Election with a copy of all separate proposals so made. If  
29 no separate proposal is made, the Parties entitled to make an Election  
30 shall, within forty-eight (48) hours (inclusive of Saturdays, Sundays, and  
31 federal holidays) of their receipt of the Operator's proposal, make an  
32 Election on the Operator's proposal (except for a proposal to

1 permanently plug and abandon). If a separate proposal is made, the  
2 Parties entitled to make an Election shall make an Election under the  
3 procedure in Article 10.2.2 (*Response to Highest Priority Proposal*). If a  
4 proposal to permanently plug and abandon the well is the only  
5 operation proposed, then the approval and Cost allocation provisions of  
6 Article 10.3 (*Permanent Plugging and Abandonment and Cost*  
7 *Allocation*) shall apply to that proposal. If Article 8.3 (*Second*  
8 *Opportunity to Participate*) or Article 8.4 (*Participation by Fewer Than*  
9 *All Parties*), or both, apply to any Election in Article 10.2 (*Exploratory*  
10 *Operations at Objective Depth*), then the response period in those  
11 articles shall be twenty-four (24) hours (inclusive of Saturdays,  
12 Sundays, and federal holidays) instead of forty-eight (48) hours  
13 (exclusive of Saturdays, Sundays, and federal holidays).  
14 Notwithstanding any contrary provision of this Agreement, if one or  
15 more operations are proposed before the distribution of information  
16 resulting from the previously approved operation, then the response  
17 periods set forth above shall not commence until the Parties entitled to  
18 make an Election have received the information from the previously  
19 approved operation.

#### 20 **10.2.2 Response to Highest Priority Proposal**

21 If a separate proposal is made, each Party entitled to make an Election  
22 shall, within twenty-four (24) hours (inclusive of Saturdays, Sundays,  
23 and federal holidays) after its receipt from the Operator of a complete  
24 copy of all separate proposals, make its Election on the highest priority  
25 proposal (except a proposal to permanently plug and abandon the well).  
26 Article 10.2(a) has the highest priority, and Article 10.2(h) has the  
27 lowest priority. If different depths or locations are proposed for the  
28 same type of operation, priority shall be given to the deepest depth. If  
29 the proposal with the highest priority is approved, then the lower  
30 priority proposals shall be deemed withdrawn. Once the approved  
31 operation is completed, the Parties shall follow the procedure provided  
32 in this Article 10.2 (*Exploratory Operations at Objective Depth*) for all  
33 other proposals for operations in the well bore until such time as the  
34 well is temporarily abandoned or permanently abandoned.

1       **10.2.3    Response on Next Highest Priority Proposal**

2       If the proposal with the highest priority is not approved, then the next  
3       highest priority proposal shall be deemed the highest priority proposal  
4       and it shall be subject to the approval procedure in Article 10.2.2  
5       (*Response to Highest Priority Proposal*). This process will continue until  
6       a proposal is approved to either temporarily abandon or permanently  
7       plug and abandon an Exploratory Well.

8       **10.2.4    Non-Participating Parties in Exploratory Operations at Objective**  
9       **Depth**

10      A Non-Participating Party in an Exploratory Operation conducted on an  
11      Exploratory Well after it has reached its Objective Depth [except as  
12      provided for in this Article 10.2 (*Exploratory Operations at Objective*  
13      *Depth*)] is subject to Article 16.5.1.1 (*Non-Consent Exploratory*  
14      *Operations at Objective Depth*) and is relieved of the Costs and risks of  
15      that Exploratory Operation, except that a Non-Participating Party in that  
16      Exploratory Operation remains responsible for its Participating Interest  
17      Share of the Costs of plugging and abandoning an Exploratory Well,  
18      less and except all Costs of plugging and abandoning associated solely  
19      with the subsequent Exploratory Operation in which it was a Non-  
20      Participating Party.

21      **10.2.5    Participation in a Sidetrack or Deepening by a Non-Participating**  
22      **Party in an Exploratory Well at Initial Objective Depth**

23      If an Exploratory Well is drilled to its initial Objective Depth and a Non-  
24      Participating Party in that Exploratory Well becomes a Participating  
25      Party in an approved Sidetracking or Deepening under Article 10.2(c) or  
26      (d), that former Non-Participating Party shall become an Underinvested  
27      Party in an amount equal to its Non-Participating Interest Share of the  
28      Costs of that Exploratory Well prior to that Sidetracking or Deepening.  
29      The original Participating Parties in an Exploratory Well are  
30      Overinvested Parties in that amount. A former Non-Participating Party  
31      in an Exploratory Well that becomes a Participating Party in an  
32      approved Sidetracking or Deepening remains a Non-Participating Party  
33      in that Exploratory Well to initial Objective Depth until (a) its  
34      Underinvestment is eliminated under Article 16.9 (*Settlement of*  
35      *Underinvestments*), and (b) the Hydrocarbon Recoupment recoverable



1 under Article 16.5.1 (*Non-Consent Exploratory Operations down to*  
2 *Objective Depth in the First Exploratory Well*), less the amount of the  
3 Underinvestment, has been recovered by the original Participating  
4 Parties. If a former Non-Participating Party becomes a Participating  
5 Party in more than one approved Sidetracking or Deepening in the  
6 same Exploratory Well, that former Non-Participating Party shall  
7 become an Underinvested Party only with regard to the first  
8 Sidetracking or Deepening it approves; however, that Underinvestment  
9 shall not be relieved by an Underinvested Party's subsequent  
10 participation.

### 11 **10.3 Permanent Plugging and Abandonment and Cost Allocation**

12 The permanent plugging and abandonment of an Exploratory Well that:

- 13 (a) is to be plugged due to mechanical difficulties or impenetrable conditions  
14 before the well has been drilled to its Objective Depth under Article 10.1.4  
15 (b),
- 16 (b) is to be plugged under Article 10.2 (*Exploratory Operations at Objective*  
17 *Depth*), or
- 18 (c) has been previously temporarily abandoned under Article 10.2 (*Exploratory*  
19 *Operations at Objective Depth*)

20 and has not produced Hydrocarbons (other than as a result of Production  
21 Testing), requires the approval of the Participating Parties by Vote. Approval to  
22 plug and abandon an Exploratory Well that has produced Hydrocarbons (other  
23 than as a result of Production Testing) shall be governed by Article 18.1  
24 (*Abandonment of Wells*). If a proposal to plug and abandon an Exploratory Well  
25 receives approval by Vote, the approved proposal binds all Parties. If any  
26 Participating Party fails to respond within the applicable response period for a  
27 proposal to plug and abandon an Exploratory Well, that Participating Party shall  
28 be deemed to have approved the plugging and abandonment of that Exploratory  
29 Well. If a rig is on location, a proposal to plug and abandon an Exploratory Well  
30 under either Article 10.3(a) or 10.3(b) does not receive approval by Vote, and if  
31 within twenty-four (24) hours (inclusive of Saturdays, Sundays, and federal  
32 holidays) after receipt of that proposal no other operation is proposed (and  
33 subsequently approved) for the well by a Party entitled to make a proposal, the

1 Operator may nevertheless proceed to plug and abandon that Exploratory Well,  
2 and shall give each Participating Party notice of that fact. If the proposal to plug  
3 and abandon an Exploratory Well that has not produced Hydrocarbons (other  
4 than as a result of Production Testing) does not receive approval by Vote, but  
5 the Operator deems the well bore not to be safe or in sound enough condition  
6 for it to perform further operations, the Operator may nevertheless proceed to  
7 plug and abandon that Exploratory Well, and shall give each Participating Party  
8 notice of that fact.

9 The Participating Parties in an Exploratory Well proposal shall pay all Costs of  
10 plugging and abandoning that Exploratory Well, except all increased plugging  
11 and abandoning Costs associated solely with a Non-Consent Operation approved  
12 under Article 10.2 (*Exploratory Operations at Objective Depth*) or Article 6.2.2  
13 (*Supplemental AFEs*). The Participating Parties in that Non-Consent Operation  
14 are responsible for the increased plugging and abandoning Costs attributable to  
15 that Non-Consent Operation.

#### 16 **10.4 Conclusion of Exploratory Operations**

17 Except as provided in Article 10.1.4 (*AFE Overruns and Substitute Well*) after the  
18 permanent or temporary abandonment of the first Producing Well and the  
19 release of the rig from that Producing Well, Exploratory Operations conclude,  
20 and all subsequent operations in the Contract Area are either Appraisal  
21 Operations or Development Operations.

### 22 **ARTICLE 11 – APPRAISAL OPERATIONS**

#### 23 **11.1 Proposal of Appraisal Wells**

24 After the conclusion of Exploratory Operations, any Party may propose drilling an  
25 Appraisal Well by giving notice of the proposal (along with the associated AFE  
26 and Well Plan) to the other Parties. Each proposed Appraisal Well requires  
27 approval by Election.

28 Each Non-Participating Party in an Appraisal Well will be subject to either an  
29 acreage forfeiture or Hydrocarbon Recoupment as provided in Article 16 (*Non-*  
30 *Consent Operations*).

1       **11.1.1    Revision of Well Plan**

2       Any revisions of the Well Plan or AFE for an Appraisal Well shall take  
3       place under the same terms and conditions as those set forth for an  
4       Exploratory Well in Article 10.1.1 (*Revision of Well Plan*).

5       **11.1.2    Automatic Revision of the Well Plan**

6       The Well Plan for an Appraisal Well shall automatically be revised under  
7       the same terms and conditions as those set forth for an Exploratory  
8       Well in Article 10.1.2 (*Automatic Revision of the Well Plan*).

9       **11.1.3    Timely Operations**

10      Except as provided below, drilling operations on an Appraisal Well shall  
11      be commenced within one hundred eighty (180) days after the end of  
12      the period for the approval of the Appraisal Well. If the Operator,  
13      except for an occurrence of Force Majeure, does not commence  
14      drilling operations on the Appraisal Well within that one hundred eighty  
15      (180) day period, the approved Appraisal Well proposal shall be  
16      deemed withdrawn, with the effect as if the Appraisal Well had never  
17      been proposed and approved.

18      If a Party submits an identical Appraisal Well proposal (except for any  
19      necessary modifications resulting from a change in the drilling rig to be  
20      utilized by the Operator) within ninety (90) days after the deemed  
21      withdrawal of the approved original Appraisal Well proposal and if that  
22      identical Appraisal Well proposal is approved and if the Operator is a  
23      Participating Party in the identical Appraisal Well proposal, the Operator  
24      shall commence drilling operations on that well within ninety (90) days  
25      after the end of the response period for that proposal. If the Operator,  
26      except for an occurrence of Force Majeure (excluding the inability to  
27      secure materials or a drilling rig), fails to commence drilling operations  
28      on the identical Appraisal Well within that ninety (90) day period, the  
29      approved identical Appraisal Well proposal shall be deemed withdrawn,  
30      with the effect as if the identical Appraisal Well proposal had never  
31      been proposed and approved, and the Non-Operating Parties may then  
32      select a substitute Operator under Article 4.2.2 (*Substitute Operator if*  
33      *Operator Fails to Commence Drilling Operations*). Within sixty (60)  
34      days of the selection of the substitute Operator, the substitute

1 Operator shall propose the drilling of an identical Appraisal Well (except  
2 for any necessary modifications resulting from a change in the drilling  
3 rig to be utilized by the substitute Operator), and it shall commence  
4 drilling operations on that well within ninety (90) days after the end of  
5 the period for the approval of that Well.

6 If a Party submits an identical Appraisal Well proposal (except for any  
7 necessary modifications resulting from a change in the drilling rig to be  
8 utilized by the Operator) within ninety (90) days after the deemed  
9 withdrawal of the approved original Appraisal Well proposal and if that  
10 identical Appraisal Well proposal is approved and if the Operator is not  
11 a Participating Party in the identical Appraisal Well proposal, the  
12 approved identical Appraisal Well proposal shall be deemed withdrawn,  
13 with the effect as if the identical Appraisal Well proposal had never  
14 been proposed and approved, and the Non-Operating Parties may then  
15 select a substitute Operator under Article 4.2.1 (*Substitute Operator if*  
16 *Operator is a Non-Participating Party*). Within sixty (60) days of the  
17 selection of the substitute Operator, the substitute Operator shall  
18 propose the drilling of an identical Appraisal Well (except for any  
19 necessary modifications resulting from a change in the drilling rig to be  
20 utilized by the substitute Operator), and it shall commence drilling  
21 operations on that well within ninety (90) days after the end of the  
22 period for the approval of that Well.

23 If an approved original or identical Appraisal Well proposal is deemed  
24 withdrawn due to a failure to timely commence drilling operations on  
25 that well, all Costs incurred, which are attributable to the preparation  
26 for, or in furtherance of, that Appraisal Well, will be chargeable to the  
27 Participating Parties. Drilling operations for an Appraisal Well under  
28 this Article 11.1.3 shall be deemed to have commenced on the date  
29 the rig arrives on location or, if the rig is already on location, the date  
30 when actual drilling operations for the approved Appraisal Well are  
31 undertaken.

#### 32 **11.1.4 AFE Overruns and Substitute Well**

33 Once an Appraisal Well is commenced, the Operator shall drill the well  
34 with due diligence to its Objective Depth, subject to:

- 1 (a) all supplemental AFEs required under Article 6.2.2 (*Supplemental*  
2 *AFE*s);
- 3 (b) the Operator encountering mechanical difficulties, uncontrolled  
4 influx of subsurface water, loss of well control, abnormal well or  
5 formation pressures, pressured or heaving shale, granite or other  
6 practicably impenetrable substances, or other similar conditions in  
7 the well bore or damage to the well bore that, in the Operator's  
8 sole opinion, render further well operations impractical; and
- 9 (c) the unanimous agreement of the Participating Parties to cease  
10 drilling an Appraisal Well before reaching Objective Depth.

11 If an Appraisal Well is abandoned due to the conditions described  
12 under Article 11.1.4(b), then any Participating Party in the abandoned  
13 Appraisal Well may, within thirty (30) days after abandonment of that  
14 Appraisal Well, propose the drilling of a substitute well for the  
15 abandoned Appraisal Well by giving notice of the proposal (along with  
16 the associated AFE and Well Plan) to all other Participating Parties in  
17 the abandoned Appraisal Well, and that proposal requires approval by  
18 Election of the Participating Parties in the abandoned Appraisal Well.  
19 Notwithstanding any contrary provision of Article 11.5 (*Conclusion of*  
20 *Appraisal Operations*), the substitute well shall be an Appraisal Well.  
21 The Well Plan for the substitute Appraisal Well shall be substantially  
22 the same as the abandoned Appraisal Well's Well Plan and shall also  
23 take into account the conditions that rendered further drilling of the  
24 abandoned Appraisal Well impractical.

25 Each Non-Participating Party in a substitute Appraisal Well or an  
26 approved supplemental AFE for an Appraisal Well will be subject to  
27 either an acreage forfeiture or Hydrocarbon Recoupment, as provided  
28 in Article 16 (*Non-Consent Operations*).

## 29 **11.2 Appraisal Operations at Objective Depth**

30 After an Appraisal Well has been drilled to its Objective Depth and all operations  
31 in the controlling AFE have been conducted or terminated (except temporary  
32 abandonment and permanent plugging and abandonment) and all logs and test  
33 results have been distributed to the Participating Parties, the Operator shall

1 promptly notify the Parties entitled to make an Election on an operation  
2 proposed under this Article 11.2 (*Appraisal Operations at Objective Depth*), of its  
3 proposal to conduct subsequent operations in the well. Except for a proposal to  
4 permanently plug and abandon the well, the Operator's proposal shall include an  
5 associated AFE and a plan for the operation. The Parties entitled to make that  
6 Election are:

- 7 (a) the Participating Parties, and
- 8 (b) the Non-Participating Parties in the original well proposal, if (1) the  
9 subsequent Appraisal Operation proposal is made at the well's Objective  
10 Depth and is for a Sidetrack or Deepening and (2) Article 16.4 (*Non-*  
11 *Consent Operations to Maintain Contract Area*) was not applicable to the  
12 drilling of that Appraisal Well.

13 The Operator's proposal shall be for one of the following operations:

- 14 (a) conduct Additional Testing, Sidewall Coring, or Logging of the formations  
15 encountered prior to setting production casing;
- 16 (b) Sidetrack the well bore to core the formations encountered;
- 17 (c) Sidetrack the well;
- 18 (d) Deepen the well to a new Objective Depth;
- 19 (e) conduct Production Testing;
- 20 (f) conduct other operations on the well not listed;
- 21 (g) temporarily abandon the well; or
- 22 (h) permanently plug and abandon the well.

23 If the Appraisal Well is temporarily abandoned under (g), then any additional  
24 operation in that well shall be proposed as a new well operation. A proposal to  
25 complete an Appraisal Well that has been temporarily abandoned under clause  
26 (g) shall be deemed a Development Operation proposal.

27 If the Operator fails to submit its proposal to the Participating Parties within  
28 twenty-four (24) hours (inclusive of Saturdays, Sundays, and federal holidays)

1 after receipt by the Participating Parties of all logs and test results from an  
2 Appraisal Well, then any Participating Party may make a proposal. In that event,  
3 the procedures in this Article 11.2 shall apply to that proposal, and any reference  
4 in this Article 11.2 to the "Operator's proposal" shall include a proposal made by  
5 a Participating Party.

6 **11.2.1 Response to Operator's Proposal**

7 A Participating Party may, within twenty-four (24) hours (inclusive of  
8 Saturdays, Sundays, and federal holidays) of its receipt of the  
9 Operator's proposal, make a separate proposal (along with an  
10 associated AFE and a plan for the operation, except if the proposal is to  
11 permanently plug and abandon the well) for one of the operations in  
12 Article 11.2 (*Appraisal Operations at Objective Depth*), and the  
13 Operator, immediately after the expiration of the twenty-four (24) hour  
14 period for making a separate proposal shall provide the Parties entitled  
15 to make an Election with a copy of all separate proposals so made. If  
16 no separate proposal is made, the Parties entitled to make an Election  
17 shall, within forty-eight (48) hours (inclusive of Saturdays, Sundays, and  
18 federal holidays) of its receipt of the Operator's proposal, make an  
19 Election on the Operator's proposal (except for a proposal to  
20 permanently plug and abandon). If a separate proposal is made, the  
21 Parties entitled to make an Election shall make an Election under the  
22 procedure in Article 11.2.2 (*Response to Highest Priority Proposal*). If a  
23 proposal to permanently plug and abandon the well is the only  
24 operation proposed, then the approval and Cost allocation provisions of  
25 Article 11.4 (*Permanent Plugging and Abandonment and Cost*  
26 *Allocation*) shall apply to that proposal. If Article 8.3 (*Second*  
27 *Opportunity to Participate*) or Article 8.4 (*Participation by Fewer Than*  
28 *All Parties*), or both, apply to any Election in Article 11.2 (*Appraisal*  
29 *Operations at Objective Depth*), then the response period in those  
30 articles shall be twenty-four (24) hours (inclusive of Saturdays,  
31 Sundays, and federal holidays) instead of forty-eight (48) hours  
32 (exclusive of Saturdays, Sundays, and federal holidays).  
33 Notwithstanding any contrary provision of this Agreement, if one or  
34 more operations are proposed before the distribution of information  
35 from the previously approved operation, then the response periods  
36 provided above shall not begin until the Parties entitled to make an

1 Election have received the information from the previously approved  
2 operation.

3 **11.2.2 Response to Highest Priority Proposal**

4 If a separate proposal is made, each Party entitled to make an Election  
5 shall, within twenty-four (24) hours (inclusive of Saturdays, Sundays,  
6 and federal holidays) after its receipt from the Operator of a complete  
7 copy of all separate proposals, make its Election on the highest priority  
8 proposal (except a proposal to permanently plug and abandon the well).  
9 Article 11.2(a) has the highest priority, and Article 11.2(h) has the  
10 lowest priority. If different depths or locations are proposed for the  
11 same type of operation, priority shall be given to the deepest depth. If  
12 the proposal with the highest priority is approved, then the lower  
13 priority proposals shall be deemed withdrawn. Once the approved  
14 operation is completed, the Parties shall follow the procedure provided  
15 in Article 11.2 (*Appraisal Operations at Objective Depth*) for all other  
16 proposals for operations in the well bore until such time as the well is  
17 temporarily abandoned or permanently abandoned.

18 **11.2.3 Response on Next Highest Priority Proposal**

19 If the proposal with the highest priority is not approved, then the next  
20 highest priority proposal shall be deemed the highest priority proposal  
21 and it shall be subject to the approval procedure in Article 11.2.2  
22 (*Response to Highest Priority Proposal*). This process will continue  
23 until a proposal is approved to either temporarily abandon or  
24 permanently plug and abandon an Appraisal Well.

25 **11.2.4 Non-Participating Parties in Appraisal Operations at Objective**  
26 **Depth**

27 A Non-Participating Party in an Appraisal Operation conducted on an  
28 Appraisal Well after it has reached its Objective Depth [except as  
29 provided for in this Article 11.2 (*Appraisal Operations at Objective*  
30 *Depth*)] is subject to Article 16.5.2 (*Non-Consent Appraisal Operations*)  
31 and is relieved of the Costs and risks of that Appraisal Operation,  
32 except that a Non-Participating Party in that Appraisal Operation  
33 remains responsible for its Participating Interest Share of the Costs of  
34 plugging and abandoning an Appraisal Well, less and except all Costs



of plugging and abandoning associated solely with the subsequent Appraisal Operation in which it was a Non-Participating Party.

**11.2.5 Participation in a Sidetrack or Deepening by a Non-Participating Party in an Appraisal Well at Initial Objective Depth**

If an Appraisal Well is drilled to its Objective Depth and a Non-Participating Party in that Appraisal Well becomes a Participating Party in an approved Sidetracking or Deepening under Article 11.2(c) or (d), that former Non-Participating Party shall become an Underinvested Party in an amount equal to its Non-Participating Interest Share of the Costs of that Appraisal Well to its Objective Depth prior to that Sidetracking or Deepening. The original Participating Parties in that Appraisal Well are Overinvested Parties in that amount. A former Non-Participating Party in an Appraisal Well that becomes a Participating Party in an approved Sidetracking or Deepening, remains a Non-Participating Party in the Appraisal Well to initial Objective Depth until (a) its Underinvestment is eliminated under Article 16.9 (*Settlement of Underinvestments*), and (b) the Hydrocarbon Recoupment recoverable under Article 16.5.2 (*Non-Consent Appraisal Operations*) less the Underinvestment, has been recovered by the original Participating Parties. If a former Non-Participating Party becomes a Participating Party in more than one approved Sidetracking or Deepening in the same Appraisal Well, that former Non-Participating Party shall become an Underinvested Party only with regard to the first Sidetracking or Deepening it approves; however, that Underinvestment shall not be relieved by an Underinvested Party's subsequent participation.

**11.3 Appraisal Well Proposals That Include Drilling Below the Deepest Producing Reservoir**

Any Party may propose an Appraisal Well with an Objective Depth below the Deepest Producing Reservoir, and in response to that well proposal each Party may in writing limit its participation in the drilling of that Appraisal Well to the base of the Deepest Producing Reservoir to be penetrated by that Appraisal Well. A Party who limits its participation in an Appraisal Well to the base of the Deepest Producing Reservoir shall bear its Participating Interest Share of the Cost and risk of drilling that Appraisal Well to the base of the Deepest Producing Reservoir (including abandonment), and it shall be a Non-Participating Party for

1 the Deeper Drilling and shall be subject to Article 16.5.2 (*Non-Consent Appraisal*  
2 *Operations*) in regard to drilling between those depths.

#### 3 **11.4 Permanent Plugging and Abandonment and Cost Allocation**

4 The permanent plugging and abandonment of an Appraisal Well that:

- 5 (a) is to be plugged due to mechanical difficulties or impenetrable conditions  
6 before the well has been drilled to its Objective Depth under Article 11.1.4  
7 (b),
- 8 (b) is to be plugged under Article 11.2 (*Appraisal Operations at Objective*  
9 *Depth*), or
- 10 (c) has been previously temporarily abandoned under Article 11.2 (*Appraisal*  
11 *Operations at Objective Depth*)

12 and has not produced Hydrocarbons (other than as a result of Production  
13 Testing) requires the approval of the Participating Parties by Vote. Approval to  
14 plug and abandon an Appraisal Well that has produced Hydrocarbons (other than  
15 as a result of Production Testing) shall be governed by Article 18.1  
16 (*Abandonment of Wells*). If a proposal to plug and abandon an Appraisal Well  
17 receives approval by Vote, the approved proposal binds all Parties. If any  
18 Participating Party fails to respond within the applicable response period for a  
19 proposal to plug and abandon an Appraisal Well, that Participating Party shall be  
20 deemed to have approved the plugging and abandonment of that Appraisal Well.  
21 If a rig is on location and a proposal to plug and abandon an Appraisal Well under  
22 either Article 11.4(a) or 11.4(b) does not receive approval by Vote, and if within  
23 twenty-four (24) hours (inclusive of Saturdays, Sundays, and federal holidays)  
24 from receipt of that proposal no other operation is proposed (and subsequently  
25 approved) for the well by a Party entitled to make a proposal, the Operator may  
26 nevertheless proceed to plug and abandon that Appraisal Well, and shall give  
27 each Participating Party notice of that fact. If the proposal to plug and abandon  
28 an Appraisal Well that has not produced Hydrocarbons (other than as a result of  
29 Production Testing) does not receive approval by Vote, but the Operator deems  
30 the well bore not to be safe or in sound enough condition for it to perform  
31 further operations, the Operator may nevertheless proceed to plug and abandon  
32 that Appraisal Well, and shall give each Participating Party notice of that fact.

1 The Participating Parties in an Appraisal Well proposal shall pay all Costs of  
2 plugging and abandoning that Appraisal Well, except all increased plugging and  
3 abandoning Costs associated solely with a Non-Consent Operation approved  
4 under Article 11.2 (*Appraisal Operations at Objective Depth*) or Article 6.2.2  
5 (*Supplemental AFEs*). The Participating Parties in that Non-Consent Operation  
6 are responsible for the increased plugging and abandoning Costs attributable to  
7 that Non-Consent Operation.

#### 8 **11.5 Conclusion of Appraisal Operations**

9 Upon the earlier of:

- 10 (a) the approval of the conclusion of Appraisal Operations by Vote; or
- 11 (b) the point in time when no Appraisal Operation has been approved within a  
12 period of twelve (12) months from the rig release (or cessation of  
13 operations) from the previous Appraisal Operation; or
- 14 (c) the abandonment of the third (3<sup>rd</sup>) Appraisal Well, whether permanent or  
15 temporary, and the release of the rig from that Appraisal Well (including  
16 any substitute well for that Appraisal Well)

17 Appraisal Operations for the ensuing Development Phase shall conclude and all  
18 subsequent operations in the Contract Area will be Development Operations for  
19 the ensuing Development Phase, including operations on temporarily abandoned  
20 Appraisal Wells, except as provided in Article 11.6 (*Operations Before the*  
21 *Approval of the Development Plan*).

22 However, if an Appraisal Operation is being conducted at the occurrence of  
23 either (a) or (b) above, Appraisal Operations for the ensuing Development Phase  
24 shall conclude when the well bore in which the Appraisal Operation is being  
25 conducted is either temporarily or permanently abandoned.

#### 26 **11.6 Operations Before the Approval of the Development Plan**

27 After the occurrence of (a), (b), or (c) in Article 11.5 (*Conclusion of Appraisal*  
28 *Operations*) but before the approval of a Development Plan for the ensuing  
29 Development Phase, any Party may propose the drilling of an additional well as a  
30 Development Well. Unless Article 16.4 (*Non-Consent Operations to Maintain*  
31 *Contract Area*) applies to the proposal of that well, that proposal shall require the  
32 unanimous agreement of the Parties. Any substitute well for, and all operations

1 at Objective Depth conducted in or through the well bore of that well shall be  
2 deemed Development Operations and shall be proposed, approved, and  
3 conducted accordingly.

## 4 **ARTICLE 12 – DEVELOPMENT PHASES**

### 5 **12.1 Phased Development**

6 In view of the Costs and scope of developing and producing Hydrocarbons from  
7 the Contract Area, the Parties may agree to undertake an initial Development  
8 Phase and one or more subsequent Development Phases. A separate  
9 Development Plan shall be prepared for each Development Phase, and each  
10 Development Plan shall be generated, approved, and implemented under this  
11 Article 12 (*Development Phases*). Each Development Phase may be comprised  
12 of as many as four stages – the Feasibility Stage, the Selection Stage, the Define  
13 Stage, and the Execution Stage. For each stage undertaken, subject to the  
14 provisions of this Article 12 (*Development Phases*), any Party may submit a  
15 proposal and an associated AFE for the Parties' approval. Each stage AFE shall  
16 cover all of the estimated Costs to be incurred during that stage, except for the  
17 Costs of drilling Wells, including those of the Feasibility Team or Project Team.

### 18 **12.2 Feasibility Team Proposal**

19 The Feasibility Stage commences upon the approval of a proposal for the  
20 formation of a Feasibility Team and the Feasibility AFE. No Party may propose  
21 the formation of a Feasibility Team for a Development Phase until such time as  
22 any previously formed Feasibility Team for that Development Phase has  
23 terminated. For a period of three hundred sixty (360) days from completion of  
24 the first appraisal well provided that the well reaches its objective depth, the  
25 Operator has the exclusive right to propose the formation of a Feasibility Team  
26 and submit to the Parties a Feasibility AFE accompanied by a memorandum  
27 describing in detail the anticipated scope of work to be undertaken by the  
28 Feasibility Team and third party contractors and/or consultants during the  
29 Feasibility Stage, the estimated type and number of staff required to complete  
30 that scope of work, the estimated duration of the Feasibility Stage, and the  
31 estimated Costs of the Feasibility Stage. If the Operator does not propose the  
32 formation of a Feasibility Team and submit the Feasibility AFE during its

1 exclusive period, any Party may propose the formation of a Feasibility Team and  
2 submit a Feasibility AFE.

3 The Feasibility Team will operate under the direction of the Operator. The  
4 employees of the Operator and Non-Operators and the contractors and/or  
5 consultants, set forth in the Feasibility AFE, shall initially compose the Feasibility  
6 Team. The Operator may, from time to time, revise the membership of the  
7 Feasibility Team, at its sole discretion, as long as the revisions are necessary to  
8 accomplish the scope of work set forth in the Feasibility AFE. The Operator  
9 shall charge the Joint Account for the labor of the Feasibility Team members in  
10 the same manner in which it charges the Joint Account for the labor of the  
11 Project Team members.

12 Each Feasibility Team member remains an employee of its respective employer,  
13 and each employer remains responsible for its employee's salaries and benefits,  
14 as well as maintaining worker's compensation insurance for its employee.  
15 Accordingly, each employer will continue to administer the compensation,  
16 benefits, allowances, and careers of its employees on the Feasibility Team.  
17 However, Feasibility Team members will receive team assignments and general  
18 supervision from the Operator in connection with their day-to-day work. An  
19 individual on a Feasibility Team will, insofar as it is possible and consistent with  
20 the needs of his or her employer, serve on the Feasibility Team for the duration  
21 of the Feasibility Team, unless that individual is designated a temporary  
22 Feasibility Team member by his or her employer or the Operator. If a Feasibility  
23 Team member is designated a temporary Feasibility Team member by his or her  
24 employer or the Operator, that Feasibility Team member will leave the Feasibility  
25 Team upon completion of (a) the term designated by his or her employer for his  
26 or her service on the team or (b) the specific task or portion of the Feasibility  
27 Team's work assigned to that member by the Operator.

28 The Feasibility Team shall prepare an in-depth report containing its analyses of all  
29 of the development scenarios it considered and its findings as to the existence  
30 of at least one development scenario for a Producing Well on the Contract Area,

1 which is technologically and economically feasible, and shall present a copy of  
2 that report to each of the Participating Parties as soon as it is completed.

3 **12.2.1 Feasibility AFE Approval**

4 A Feasibility AFE requires approval by Election.

5 A Non-Participating Party in the Feasibility AFE is subject to Article  
6 16.5.3 (*Non-Consent Proprietary Geophysical Operations, Feasibility*  
7 *AFEs, Selection AFEs, Define AFEs, Long Lead Development System*  
8 *AFEs, Post-Production Project Team AFEs, or Enhanced Recovery*  
9 *Project Team AFEs*).

10 **12.2.2 Feasibility Team and Feasibility Stage Conclusion**

11 The Feasibility Team and the Feasibility Stage terminate immediately  
12 after (a) the Feasibility Team has (i) completed the scope of work in the  
13 Feasibility AFE and its supplemental AFEs and (ii) presented to the  
14 Participating Parties the report referred to in Article 12.2 (*Feasibility*  
15 *Team Proposal*) or (b) the Participating Parties Vote to terminate the  
16 Feasibility Team prior to the occurrence of both of those events.

17 **12.3 Commencement of the Selection Stage**

18 The Selection Stage commences upon the approval of the Selection AFE.

19 **12.3.1 Proposal of a Project Team**

20 If a Feasibility AFE is approved, the Operator has the exclusive right for  
21 a period of one hundred eighty (180) days from the conclusion of the  
22 Feasibility Stage to submit a Selection AFE. That AFE may call for the  
23 formation of a Project Team. It shall be accompanied by a  
24 memorandum describing in detail the anticipated scope of work to be  
25 undertaken during the Selection Stage, the estimated type and number  
26 of staff required to complete that scope of work, the estimated  
27 duration of the Selection Stage, and the estimated Costs of the  
28 Selection Stage. If the Operator does not submit a Selection AFE  
29 during its exclusive period referred to in this paragraph, any Party may  
30 submit a Selection AFE.

31 If a Feasibility AFE is not approved, but the drilling of one Appraisal  
32 Well into a Producing Reservoir and its permanent or temporary

1 abandonment have taken place, the Operator has an exclusive right for  
2 a period of three hundred sixty (360) days from the conclusion of those  
3 operations to submit the Selection AFE. If the Operator does not  
4 submit a Selection AFE during its exclusive period referred to in this  
5 paragraph, any Party may submit a Selection AFE. In response to any  
6 proposal made under this paragraph, a Party may propose the  
7 formation of a Feasibility Team and submit to the Parties a Feasibility  
8 AFE. A Feasibility AFE and Feasibility Team proposal under this  
9 paragraph shall take precedence over a Selection AFE proposal under  
10 this paragraph, and the Parties shall proceed as if the Feasibility AFE  
11 and Feasibility Team proposal, made under this paragraph, had been  
12 made under Article 12.2 (*Feasibility Team Proposal*). If the Feasibility  
13 AFE and Feasibility Team proposal made under this paragraph is  
14 approved, the Participating Parties shall proceed with the Feasibility  
15 Team scope of work as if the Selection AFE proposal had not been  
16 made. If the Parties do not approve the Feasibility AFE and Feasibility  
17 Team proposal made under this paragraph, the Parties shall proceed  
18 with the Selection AFE proposal made under this paragraph as if the  
19 Feasibility AFE and Feasibility Team proposal, made under this  
20 paragraph, had not been made.

21 If the Selection AFE proposes the formation of a Project Team, the  
22 formation and administration of that Project Team shall be handled  
23 under Exhibit "G."

24 The Operator shall directly charge the Joint Account for all Costs  
25 associated with the Project Team, including those of Affiliates, for  
26 which the Operator is internally billed. The components of those Costs  
27 may include, but are not limited to:

- 28 a) Digital Business
- 29 b) Accounting
- 30 c) Building Services and Building and Grounds Maintenance
- 31 d) Human Resources
- 32 e) Procurement

- f) Government and Public Affairs
- g) Health, Safety, and Environment
- h) Security
- i) Audit
- j) Tax
- k) Crisis Management
- l) Environmental Compliance
- m) Security

All other Project Team Costs shall be handled under Exhibit "C."

Non operator has the right to audit certain Affiliate charges except specific costs included in the Affiliate rate per hour for Affiliate personnel.

No Party may propose the formation of a Project Team for a Development Phase until such time as a previously formed Project Team for that Development Phase has terminated.

#### **12.3.2 Selection AFE Approval**

A Selection AFE requires approval by Election.

A Non-Participating Party in a Selection AFE is subject to Article 16.5.3 (*Non-Consent Proprietary Geophysical Operations, Feasibility AFEs, Selection AFEs, Define AFEs, Long Lead Development System AFEs, Post-Production Project Team AFEs, or Enhanced Recovery Project Team AFEs*).

#### **12.4 Proposal of a Development Plan**

The Operator has the exclusive right for a period of one hundred eighty (180) days from the commencement of the Selection Stage to submit a Development Plan for the Parties' review and approval.



1           **12.4.1    Content of the Development Plan**

2           A Development Plan shall contain at a minimum the following  
3           information:

4           **(a) Development System:** Description of the Development System  
5           including:

6                   (ii)     the type of Production System proposed, for example,  
7                             tension leg well jacket, floating production system,  
8                             including the Production System's location, configuration  
9                             (number of well slots or subsea tiebacks), and production  
10                            capacity;

11                   (ii)    the Facilities and their daily processing capacity for  
12                             Hydrocarbon production and the gathering system  
13                             necessary to transport the Hydrocarbons from the well  
14                             heads to the interconnect with the pipeline or offtake point  
15                             servicing the Contract Area;

16                   (iii)   a projected time schedule for designing, contracting,  
17                             fabricating, constructing, or otherwise acquiring,  
18                             transporting, and installing the Development System;

19                   (iv)    the estimated date of initial Hydrocarbon production and  
20                             the estimated initial daily rate of Hydrocarbon production;

21                   (v)     the estimated Costs (not in the form of an AFE) of the  
22                             Development System;

23                   (vi)    all proposed hydrate or paraffin control systems or  
24                             techniques, method of pressure maintenance, or enhanced  
25                             recovery plan;

26                   (vii)   a description of the proposed well completion techniques,  
27                             that is, dual versus single; and

28                   (viii)   The equipment and space on, and the weight and the  
29                             buoyancy of, the Development System, which are required  
30                             to make the enhanced recovery and pressure maintenance

plans and objectives referred to in Article 12.4.1(j)(iii)(D)  
possible;

- (b) **Producible Reservoirs:** A description of the Hydrocarbon-bearing geological formations expected to be developed under the Development Plan along with the area and depth of sands or reservoirs to be developed by the Production System;
- (c) **Recoverable Reserves and Production Profile:** An estimate of recoverable reserves for the proposed Development Plan and a schedule of the estimated daily rate of Hydrocarbon production thereafter;
- (d) **Pre-drilling Operations:** A description of pre-drilling operations, if any, planned in support of later development, including an estimate of the timing, Cost, and location of each pre-drilling operation;
- (e) **Development Wells:** A description of drilling plans for all Development Wells in the Development Plan and the completion plans for all temporarily abandoned Exploratory Wells or temporarily abandoned Appraisal Wells that are to be completed and all Development Wells in the Development Plan, including an estimate of the timing, Cost, and surface and bottomhole location of each well;
- (f) **Tieback Operations:** If the Development Plan requires the tieback or use of Offsite Host Facilities, a commitment from the owner of that Offsite Host Facilities to handle or process Hydrocarbons, the amount of all tariffs, processing or other fees the owner of that Offsite Host Facilities will charge the Participating Parties to handle or process Hydrocarbons, and the guaranteed capacity on the Offsite Host Facilities for the Hydrocarbons;
- (g) **Define AFE:** An AFE containing the estimated Costs of the Define Stage, accompanied by a memorandum describing in detail the anticipated scope of work to be undertaken during the

1 Define Stage, the estimated type and number of staff required to  
2 complete that scope of work, the estimated duration of the  
3 Define Stage, and the estimated Costs of the Define Stage; if a  
4 Project Team was not formed during the Selection Stage, or if the  
5 scope of work of an existing Project Team is to be extended  
6 beyond its Selection Stage scope of work, the proposing Party  
7 may submit, along with the Define AFE, a proposal for the  
8 formation (or extension, as the case may be) of a Project Team  
9 accompanied by a memorandum similar to the one referred to in  
10 Article 12.3.1 (*Proposal of a Project Team*);

11 (h) **Field Operating Scheme:** A description of the field operating  
12 scheme, its method, requirements, expected frequencies of  
13 intervention, and Costs;

14 (i) **Field Abandonment:** A description of field abandonment plan (if  
15 applicable);

16 (j) **Reservoir Plan:** A reservoir plan that provides strategies,  
17 objectives, and methods for developing, managing, and depleting  
18 each Producing Reservoir during its producible life and that  
19 includes, but is not limited to:

20 (i) an estimate of the number of wells slots dedicated to each  
21 reservoir, including the planned number of producers and  
22 injectors;

23 (ii) the planned bottomhole locations and timing of each  
24 anticipated well for each Producing Reservoir;

25 (iii) a reservoir management and depletion strategy for each  
26 Producing Reservoir addressing issues that include, but  
27 are not limited to:

28 (A) estimates of oil and gas in place;

29 (B) reservoir rock and fluid characteristics;

30 (C) depletion mechanism;

(D) enhanced recovery and pressure maintenance plans and objectives;

(E) reservoir surveillance programs (for example, cased-hole logging, static pressures) and their objectives;

(F) well performance goals (for example, target production rates, target injection rates, maximum rates or drawdown limits, maximum GOR, maximum water cut, gas-lift targets);

(G) reservoir performance goals (for example, target pressures or pressure profiles, target voidage replacement ratios, gas cap maintenance goals); and

(H) other relevant information;

(k) **Disposal Wells:** The estimated Cost of disposal wells, if applicable;

(l) **Hydrocarbon Transmission System:** The type of Hydrocarbon transmission system to be made available to the Participating Parties (for example, pipeline versus barge); and

(m) **Other Data:** Provided such information is available, any other information reasonably necessary to perform an evaluation of the technical and economic feasibility of the Development System provided for in the Development Plan.

## **12.5 Development Plan Approval**

### **12.5.1 Approval of Operator's Development Plan Submitted During its Exclusive Period**

The Operator has one hundred twenty (120) days from the initial submittal of a Development Plan proposal to obtain the unanimous agreement of the Parties on (a) the Development Plan submitted during its exclusive period or (b) the latest amended version of that plan which has been the result of comments by, or discussions among,

1 the other Parties or the Project Team, if one exists, and the Operator  
2 (the "Latest Amended Version of the Plan").

3 **12.5.2 Approval of a Development Plan After the Conclusion of the**  
4 **Operator's Exclusive Period**

5 If:

6 (a) the Operator fails within the one hundred twenty (120) day period  
7 in Article 12.5.1 (*Approval of Operator's Development Plan*  
8 *Submitted During its Exclusive Period*) to gain the unanimous  
9 agreement of the Parties on its Development Plan or Latest  
10 Amended Version of the Plan, whichever is applicable, or

11 (b) the Operator fails to submit a Development Plan during its  
12 exclusive period,

13 any Party may submit a Development Plan and an AFE for the actual  
14 Costs it incurred in order to generate that Development Plan, and the  
15 Parties have sixty (60) days from such submittal in which to approve by  
16 Vote the Operator's Development Plan or Latest Amended Version of  
17 the Plan, whichever is applicable, or another Party's Development Plan  
18 or Latest Amended Version of the Plan, whichever is applicable, and its  
19 associated AFE. Unless otherwise unanimously agreed by the Parties,  
20 no new Development Plan may be submitted during the sixty (60) day  
21 period.

22 **12.5.3 Approval of a Development Plan If One is Not Approved by Vote**

23 If no Development Plan or Latest Amended Version of the Plan is  
24 approved by Vote during the sixty (60) day period in Article 12.5.2  
25 (*Approval of a Development Plan After the Conclusion of the Operator's*  
26 *Exclusive Period*), and if there is only one Development Plan or Latest  
27 Amended Version of the Plan, whichever is applicable, submitted and  
28 that Development Plan or the Latest Amended Version of the Plan,  
29 whichever is applicable, receives an affirmative Vote of at least fifty  
30 percent (50%) of the Voting interest, that Development Plan or the  
31 Latest Amended Version of the Plan, whichever is applicable, shall be  
32 deemed approved by the Parties. If there are two (2) or more  
33 Development Plans or Latest Amended Version of the Plans, whichever

1 is applicable, submitted and one Development Plan or the Latest  
2 Amended Version of the Plan, whichever is applicable, receives an  
3 affirmative Vote of at least fifty percent (50%) of the Voting interest and  
4 the other Development Plan or Latest Amended Version of the Plan,  
5 whichever is applicable, receives an affirmative Vote of less than fifty  
6 percent (50%) of the Voting interest, then the Development Plan or the  
7 Latest Amended Version of the Plan, whichever is applicable, receiving  
8 the affirmative Vote of at least fifty-one percent (51%) of the Voting  
9 interest shall be deemed approved by the Parties. If two competing  
10 Development Plans or Latest Amended Version of the Plans, whichever  
11 is applicable, each receive an affirmative Vote of fifty percent (50%) of  
12 the Voting interest, then the Development Plan or Latest Amended  
13 Version of the Plan, whichever is applicable, for which the Operator  
14 affirmatively Votes, shall be deemed approved.

#### 15 **12.5.4 Approved Development Plan**

16 By unanimously agreeing or Voting to approve a Development Plan or  
17 Latest Amended Version of the Plan, whichever is applicable, or  
18 subsequently Voting to Participate in an approved Development Plan,  
19 under Article 8.3 (*Second Opportunity to Participate*), each Participating  
20 Party in an approved Development Plan also agrees or Votes to  
21 participate in its Define AFE, the AFE referred to Article 12.5.2 (*Approval*  
22 *of a Development Plan After the Conclusion of the Operator's Exclusive*  
23 *Period*), if applicable, and the formation of a Project Team during the  
24 Define Stage, if applicable. If the Parties do not approve a Selection  
25 AFE and do not form a Project Team during the Selection Stage and if  
26 the Operator's Development Plan or Latest Amended Version of the  
27 Plan, whichever is applicable, is approved, the Operator shall directly  
28 charge the Joint Account the actual Costs it incurred in order to  
29 generate and submit the approved plan. Upon the approval of the  
30 Development Plan or Latest Amended Version of the Plan, whichever is  
31 applicable, the Selection Stage concludes and Appraisal Operations are  
32 deemed concluded; provided, however, if an Appraisal Operation is  
33 being conducted when the Development Plan is approved, Appraisal  
34 Operations shall be deemed concluded when the well bore in which the  
35 Appraisal Operation is being conducted is either temporarily or  
36 permanently abandoned. Any Non-Participating Party in the approved

1 Development Plan's Define AFE is subject to Article 16.5.3 (*Non-*  
2 *Consent Proprietary Geophysical Operations, Feasibility AFEs, Selection*  
3 *AFEs, Define AFEs, Long Lead Development System AFEs, Post-*  
4 *Production Project Team AFEs, or Enhanced Recovery Project Team*  
5 *AFEs*).

## 6 **12.6 Long Lead Development System AFEs**

7 After commencement of the Define Stage, in order to facilitate the early and  
8 orderly commencement of the Execution Stage, the Operator has the right, prior  
9 to the approval of the Execution AFE, to submit AFEs ("Long Lead Development  
10 System AFEs") for (a) the acquisition of long lead-time items for the  
11 Development System, (b) preliminary activities related to the fabrication,  
12 transportation or installation of the Development System, or (c) any other activity  
13 necessary to assist the Operator in the implementation of the Development  
14 Plan. A Long Lead Development System AFE, whose total estimated Cost  
15 when combined with the estimated Cost of all approved Long Lead  
16 Development System AFEs, does not exceed one hundred million dollars  
17 (\$100,000,000.00), requires approval by Vote of the Participating Parties in the  
18 Development Plan. A Long Lead Development System AFE, whose total  
19 estimated Cost when combined with the estimated Cost of all approved Long  
20 Lead Development System AFEs equals or exceeds one hundred million dollars  
21 (\$100,000,000.00), requires approval by the unanimous agreement of the  
22 Participating Parties in the Development Plan. Any Non-Participating Party in a  
23 Long Lead Development System AFE is subject to Article 16.5.3 (*Non-Consent*  
24 *Proprietary Geophysical Operations, Feasibility AFEs, Selection AFEs, Define*  
25 *AFEs, Long Lead Development System AFEs, Post-Production Project Team*  
26 *AFEs, or Enhanced Recovery Project Team AFEs*).

## 27 **12.7 Define Stage and Execution Stage**

28 The Define Stage commences upon the approval of the Development Plan.

### 29 **12.7.1 Execution AFE**

30 The Operator has an exclusive period of one hundred eighty (180) days  
31 from the commencement of the Define Stage to submit an Execution  
32 AFE, which conforms with the Development Plan approved during the  
33 Selection Stage to all Parties for approval by Election. The Execution  
34 AFE shall not include any Cost estimates or AFEs for Development

1 Wells. If the Operator does not submit the Execution AFE during its  
2 exclusive period, any Party may submit an Execution AFE, which  
3 conforms with the approved Development Plan, and an AFE for the  
4 actual Costs it has incurred to generate the Execution AFE. If a Project  
5 Team was not formed during the Selection Stage or the Define Stage,  
6 the proposing Party may submit as a part of the Execution AFE a  
7 proposal for the formation of a Project Team accompanied by a  
8 memorandum similar to the one referred to in Article 12.3.1 (*Proposal*  
9 *of a Project Team*).

#### 10 **12.7.2 Approval of an Execution AFE and Commencement of the** 11 **Execution Stage**

12 By Electing to participate in an Execution AFE, each Participating Party  
13 in an approved Execution AFE also Elects to participate in (a) the AFE  
14 for the actual Costs incurred by the proposing Party in order to  
15 generate the approved Execution AFE, referred to in Article 12.7.1  
16 (*Execution AFE*), if applicable, and (b) the formation of a Project Team  
17 during the Execution Stage, if applicable. If the actual Costs the  
18 Operator has incurred to generate an Execution AFE are not recovered  
19 as part of a Project Team's Costs and if the Operator's Execution AFE  
20 is approved, the Operator shall directly charge the Joint Account the  
21 actual Costs it incurred in order to generate and submit the Execution  
22 AFE. The Define Stage concludes and the Execution Stage  
23 commences upon the approval of the Execution AFE. A Non-  
24 Participating Party in the Execution AFE for the initial Development  
25 System is subject to Article 16.2 (*Acreage Forfeiture Provisions*).

#### 26 **12.7.3 Minor Modifications to Development Plans**

27 In implementing a Development Plan, the Operator shall advise the  
28 Participating Parties of its own progress and that of the Project Team, if  
29 one exists. As additional information becomes available, the Operator  
30 may, prior to the installation of the Development System, make minor  
31 modifications to the Development Plan without the approval of the  
32 Participating Parties if those minor modifications are both reasonable  
33 and prudent. For purposes of this paragraph, a minor modification is



- 1 (a) a modification, which (i) is proposed prior to the commencement  
2 of the Execution Stage and does not cause the estimated Cost of  
3 the Define AFE to increase by more than twenty percent (20%)  
4 and (ii) is not a major modification as defined in Article 12.7.4  
5 (*Major Modifications to Development Plans*); or
- 6 (b) a modification that is necessary for health, safety, or  
7 environmental reasons or regulatory requirements and does not  
8 exceed twenty percent (20%) of the dollar amount provided in  
9 12.7.3(a), even if that modification constitutes a major  
10 modification as defined in Article 12.7.4 (*Major Modifications to*  
11 *Development Plans*).

12 The “estimated Cost of the Execution AFE” is the total dollar amount  
13 of the Execution AFE and all approved Long Lead Development  
14 System AFEs. If the Operator exercises its discretionary right to make  
15 a minor modification for health, safety, or environmental reasons or  
16 regulatory requirements, the Operator shall give each Participating  
17 Party in the Development Plan written notice of that fact. A minor  
18 modification shall not materially change the risk or timing of the  
19 Development Plan and is binding on all the Participating Parties in the  
20 Development Plan.

#### 21 **12.7.4 Major Modifications to Development Plans**

22 A major modification shall be deemed to have occurred when:

- 23 (a) the type of Production System, for example, tension leg well jacket  
24 floating production system, is to be changed; or
- 25 (b) the number of well slots of the Production System is to be  
26 changed by at least twenty-five percent (25%); or
- 27 (c) the type of Hydrocarbon transmission system is changed (for  
28 example, pipeline versus barge); or
- 29 (d) the initial daily production processing capacity of the Facilities is to  
30 be changed by at least twenty-five percent (25%); or

1 (e) the number of Development Wells is to be increased or decreased  
2 by at least twenty percent (20%); or

3 (f) in the case of a tieback to an Offsite Host Facility or a pre-existing  
4 Development System, the gathering and pipeline system necessary to  
5 transport the Hydrocarbons from the wellheads to an Offsite Host  
6 Facility or a pre-existing Development System, as provided in the  
7 Development Plan, is to be changed.

8 **12.7.5 Major Modifications to Development Plans Prior to the Approval**  
9 **of the Execution AFE**

10 Whenever a major modification to a Development Plan is proposed  
11 during the Define Stage (prior to the approval of the Execution AFE),  
12 the Operator shall furnish the Participating Parties in the Development  
13 Plan with the proposed modification to the Development Plan (and  
14 associated AFEs). That major modification shall require approval by  
15 unanimous agreement of the Participating Parties in the Development  
16 Plan. If that major modification is approved, the Operator shall  
17 immediately provide the modified Development Plan (and associated  
18 AFEs) to each Non-Participating Party in the Development Plan. That  
19 Non-Participating Party has the right for a period of ninety (90) days,  
20 after receipt of the modified Development Plan (and associated AFEs),  
21 in which to notify the Operator in writing that it will participate in the  
22 modified Development Plan (and associated AFEs). If that Non-  
23 Participating Party participates in the modified Development Plan, it  
24 shall be an Underinvested Party in an amount equal to its Non-  
25 Participating Interest Share of the actual Costs incurred on activities  
26 associated with the original Development Plan (and associated AFEs).

27 **12.7.6 Major Modifications to Development Plans After the Approval of**  
28 **the Execution AFE**

29 Whenever a major modification to a Development Plan is proposed  
30 during the Execution Stage (after the approval of an Execution AFE) and  
31 prior to the installation of the Development System, the Operator shall  
32 furnish the Participating Parties in the Execution AFE with the proposed  
33 modification to the Development Plan (and associated AFEs). That  
34 major modification shall require unanimous agreement of the

1 Participating Parties in the Execution AFE. If that major modification is  
2 as provided in Article 12.7.4, and is approved, the Operator shall  
3 immediately provide the modified Development Plan (and associated  
4 AFEs) to each Non-Participating Party in the Execution AFE. For a  
5 period of thirty (30) days after receipt of the modified Development Plan  
6 (and associated AFEs), the Non-Participating Party may notify the  
7 Operator in writing that it will participate in the modified Development  
8 Plan (and associated AFEs). If that Non-Participating Party participates  
9 in the modified Development Plan, it shall be an Underinvested Party in  
10 an amount equal to its Non-Participating Interest Share of the actual  
11 Costs incurred on activities associated with (a) the Execution AFE and  
12 (b) the original Development Plan (and associated AFEs) if it did not  
13 participate in that Development Plan. Within thirty (30) days of the  
14 elimination of the Underinvestment, the Participating Parties in the  
15 Execution AFE for the initial Development Phase shall deliver to that  
16 Non-Participating Party an assignment of one hundred percent (100%)  
17 of its former Working Interest in the Contract Area, the wells therein  
18 and production therefrom. If the Execution AFE was for a Subsequent  
19 Development Phase, the Non-Participating Party shall not be subject to  
20 Article 16.2 (Acreage Forfeiture Provisions) in regard to that AFE.

21 **12.7.7 Approval of Major Modifications**

22 If the major modification of the Development Plan is approved, the  
23 Development Plan (and associated AFEs) shall be deemed modified,  
24 and the Operator shall carry out the modified Development Plan. If a  
25 major modification is not approved, the Operator shall continue to  
26 implement the Development Plan as it was before the proposed major  
27 modification.

28 **12.7.8 Termination of a Development Plan**

29 A Development Plan terminates if (a) the Execution AFE for that  
30 Development Plan (or any supplemental AFE thereto) is not approved by  
31 Election, (b) the Participating Parties in the Define Stage or in the  
32 Execution AFE unanimously agree to terminate the Development Plan,  
33 or (c) the fabrication or acquisition of the Development System is not  
34 commenced within the time frame provided in Article 12.7.9 (*Timely*  
35 *Operations for Development Systems*).

1                   **12.7.8.1    Termination Prior to Execution AFE Approval**

2                   The Costs, risks, and liabilities of generating and  
3                   implementing a Development Plan that is terminated before  
4                   its associated Execution AFE has been approved by Election  
5                   shall be borne by the Parties who participated in the Define  
6                   AFE and its supplemental AFEs, if any.

7                   **12.7.8.2    Termination After Execution AFE Approval**

8                   The Costs, risks, and liabilities of generating and  
9                   implementing a Development Plan that is terminated after its  
10                  associated Execution AFE has been approved by Election  
11                  shall be borne by the Participating Parties in the Execution  
12                  AFE and its supplemental AFEs, if any.

13               **12.7.9    Timely Operations for Development Systems**

14               The Operator shall commence or cause to be commenced the  
15               fabrication or acquisition of a Development System (a) within one  
16               hundred eighty (180) days after the end of the period for Elections of  
17               the Execution AFE or (b) ninety (90) days prior to the date the Operator  
18               is required to commence that fabrication or acquisition under an SOP  
19               or Unit Plan, whichever is earlier. If the Operator, except for failure  
20               attributable to Force Majeure, fails to commence the fabrication or  
21               acquisition of a Development System within the applicable time period  
22               set forth above in this Article 12.7.9, the Non-Operating Parties may  
23               then select a successor Operator under Article 4.5 (*Selection of*  
24               *Successor Operator*). Within ninety (90) days of the selection of the  
25               successor Operator, the successor Operator shall commence the  
26               fabrication or acquisition of a Development System in the approved  
27               Development Plan. The fabrication or acquisition of a Development  
28               System commences on the date the first major fabrication contract for  
29               the Development System is awarded or the date the purchase contract  
30               for a Development System is executed.

31               **12.8    Post-Production Project Team AFEs**

32               The Execution Stage concludes upon the first production of Hydrocarbons from  
33               the Development System. At least sixty (60) days, but not more than one  
34               hundred twenty (120) days, prior to the first production of Hydrocarbons from

1 the Development System, the Operator may propose for approval by Vote of the  
2 continuance of the Project Team, if one exists, on such smaller scale, which is  
3 reasonable considering the scope of the work involved or the formation of the  
4 Project Team, if one does not exist, in order to assist the Operator in the drilling  
5 of additional Development Wells approved by the Parties, de-bottlenecking the  
6 Development System, ramping up Hydrocarbon production, maximizing the  
7 recovery of Hydrocarbons during the Development Phase and activities related  
8 thereto. With its proposal, the Operator shall include an initial Post-Production  
9 Project Team AFE accompanied by a memorandum similar to the one described  
10 in Article 12.3.1 (*Proposal of Project Team*).

11 At least forty-five (45) days, but not more than ninety (90) days, prior to the date  
12 on which the Operator anticipates the scope of work set forth in its original  
13 proposal for the continuance or formation of the Project Team and its associated  
14 AFE and memorandum to be completed, the Operator may propose for approval  
15 by Vote of the Parties the further continuance of the Project Team to assist the  
16 Operator in reservoir management and production optimizing activities other  
17 than contemplated under Article 12.11 (*Enhanced Recovery and/or Pressure*  
18 *Maintenance Program Proposals*). With that proposal, the Operator shall include  
19 a second Post-Production Project Team AFE accompanied by a memorandum  
20 similar to the one described in Article 12.3.1 (*Proposal of Project Team*). The  
21 administration of the Project Team during the period that it carries out the scope  
22 of work referred to in this Article 12.8 shall be handled under Exhibit "G." The  
23 Costs of the Project Team will be handled as they are under Article 12.3.1  
24 (*Proposal of Project Team*). A Non-Participating Party in either or both of the two  
25 Post-Production Project Team AFEs is subject to Article 16.5.3 (*Non-Consent*  
26 *Proprietary Geophysical Operations, Feasibility AFEs, Selection AFEs, Define*  
27 *AFEs, Long Lead Development System AFEs, Post-Production Project Team*  
28 *AFEs, or Enhanced Recovery Project Team AFEs*).

## 29 **12.9 Subsequent Development Phases**

30 At any time after the installation of the initial Development System for the initial  
31 Development Phase, any Participating Party may propose a subsequent  
32 Development Phase and the installation of a subsequent Development System.  
33 That proposal shall require approval by Vote except as provided in Article 16.4  
34 (*Non-Consent Operations to Maintain Contract Area*).

1       **12.9.1    Proposal of a Subsequent Development Phase**

2       If a subsequent Development Phase is approved, the procedures  
3       specified in this Article 12 (*Development Phases*) shall apply to the  
4       proposal of the subsequent Development Phase.

5       **12.9.2    Execution AFE in a Subsequent Development Phase**

6       Each Non-Participating Party in an Execution AFE for a subsequent  
7       Development Phase is subject to the non-consent provisions in Article  
8       16.5.5 (*Non-Consent Subsequent Development System and Additional*  
9       *Facilities*), not Article 16.2 (*Acreage Forfeiture Provisions*). Although a  
10      Non-Participating Party in an Execution AFE for a subsequent  
11      Development Phase will retain its Working Interest in the Contract  
12      Area, that Party will only be entitled to Hydrocarbon production from  
13      the subsequent Development Phase, in which it did not participate,  
14      after it has satisfied the non-consent provisions in Article 16.5.5 (*Non-*  
15      *Consent Subsequent Development System and Additional Facilities*).  
16      A Non-Participating Party in a subsequent Development Phase shall not  
17      unreasonably interfere with any activities or operations in that  
18      subsequent Development Phase. In all events, the Participating  
19      Parties in the Execution AFE for a subsequent Development Phase  
20      shall control the sequence of, and shall conduct, all activities and  
21      operations in that subsequent Development Phase.

22      **12.10   Access to Existing Facilities**

23      A Participating Party in a subsequent Development Phase may propose to  
24      access the Facilities installed for a previous Development Phase in accordance  
25      with Article 14 (*Facilities and Gathering Systems*). The proposal shall require  
26      approval by Vote of the Participating Parties in the previous Development Phase  
27      and shall include the basic terms under which the access is to be granted. If the  
28      proposal is approved, it shall be incorporated into a formal "Facilities Use and  
29      Production Handling Agreement" and shall bind all Parties.

30      **12.11        Enhanced Recovery and/or Pressure Maintenance Program**  
31                    **Proposals**

32      Any Party may propose the formation of a Project Team separate and apart from  
33      any Project Team already in existence for the purpose of assisting the Operator  
34      in designing an enhanced recovery and/or pressure maintenance program for a

1 particular Development Phase by submitting to the Parties for approval by  
2 Election an Enhanced Recovery Project Team AFE accompanied by a  
3 memorandum similar to the one described in Article 12.3.1 (*Proposal of Project*  
4 *Team*). Any Non-Participating Party in that Enhanced Recovery Project Team  
5 AFE is subject to Article 16.5.3 (*Non-Consent Proprietary Geophysical*  
6 *Operations, Feasibility AFEs, Selection AFEs, Define AFEs, Long Lead*  
7 *Development System AFEs, Post-Production Project Team AFEs, or Enhanced*  
8 *Recovery Project Team AFEs*). The formation and administration of a Project  
9 Team for an enhanced recovery and/or pressure maintenance program will be  
10 handled under Exhibit "G." The Costs of the Project Team will be handled as  
11 they are under Article 12.3.1 (*Proposal of Project Team*). After the Operator has  
12 designed the enhanced recovery and/or pressure maintenance program with the  
13 assistance of that Project Team, the Operator may submit an enhanced recovery  
14 and/or pressure maintenance program proposal and AFE to the Parties for  
15 approval by Vote. The program proposal and AFE shall contain sufficient detail  
16 to allow the Parties to adequately evaluate the scope, timing, Costs, and  
17 benefits of the proposed program and AFE. If approved, that proposal and AFE  
18 will be binding on all of the Participating Parties in the Execution AFE for that  
19 Development Phase, and the Operator shall commence the program at the Cost  
20 and risk of those Parties.

## 21 **ARTICLE 13 – DEVELOPMENT OPERATIONS**

### 22 **13.1 Proposal of Development Wells and Development Operations**

23 It is the intent of the Parties to proceed with the development of the Contract  
24 Area under an approved Development Plan. Each Development Well shall be  
25 subject to a separate AFE unless a Development Plan calls for a number of  
26 Development Wells to be drilled together in order to set conductor casing or to  
27 be pre-drilled together prior to the installation of the Development System, in  
28 which case those wells may be included in a single AFE.

29 Once a Development Well has been completed and placed on production, the  
30 Participating Parties in that well must unanimously agree to allow any Party to  
31 conduct a Non-Consent Operation in that well, unless that well becomes  
32 incapable of producing in paying quantities. A proposal to conduct Development  
33 Operations in a Producing Reservoir requires the unanimous agreement of the

Parties, unless the proposing Party designates the Producing Reservoir as an Objective Depth or completion zone in the proposal.

**13.1.1 Proposal of Development Wells Included in a Development Plan**

Subject to Article 13.1 (*Proposal of Development Wells and Development Operations*), any Participating Party in a Development Plan and Execution AFE may propose drilling a Development Well that was included in the Development Plan by giving notice of the proposal (along with the associated AFE and Well Plan) to the other Parties. Each proposed Development Well that was included in the Development Plan requires approval by Election. Each Non-Participating Party in a Development Well will be subject to either acreage forfeiture or Hydrocarbon Recoupment as provided in Article 16 (*Non-Consent Operations*).

**13.1.1.1 Revision of Well Plan**

Unless otherwise provided for in the Development Well proposal and AFE, any revisions of the Well Plan or AFE for a Development Well shall take place under the same terms and conditions as those set forth for an Exploratory Well in Article 10.1.1 (*Revision of Well Plan*).

**13.1.1.2 Automatic Revision of the Well Plan**

The Well Plan for a Development Well shall automatically be revised under the same terms and conditions as those set forth for an Exploratory Well in Article 10.1.2 (*Automatic Revision of the Well Plan*).

**13.1.2 Proposal of Development Operations Not Included in a Development Plan**

Subject to Article 13.1 (*Proposal of Development Wells and Development Operations*), any Participating Party in an Execution AFE may propose drilling a Development Well that was not included in the Development Plan associated with that Execution AFE by giving notice of the proposal (along with the associated AFE and Well Plan) to the other Parties. The proposal shall specify that the well was not included in the Development Plan. Each proposed Development Well that was not included in the Development Plan requires approval by Vote. Each



1 Non-Participating Party in a Development Well will be subject to either  
2 acreage forfeiture or Hydrocarbon Recoupment, as provided in Article  
3 16 (*Non-Consent Operations*).

### 4 **13.1.3 Timely Operations**

5 Except as provided below, drilling operations on a Development Well  
6 shall be commenced within one hundred twenty (120) days after the  
7 end of the period for the approval of the Development Well. If the  
8 Operator, except for an occurrence of Force Majeure, does not  
9 commence drilling operations on the Development Well within that  
10 one hundred twenty (120) day period, the approved Development Well  
11 proposal shall be deemed withdrawn, with the effect as if the  
12 Development Well had never been proposed and approved.

13 If a Party submits an identical Development Well proposal (except for  
14 any necessary modifications resulting from a change in the drilling rig  
15 to be utilized by the Operator) within sixty (60) days after the deemed  
16 withdrawal of the approved original Development Well proposal and if  
17 that identical Development Well proposal is approved and if the  
18 Operator is a Participating Party in the identical Development Well  
19 proposal, the Operator shall commence drilling operations on that well  
20 within ninety (90) days after the end of the response period for that  
21 proposal. If the Operator, except for an occurrence of Force Majeure  
22 (excluding the inability to secure materials or a drilling rig), fails to  
23 commence drilling operations on the identical Development Well  
24 within that ninety (90) day period, the approved identical Development  
25 Well proposal shall be deemed withdrawn, with the effect as if the  
26 identical Development Well proposal had never been proposed and  
27 approved, and the Non-Operating Parties may then select a substitute  
28 Operator under Article 4.2.2 (*Substitute Operator if Operator Fails to*  
29 *Commence Drilling Operations*). Within sixty (60) days of the selection  
30 of the substitute Operator, the substitute Operator shall propose the  
31 drilling of an identical Development Well (except for any necessary  
32 modifications resulting from a change in the drilling rig to be utilized by  
33 the substitute Operator), and it shall commence drilling operations on  
34 that well within ninety (90) days after the end of the period for the  
35 approval of that Well.

1 If a Party submits an identical Development Well proposal (except for  
2 any necessary modifications resulting from a change in the drilling rig  
3 to be utilized by the Operator) within sixty (60) days after the deemed  
4 withdrawal of the approved original Development Well proposal and if  
5 that identical Development Well proposal is approved and if the  
6 Operator is not a Participating Party in the identical Development Well  
7 proposal, the approved identical Development Well proposal shall be  
8 deemed withdrawn, with the effect as if the identical Development  
9 Well proposal had never been proposed and approved, and the Non-  
10 Operating Parties may then select a substitute Operator under Article  
11 4.2.1 (*Substitute Operator if Operator is a Non-Participating Party*).  
12 Within sixty (60) days of the selection of the substitute Operator, the  
13 substitute Operator shall propose the drilling of an identical  
14 Development Well (except for any necessary modifications resulting  
15 from a change in the drilling rig to be utilized by the substitute  
16 Operator), and it shall commence drilling operations on that well within  
17 ninety (90) days after the end of the period for the approval of that  
18 Well.

19 If an approved original or identical Development Well proposal is  
20 deemed withdrawn due to a failure to timely commence drilling  
21 operations on that well, all Costs incurred, which are attributable to the  
22 preparation for, or in furtherance of, that Development Well, will be  
23 chargeable to the Participating Parties. Drilling operations for a  
24 Development Well under this Article 13.1.3 shall be deemed to have  
25 commenced on the date the rig arrives on location or, if the rig is  
26 already on location, the date when actual drilling operations for the  
27 approved Development Well are undertaken.

#### 28 **13.1.4 AFE Overruns and Substitute Well**

29 Once a Development Well is commenced, the Operator shall drill the  
30 well with due diligence to its Objective Depth, subject to:

- 31 (a) all supplemental AFEs required under Article 6.2.2 (*Supplemental*  
32 *AFE*s),
- 33 (b) the Operator encountering mechanical difficulties, excessive  
34 temperature, uncontrolled influx of subsurface water, loss of well

1 control, abnormal well or formation pressures, pressured or  
2 heaving shale, granite or other practicably impenetrable  
3 substances, or other similar conditions in the well bore or damage  
4 to the well bore that render, in the Operator's sole opinion,  
5 further well operations impractical, and

6 (c) the unanimous agreement of the Participating Parties to cease  
7 drilling a Development Well before reaching Objective Depth.

8 If a Development Well is abandoned due to the conditions described  
9 under Article 13.1.4(b), then any Participating Party in the abandoned  
10 Development Well may, within thirty (30) days after abandonment of  
11 that Development Well, propose the drilling of a substitute well for the  
12 abandoned Development Well by giving notice of the proposal (along  
13 with the associated AFE and Well Plan) to all other Participating Parties  
14 in the abandoned Development Well, and that proposal requires  
15 approval by Election of the Participating Parties in the abandoned  
16 Development Well. The Well Plan for the substitute Development  
17 Well shall be substantially the same as the abandoned Development  
18 Well's Well Plan and shall also take into account those conditions that  
19 rendered further drilling of the abandoned Development Well  
20 impractical.

21 Each Non-Participating Party in a substitute Development Well or an  
22 approved supplemental AFE for a Development Well will be subject to  
23 either an acreage forfeiture or Hydrocarbon Recoupment, as provided  
24 in Article 16 (*Non-Consent Operations*).

### 25 **13.2 Development Operations at Objective Depth**

26 After a Development Well has been drilled to its Objective Depth, all operations  
27 in the controlling AFE have been conducted or terminated (except temporary  
28 abandonment and permanent plugging and abandonment), and all logs and test  
29 results have been distributed to the Participating Parties, the Operator shall  
30 promptly notify the Parties entitled to make an Election on an operation  
31 proposed under this Article 13.2, of its proposal to conduct subsequent  
32 operations in the well. Except for a proposal to permanently plug and abandon  
33 the well, the Operator's proposal shall include an associated AFE and a plan for

1 the operation. The Parties entitled to make an Election under this Article 13.2  
2 are:

- 3 (a) the Participating Parties, and
- 4 (b) the Non-Participating Parties in the original well proposal, if (1) the  
5 subsequent Development Operation proposal is made at the well's  
6 Objective Depth and is for a Sidetrack or Deepening and (2) Article 16.4  
7 (*Non-Consent Operations to Maintain Contract Area*) was not applicable to  
8 the drilling of that Development Well.

9 The Operator's proposal shall be for one of the following operations:

- 10 (a) conduct Additional Testing, Sidewall Coring, or Logging of the formations  
11 encountered prior to setting production casing;
- 12 (b) complete the well at the Objective Depth in the objective zone or  
13 formation;
- 14 (c) Sidetrack the well;
- 15 (d) plug back the well and attempt a completion in a shallower zone or  
16 formation;
- 17 (e) Deepen the well to a new Objective Depth;
- 18 (f) conduct other operations on the well not listed;
- 19 (g) temporarily abandon the well; or
- 20 (h) permanently plug and abandon the well.

21 If the Operator fails to submit its proposal to the Participating Parties within  
22 twenty-four (24) hours (inclusive of Saturdays, Sundays, and federal holidays)  
23 after receipt of all logs and test results from a Development Well, then any  
24 Participating Party may make a proposal. In that event, the procedures in this  
25 Article 13.2 (*Development Operations at Objective Depth*) shall apply to that  
26 proposal, and any reference in this Article 13.2 to the "Operator's proposal"  
27 shall include a proposal made by a Participating Party.

1           **13.2.1    Response to Operator's Proposal**

2           A Participating Party may, within twenty-four (24) hours (inclusive of  
3           Saturdays, Sundays, and federal holidays) of its receipt of the  
4           Operator's proposal, make a separate proposal (along with an  
5           associated AFE and a plan for the operation), except if the proposal is  
6           to permanently plug and abandon the well) for one of the operations in  
7           Article 13.2 (*Development Operations at Objective Depth*), and the  
8           Operator, immediately after the expiration of the twenty-four (24) hour  
9           period for making a separate proposal shall provide the Parties entitled  
10          to make an Election with a copy of all separate proposals so made. If  
11          no separate proposal is made, the Parties entitled to make an Election  
12          shall, within forty-eight (48) hours (inclusive of Saturdays, Sundays, and  
13          federal holidays) of its receipt of the Operator's proposal, make an  
14          Election on the Operator's proposal (except for a proposal to  
15          permanently plug and abandon). If a separate proposal is made, the  
16          Parties entitled to make an Election shall make an Election under the  
17          procedure in Article 13.2.2 (*Response to Highest Priority Proposal*). If a  
18          proposal to permanently plug and abandon the well is the only  
19          operation proposed, then the approval and Cost allocation provisions of  
20          Article 13.5 (*Permanent Plugging and Abandonment and Cost*  
21          *Allocation*) shall apply to the proposal. If Article 8.3 (*Second*  
22          *Opportunity to Participate*) or Article 8.4 (*Participation by Fewer Than*  
23          *All Parties*), or both, apply to an Election, then the response period in  
24          those articles shall be twenty-four (24) hours (inclusive of Saturdays,  
25          Sundays, and federal holidays) instead of forty-eight (48) hours  
26          (exclusive of Saturdays, Sundays, and federal holidays).  
27          Notwithstanding any contrary provision of this Agreement, if one or  
28          more operations are proposed before the distribution of information  
29          from the previous approved operation, then the response periods  
30          provided above shall not begin until the Parties entitled to make an  
31          Election in Article 13.2 (*Development Operations at Objective Depth*)  
32          have received the information from the previous approved operation.

33           **13.2.2    Response to Highest Priority Proposal**

34           If a separate proposal is made, each Party entitled to make an Election  
35           shall, within twenty-four (24) hours (inclusive of Saturdays, Sundays,  
36           and federal holidays) after its receipt from the Operator of a complete

1 copy of all separate proposals, make its Election on the highest priority  
2 proposal (except a proposal to permanently plug and abandon the well).  
3 Article 13.2(a) has the highest priority, and Article 13.2(h) has the  
4 lowest priority. If different depths or locations are proposed for the  
5 same type of operation, priority shall be given to the deepest depth.

6 If the proposal with the highest priority is approved, then the lower  
7 priority proposals shall be deemed withdrawn. Once the approved  
8 operation is completed, the Parties shall follow the procedure provided  
9 in this Article 13.2 (*Development Operations at Objective Depth*) for all  
10 other proposals for operations in the well bore until such time as the  
11 well is temporarily abandoned or permanently abandoned.

### 12 **13.2.3 Response on Next Highest Priority Proposal**

13 If the proposal with the highest priority is not approved, then the next  
14 highest priority proposal shall be deemed the highest priority proposal,  
15 and it shall be subject to the approval procedure in Article 13.2.2  
16 (*Response to Highest Priority Proposal*). This process will continue  
17 until a proposal is approved to complete the Development Well,  
18 temporarily plug and abandon the Development Well, or permanently  
19 plug and abandon a Development Well.

### 20 **13.2.4 Non-Participating Parties in Development Operations at Objective** 21 **Depth**

22 A Non-Participating Party in a Development Operation conducted on a  
23 Development Well after it has reached its Objective Depth [except as  
24 provided for in this Article 13.2 (*Development Operations at Objective*  
25 *Depth*)] is subject to Article 16.5.4 (*Non-Consent Development*  
26 *Operations*) and is relieved of the Costs and risks of that Development  
27 Operation, except that a Non-Participating Party in that Development  
28 Operation remains responsible for its Participating Interest Share of the  
29 Costs of plugging and abandoning a Development Well, less and  
30 except all Costs of plugging and abandoning associated solely with the  
31 subsequent Development Operation in which it was a Non-Participating  
32 Party.

1       **13.2.5    Participation in a Sidetrack or Deepening by a Non-Participating**  
2       **Party in a Development Well at Initial Objective Depth**

3       If a Development Well is drilled to its Objective Depth and a Non-  
4       Participating Party in that Development Well becomes a Participating  
5       Party in an approved Sidetracking or Deepening under Article 13.2 (c)  
6       or (e), that former Non-Participating Party shall become an  
7       Underinvested Party in an amount equal to its Non-Participating  
8       Interest Share of the Costs of that Development Well to its Objective  
9       Depth prior to that Sidetracking or Deepening. The original  
10      Participating Parties in a Development Well are Overinvested Parties in  
11      that amount. A former Non-Participating Party in a Development Well  
12      that becomes a Participating Party in an approved Sidetracking or  
13      Deepening remains a Non-Participating Party in that Development Well  
14      to initial Objective Depth until-(a) its Underinvestment is eliminated  
15      under Article 16.9 (*Settlement of Underinvestments*) and (b) the  
16      Hydrocarbon Recoupment recoverable under Article 16.5.4 (*Non-*  
17      *Consent Development Operations*) less the Underinvestment, has  
18      been recovered by the original Participating Parties. If a former Non-  
19      Participating Party becomes a Participating Party in more than one  
20      approved Sidetracking or Deepening in the same Development Well,  
21      that former Non-Participating Party shall become an Underinvested  
22      Party only with regard to the first Sidetracking or Deepening it  
23      approves; however, that Underinvestment shall not be relieved by an  
24      Underinvested Party's subsequent participation.

25      **13.3    Development Well Proposals That Include Drilling Below the Deepest**  
26      **Producible Reservoir**

27      Any Party may propose a Development Well with an Objective Depth below the  
28      Deepest Producing Reservoir, and in response to that well proposal each Party  
29      may, in writing, limit its participation in the drilling of that Development Well to  
30      the base of the Deepest Producing Reservoir to be penetrated by that  
31      Development Well. A Party who limits its participation in a Development Well to  
32      the base of the Deepest Producing Reservoir shall bear its Participating Interest  
33      Share of the Cost and risk of drilling that Development Well to the base of the  
34      Deepest Producing Reservoir (including abandonment), and it shall be a Non-  
35      Participating Party for the Deeper Drilling and shall be subject to Article 16.5.4  
36      (*Non-Consent Development Operations*) in regard to the Deeper Drilling.

1       **13.3.1    Multiple Completion Alternatives Above and Below the Deepest**  
2       **Producible Reservoir**

3       If a Party Electing to limit its participation in a well to the base of the  
4       Deepest Producible Reservoir to be penetrated by the well under  
5       Article 11.3 (*Appraisal Well Proposals That Include Drilling Below the*  
6       *Deepest Producible Reservoir*) or Article 13.3 (*Development Well*  
7       *Proposals That Include Drilling Below the Deepest Producible*  
8       *Reservoir*) considers the well to be capable of producing at or above  
9       the Deepest Producible Reservoir and has notified the Participating  
10      Parties down to Objective Depth of its desire to complete the well at or  
11      above the Deepest Producible Reservoir, the well will be drilled subject  
12      to the following provisions:

13      (a)   **Multiple Completion:** If before drilling of the well commences,  
14      all Participating Parties in the well agree that multiple well  
15      completions are possible and practicable and that those  
16      completions will involve (i) a completion at or above the Deepest  
17      Producible Reservoir and (ii) a completion below the Deepest  
18      Producible Reservoir, the Participating Parties in the Deeper  
19      Drilling will bear one hundred percent (100%) of the Costs of  
20      drilling the well to an Objective Depth below the Deepest  
21      Producible Reservoir that are in excess of the original Costs to  
22      drill and complete the well in the Deepest Producible Reservoir.

23      (b)   **Single Completions:** If prior to the commencement of the  
24      drilling of the well, the Participating Parties do not unanimously  
25      agree that multiple well completions are possible, then the first  
26      completion shall be at the objective deeper than the Deepest  
27      Producible Reservoir. A Non-Participating Party in the Deeper  
28      Drilling is an Overinvested Party in the well in an amount equal to  
29      its Participating Interest Share of the Costs of drilling the well to  
30      the Deepest Producible Reservoir, and the Participating Parties in  
31      the Deeper Drilling on the well are Underinvested Parties for that  
32      amount upon the first of the following events to occur:

33          (i)     the well is not a Producible Well at a depth deeper than  
34          the Deepest Producible Reservoir and the well is plugged



back to a zone at or above the Deepest Producing Reservoir;

(ii) the well is completed as a Producing Well at a depth deeper than Deepest Producing Reservoir, but Hydrocarbon production from that depth is later depleted prior to Complete Recoupment (in regard to Deeper Drilling) and the well is plugged back to a zone at or above the Deepest Producing Reservoir;

(iii) the well is completed as a Producing Well at a depth deeper than the Deepest Producing Reservoir and the Participating Parties have achieved Complete Recoupment (in regard to the Deeper Drilling) from Hydrocarbon production from a zone deeper than the Deepest Producing Reservoir;

(iv) the well is plugged and abandoned prior to an attempted completion at or above the Deepest Producing Reservoir.

The Underinvestment will be depreciated at the rate of one half of one percent (0.5%) per month from the date the Deeper Drilling commences to the date the Non-Participating Party is entitled to share in the Hydrocarbon production from zones deeper than Deepest Producing Reservoir, but that depreciation will not reduce the Underinvestment below seventy-five percent (75%) of the original Underinvestment.

### **13.3.2 Completion Attempts At or Above the Deepest Producing Reservoir**

If a Development Well in which Deeper Drilling is conducted is not completed for production below the Deepest Producing Reservoir, then the Participating Parties in that well down to the Deepest Producing Reservoir may use the well for completion in a zone at or above the Deepest Producing Reservoir. The Parties who paid their proportionate share of the drilling Costs to the base of the Deepest Producing Reservoir under Article 13.3 (*Development Well Proposals That Include Drilling Below the Deepest Producing Reservoir*) may

1 participate in the completion attempt in the zone at or above the  
2 Deepest Producing Reservoir. The Participating Parties in the Deeper  
3 Drilling operation shall bear the Costs (including plugging back Costs)  
4 necessary to place the well in proper condition for its completion in the  
5 zone at or above the Deepest Producing Reservoir. If a well drilled  
6 below the Deepest Producing Reservoir is damaged to the extent that  
7 it is rendered incapable of being completed and produced at or above  
8 the Deepest Producing Reservoir, the Participating Parties in the  
9 Deeper Drilling are obligated to reimburse the Non-Participating Parties  
10 in the Deeper Drilling for their Participating Interest Share of the Costs  
11 of drilling the well to the base of the Deepest Producing Reservoir.

#### 12 **13.4 Recompletions and Workovers**

13 Any of the Participating Parties in the subsequent Development Operation,  
14 Recompletion, or Workover that resulted in the most recent Hydrocarbon  
15 production from a Development Well may propose a Recompletion in or  
16 Workover of that Development Well. Each Recompletion or Workover, including  
17 the permanent plugging and abandonment of a Producing Reservoir, requires  
18 approval by Vote of those Participating Parties. A Non-Participating Party in a  
19 Recompletion or Workover is subject to Article 16.5.4 (*Non-Consent*  
20 *Development Operations*) and is relieved of the Costs and risks of the  
21 Recompletion or Workover but remains responsible for its Participating Interest  
22 Share of the Costs of plugging and abandoning the Development Well, less and  
23 except any Costs of plugging and abandoning associated solely with a  
24 Recompletion or Workover in which it is a Non-Participating Party.

#### 25 **13.5 Permanent Plugging and Abandonment and Cost Allocation**

26 The permanent plugging and abandonment of a Development Well that:

- 27 (a) is to be plugged due to mechanical difficulties or impenetrable conditions  
28 before the well has been drilled to its Objective Depth under Article 13.1.4  
29 (b),
- 30 (b) is to be plugged under Article 13.2 (*Development Operations at Objective*  
31 *Depth*), or
- 32 (c) has been previously temporarily abandoned under Article 13.2  
33 (*Development Operations at Objective Depth*)

1 and has not produced Hydrocarbons (other than as a result of Production  
2 Testing), requires the approval of the Participating Parties by Vote. Approval to  
3 plug and abandon a Development Well that has produced Hydrocarbons (other  
4 than as a result of Production Testing) shall be governed by Article 18.1  
5 (*Abandonment of Wells*). If a proposal to plug and abandon a Development Well  
6 receives approval by Vote, the approved proposal binds all Parties. If any  
7 Participating Party fails to respond within the applicable response period for a  
8 proposal to plug and abandon a Development Well, that Participating Party shall  
9 be deemed to have approved the plugging and abandonment of that  
10 Development Well. If a rig is on location and a proposal to plug and abandon a  
11 Development Well under either Article 13.5 (a) or 13.5 (b) does not receive  
12 approval by Vote, and if within twenty-four (24) hours (inclusive of Saturdays,  
13 Sundays, and federal holidays) after receipt of that proposal no other operation is  
14 proposed (and subsequently approved) for the well by a Party entitled to make a  
15 proposal, the Operator may nevertheless proceed to plug and abandon the  
16 Development Well, and shall give each Participating Party notice of that fact. If  
17 the proposal to plug and abandon a Development Well that has not produced  
18 Hydrocarbons (other than as a result of Production Testing) does not receive  
19 approval by Vote, but the Operator deems the well bore not to be safe or in  
20 sound enough condition for it to perform further operations, the Operator may  
21 nevertheless proceed to plug and abandon that Development Well and shall give  
22 each Participating Party notice of that fact.

23 The Participating Parties in a Development Well proposal shall pay all Costs of  
24 plugging and abandoning that Development Well, except all increased plugging  
25 and abandoning Costs associated solely with a Non-Consent Operation approved  
26 under Article 13.2 (*Development Operations at Objective Depth*) or Article 6.2.2  
27 (*Supplemental AFEs*). The Participating Parties in that Non-Consent Operation  
28 are responsible for the increased plugging and abandoning Costs attributable to  
29 that Non-Consent Operation.

## 30 **ARTICLE 14 – FACILITIES AND GATHERING SYSTEMS**

### 31 **14.1 Facilities as a Part of Development Plan**

32 The Development Plan shall provide for the installation of all Facilities necessary  
33 to handle or service Hydrocarbons produced pursuant to that Development Plan.

1 If the approved Development Plan provides that Hydrocarbon production can  
2 most efficiently be processed and handled by Offsite Host Facilities, the  
3 Development Plan shall provide for a Development System designed to use  
4 Offsite Host Facilities.

#### 5 **14.2 Use of Offsite Host Facilities**

6 In the event the approved Development Plan provides that Hydrocarbon  
7 production can most efficiently be processed and handled by Offsite Host  
8 Facilities, the Participating Parties shall use reasonable efforts to secure a formal  
9 "Facilities Use and Production Handling Agreement" from the owners of the  
10 Offsite Host Facilities under the terms submitted to the Parties by the Operator  
11 under Article 12.4.1 (f) (*Tieback Operations*), but no Participating Party shall have  
12 a duty (fiduciary or otherwise) to secure capacity in the Offsite Host Facilities on  
13 behalf of any other Participating Party. However, any capacity secured by that  
14 "Facilities Use and Production Handling Agreement" to Offsite Host Facilities  
15 shall be shared proportionately by the Participating Parties, who executed the  
16 "Facilities Use and Production Handling Agreement," on the basis of their  
17 Participating Interest Share in the Development System, unless those Parties  
18 agree to a different proportionate share of the capacity. This Agreement shall  
19 govern all operations and activities regarding Hydrocarbon production, which are  
20 not specifically addressed in the "Facilities Use and Production Handling  
21 Agreement." This Article 14.2 shall not constitute a limit on a Party's right to  
22 install its own facilities under Article 15 (*Disposition of Hydrocarbon Production*).

#### 23 **14.3 Use of Development Systems**

24 The Participating Parties in a Development System have priority access to and  
25 utilization of the Facilities associated with the Development System in order to  
26 operate and develop the Contract Area under an approved Development Plan.

#### 27 **14.4 Processing Priorities**

28 The Participating Parties in a Development System jointly own all processing and  
29 handling capacity associated with that Development System. The use of excess  
30 processing or handling capacity in that Development System is subject to the  
31 following priority of usage:

- 32 (a) First priority to Hydrocarbon production from the Development Phase  
33 during which the existing processing Facilities were fabricated and  
34 installed;

- 1 (b) Second priority to Hydrocarbon production from a Development Phase  
2 during which the existing processing Facilities were not fabricated and  
3 installed;
- 4 (c) Third priority to hydrocarbon production from outside the Contract Area  
5 that is owned one hundred percent (100%) by all Participating Parties in the  
6 Development System in the same percentage as their ownership in that  
7 Development System;
- 8 (d) Fourth priority to hydrocarbon production from outside the Contract Area  
9 that is owned one hundred percent (100%) by all of the Participating  
10 Parties in the Development System but not in the same percentage as  
11 their ownership in the Development System;
- 12 (e) Fifth priority to hydrocarbon production from outside the Contract Area that  
13 is owned by all Participating Parties in the Development System and a third  
14 party;
- 15 (f) Sixth priority to hydrocarbon production from outside the Contract Area  
16 that is owned by one or more Participating Parties in the Development  
17 System, but not by all of them, and a third party; and
- 18 (g) Seventh priority to hydrocarbon production from outside the Contract Area  
19 that is owned one hundred percent (100%) by a third party.

20 Any hydrocarbon production processing and handling capacity offered to parties  
21 under (d), (e), (f), and (g) of this Article 14.4 shall be processed and handled  
22 under a "Facilities Use and Production Handling Agreement" unanimously  
23 agreed to by the Participating Parties in the Execution AFE for that Development  
24 System and, if applicable, the Participating Parties in any additional Facilities  
25 which are to be used for the processing or handling of those hydrocarbons.

#### 26 **14.5 Approval of Additional Facilities**

27 This Article 14.5 shall only apply to Facilities that were not included in an  
28 approved Development Plan and are to be utilized for Hydrocarbon production.  
29 Any Participating Party in an Execution AFE for a Development System may  
30 propose the installation of additional Facilities beyond those specified in the  
31 Development Plan associated with that Development System by giving notice to  
32 the other Participating Parties (along with an associated AFE), together with

1 information adequate to describe the proposed Facilities. Except as provided in  
2 Article 15.2 (*Facilities to Take In Kind*), the installation of additional Facilities  
3 beyond the scope of a Development Plan requires the approval by Vote of the  
4 Participating Parties in the Execution AFE (and all supplemental AFEs) for the  
5 Development System that is to receive the additional Facilities. Upon approval  
6 of such a proposal, the Operator shall proceed to install the additional Facilities,  
7 provided that, in the judgment of the Operator, the additional Facilities do not  
8 interfere with continuing operations on the Contract Area and there is sufficient  
9 deck space and buoyancy available to support the proposed additional Facilities.  
10 A Non-Participating Party in a proposal for additional Facilities shall be subject to  
11 Article 16.5.5 (*Non-Consent Subsequent Production System and Additional*  
12 *Facilities*). If the Facilities proposal is for a disposal well, that Facilities proposal  
13 shall contain the same information provided in a Development Well proposal.

#### 14 **14.6 Expansion or Modification of Existing Production System**

15 This Article 14.6 shall only apply to expansions or modifications of a Production  
16 System that are to be utilized for activities or operations on the Contract Area.  
17 After installation of a Production System described and approved in a  
18 Development Plan, any Participating Party in that Production System may  
19 propose the expansion or modification of that Production System by written  
20 notice (along with its associated AFE) to the other Participating Parties in that  
21 Production System. That proposal requires the approval by Vote of the  
22 Participating Parties in that Production System. If approved, that proposal will be  
23 binding on all Participating Parties in that Production System, and the Operator  
24 shall commence that expansion or modification at the sole Cost and risk of all of  
25 the Participating Parties in that Production System unless otherwise agreed.

#### 26 **14.7 Additions, Expansion, or Modification of Production System or Facilities** 27 **for Health, Safety, or Environmental Reasons**

28 If a proposal for additional Facilities or a proposal for the expansion or  
29 modification of a Production System does not receive approval by Vote of the  
30 Participating Parties in the Execution AFE (and all supplemental AFEs) for the  
31 Development System that is to receive additional Facilities or have its Production  
32 System expanded or modified, whichever is applicable, and that proposal is  
33 necessary for health, safety, or environmental reasons and has been mandated  
34 by governmental authority or judicial process, the Operator may, at its discretion,  
35 install those additional Facilities or make those expansions or modifications to

1 the Production System. If the Operator elects to exercise its discretionary right  
2 to make those installations, modifications, or expansions, the Operator shall  
3 provide written notice of its decision to each Participating Party in the Execution  
4 AFE (and all supplemental AFEs) for the Development System that is to receive  
5 additional Facilities or have its Production System expanded or modified,  
6 whichever applies.

## 7 **ARTICLE 15 – DISPOSITION OF HYDROCARBON** 8 **PRODUCTION**

### 9 **15.1 Duty to Take in Kind**

10 Each Party has the right and duty to take in kind or separately dispose of its  
11 share of the Hydrocarbons, excluding (i) Hydrocarbons that are unavoidably lost  
12 and (ii) Hydrocarbon production that the Operator uses in production or  
13 Development Operations or in preparing and treating Hydrocarbons for  
14 marketing or transportation in an Export Pipeline.

### 15 **15.2 Facilities to Take in Kind**

16 Each Participating Party in the Execution AFE for a Development System has the  
17 right, at its sole cost and risk, to construct and install facilities on and connect  
18 pipelines to the Development System for purposes of taking its share of  
19 Hydrocarbon production in kind, provided that, in the judgment of the Operator,  
20 the installation and operation of those facilities and pipelines will not  
21 unreasonably interfere with continuing operations on the Development System  
22 or the Contract Area.

### 23 **15.3 Failure to Take Oil or Condensate in Kind**

24 If a Party fails to take in kind or dispose of its share of the oil or condensate  
25 produced from the Contract Area, the Operator may, but is not obligated to,  
26 purchase for its own account, sell to others, or otherwise dispose of all or part of  
27 that oil or condensate at the same price at which the Operator calculates and  
28 pays lessor's royalty on its oil or condensate, or if lessor takes its royalty in kind,  
29 sell that oil or condensate to others at the price prevailing in the area for oil or  
30 condensate of the same kind, gravity, and quality reasonably obtainable by the  
31 Operator under the circumstances, subject to revocation by the non-taking Party  
32 upon thirty (30) days written notice to the Operator but shall not take effect until

1 the Operator's sales contract with a third party terminates. The Operator is not  
2 obligated to obtain a price equal to the price at which its oil or condensate is  
3 sold. The Operator's right to take in kind or dispose of a non-taking Party's share  
4 of the oil or condensate is subject to the non-taking Party's right, at any time and  
5 from time to time, to take in kind or dispose of its share of the oil or condensate.  
6 All contracts of sale by the Operator for another Party's oil or condensate shall  
7 be only for such reasonable periods not to exceed one year. Proceeds of all  
8 sales by the Operator under this Article 15.3 shall be paid by the end of the  
9 calendar month so that the Parties entitled to those proceeds will be able to  
10 make timely payments, without penalty, of lessor's royalty on the oil or  
11 condensate, which generated the proceeds.

12 Unless required by governmental authority or judicial process, no Party shall be  
13 forced to share an available market with a non-taking Party.

#### 14 **15.4 Gas Balancing Provision**

15 If for any reason a Party fails to take or market its full share of gas as produced,  
16 the gas balancing and accounting between the Parties shall be handled under  
17 Exhibit "D."

#### 18 **15.5 Expenses of Delivery in Kind**

19 All Costs incurred by the Operator in making delivery of a Party's share of  
20 Hydrocarbon production or disposing of same shall be borne by that Party.

### 21 **ARTICLE 16 – NON-CONSENT OPERATIONS**

#### 22 **16.1 Conduct of Non-Consent Operations**

23 Any activity or operation that invokes this Article 16 (*Non-Consent Operations*)  
24 must be proposed by a Party in good faith, using Cost estimates and Objective  
25 Depths that are reasonable for the Contract Area. Non-Consent Operations shall  
26 not unreasonably interfere with activities or operations conducted by all Parties,  
27 unless the Non-Consent activity or operation will maintain all or a portion of the  
28 Contract Area under Article 16.4 (*Non-Consent Operations to Maintain Contract*  
29 *Area*).



1           **16.1.1    Costs**

2           The Costs of a Non-Consent Operation shall be borne by the  
3           Participating Parties in accordance with their Participating Interest  
4           Share in the Non-Consent Operation (unless otherwise agreed by the  
5           Participating Parties). Within ninety (90) days after a Non-Consent  
6           Operation has been conducted, the Operator shall furnish all other  
7           Parties with either (a) an itemized statement of the Cost of the Non-  
8           Consent Operation and an inventory of the pertinent equipment or (b) a  
9           detailed statement of monthly billings. The Operator shall furnish to  
10          the Parties a monthly statement showing operating, maintenance, and  
11          other expenses attributable to the Non-Consent Operation together  
12          with a statement of the quantity of Hydrocarbons produced, and the  
13          revenues from the sale of Hydrocarbon production for the preceding  
14          month from operations subject to Hydrocarbon Recoupment under this  
15          Article 16. In accounting for the revenues from Non-Consent  
16          Operations, Hydrocarbon production need not be separately metered,  
17          but may be determined upon the basis of monthly well tests, or as  
18          otherwise permitted in the MMS Surface or Subsurface Commingling  
19          Approval. Operating expenses shall be allocated under Article 16.8.3  
20          (*Operating and Maintenance Charges*). If a Party takes its share of  
21          production in kind under Article 15 (*Disposition of Hydrocarbon*  
22          *Production*), that Party shall advise the Operator (in writing on or before  
23          the tenth day of the month following the month in which the  
24          Hydrocarbon production is sold or used off the premises) of the  
25          volumes of Hydrocarbons sold or used off the premises and the prices  
26          received for those Hydrocarbons so that the Operator may calculate  
27          the balance of any Hydrocarbon Recoupment amounts.

28          To calculate the balance of Hydrocarbon Recoupment each Party, who  
29          bears a portion of the Non-Participating Interest Share, shall maintain  
30          the balance of the Hydrocarbon Recoupment attributable to the Non-  
31          Participating Interest Share borne by that Party and shall advise the  
32          Operator and Non-Participating Parties when Complete Recoupment  
33          has been reached.

1           **16.1.2    Multiple Completions**

2           Non-Consent Operations shall not be conducted in a well having  
3           multiple completions unless:

- 4                   (a)   each of the multiple completions are owned by the same Parties  
5                         in the same proportion;
- 6                   (b)   none of the previous well completions are capable of producing in  
7                         paying quantities; or
- 8                   (c)   the Participating Parties in the well containing the multiple  
9                         completions unanimously agree to those Non-Consent  
10                        Operations.

11           **16.2    Acreage Forfeiture Provisions**

12           In view of the significantly greater risks associated with the first Exploratory Well  
13           and the Execution AFE for the initial Development System, the Participating  
14           Parties in the first Exploratory Well or that Execution AFE are entitled to an  
15           assignment of all of the right, title, and interest (including operating rights) in the  
16           Contract Area of the Non-Participating Parties in that well or AFE as provided  
17           below.

18           **16.2.1   First Exploratory Well**

19           If a Participating Party proceeds with the timely commencement of the  
20           drilling of the first Exploratory Well as a Non-Consent Operation and

- 21                   (a)   the first Exploratory Well is drilled to its Objective Depth;
- 22                   (b)   the first Exploratory Well is drilled to a depth shallower than its  
23                         Objective Depth and eighty percent (80%) or more of the total  
24                         amount of the AFE for that Exploratory Well is expended; or
- 25                   (c)   the first Exploratory Well is abandoned under Article 10.1.4 (*AFE*  
26                         *Overruns and Substitute Well*) prior to reaching its Objective  
27                         Depth and prior to the Participating Parties expending at least  
28                         eighty percent (80%) or more of the AFE for that Exploratory  
29                         Well, but the Participating Parties timely commence the drilling of  
30                         a substitute well, and the cumulative Costs of that Exploratory  
31                         Well and its substitute well equal or exceed eighty percent (80%)

1 of the total amount of the AFE for the original first Exploratory  
2 Well;

3 then within thirty (30) days after notice of the occurrence of an event  
4 described in clause (a), (b), or (c), a Non-Participating Party in the first  
5 Exploratory Well or its substitute well, as applicable, shall execute and  
6 deliver an assignment of all of its right, title, and interest in the  
7 Contract Area, free of all Lease Burdens as defined in Article 19.1  
8 (*Burdens on Hydrocarbon Production*), effective on the date actual  
9 drilling operations for the well are commenced, to the Participating  
10 Parties in the first Exploratory Well or its substitute well, as applicable,  
11 with no reimbursement by and at no Cost to those Participating  
12 Parties. If an assignment is made under this Article 16.2.1, then each  
13 Participating Party shall accept its Participating Interest Share, as  
14 determined under Article 8.4 (*Participation by Fewer Than All Parties*),  
15 of the Non-Participating Party's assigned interest. The Non-  
16 Participating Party's Election or Vote not to participate in the first  
17 Exploratory Well shall be deemed a withdrawal under Article 17  
18 (*Withdrawal From Agreement*), and the Parties shall be subject to  
19 Article 17 (*Withdrawal From Agreement*). After the satisfaction of  
20 Article 16.2.1(a), (b), or (c), a Non-Consent Operation performed in the  
21 first Exploratory Well's well bore or its substitute's well bore, as  
22 applicable, shall not be subject to this Article 16.2.1 but shall be subject  
23 to the Hydrocarbon Recoupment premium provided in Article 16.5.1.1  
24 (*Non-Consent Exploratory Operations at Objective Depth*), except as  
25 provided in Article 16.4 (*Non-Consent Operations to Maintain Contract*  
26 *Area*).

#### 27 **16.2.2 Execution AFE**

28 Within thirty (30) days of notice of the timely commencement of the  
29 activities or operations associated with the Execution AFE for the initial  
30 Development System, a Non-Participating Party in that Execution AFE  
31 shall execute and deliver an assignment of all of its right, title, and  
32 interest in the Contract Area to the Participating Parties in that  
33 Execution AFE, free of all Lease Burdens as defined in Article 19.1  
34 (*Burdens on Hydrocarbon Production*), effective on the date the  
35 construction or acquisition of the initial Development System is

commenced, with no reimbursement by and at no Cost to those Participating Parties. If an assignment is made under this Article 16.2.2, then each Participating Party shall accept its Participating Interest Share, as determined under Article 8.4 (*Participation by Fewer Than All Parties*), of the Non-Participating Party's assigned interest. The Non-Participating Party's Election not to participate in the Execution AFE for the initial Development System shall be deemed a withdrawal under Article 17 (*Withdrawal From Agreement*), and the Parties shall be subject to Article 17 (*Withdrawal From Agreement*).

### **16.3 Costs and Liabilities of Prior Operations**

Subject to Article 6.2.2 (*Supplemental AFEs*), a Non-Participating Party subject to a non-consent provision remains liable for its share of previously incurred Costs and liabilities for activities and operations in which it was a Participating Party, and there shall be no re-allocation of Costs for activities and operations in which it was a Participating Party, except as provided in Article 13.3.1 (*Multiple Completion Alternatives Above and Below the Deepest Producing Reservoir*).

### **16.4 Non-Consent Operations to Maintain Contract Area**

If a proposal is made for

- (a) an activity or operation required under a governmental agency order, notice, regulation, or Lease to maintain all or part of the Contract Area; or
- (b) an activity or operation
  - (i) within the final one hundred eighty (180) days of the primary term of a Lease, and if the Lease is not held by any means and will expire under its own terms, or
  - (ii) within sixty (60) days prior to the deadline for an activity or operation required under an SOO or SOP activity schedule or a unit plan of operation,

and the proposal requires approval by Vote or Election or unanimous agreement and that approval or agreement is not obtained within the applicable response period, then, notwithstanding any contrary provision of Article 8 (*Approvals and Notices*), the proposed activity or operation shall be deemed to have been approved, and all Parties that Voted or Elected or agreed by written statement to

1 participate in the proposed activity or operation may proceed with the proposed  
2 activity or operation at their sole Cost and risk. However, before those Parties  
3 commence that activity or operation, they shall give written notice to the other  
4 Parties of their intention to commence that activity or operation. The other  
5 Parties shall have a second opportunity to participate in that activity or operation,  
6 under Article 8.3 (*Second Opportunity to Participate*), except that the response  
7 period for that second opportunity to participate shall be fifteen (15) days after  
8 receipt of that notice.

9 **16.4.1 Acreage Forfeiture in the Entire Contract Area**

10 If it is necessary to conduct an activity or operation referred to in Article  
11 16.4 (*Non-Consent Operations to Maintain Contract Area*) in order to  
12 maintain the entire Contract Area, then each Non-Participating Party in  
13 that activity or operation shall relinquish and permanently assign,  
14 effective on the date the operation is commenced, to the Participating  
15 Parties one hundred percent (100%) of the Non-Participating Party's  
16 Working Interest in the entire Contract Area, including property and  
17 equipment acquired under this Agreement, within thirty (30) days of  
18 the commencement of that activity or operation. Failure to participate  
19 in that activity or operation is deemed a withdrawal, and the Parties will  
20 be subject to Article 17 (*Withdrawal From Agreement*).

21 **16.4.2 Acreage Forfeiture in a Portion of a Contract Area**

22 If it is necessary to conduct an activity or operation referred to in Article  
23 16.4 (*Non-Consent Operations to Maintain Contract Area*) in order to  
24 maintain a portion of the Contract Area, then each Non-Participating  
25 Party in that activity or operation shall relinquish and permanently  
26 assign, effective on the date the operation is commenced, to the  
27 Participating Parties one hundred percent (100%) of the Non-  
28 Participating Party's Working Interest in the affected portion of the  
29 Contract Area, including property and equipment acquired under this  
30 Agreement, within thirty (30) days of the commencement of that  
31 activity or operation. That assignment shall be conveyed to the  
32 Participating Parties in proportion to their Participating Interest Share in  
33 that activity or operation. The Non-Participating Party shall bear all  
34 expenses associated with that assignment and shall be subject to  
35 Article 17.3.1 (*Prior Expenses*), Article 17.3.2 (*Confidentiality*) and

1 Article 17.3.3 (*Emergencies and Force Majeure*) with respect to the  
2 assigned acreage. If a Development System does not exist at the time  
3 of the forfeiture assignment or if the Non-Participating Party, who  
4 forfeited its interest under this Article 16.4, was a Non-Participating  
5 Party in the Development System which is located in the non-forfeited  
6 portion of the Contract Area, upon MMS approval of that assignment,  
7 the assigned acreage shall be expunged from Exhibit "A," and it shall  
8 no longer be included in the Contract Area. If that assignment is to  
9 two or more Participating Parties in that activity or operation, then (a)  
10 the assigned acreage shall be deemed to be governed by an operating  
11 agreement incorporating identical provisions as the provisions in this  
12 Agreement, except to the extent they are clearly inappropriate, (b) the  
13 execution of the operating agreement by those Participating Parties  
14 shall be considered a mere formality only, (c) the Operator of the  
15 assigned acreage shall promptly prepare that operating agreement, and  
16 (d) the Participating Parties shall promptly execute it. If a Development  
17 System is located on the non-forfeited portion of the Contract Area and  
18 if the Participating Parties in the operation or activity, which were  
19 conducted in order to save the forfeited portion of the Contract Area, are  
20 Participating Parties in that Development System, the Parties shall  
21 amend this Agreement to provide for a separate operational area for the  
22 forfeited portion of the Contract Area and a separate operational area for  
23 the non-forfeited portion of the Contract Area, and this Agreement shall  
24 apply separately to each operational area; provided however, the  
25 Participating Parties in the Development System located on the non-  
26 forfeited portion of the Contract Area, who participated in the operation  
27 or activity, which were conducted in order to save the forfeited portion  
28 of the Contract Area, shall have the same priority of access to that  
29 Development System as the Parties in the separate operational area for  
30 the non-forfeited portion of the Contract Area.

#### 31 **16.4.3 Limitations on Acreage Forfeiture**

32 Notwithstanding the foregoing, if more than one activity or operation is  
33 conducted under Article 16.4 (*Non-Consent Operations to Maintain*  
34 *Contract Area*), any one of which would maintain the entire Contract  
35 Area or the affected portion of the Contract Area, a Participating Party  
36 in any one of those activities or operations shall not be required to

1 make an assignment under Article 16.4 (*Non-Consent Operations to*  
2 *Maintain Contract Area*).

### 3 **16.5 Percentage Hydrocarbon Recoupment for Non-Consent Operations**

4 Except as provided in Articles 16.2 (*Acreage Forfeiture Provisions*) and 16.4  
5 (*Non-Consent Operations to Maintain Contract Area*), upon the timely  
6 commencement of a Non-Consent Operation, each Non-Participating Party's  
7 Working Interest and leasehold operating rights in the Non-Consent Operation  
8 along with its title to that portion of future Hydrocarbon production provided in  
9 this Article 16.5, if any, shall be owned by and vested in each Participating Party  
10 in accordance with its Participating Party Interest Share in the Non-Consent  
11 Operation under Article 8.4 (*Participation by Fewer Than All Parties*). A third-  
12 party cash contribution made for Confidential Data from a Non-Consent  
13 Operation shall be deducted from the Non-Participating Interest Share of the  
14 Costs of the well operation or of drilling and completing the well, as applicable,  
15 prior to computation of the Hydrocarbon Recoupment amount.

#### 16 **16.5.1 Non-Consent Exploratory Operations down to Objective Depth in** 17 **the First Exploratory Well**

18 Since the Participating Parties in the first Exploratory Well are entitled  
19 to an assignment of all of the right, title, and interest (including  
20 operating rights) in the Contract Area of the Non-Participating Parties in  
21 that well as provided in Article 16.2.1 (*First Exploratory Well*), there is  
22 no Hydrocarbon Recoupment for Non-Consent Exploratory Operations  
23 conducted in the first Exploratory Well down to its Objective Depth.

##### 24 **16.5.1.1 Non-Consent Exploratory Operations at Objective Depth**

25 The Hydrocarbon Recoupment amount for all non-consent  
26 Exploratory Operations conducted after the first Exploratory  
27 Well has reached its Objective Depth, be they non-consent  
28 Exploratory Wells other than the first Exploratory Well or  
29 operations conducted subsequent to an Exploratory Well,  
30 including the first Exploratory Well reaching its Objective  
31 Depth, is the Non-Participating Interest Share of the Costs of  
32 that Non-consent Operation multiplied by eight hundred  
33 percent (800%).

1       **16.5.2    Non-Consent Appraisal Operations**

2       The Hydrocarbon Recoupment amount for all Appraisal Operations  
3       conducted as Non-Consent Operations is the Non-Participating Interest  
4       Share of the Costs of the Appraisal Operation multiplied by six hundred  
5       percent (600%).

6       **16.5.3    Non-Consent Proprietary Geophysical Operations, Feasibility**  
7       **AFEs, Selection AFEs, Define AFEs, Long Lead Development**  
8       **System AFEs, Post-Production Project Team AFEs, or Enhanced**  
9       **Recovery Project Team AFEs**

10      If a Non-Participating Party in a Proprietary Geophysical Operation  
11      pursuant to Exhibit "L", Feasibility AFE, Define AFE, Long Lead  
12      Development System AFE, Post-Production Project Team AFE, or  
13      Enhanced Recovery Project Team AFE takes, or is deemed to have  
14      taken, the steps set forth in Article 16.9 (*Settlement of*  
15      *Underinvestments*), that Party is an Underinvested Party in an amount  
16      equal to two hundred percent (200%) of the amount it would have paid  
17      had it participated in that activity, operation, or AFE until the  
18      Underinvestment is eliminated under Article 16.9 (*Settlement of*  
19      *Underinvestments*). If a Non-Participating Party in a Selection AFE  
20      takes, or is deemed to have taken, the steps set forth in Article 16.9  
21      (*Settlement of Underinvestments*), that Party is an Underinvested Party  
22      in an amount equal to two hundred percent (200%) of the amount that  
23      the it would have paid had it participated in that AFE until the  
24      Underinvestment is eliminated under Article 16.9 (*Settlement of*  
25      *Underinvestments*).

26      **16.5.4    Non-Consent Development Operations**

27      The Hydrocarbon Recoupment amount for all Development Operations  
28      conducted as Non-Consent Operations is the Non-Participating Interest  
29      Share of the Costs of the Development Operation multiplied by four  
30      hundred percent (400%).

31      **16.5.5    Non-Consent Subsequent Development System and Additional**  
32      **Facilities**

33      The Hydrocarbon Recoupment amount for a non-consent Execution  
34      AFE for a subsequent Development System or additional Facilities not



1 included in an Execution AFE is the Non-Participating Interest Share of  
2 the Cost incurred with respect to that Execution AFE or those  
3 additional Facilities not included in an Execution AFE multiplied by  
4 three hundred percent (300%).

5 **16.5.6 Additional Hydrocarbon Recoupment**

6 In addition to the percentage Hydrocarbon Recoupment for the various  
7 Non-Consent Operations set forth above, the Participating Parties are  
8 entitled to recoup:

- 9 (a) one hundred percent (100%) of the Non-Participating Interest  
10 Share of the Cost of using an existing Development System that  
11 is needed to serve a Production System or Facilities installed as a  
12 Non-Consent Operation, in which the Non-Participating Party has  
13 a Participating Interest; plus
- 14 (b) one hundred percent (100%) of the Non-Participating Interest  
15 Share of the Cost of operating expenses, maintenance Costs,  
16 royalties, and severance, gathering, and production taxes and  
17 other governmental fees based on production.

18 **16.5.7 Hydrocarbon Recoupment From Production**

19 Hydrocarbon Recoupment for a Non-Consent Operation shall be made  
20 from the Hydrocarbon production as follows:

21 **16.5.7.1 Non-Consent Exploratory Operations, Non-Consent**  
22 **Appraisal Operations, and Non-Consent Development**  
23 **Operations That Discover or Extend a Producing**  
24 **Reservoir**

25 For

- 26 (a) an Exploratory Operation,  
27 (b) an Appraisal Operation, or  
28 (c) a Development Operation,

29 that is conducted as a Non-Consent Operation and discovers  
30 a new Producing Reservoir or extends an existing Producing

1 Reservoir (as the Producing Reservoirs existed at the time  
2 the Development Operation was proposed), each Non-  
3 Participating Party shall satisfy Hydrocarbon Recoupment  
4 from

5 (i) one hundred percent (100%) of its Non-Participating  
6 Interest Share of all Hydrocarbons produced and saved  
7 from the Non-Consent Operation, if the Non-Consent  
8 Operation results in Hydrocarbon production, and

9 (ii) fifty percent (50%) of its Participating Interest Share of  
10 all Hydrocarbons produced and saved from operations  
11 conducted after the Non-Consent Operation that result  
12 in Hydrocarbon production from the same Producing  
13 Reservoir discovered or extended by the Non-Consent  
14 Operation.

15 **16.5.7.2 Non-Consent Development Operations in an Existing**  
16 **Producing Reservoir**

17 If a Development Operation is conducted as a Non-Consent  
18 Operation and does not discover a new Producing Reservoir  
19 and also does not extend an existing Producing Reservoir (as  
20 the Producing Reservoirs existed at the time the  
21 Development Operation was proposed), each Non-  
22 Participating Party shall satisfy Hydrocarbon Recoupment  
23 from one hundred percent (100%) of its Non-Participating  
24 Interest Share of Hydrocarbons produced and saved from the  
25 Non-Consent Operation, if the Non-Consent Operation results  
26 in Hydrocarbon production.

27 **16.5.7.3 Non-Consent Subsequent Development Systems**

28 If the construction and installation of a subsequent  
29 Development System is conducted as a Non-Consent  
30 Operation, each Non-Participating Party shall satisfy  
31 Hydrocarbon Recoupment from:

32 (a) one hundred percent (100%) of its Non-Participating  
33 Interest Share or its Participating Interest Share

(whichever applies) of Hydrocarbons produced and saved from all Development Operations that are conducted from that subsequent Development System, and

- (b) one hundred percent (100%) of its Non-Participating Interest Share or its Participating Interest Share (whichever applies) of Hydrocarbons produced and saved from all wells that benefit from injection or disposal wells drilled and/or operated from that subsequent Development System.

#### **16.6 Restoration of Interests to Non-Participating Party**

Except as provided in Articles 16.2 (*Acreage Forfeiture Provisions*) and 16.4 (*Non-Consent Operations to Maintain Contract Area*), a Non-Participating Party's Working Interest and leasehold operating rights revert to the Non-Participating Party, effective at 7:00 a.m. of the day after the occurrence of the first of the following events:

- (a) the well bore of the Non-Consent Operation is not a Producing Well on the date the permanent plugging and abandonment of the well concludes;
- (b) Hydrocarbon production recouped under Article 16.5.7 (*Hydrocarbon Recoupment From Production*) as result of a Non-Consent Operation ceases prior to Complete Recoupment;
- (c) the Participating Parties Sidetrack or Deepen an Exploratory Well, Appraisal Well, or Development Well and that well does not qualify as a Producing Well; or
- (d) upon Complete Recoupment.

However, only upon Complete Recoupment does a former Non-Participating Party become a Participating Party in the Non-Consent Operation.

##### **16.6.1 Dry Hole Reversion**

If a Non-Consent Operation, other than a Non-Consent Operation under Articles 16.2 (*Acreage Forfeiture Provisions*) and 16.4 (*Non-Consent Operations to Maintain Contract Area*), results in an event provided in

Article 16.6 (a) or (b) and a Non-Participating Party's Working Interest and leasehold operating rights revert back to the Non-Participating Party, all well equipment in place as a result of that Non-Consent Operation and all Development Systems fabricated and installed as a result of that Non-Consent Operation and rights to future Hydrocarbon production from a Producing Reservoir discovered or extended by that Non-Consent Operation as described in Article 16.5.7 (*Hydrocarbon Recoupment From Production*) remain vested in the Participating Parties. Any salvage value in excess of Complete Recoupment will be credited to all Parties according to their Working Interest and without regard to their participation status.

#### **16.6.2 Sidetracking or Deepening a Non-Consent Well**

If a Non-Participating Party participates in a Sidetracking or Deepening as provided in Article 10.2.5 (*Participation in Sidetrack or Deepening by a Non-Participating Party in an Exploratory Well at Initial Objective Depth*), Article 11.2.5 (*Participation in Sidetrack or Deepening by a Non-Participating Party in an Appraisal Well at Initial Objective Depth*), or Article 13.2.5 (*Participation in Sidetrack or Deepening by a Non-Participating Party in a Development Well at Initial Objective Depth*), and if the Participating Parties have recouped the Cost of the original well down to its Objective Depth at the time the Sidetrack or Deepening is approved by Election, then the Non-Participating Party shall not be an Underinvested Party in the Sidetracking or Deepening of that well, and the Participating Parties in the original well shall achieve Complete Recoupment under Article 16.5.7.1 (*Non-Consent Exploratory Operations, Non-Consent Appraisal Operations, and Non-Consent Development Operations That Discover or Extend a Producing Reservoir*) or Article 16.5.7.2 (*Non-Consent Development Operations in an Existing Producing Reservoir*), whichever applies.

#### **16.7 Operations From a Subsequent Non-Consent Development System**

A Party who Elected not to participate in a subsequent Development System may participate in Development Operations from that subsequent Development System. If that Non-Participating Party participates in such a Development Operation, then the Non-Participating Party shall make to the Operator a lump sum payment of any remaining Hydrocarbon Recoupment and Underinvestment

1 under Article 16 (*Non-Consent Operations*) for which it is still liable. The  
2 Operator shall then distribute to the Participating Parties in the subsequent  
3 Development System their Participating Interest Share of the payment. Upon  
4 that payment, the Non-Participating Party will become an owner and a  
5 Participating Party in the subsequent Development System.

## 6 **16.8 Allocation of Development System Costs to Non-Consent Operations**

7 In the event a well is drilled from or produced through a Production System or is  
8 produced through Facilities whose Participating Parties are different from the  
9 Participating Parties in that well or if the Participating Parties' Participating  
10 Interest Shares in that Production System or Facilities are different from their  
11 Participating Interest Shares in that well, the rights of the Participating Parties in  
12 that well and the Costs to use the Production System or Facilities for that well  
13 shall be determined as follows:

### 14 **16.8.1 Investment Charges**

15 (a) The Participating Parties in that well shall pay to the Operator a  
16 one-time slot usage fee for the use of a slot on the Production  
17 System equal to two percent (2%) of the Cost of the Production  
18 System; provided, however, each Non-Participating Party's share  
19 of the slot usage fee shall be included in the calculation of any  
20 Hydrocarbon recoupment to which it is subject as a result of the  
21 Non-Consent Operation's utilizing that slot. Within fifteen (15)  
22 days of its receipt of that fee, the Operator shall distribute to the  
23 Participating Parties in the Production System their Participating  
24 Interest Share of that payment. For purposes of calculating the  
25 slot usage fee, the total Cost of the Production System shall be  
26 reduced by (0.41667%) per month, commencing on the date the  
27 Production System was installed and continuing every month  
28 thereafter until the month actual drilling operations on that well is  
29 commenced; however, the total Cost of the Production System  
30 shall not be reduced by more than twenty-five percent (25%) of  
31 the total Production System's costs. The Cost of additions to the  
32 Production System shall be reduced in the same manner  
33 commencing the first month after the addition is installed.

1 If that well is abandoned, having never produced Hydrocarbons,  
2 the right of the Participating Parties in that well to use the  
3 Production System slot through which the well was drilled shall  
4 terminate unless those Parties commence drilling a substitute  
5 well for the abandoned well through the same slot within ninety  
6 (90) days of the abandonment. If that substitute well is  
7 abandoned, having never produced Hydrocarbons, the right of the  
8 Participating Parties in that well to use the Production System slot  
9 through which the well was drilled shall terminate.

10 The slot usage fee shall not apply to a slot deemed to be  
11 "surplus." A slot may be deemed surplus only by the unanimous  
12 agreement of the owners of the Production System.

- 13 (b) The Participating Parties in that well shall pay to the owners of  
14 the Facilities a sum equal to that portion of the total Cost of those  
15 Facilities that the throughput volume of the Non-Consent  
16 Operation bears to the total design throughput volume of the  
17 Facilities. Throughput volume shall be estimated by the Operator  
18 in barrels produced per day (5.8 mcf of gas determined at a  
19 pressure of 14.73 pounds per square inch atmospheric and a  
20 temperature of sixty (60) degrees Fahrenheit equaling one barrel  
21 of oil and one barrel of water equaling one barrel of oil), using an  
22 average daily volume of the first three months of Hydrocarbon  
23 and water production from the Non-Consent Operation. For  
24 purposes of calculating the Facilities usage fee, the total Cost of  
25 the Facilities shall be reduced by (0.41667%) per month,  
26 commencing from the date when the Facilities were installed and  
27 continuing every month thereafter until the first month during  
28 which production from the Non-Consent Operation commences,  
29 but the total Cost of the Facilities shall not be reduced more than  
30 twenty-five percent (25%) of the total Facilities' Cost. If a  
31 modification, expansion, or addition to the Facilities is made after  
32 commencing first production and before connection of the Non-  
33 Consent Operation to the Facilities, the Facilities investment shall  
34 be reduced in the same manner described above, from the month  
35 in which the Facilities modification, expansion, or addition is

1 completed until the first month during which production from the  
2 Non-Consent Operation is commenced.

3 **16.8.2 Payments**

4 Payment of a usage fee shall not be deemed to be a purchase by the  
5 Participating Parties of an additional interest in the Production System  
6 or Facilities. Payments under Article 16.8.1 (*Investment Charges*) shall  
7 be due and payable on commencement of initial production from the  
8 Non-Consent Operation.

9 **16.8.3 Operating and Maintenance Charges**

10 The Participating Parties in a well drilled as a Non-Consent Operation  
11 shall pay all Costs necessary to connect the well to the Production  
12 System. The Costs of operating and maintaining the Facilities and the  
13 Production System shall be allocated equally among all active  
14 completions served. Subsea Production System operating and  
15 maintenance Costs shall be allocated equally among all subsea well  
16 completions served by the Subsea Production system. Operating and  
17 maintenance Costs for the Facilities shall be allocated to each well  
18 served in the proportion that the volume throughput of the well bears  
19 to the total volume throughput of all wells handled by the Facilities.

20 **16.9 Settlement of Underinvestments**

21 A Non-Participating Party shall become an Underinvested Party and become  
22 liable for settling an Underinvestment if it (a) makes a revised Election or Vote to  
23 become a Participating Party in an AFE, activity, or operation in which it originally  
24 Elected or Voted not to participate, (b) Elects to participate (i) in the Sidetracking  
25 or Deepening of a wellbore in which it did not participate to Objective Depth or  
26 (ii) in a Sidetracking or Deepening thereafter, (c) Elects to participate in a  
27 Development Plan after a Major Modification of that plan has been approved, or  
28 (d) Elects to participate in Development Operations from a subsequent  
29 Development System in which it did not participate. A Non-Participating Party in  
30 a Selection AFE, who elects to participate in the Define AFE, which follows it,  
31 shall automatically be deemed to have submitted to the Operator a written  
32 statement memorializing its subsequent Election to (a) participate in that  
33 Selection AFE, in which it originally Elected not to participate, and (b) become an  
34 Underinvested Party in regard to that AFE. A Non-Participating Party in a Define

1 AFE, who elects to participate in the Execution AFE, which follows it, shall  
2 automatically be deemed to have submitted to the Operator a written statement  
3 memorializing its subsequent Election to (a) participate in the Define AFE in  
4 which it originally Elected not to participate and (b) become an Underinvested  
5 Party in regard to that AFE. A Non-Participating Party in a Long Lead  
6 Development System AFE, who elects to participate in the activity or operation  
7 for which the long lead item in the Long Lead Development System AFE was  
8 procured, shall automatically be deemed to have submitted to the Operator a  
9 written statement memorializing its subsequent Election to (a) participate in that  
10 Long Lead Development System AFE, in which it originally Elected not to  
11 participate, and (b) become an Underinvested Party in regard to that AFE.  
12 Except as provided in Article 16.9.1 (*Cash Settlement of Underinvestment*), an  
13 Underinvested Party shall settle its Underinvestment through Disproportionate  
14 Spending. The Underinvested Party shall be responsible for and pay one  
15 hundred percent (100%) of the Overinvested Parties' share of the Costs (or if  
16 there are two or more Underinvested Parties, a proportion of those Costs based  
17 on each Party's Underinvestment) in subsequent activities or operations or AFEs  
18 under this Agreement in which that Underinvested Party and one or more  
19 Overinvested Parties participate until the amount of the Underinvestment is  
20 eliminated, except under Article 13.3.1 (*Multiple Completion Alternatives Above*  
21 *and Below the Deepest Producing Reservoir*) the Underinvested Party shall be  
22 responsible for and pay one hundred percent (100%) of the Overinvested  
23 Parties' share of the Costs (or if there are two or more Underinvested Parties, a  
24 proportion of those Costs based on each Party's Underinvestment) in  
25 subsequent activities or operations or AFEs within the Contract Area in which  
26 one or more Overinvested Parties participate until the amount of the  
27 Underinvestment is eliminated.

#### 28 **16.9.1 Cash Settlement of Underinvestment**

29 If the Parties do not plan or propose further activities or operations  
30 under this Agreement (for which Costs would be allocated to the  
31 elimination of an Underinvestment), the Underinvested Party shall pay  
32 the Overinvested Parties the remaining Underinvestment amount in  
33 cash under Exhibit "C." If Disproportionate Spending in the Contract  
34 Area does not eliminate an Underinvestment within two (2) years after  
35 the date the Underinvestment is incurred, or upon final accounting and  
36 settlement under this Agreement, or before the Underinvested Party



1 withdraws from the Contract Area under Article 17 (*Withdrawal From*  
2 *Agreement*), whichever comes first, the Underinvested Party shall pay  
3 the Overinvested Parties the remaining Underinvestment in cash under  
4 Article 17 (*Withdrawal From Agreement*) and Exhibit "C."

## 5 **ARTICLE 17 – WITHDRAWAL FROM AGREEMENT**

### 6 **17.1 Right to Withdraw**

7 Subject to this Article 17.1, any Party may withdraw from this Agreement (the  
8 "Withdrawing Party") by giving prior written notice to all other Parties stating its  
9 decision to withdraw ("the withdrawal notice"). The withdrawal notice shall  
10 specify an effective date of withdrawal that is at least sixty (60) days, but not  
11 more than ninety (90) days, after the date of the withdrawal notice. Within thirty  
12 (30) days of receipt of the withdrawal notice, the other Parties may join in the  
13 withdrawal by giving written notice of that fact to the Operator ("written notice  
14 to join in the withdrawal") and upon giving written notice to join in the  
15 withdrawal are "Other Withdrawing Parties." The withdrawal notice and the  
16 written notice to join in the withdrawal are unconditional and irrevocable offers  
17 by the Withdrawing Party and the Other Withdrawing Parties to convey to the  
18 Parties who do not join in the withdrawal ("the Remaining Parties") the  
19 Withdrawing Party's and the Other Withdrawing Parties' entire Working Interest  
20 in all of the Leases, Hydrocarbon production, and other property and equipment  
21 owned under this Agreement.

### 22 **17.2 Response to Withdrawal Notice**

23 Failure to respond to a withdrawal notice is deemed a decision not to join in the  
24 withdrawal.

#### 25 **17.2.1 Unanimous Withdrawal**

26 If all the other Parties join in the withdrawal,

- 27 (a) no assignment of Working Interests shall take place;
- 28 (b) subject to Article 18.4 (*Abandonment Operations Required by*  
29 *Governmental Authority*), no further operations may be conducted  
30 under this Agreement unless agreed to by all Parties;

1 (c) the Parties shall abandon all activities and operations within the  
2 Contract Area and relinquish all of their Working Interests to the  
3 MMS within fifteen (15) days of the conclusion of the thirty (30)  
4 day joining period; and

5 (d) notwithstanding anything to the contrary in Article 18  
6 (*Abandonment and Salvage*), the Operator shall:

7 (i) furnish all Parties a detailed abandonment plan, if  
8 applicable, and a detailed cost estimate for the  
9 abandonment within sixty (60) days after the conclusion of  
10 the thirty (30) day joining period; and

11 (ii) cease operations and begin to permanently plug and  
12 abandon all wells and remove all Production Systems and  
13 Facilities in accordance with the abandonment plan.

14 **17.2.2 No Additional Withdrawing Parties**

15 If none of the other Parties join in the withdrawal, then the Remaining  
16 Parties must accept an assignment of their Participating Interest Share  
17 of the Withdrawing Party's Working Interest.

18 **17.2.3 Acceptance of the Withdrawing Parties' Interests**

19 If one or more but not all of the other Parties join in the withdrawal and  
20 become Other Withdrawing Parties, then within forty-eight (48) hours  
21 (exclusive of Saturdays, Sundays, and federal holidays) of the  
22 conclusion of the thirty (30) day joining period, each of the Remaining  
23 Parties shall submit to the Operator a written rejection or acceptance  
24 of its Participating Interest Share of the Withdrawing Party's and Other  
25 Withdrawing Parties' Working Interest. Failure to make that written  
26 rejection or acceptance shall be deemed a written acceptance. If the  
27 Remaining Parties are unable to select a successor Operator, if  
28 applicable, or if a Remaining Party submits a written rejection and the  
29 other Remaining Parties do not agree to accept one hundred percent  
30 (100%) of the Withdrawing Party's and Other Withdrawing Parties'  
31 Working Interest within thirty (30) days of the conclusion of the forty-  
32 eight (48) hour period to submit a written rejection or acceptance, the

1 Remaining Parties will be deemed to have joined in the withdrawal,  
2 and Article 17.2.1 (*Unanimous Withdrawal*) will apply.

#### 3 **17.2.4 Effects of Withdrawal**

4 Except as otherwise provided in this Agreement, after giving a  
5 withdrawal notice or a written notice to join in the withdrawal, the  
6 Withdrawing Party and Other Withdrawing Parties are not entitled to  
7 approve or participate in any activity or operation in the Contract Area,  
8 other than those activities or operations for which they retain a financial  
9 responsibility. The Withdrawing Party and Other Withdrawing Parties  
10 shall take all necessary steps to accomplish their withdrawal by the  
11 effective date referred to in Article 17.1 (*Right to Withdraw*) and shall  
12 execute and deliver to the Remaining Parties all necessary instruments  
13 to assign their Working Interest to the Remaining Parties. A  
14 Withdrawing Party and Other Withdrawing Parties shall bear all  
15 expenses associated with their withdrawal and the transfer of their  
16 Working Interest.

### 17 **17.3 Limitation Upon and Conditions of Withdrawal**

#### 18 **17.3.1 Prior Expenses**

19 The Withdrawing Party and Other Withdrawing Parties remain liable for  
20 their remaining Underinvestments and their Participating Interest Share  
21 of the Costs of activities, operations, rentals, royalties, taxes, damages,  
22 Hydrocarbon imbalances, or other liability or expense accruing or  
23 relating to (i) obligations existing as of the effective date of the  
24 withdrawal, (ii) activities or operations conducted before the effective  
25 date of the withdrawal, (iii) activities or operations approved by the  
26 Withdrawing Party and Other Withdrawing Parties before the effective  
27 date of the withdrawal, or (iv) activities or operations commenced by  
28 the Operator under one of its discretionary powers under this  
29 Agreement before the effective date of the withdrawal. Before the  
30 effective date of the withdrawal, the Operator shall render a statement  
31 to the Withdrawing Party and Other Withdrawing Parties for (1) their  
32 respective shares of all identifiable Costs under this Article 17.3.1 and  
33 (2) their respective Participating Interest Shares of the estimated  
34 current Costs of plugging and abandoning all wells and removing all  
35 Production Systems, Facilities, and other materiel and equipment

1 serving the Contract Area, less their respective Participating Interest  
2 Shares of the estimated salvage value of the assets at the time of  
3 abandonment, as approved by Vote. This statement of expenses,  
4 Costs, and salvage value shall be prepared by the Operator under  
5 Exhibit "C." Before withdrawing, the Withdrawing Party and Other  
6 Withdrawing Parties shall either pay the Operator, for the benefit of the  
7 Remaining Parties, the amounts allocated to them in the statement or  
8 provide security satisfactory to the Remaining Parties for all obligations  
9 and liabilities they have incurred and all obligations and liabilities  
10 attributable to them before the effective date of the withdrawal. All  
11 liens, charges, and other encumbrances, including but not limited to  
12 overriding royalties, net profits interest, and production payments,  
13 which the Withdrawing Party and Other Withdrawing Parties placed (or  
14 caused to be placed) on their Working Interest shall be fully satisfied or  
15 released prior to the effective date of its withdrawal (unless the  
16 Remaining Parties are willing to accept the Working Interest subject to  
17 those liens, charges, and other encumbrances).

#### 18 **17.3.2 Confidentiality**

19 The Withdrawing Party and Other Withdrawing Parties will continue to  
20 be bound by the confidentiality provisions of Article 7 (*Confidentiality of*  
21 *Data*) after the effective date of the withdrawal but will have no further  
22 access to technical information relating to activities or operations under  
23 this Agreement. The Withdrawing Party and Other Withdrawing  
24 Parties are not required to return to the Remaining Parties Confidential  
25 Data acquired prior to the effective date of the withdrawal.

#### 26 **17.3.3 Emergencies and Force Majeure**

27 No Party may withdraw during a Force Majeure or emergency that  
28 poses a threat to life, safety, property, or the environment but may  
29 withdraw from this Agreement after termination of the Force Majeure  
30 or emergency. The Withdrawing Party and Other Withdrawing Parties  
31 remain liable for their share of all Costs and liabilities arising from the  
32 Force Majeure or emergency, including but not limited to the drilling of  
33 relief wells, containment and cleanup of oil spills and pollution, and all  
34 Costs of debris removal made necessary by the Force Majeure or  
35 emergency.

## **ARTICLE 18 – ABANDONMENT AND SALVAGE**

### **18.1 Abandonment of Wells**

Any Participating Party may propose the permanent plugging and abandonment of a well that has produced Hydrocarbons (other than as a result of Production Testing) by notifying the other Participating Parties. Any Participating Party that fails to respond within the applicable response period shall be deemed to have approved the permanent plugging and abandonment of the well. If the permanent plugging and abandonment proposal is unanimously agreed to by the Participating Parties in that well, the well shall be permanently plugged and abandoned under the applicable regulations at the Cost and risk of the Participating Parties. If the Participating Parties do not unanimously agree to permanently plug and abandon the well, the Operator shall prepare an estimate of the Costs of the permanent plugging and abandonment of the well less the estimated salvage value of the well, as determined under Exhibit "C," and the Participating Party desiring to permanently plug and abandon the well shall pay the Operator, for the benefit of the non-abandoning Participating Parties, its share of that estimate within thirty (30) days of its receipt of the estimate. If an abandoning Participating Party's respective share of the estimated salvage value is greater than its share of the estimated Costs of the permanent plugging and abandonment, the Operator, on behalf of the non-abandoning Participating Parties, shall pay to the abandoning Participating Party a sum equal to the deficiency within thirty (30) days of the abandoning Participating Party's receipt of the estimate. Each Participating Party desiring to abandon a well shall assign to each non-abandoning Participating Party in that well a portion of its Working Interest in that well and the equipment therein and the Hydrocarbon production therefrom equal to the non-abandoning Party's Participating Interests in that well divided by the entire Participating Interests of the non-abandoning Parties in that well. That assignment shall be effective as of the date of the abandoning Party's response to the well abandonment proposal. The abandoning Party shall assume and be liable for all obligations pertaining to that well, except liability for payments under this Article 18.1, prior to the effective date of its assignment to the non-abandoning Parties. The abandoning Party shall not assume and be liable for any obligations pertaining to that well, except liability for payments under this Article 18.1, as of the effective date of its assignment to the non-abandoning Parties.

## 18.2 Abandonment of Equipment

Any Participating Party in a Production System or Facilities or an enhanced recovery and/or pressure maintenance program described in Article 12.11 (*Enhanced Recovery and/or Pressure Maintenance Program Proposals*) (the "Equipment") may propose the abandonment and disposition of that Equipment. If that proposal is unanimously agreed to by the Participating Parties, the Operator shall abandon and dispose of that Equipment at the Cost and risk of the Participating Parties. If a Participating Party fails to respond within the applicable response period, that Participating Party shall be deemed to have approved the abandonment and disposal of the Equipment. If all Participating Parties do not approve abandoning and disposing of the Equipment, the Operator shall prepare an estimate of the Costs of abandonment, removal, site clearance, and disposition of the Equipment, less the estimated salvage value of the Equipment, as determined under Exhibit "C," and the Participating Party desiring to abandon and dispose of the Equipment shall pay the Operator, for the benefit of the non-abandoning Participating Parties, its share of that estimate within thirty (30) days of its receipt of the estimate. If an abandoning Participating Party's respective share of the estimated salvage value is greater than its share of the estimated costs, the Operator, on behalf of the non-abandoning Participating Parties, shall pay to the abandoning Participating Party a sum equal to the surplus within thirty (30) days of the abandoning Participating Party's receipt of the estimate. Each Participating Party desiring to abandon the Equipment shall assign to each non-abandoning Participating Party in the Equipment a portion of its Working Interest in the Equipment equal to the non-abandoning Party's Participating Interests in the Equipment divided by the entire Participating Interests of the non-abandoning Parties in the Equipment. That assignment shall be effective as of the date of the abandoning Party's response to the Equipment abandonment proposal. The abandoning Party shall assume and be liable for all obligations pertaining to the Equipment, except liability for payments under this Article 18.2, prior to the effective date of its assignment to the non-abandoning Parties. The abandoning Party shall not assume and be liable for any obligations pertaining to the Equipment, except liability for payments under this Article 18.2, as of the effective date of its assignment to the non-abandoning Parties.

1 **18.3 Disposal of Surplus Materiel**

2 The Operator may classify materiel acquired under this Agreement as surplus  
3 when the Operator deems it is no longer needed in present or foreseeable  
4 activities or operations. The Operator shall determine the value and Cost of  
5 disposing of the materiel under Exhibit "C." If the materiel is classified as junk  
6 or if the value, less the Cost of disposal, is less than or equal to five hundred  
7 thousand dollars (\$500,000.00), the Operator may dispose of the surplus  
8 materiel in a manner it deems appropriate. If the value, less the Cost of disposal  
9 of the surplus materiel, is greater than five hundred thousand dollars  
10 (\$500,000.00), the Operator shall give written notice thereof to the Parties  
11 owning the materiel, and the surplus materiel shall be disposed of in accordance  
12 with the method of disposal approved by the Parties owning the materiel.  
13 Proceeds from the sale or transfer of surplus materiel shall be promptly credited  
14 to each Party in proportion to its ownership of the materiel at the time of the  
15 retirement or disposition of the materiel.

16 **18.4 Abandonment Operations Required by Governmental Authority**

17 The Operator shall conduct the abandonment and removal of any Equipment [as  
18 defined in Article 18.2 (*Abandonment of Equipment*)] required by a governmental  
19 authority, and the Costs, risks, and net proceeds of that abandonment and  
20 removal will be shared by the Participating Parties in that Equipment [as defined  
21 in Article 18.2 (*Abandonment of Equipment*)] according to their Participating  
22 Interest Share.

23 **ARTICLE 19 – RENTALS, ROYALTIES, AND MINIMUM**  
24 **ROYALTIES**

25 **19.1 Burdens on Hydrocarbon Production**

26 If a Party has previously created or hereafter creates an overriding royalty,  
27 production payment, carried or reversionary working interest, net profits interest,  
28 mortgage, lien, security interest, or other type of burden on Hydrocarbon  
29 production, including, but not limited to, agreements affecting the marketing,  
30 processing, or transportation of Hydrocarbon Production, other than the lessor's  
31 royalty stipulated in a Lease (a "Lease Burden"), the Party creating the Lease  
32 Burden shall assume and bear all liabilities and obligations of the Lease Burden  
33 regardless of that Party's participation status and notwithstanding an assignment

1 under this Agreement of all or part of that Party's Working Interest to another  
2 party. The Party creating the Lease Burden shall indemnify, release, defend, and  
3 hold all other Parties harmless from all claims and demands for payment  
4 asserted by the owners of the Lease Burden.

5 **19.1.1 Subsequently Created Lease Burdens**

6 Notwithstanding any contrary provision of this Agreement, if a Party,  
7 after executing this Agreement, creates a Lease Burden, that Lease  
8 Burden shall be made specifically subject to this Agreement. If the  
9 Party owning the Working Interest from which a Lease Burden is  
10 created (a) fails to pay when due its share of Costs, (b) withdraws from  
11 this Agreement, or (c) Elects to abandon a well under Article 18.1  
12 (*Abandonment of Wells*), then the beneficiary of the Lease Burden will  
13 be chargeable with Costs equal to its fractional interest in gross  
14 production and the security rights created in Exhibit "F" will be  
15 applicable against that Lease Burden. The Operator has the right to  
16 enforce the security rights (and all other rights granted under this  
17 Agreement) against the beneficiary of a Lease Burden for the purpose  
18 of collecting Costs chargeable to the Lease Burden. The rights of the  
19 beneficiary of a Lease Burden are subordinate to the rights of the  
20 Parties granted by Exhibit "F."

21 **19.2 Payment of Rentals and Royalties**

22 The Operator shall make all rental payments for the Leases on behalf of the  
23 Parties. The Operator shall use reasonable care to make proper and timely  
24 payment of the rental payments, all minimum royalties, and all other similar  
25 payments accruing under the Leases. Upon receipt of proper evidence of those  
26 payments and the Operator's invoice for its proportionate share of those  
27 payments, each Non-Operating Party shall reimburse the Operator for the  
28 Non-Operating Party's Working Interest share of those payments. In the event  
29 the Operator fails to make proper payment of a rental, minimum royalty, or other  
30 similar payment accruing under a Lease through mistake or oversight where that  
31 payment is required to continue that Lease in force and effect, the Operator will  
32 not be liable to the other Parties for any resulting damages or any loss that  
33 results from the non-payment, unless that non-payment is due to the gross  
34 negligence or willful misconduct of the Operator. The loss of a Lease or interest  
35 therein that results from the Operator's failure to pay, or the Operator's



1 erroneous payment of, a rental, minimum royalty, or other similar payments is a  
2 joint loss, and there will be no readjustment of Working Interests as a  
3 consequence thereof. For production delivered in-kind by the Operator to a Non-  
4 Operating Party or to a third party for the account of a Non-Operating Party, the  
5 Non-Operating Party shall provide the Operator with information about the  
6 proceeds or value of the production in order for the Operator to make payments  
7 of all minimum royalties due.

8 **19.2.1 Non-Participation in Payments**

9 If a Party notifies the other Parties, in writing at least sixty (60) days  
10 before the date the payment is due of its intention not to pay its share  
11 of a rental, minimum royalty, or other similar payment, that Party shall  
12 be deemed to have given a withdrawal notice under Article 17  
13 (*Withdrawal From Agreement*), and must withdraw from the entire  
14 Contract Area, not just the Lease on which the payment is due. Upon  
15 this occurrence, the Operator shall make the payment solely for the  
16 benefit of the Remaining Parties, as defined in Article 17 (*Withdrawal*  
17 *From Agreement*), and the Remaining Parties shall reimburse the  
18 Operator for their respective shares of the payment, based on the  
19 procedures in Article 17.2 (*Response to Withdrawal Notice*).

20 **19.2.2 Royalty Payments**

21 Each Party shall pay or cause to be paid all royalty and other amounts  
22 payable, which are based on its share of Hydrocarbon production.  
23 Adjustments to those payments shall be made among the Parties in  
24 accordance with Exhibit "D" (Gas Balancing Agreement). When the  
25 Participating Parties are recouping their Costs from a Non-Consent  
26 Operation and an applicable premium under Article 16.5 (*Percentage*  
27 *Hydrocarbon Recoupment for Non-Consent Operations*), each of the  
28 Participating Parties shall pay or cause to be paid the Lease royalty on  
29 the portion of the Hydrocarbon Recoupment to which it is entitled.

## **ARTICLE 20 – TAXES**

### **20.1 Internal Revenue Provision**

Notwithstanding any provision in this Agreement to the effect that the rights and liabilities of the Parties are several, not joint or collective, and that the Agreement and the activities and operations under this Agreement do not constitute a partnership under state law, each Party elects to be excluded from the application of all or any part of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, as amended, or similar provisions of applicable state laws, regardless of whether for federal income tax purposes this Agreement and the activities and operations under this Agreement are regarded as a partnership.

### **20.2 Other Taxes and Assessments**

The Operator shall file all tax returns and reports required by law and pay all applicable taxes [other than income or other taxes provided in Article 20.2.2 (*Production and Severance Taxes*)] and assessments levied with respect to activities and operations conducted under this Agreement. The Parties shall promptly furnish the Operator with copies of all notices, assessments, and statements received pertaining to taxes to be paid by the Operator. The Operator will charge each Party its Working Interest share of all taxes and assessments paid [other than income or other taxes provided in Article 20.2.2 (*Production and Severance Taxes*)] and, upon written request from a Non-Operating Party, provide copies of all tax returns, reports, tax statements, and receipts for the taxes. The Operator shall not allow any taxes to become delinquent unless unanimously agreed to by the Parties.

#### **20.2.1 Property Taxes**

The Operator shall render for ad valorem property tax purposes all personal property and/or real property covered by this Agreement as may be subject to that taxation and shall pay those property taxes for the benefit of each Party. The Operator shall timely and diligently protest a valuation of the Leases for tax purposes it deems unreasonable. Pending final determination of the valuation of the Leases for tax purposes, unless unanimously agreed to by the Parties to the contrary under Article 20.2 (*Other Taxes and Assessments*), the Operator shall, on or before the due date, pay under protest taxes on

1 the Leases at the assessed value of the Leases. If upon final  
2 determination, additional taxes are due or if interest or a penalty has  
3 accrued as a result of the protest, the Operator shall pay the taxes,  
4 interest, and penalty and shall charge each Party its Working Interest  
5 share of the taxes, interest, and penalty under Exhibit "C."

6 **20.2.2 Production and Severance Taxes**

7 Each Party shall pay, or cause to be paid, all production, excise,  
8 severance, and other similar taxes due on its share of Hydrocarbon  
9 production. Each Party shall, upon a written request from the  
10 Operator, provide evidence that those taxes have been paid.

11 **ARTICLE 21 – INSURANCE AND BONDS**

12 **21.1 Insurance**

13 The Operator shall provide and maintain the insurance coverage specified in  
14 Exhibit "B" and charge those Costs to the Joint Account. No other insurance  
15 shall be carried for the benefit of the Parties under this Agreement unless  
16 otherwise agreed by the Parties.

17 **21.2 Bonds**

18 The Costs of those bonds or financial guarantees acquired exclusively for the  
19 conduct of activities and operations under this Agreement shall be charged to  
20 the Joint Account, including an amount equivalent to the reasonable cost of that  
21 bond or financial guarantee if the Operator provides that bond or guarantee itself  
22 and does not engage a third party to do so. The Operator shall require all  
23 contractors to obtain and maintain all bonds required by an applicable law,  
24 regulation, or rule.

25 **ARTICLE 22 – LIABILITY, CLAIMS, AND LAWSUITS**

26 **22.1 Individual Obligations**

27 The obligations, duties, and liabilities of the Parties under this Agreement are  
28 several and not joint or collective, and, except as otherwise provided in Article  
29 20 (*Taxes*), nothing in this Agreement shall be construed to create a partnership,  
30 joint venture, association, or other form of business entity recognizable in law for

any purpose. In their relations with each other under this Agreement, the Parties are not fiduciaries, but rather are free to act at arm's length in accordance with their own respective interests.

#### **22.2 Notice of Claim or Lawsuit**

If, on account of a matter involving activities or operations under this Agreement, or affecting the Leases or the Contract Area, a claim is made against a Party, or if a party outside of this Agreement files a lawsuit against a Party, or if a Party files a lawsuit, or if a Party receives notice of a material administrative or judicial hearing or other proceeding, that Party shall give written notice of the claim, lawsuit, hearing, or proceeding ("Claim") to the other Parties as soon as reasonably practicable.

#### **22.3 Settlements**

The Operator may settle a Claim, or multiple Claims, arising out of the same incident, involving activities or operations under this Agreement or affecting the Leases or the Contract Area, if the aggregate expenditure does not exceed five hundred thousand dollars (\$500,000.00) and if the payment is in complete settlement of these Claims. If the amount required for settlement exceeds this amount, the Parties shall determine the further handling of the Claims under Article 22.4 (*Defense of Claims and Lawsuits*).

#### **22.4 Defense of Claims and Lawsuits**

The Operator shall supervise the handling, conduct, and prosecution of all Claims involving activities or operations under this Agreement or affecting the Leases or the Contract Area. Claims may be settled in excess of the amount specified in Article 22.3 (*Settlements*) if the settlement is approved by Vote of the Participating Parties in the activity or operation out of which the Claim arose, but a Party may independently settle a Claim or the portion of a Claim which is attributable to its Participating Interest Share alone as long as that settlement does not directly and adversely affect the interest or rights of the other Participating Parties. No charge shall be made for services performed by the staff attorneys of a Party, but all other expenses incurred by the Operator in the prosecution or defense of Claims for the Parties, together with the amount paid to discharge a final judgment, are Costs and shall be paid by the Parties in proportion to their Participating Interest Share in the activity or operation out of which the Claim arose. The employment of outside counsel, but not the

1 selection of that counsel, requires approval by Vote of the Participating Parties in  
2 the activity or operation out of which the Claim arose. If the use of outside  
3 counsel is approved, the fees and expenses incurred as a result thereof shall be  
4 charged to the Parties in proportion to their Participating Interest Share in the  
5 activity or operation out of which that Claim arose. Each Party has the right to  
6 hire its own outside counsel at its sole cost with respect to its own defense.

#### 7 **22.5 Liability for Damages**

8 Unless specifically provided otherwise in this Agreement, liability for losses,  
9 damages, Costs, expenses, or Claims involving activities or operations under this  
10 Agreement or affecting the Leases or the Contract Area which are not covered  
11 by or in excess of the insurance carried for the Joint Account shall be borne by  
12 each Party in proportion to its Participating Interest Share in the activity or  
13 operation out of which that liability arises, except that when liability results from  
14 the gross negligence or willful misconduct of a Party, that Party shall be solely  
15 responsible for liability resulting from its gross negligence or willful misconduct.  
16 **UNDER NO CIRCUMSTANCES WILL A PARTY BE LIABLE TO ANOTHER**  
17 **PARTY FOR PUNITIVE DAMAGES, CONSEQUENTIAL, INDIRECT,**  
18 **UNFORSEEN, LOSS OF PROFIT, OR OTHER INDIRECT OR PENALTY**  
19 **DAMAGES EITHER IN LAW OR EQUITY.**

#### 20 **22.6 Indemnification for Non-Consent Operations**

21 **TO THE EXTENT ALLOWED BY LAW, THE PARTICIPATING PARTIES WILL**  
22 **HOLD THE NON-PARTICIPATING PARTIES (AND THEIR AFFILIATES,**  
23 **AGENTS, INSURERS, DIRECTORS, OFFICERS, AND EMPLOYEES)**  
24 **HARMLESS AND RELEASE, DEFEND, AND INDEMNIFY THEM AGAINST**  
25 **ALL CLAIMS, DEMANDS, LIABILITIES, REGULATORY DECREES, AND LIENS**  
26 **FOR ENVIRONMENTAL POLLUTION AND PROPERTY DAMAGE OR**  
27 **PERSONAL INJURY, INCLUDING SICKNESS AND DEATH, CAUSED BY OR**  
28 **OTHERWISE ARISING OUT OF NON-CONSENT OPERATIONS, AND ANY**  
29 **LOSS AND COST SUFFERED BY A NON-PARTICIPATING PARTY AS AN**  
30 **INCIDENT THEREOF, EXCEPT WHERE THAT LOSS OR COST RESULTS**  
31 **FROM THE SOLE, CONCURRENT, OR JOINT NEGLIGENCE, FAULT, OR**  
32 **STRICT LIABILITY OF THAT NON-PARTICIPATING PARTY, IN WHICH CASE**  
33 **EACH PARTY SHALL PAY OR CONTRIBUTE TO THE SETTLEMENT OR**  
34 **SATISFACTION OF JUDGMENT IN THE PROPORTION THAT ITS**  
35 **NEGLIGENCE, FAULT, OR STRICT LIABILITY CAUSED OR CONTRIBUTED**

1 TO THE INCIDENT. IF AN INDEMNITY IN THIS AGREEMENT IS  
2 DETERMINED TO VIOLATE LAW OR PUBLIC POLICY, THAT INDEMNITY  
3 SHALL THEN BE ENFORCEABLE ONLY TO THE MAXIMUM EXTENT  
4 ALLOWED BY LAW.

5 **22.7 Damage to Reservoir and Loss of Reserves**

6 NOTWITHSTANDING ANY CONTRARY PROVISION OF THIS AGREEMENT,  
7 NO PARTY IS LIABLE TO ANY OTHER PARTY FOR DAMAGE TO A  
8 RESERVOIR OR LOSS OF HYDROCARBONS, EXCEPT IF THAT DAMAGE OR  
9 LOSS ARISES FROM A PARTY'S GROSS NEGLIGENCE OR WILLFUL  
10 MISCONDUCT, NOR DOES A PARTY INDEMNIFY ANY OTHER PARTY FOR  
11 THAT DAMAGE OR LOSS.

12 **22.8 Non-Essential Personnel**

13 UNLESS OTHERWISE MUTUALLY AGREED BY THE PARTIES IN WRITING,  
14 IN THE EVENT A PARTY REQUESTS TRANSPORTATION OR ACCESS TO  
15 ANY DRILLING RIG, PRODUCTION SYSTEM, VESSEL, OR OTHER FACILITY  
16 USED FOR ACTIVITIES OR OPERATIONS UNDER THIS AGREEMENT FOR  
17 ANY PERSON WHO IS NOT EMPLOYED BY, CONTRACTED BY, OR  
18 REPRESENTING SUCH PARTY IN CONNECTION WITH AN ACTIVITY OR  
19 OPERATION CONDUCTED PURSUANT TO THIS AGREEMENT, OTHER  
20 THAN GOVERNMENTAL OFFICIALS OR REPRESENTATIVES OF  
21 GOVERNMENTAL OR REGULATORY AGENCIES ("NON-ESSENTIAL  
22 PERSONNEL"), THE PARTY REQUESTING SUCH TRANSPORTATION OR  
23 ACCESS AGREES TO PROTECT, INDEMNIFY, RELEASE, DEFEND, AND  
24 HOLD HARMLESS THE OTHER PARTIES AND THEIR RESPECTIVE  
25 OFFICERS, DIRECTORS, MANAGERS, EMPLOYEES, AGENTS,  
26 CONTRACTORS, SUBCONTRACTORS, INVITEES, INSURERS, AND  
27 REPRESENTATIVES FROM AND AGAINST ALL CLAIMS, DEMANDS,  
28 CAUSES OF ACTION, JUDGMENTS, LIABILITIES, CONTRACTUAL  
29 LIABILITIES, AND OTHER COSTS (INCLUDING, WITHOUT LIMITATION,  
30 COURT COSTS, INTEREST, PENALTIES, LITIGATION EXPENSES, AND  
31 REASONABLE ATTORNEYS' FEES) FOR DAMAGE TO, DESTRUCTION OR  
32 LOSS OF PROPERTY, AND FOR PERSONAL INJURY OR DEATH OF  
33 PERSONS, AND FOR DAMAGE OR HARM TO THE ENVIRONMENT  
34 (INCLUDING WITHOUT LIMITATION, SPILL RESPONSE, ENVIRONMENTAL  
35 POLLUTION AND CONTAMINATION AND CLEAN-UP COSTS) ARISING

1 OUT OF OR RELATED IN ANY WAY TO THE NEGLIGENCE, FAULT, OR  
2 LIABILITY WITHOUT FAULT OF THE NON-ESSENTIAL PERSONNEL  
3 BROUGHT BY OR ON BEHALF OF ANY PARTY WHOMSOEVER  
4 (INCLUDING, WITHOUT LIMITATION, ALL THIRD PARTIES AND  
5 GOVERNMENTAL AGENCIES), WITHOUT REGARD TO THE CAUSES  
6 THEREOF, INCLUDING PRE-EXISTING CONDITIONS, THE  
7 UNSEAWORTHINESS OF ANY VESSEL, THE STRICT LIABILITY,  
8 NEGLIGENCE, OR OTHER FAULT OF ANY PARTY, REGARDLESS OF  
9 WHETHER THE NEGLIGENCE BE SOLE, JOINT, OR CONCURRENT, ACTIVE  
10 OR PASSIVE, EXCEPT IF CAUSED BY THE GROSS NEGLIGENCE OR  
11 WILLFUL MISCONDUCT OF THE PARTY SO INDEMNIFIED AND  
12 PROTECTED.

13 **22.9 Dispute Resolution Procedure**

14 Any claim, controversy, or dispute arising out of, relating to, or in connection  
15 with this Agreement or an activity or operation conducted under this Agreement  
16 shall be resolved under the Dispute Resolution Procedure in Exhibit "H" to this  
17 Agreement.

18 **ARTICLE 23 – CONTRIBUTIONS**

19 **23.1 Contributions from Third Parties**

20 A "Contribution" means a bottom hole cash contribution, dry hole cash  
21 contribution, or acreage contribution from third parties as consideration for data  
22 from wells or well operations on the Contract Area. This Article 23 does not  
23 apply to the following:

- 24 (a) Trades of Confidential Data for other similar geophysical, geological,  
25 geochemical, drilling, or engineering data from third parties. Those trades  
26 of Confidential Data are subject to Article 7.2.1 (*Trades of Confidential*  
27 *Data*);
- 28 (b) Contributions received as consideration for entering into a contract for the  
29 sale of Hydrocarbon production, as proceeds of loans, or as proceeds of  
30 other financial arrangements:

- 1 (c) A farmout of all or a portion of a Party's Working Interest, which is subject  
2 to Article 24 (*Transfer of Interest and Preferential Right to Purchase*).

### 3 **23.2 Methods of Obtaining Contributions**

4 The Operator shall negotiate all Contributions on behalf of the Participating  
5 Parties in the well or well operation. A Contribution may be obtained in the  
6 following ways:

- 7 (a) Any Participating Party in a well or well operation may propose that the  
8 Participating Parties in that well or well operation seek a Contribution from  
9 a third party towards that well or well operation.
- 10 (b) If a Participating Party in a well or well operation receives a Contribution  
11 offer for that well or well operation from a third party, that Party shall notify  
12 all other Participating Parties in that well or well operation of the terms of  
13 that offer within five (5) days of its receipt of that offer.

### 14 **23.3 Counteroffers**

15 If a third party makes a Contribution counteroffer to the Participating Parties'  
16 Contribution offer, or if a Participating Party proposes to make a Contribution  
17 counteroffer to a third party Contribution offer, the Operator shall submit the  
18 Contribution counteroffer to the other Participating Parties.

### 19 **23.4 Approval of Contributions**

20 A Contribution proposal, a Contribution counteroffer to a third party Contribution  
21 offer, an acceptance of a Contribution offer from a third party, or a Contribution  
22 counteroffer from a third party requires the unanimous agreement of the  
23 Participating Parties in the well or well operation affected by the Contribution.  
24 Within fifteen (15) days of their receipt of a notice of a Contribution proposal,  
25 Contribution offer, or Contribution counteroffer, those Participating Parties shall  
26 respond to the Operator.

### 27 **23.5 Cash Contributions**

28 If a bottom hole or dry hole cash Contribution is offered and accepted, that cash  
29 Contribution shall be paid to the Operator, and the Operator shall credit the  
30 amount of the cash Contribution against the Costs of that well or well operation  
31 to each Participating Party in proportion to its Participating Interest Share.



1       **23.6   Acreage Contributions**

2       Any acreage Contribution, which is offered and accepted under this Article 23  
3       (*Contributions*), shall be conveyed to the Participating Parties in the well or well  
4       operation in proportion to their Participating Interest Share therein. The leases  
5       or portions of leases included in the acreage Contribution shall not be added to  
6       Exhibit "A" or included in the Contract Area.

7       **23.6.1   Two or More Parties Own One Hundred Percent of the Acreage**  
8       **Contribution**

9       If two or more Parties participate in the acreage Contribution and the  
10      conveyances to effectuate it, and if, after the conveyances are  
11      approved by the MMS, those Parties own one hundred percent (100%)  
12      of the ownership interest in the contributed acreage, then (a) the  
13      contributed acreage shall be deemed to be governed by an operating  
14      agreement incorporating identical provisions as the provisions in this  
15      Agreement, except to the extent they are clearly inappropriate, (b) the  
16      execution of the operating agreement by the Parties participating in the  
17      acreage Contribution shall be considered a mere formality only, (c) the  
18      designated operator shall promptly prepare the operating agreement,  
19      and (d) the Parties participating in the acreage Contribution shall  
20      promptly execute the operating agreement once it is prepared.

21      **23.6.2   Two or More Parties Own Less Than One Hundred Percent of the**  
22      **Acreage Contribution**

23      If two or more Parties participate in the acreage Contribution and the  
24      conveyances to effectuate it, and if, after the conveyances are  
25      approved by the MMS, those Parties own less than one hundred  
26      percent (100%) of the ownership interest in the contributed acreage,  
27      then those Parties shall use reasonable efforts to negotiate and  
28      execute with the other Working Interest owners in the contributed  
29      acreage an operating agreement covering the contributed acreage,  
30      which is as close in form to this Agreement as possible.

1 **ARTICLE 24 – TRANSFER OF INTEREST AND**  
2 **PREFERENTIAL RIGHT TO PURCHASE**

3 **24.1 Transfer of Interest**

4 Except as provided in 24.1.1 (*Exceptions to Transfer Notice*), a Transfer of  
5 Interest shall be preceded by written notice to the Operator and the other  
6 Parties ("the transfer notice"). Any Transfer of Interest shall be made to a party  
7 financially capable of assuming the corresponding obligations under this  
8 Agreement. No Transfer of Interest shall release a Party from its obligations and  
9 liabilities under this Agreement, which are incurred prior to the effective date of  
10 that Transfer of Interest, or from debts or obligations incurred prior to the  
11 effective date of that Transfer of Interest, except to the extent expressly  
12 assumed by the transferee, and the security rights under Article 6.3 (*Security*  
13 *Rights*) shall continue to burden the Working Interest transferred and to secure  
14 the payment of any retained obligations and liabilities. Once a Transfer of  
15 Interest becomes effective under Article 24.1.2 (*Effective Date of Transfer of*  
16 *Interest*), the transferor shall not be responsible for any obligations, debts, or  
17 liabilities under this Agreement, which are incurred by the Parties on or after the  
18 effective date of that Transfer of Interest.

19 **24.1.1 Exceptions to Transfer Notice**

20 Notwithstanding any contrary provision of this Agreement, the transfer  
21 notice is not required when a Party proposes to mortgage, pledge,  
22 hypothecate, or grant a security interest in all or a portion of its  
23 Working Interest (including Assignments of Hydrocarbon production  
24 executed as further security for the debt secured by that security  
25 device); any Production Systems, Facilities, or equipment; or when any  
26 interest is conveyed in accordance with Articles 16 (*Non-Consent*  
27 *Operations*), 17 (*Withdrawal From Agreement*), and 18 (*Abandonment*  
28 *and Salvage*). However, an encumbrance arising from the financing  
29 transaction shall be expressly made subject and subordinated to this  
30 Agreement.

31 **24.1.2 Effective Date of Transfer of Interest**

32 The effective date of a Transfer of Interest shall be at least sixty (60)  
33 days, but not more than one hundred eighty (180) days, after the date  
34 of the receipt of the transfer notice. A Transfer of Interest, other than

those provided in Article 17.1 (*Right to Withdrawal*) and Article 24.1.1 (*Exceptions to Transfer Notice*), is effective and shall be binding upon the Parties at the latest date of occurrence of all of the following: (i) the transferor or transferee provides all remaining Parties with a photocopy of a fully executed Transfer of Interest and an executed MMS Form 1123, "Designation of Operator," and an "Application for Certification of Oil Spill Responsibility" form and (ii) evidence of receipt of all necessary approvals by the MMS. The Parties shall promptly undertake all reasonable actions necessary to secure those approvals and shall execute and deliver all documents necessary to effectuate that Transfer of Interest. All costs attributable to a Transfer of Interest are the sole obligation of the assigning Party.

#### **24.1.3 Minimum Transfer of Interest**

Except as otherwise provided in this Agreement, a Transfer of Interest shall cover an undivided Working Interest in the entire Contract Area. Prior to the approval of the Execution AFE for the initial Development System, no Transfer of Interest shall be made that is not at least an undivided ten percent (10%) Working Interest, unless the Parties unanimously agree to a different minimum Transfer of Interest. After the Execution AFE Election on the initial Development System, a Transfer of Interest to a third party shall be limited to a minimum Working Interest of ten percent (10%), unless the Parties unanimously agree to a different minimum Transfer of Interest.

#### **24.1.4 Form of Transfer of Interest**

Any Transfer of Interest shall incorporate provisions that the Transfer of Interest is subordinate to and made expressly subject to this Agreement and provide for the assumption by the assignee of the performance of all of the assigning Party's obligations under this Agreement. Any Transfer of Interest not in compliance with this provision is voidable by the non-assigning Parties.

#### **24.1.5 Warranty**

Any Transfer of Interest, vesting, or relinquishment of Working Interest between the Parties under this Agreement shall be made without warranty of title.

1       **24.2   Preferential Right to Purchase**

2           Any Transfer of Interest shall be subject to the following provisions:

3       **24.2.1   Notice of Proposed Transfer of Interest**

4           The transfer notice shall provide full information about the proposed  
5           Transfer of Interest, including, but not limited to, the name and address  
6           of the prospective assignee (who must be ready, willing, and able to  
7           acquire the interest and deliver the stated consideration therefor), the  
8           full consideration for the Transfer of Interest, and all other terms of the  
9           offer.

10          In the case of a package sale of oil and gas interests that includes all or  
11          part of the assigning Party's Working Interest, or if the proposed  
12          Transfer of Interest is structured as a like-kind exchange, the Working  
13          Interest that is subject to the Transfer of Interest shall be separately  
14          valued and the transfer notice shall state the monetary value attributed  
15          to the Working Interest by that prospective assignee. Article 24.2  
16          (*Preferential Right to Purchase*) shall apply only to the Working Interest  
17          that is subject to the Transfer of Interest.

18       **24.2.2   Exercise of Preferential Right to Purchase**

19          Within sixty (60) days from receipt of the transfer notice, each non-  
20          assigning Party may exercise its preferential right to purchase its  
21          Participating Interest Share of the Working Interest offered (on the  
22          same terms and conditions, or on equivalent terms for a non-cash  
23          transaction as stated in the notice) without reservations or conditions  
24          by written notice of that fact to all of the Parties. If a non-assigning  
25          Party does not exercise its preferential right to purchase its  
26          Participating Interest Share of the Working Interest offered and the  
27          non-assigning Parties, who wish to exercise their preferential right to  
28          purchase, do not agree to pay the full consideration for the Transfer of  
29          Interest and accept all of the other terms of the third party offer within  
30          fifteen (15) days of the sixty (60) day period in which the non-assigning  
31          Parties may exercise their preferential right to purchase, the assigning  
32          Party shall be free to complete the proposed conveyance on the terms  
33          disclosed in the notice. If the other non-assigning Parties agree to pay  
34          the full consideration for the Transfer of Interest and accept all of the

1 other terms of the third party offer, the assigning Party shall transfer  
2 the Working Interest to the non-assigning Parties who exercised their  
3 preferential right to purchase under this Article 24 (*Transfer of Interest*  
4 *and Preferential Right to Purchase*). The Transfer of Interest shall be  
5 concluded within a reasonable time, but no later ninety (90) days after  
6 the applicable period in which the non-assigning Parties may exercise  
7 their preferential right to purchase.

8 **24.2.3 Transfer of Interest Not Affected by the Preferential Right to**  
9 **Purchase**

10 Article 24.2 (*Preferential Right to Purchase*) shall not apply when a  
11 Party proposes to:

- 12 (a) mortgage, pledge, hypothecate, or grant a security interest in all  
13 or a portion of its Working Interest (including assignments of  
14 Hydrocarbon production executed as further security for the debt  
15 secured by that security device), or
- 16 (b) grant an overriding royalty, a net profits interest, or a production  
17 payment, or
- 18 (c) dispose of its Working Interest by:
- 19 (i) merger, reorganization, or consolidation;
- 20 (ii) a Transfer of Interest of all or substantially all of a Party's  
21 exploration and production properties in the Gulf of  
22 Mexico;
- 23 (iii) a Transfer of Interest to an Affiliate, provided that there is  
24 included in the Transfer of Interest a provision that if for  
25 any reason the assignee ceases to be an Affiliate of the  
26 Transferring Party within one (1) year after Transfer of  
27 Interest, those rights shall be immediately reassigned to  
28 the original Party before the assignee ceases to be an  
29 Affiliate, and that all rights of the assignee in the Contract  
30 Area shall terminate if the re-assignment does not take  
31 place; or

(iv) a Transfer of Interest pursuant to Articles 16 (*Non-Consent Operations*), 17 (*Withdrawal From Agreement*), and/or 18 (*abandonment and Salvage*).

#### **24.2.4 Completion of Transfer of Interest**

If the proposed Transfer of Interest is not executed and filed of record with the MMS within one-hundred fifty (150) days after receipt of the transfer notice by the non-assigning Parties, or if the terms of the proposed Transfer of Interest conveyance are materially altered, the proposed Transfer of Interest shall be deemed withdrawn, and the Working Interest included in the proposed Transfer of Interest shall again be governed by this Article 24.2 (*Preferential Right to Purchase*).

### **ARTICLE 25 – FORCE MAJEURE**

#### **25.1 Force Majeure**

If a Party is unable, wholly or in part because of a Force Majeure, to carry out its obligations under this Agreement, other than the obligation to make money payments, that Party shall give the other Parties prompt written notice of the Force Majeure with full particulars about it. Effective upon the date notice is given, the obligations of the Party, so far as they are affected by the Force Majeure, shall be suspended during, but no longer than, the continuance of the Force Majeure. Time is of the essence in the performance of this Agreement, and every reasonable effort will be made by the Party to avoid delay or suspension of any work or acts to be performed under this Agreement. The requirement that the Force Majeure be remedied with all reasonable dispatch shall not require a Party to settle strikes or other labor difficulties.

### **ARTICLE 26 – ADMINISTRATIVE PROVISIONS**

#### **26.1 Term**

This Agreement shall remain in effect so long as a Lease remains in effect and thereafter until (a) all wells have been abandoned and plugged or turned over to the Parties owning an interest in the Lease on which the wells are located; (b) all Production Systems, Facilities, and equipment have been disposed by the

Operator in accordance Article 18 (*Abandonment and Salvage*); (c) all Claims as defined in Article 22 (*Liability, Claims, and Lawsuits*) have been settled or otherwise disposed of; and (d) there has been a final accounting and settlement. In accordance with Article 4.5 (*Selection of Successor Operator*), this Agreement will also terminate if no Party is willing to become Operator, effective after all conditions in clauses (a) through (d) above have been completed. Termination of this Agreement shall not relieve a Party of a liability or obligation accrued or incurred before termination and is without prejudice to all continuing confidentiality obligations or other obligations in this Agreement.

## **26.2 Waiver**

A term, provision, covenant, representation, warranty, or condition of this Agreement may be waived only by written instrument executed by the Party waiving compliance. The failure or delay of a Party in the enforcement or exercise of the rights granted under this Agreement shall not constitute a waiver of said rights nor shall it be considered as a basis for estoppel. Time is of the essence in the performance of this Agreement, and all time limits shall be strictly construed and enforced.

## **26.3 Waiver of Right to Partition**

Each Party waives the right to bring an action for partition of its interest in the Contract Area, Production System, Facilities, and equipment held under this Agreement, and covenants that during the existence of this Agreement it shall not resort at any time to an action at law or in equity to partition any or all of the Leases and lands or personal property subject to this Agreement.

## **26.4 Compliance With Laws and Regulations**

This Agreement, and all activities or operations conducted by the Parties under this Agreement, are expressly subject to, and shall comply with, all laws, orders, rules, and regulations of all federal, state, and local governmental authorities having jurisdiction over the Contract Area. No Party shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this Agreement if such compliance is prevented by or if such failure results from compliance with any applicable law, order, rule, or regulation.

### **26.4.1 Applicable Law**

**THIS AGREEMENT AND THE RELATIONSHIP OF THE PARTIES  
UNDER THIS AGREEMENT SHALL BE GOVERNED BY AND**

1 INTERPRETED UNDER FEDERAL LAWS AND LAWS OF THE STATE  
2 OF LOUISIANA, WITHOUT REGARD TO PRINCIPLES OF  
3 CONFLICTS OF LAWS THAT WOULD OTHERWISE REFER THE  
4 MATTER TO THE LAWS OF ANOTHER JURISDICTION.

5 **26.4.2 Severance of Invalid Provisions**

6 If, for any reason and for so long as, a clause or provision of this  
7 Agreement is held by a court of competent jurisdiction to be illegal,  
8 invalid, unenforceable, or unconscionable under a present or future law  
9 (or interpretation thereof), the remainder of this Agreement will not be  
10 affected by that illegality or invalidity. An illegal or invalid provision will  
11 be deemed severed from this Agreement, as if this Agreement had  
12 been executed without the illegal or invalid provision. The surviving  
13 provisions of this Agreement will remain in full force and effect unless  
14 the removal of the illegal or invalid provision destroys the legitimate  
15 purposes of this Agreement, in which event this Agreement shall be  
16 null and void.

17 **26.4.3 Fair and Equal Employment**

18 Each of the Parties is an Equal Opportunity Employer, and the equal  
19 opportunity provisions of 30 CFR 270 and 41 CFR 60-1 are  
20 incorporated in this Agreement by reference. The affirmative action  
21 clauses concerning disabled veterans and veterans of the Vietnam era  
22 (41 CFR 60-250) and the affirmative action clauses concerning  
23 employment of the handicapped (41 CFR 60-741) are also incorporated  
24 in this Agreement by reference. In performing work under this  
25 Agreement, the Parties shall comply with (and the Operator shall  
26 require each independent contractor to comply with) the governmental  
27 requirements in Exhibit "E" that pertain to non-segregated facilities.

28 **26.5 Construction and Interpretation of this Agreement**

29 **26.5.1 Headings for Convenience**

30 Except for the definition headings in Article 2 (*Definitions*), all the table  
31 of contents, captions, numbering sequences, and paragraph headings  
32 in this Agreement are inserted for convenience only and do not define,  
33 expand, or limit the scope, meaning, or intent of this Agreement.



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**26.5.2    Article References**

Except as otherwise provided in this Agreement, each reference to an article of this Agreement includes all of the referenced article and its sub-articles.

**26.5.3    Gender and Number**

The use of pronouns in whatever gender or number is a proper reference to the Parties to this Agreement though the Parties may be individuals, business entities, or groups thereof. Reference in this Agreement to the singular of a noun or pronoun includes the plural and vice versa.

**26.5.4    Joint Preparation**

This Agreement shall be deemed for all purposes to have been prepared through the joint efforts of the Parties and shall not be construed for or against one Party or the other as a result of the preparation, submittal, drafting, execution, or other event of negotiation hereof.

**26.5.5    Integrated Agreement**

This Agreement contains the final and entire agreement of the Parties for the matters covered by this Agreement and, as such, supersedes all prior written or oral communications and agreements, less and except the following: that certain Lease Exchange Agreement among BP and MOEX dated effective October 1, 2009 ("LEA"). If there is a conflict between this Agreement and the LEA, the LEA will prevail. This Agreement may not be modified or changed except by written amendment signed by the Parties.

**26.5.6    Binding Effect**

To the extent it is assignable, this Agreement shall bind and inure to the benefit of the Parties and their respective successors and assigns, and shall constitute a covenant running with the land comprising the Contract Area. This Agreement does not benefit or create any rights in a person or entity that is not a Party to this Agreement.

1       **26.5.7    Further Assurances**

2       Each Party will take all actions necessary and will sign all documents  
3       necessary to implement this Agreement. Except as otherwise  
4       provided in this Agreement, within (30) days after their receipt of a  
5       valid written request for those documents from a Party, all other  
6       Parties shall prepare and execute the documents.

7       **26.5.8    Duplicate Counterpart Execution**

8       This Agreement may be executed by signing the original or a  
9       counterpart. If this Agreement is executed in duplicate counterparts,  
10      all counterparts taken together shall have the same effect as if all  
11      Parties had signed the same agreement. No Party shall be bound to  
12      this Agreement until all Parties have executed a counterpart or the  
13      original of this Agreement. This Agreement may also be ratified by a  
14      separate instrument that refers to this Agreement and adopts by  
15      reference all provisions of this Agreement. A ratification shall have the  
16      same effect as an execution of this Agreement.

17      **26.5.9    Currency**

18      Any amounts due or payable under this Agreement shall be paid in  
19      United States currency.

20      **26.5.10 Future References**

21      A reference to a Party includes such Party's successors and assigns  
22      and, in the case of governmental bodies, persons succeeding to their  
23      respective functions and capacities.

24      **26.6    Restricted Bidding**


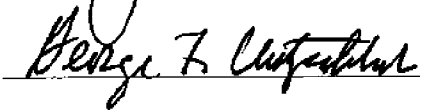
25      If more than one Party is ever on the list of restricted joint bidders for OCS lease  
26      sales, as issued by the MMS under 30 CFR 256.44, as amended, the Parties  
27      shall comply with all statutes and regulations regarding restricted joint bidders  
28      on the OCS.

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**IN WITNESS WHEREOF**, each Party, through its duly authorized agent or representative, has executed this Agreement as of the Effective Date.

WITNESSES:

  
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\_\_\_\_\_  
George F. Utecht

WITNESSES:

  
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\_\_\_\_\_  
George F. Utecht

**BP Exploration & Production Inc.**

  
\_\_\_\_\_  
Signature

O. Kirk Wardlaw  
\_\_\_\_\_  
Printed Name

Attorney-in-Fact  
\_\_\_\_\_  
Title

**MOEX Offshore 2007 LLC**

  
\_\_\_\_\_  
Signature

Naoki Ishii  
\_\_\_\_\_  
Printed Name

President  
\_\_\_\_\_  
Title

## EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated October 1, 2009  
by and between BP Exploration & Production Inc., as Operator, and MOEX Offshore  
2007 LLC, as Non-Operator

### WORKING INTEREST OF THE PARTIES, OPERATOR AND REPRESENTATIVES

#### I. Contract Area:

<u>Area</u>	<u>Block</u>	<u>Date Acquired</u>	<u>OCS-G</u>	<u>Acres</u>	<u>Royalty</u>
Mississippi Canyon	252	6/1/08	32306	5,760	18.75%

#### II. Working Interest of the Parties

BP Exploration & Production Inc.	90%
MOEX Offshore 2007 LLC	10%

#### III. Operator

BP Exploration & Production Inc.

#### IV. Addresses

#### Names of Representatives

BP Exploration & Production Inc.  
200 WestLake Park Blvd  
Houston, TX 77079  
Facsimile: (281) 366-7569

Kemper Howe

MOEX Offshore 2007 LLC  
9 Greenway Plaza, Suite 1220  
Houston, TX 77046  
Facsimile: (713) 532-8510

Naoki Ishii

## **EXHIBIT "B"**

### **OFFSHORE INSURANCE PROVISIONS**

Attached to and made a part of that certain Operating Agreement dated October 1, 2009 by and between BP Exploration & Production Inc., as Operator, and MOEX Offshore 2007 LLC, as Non-Operator

#### **I. WORKERS COMPENSATION & EMPLOYERS LIABILITY INSURANCE**

Operator will carry Workers Compensation insurance in compliance with all State and Federal Regulations in the jurisdiction where any of the work under this agreement shall be performed, including the following special coverage extensions:

1. U.S. Longshoremen and Harbor Workers' Act and Outer Continental Shelf Lands Act coverage.
2. Employers' Liability including claims arising out of Maritime operations including coverage for benefits and damages under the Jones Act with limits of at least \$1,000,000 per accident and per disease, aggregate.
3. "In Rem" endorsement providing that a claim "In Rem" shall be treated as a claim against the Operator.
4. Waiver of Subrogation endorsement which waives the insurers rights of subrogation against all of the Parties to this agreement.

Premiums for the insurance above specified shall be charged to the Joint Account. Provided, however, that if the Operator either self-insures or effectively self-insures, the Operator shall charge to the joint account, in lieu of any premiums for such insurance, an amount not to exceed the workers compensation manual rates times the payroll. Claims under Operator's self-insurance program shall not be charged to the joint account.

Except as provided above, Operator shall not be obligated to obtain or cause to be carried insurance for the benefit of the joint account. Operator shall not obtain or cause to be carried for the benefit of the joint account, control of well or seepage and pollution insurance nor insurance against the hazards of fire, windstorm, explosion, blowout, cratering, reservoir damage, or insurance other than specified above.

## **II. INSURANCE NOT CHARGED TO THE JOINT ACCOUNT**

At all times while the Joint Operating Agreement is in effect, each party to the Agreement shall insure or self-insure for their share of any liabilities assumed under the Joint Operating Agreement. The cost of these insurance or self-insurance programs shall be the individual responsibilities of each of the parties and none of the cost associated with these programs shall be charged to the Joint Account. Each party shall insure or self-insure the following coverage for the minimum limits stated.

1. Commercial General Liability Insurance covering all of the Parties operations, including their offshore operations, and including contractual liability coverage with combined single limits of at least \$10,000,000 per occurrence and in the annual aggregate. This limit can be achieved through any combination of primary and excess liability policies.
2. Automobile Liability covering all owned, non-owned and leased vehicles with combined single limits of at least \$1,000,000 per occurrence and in the annual aggregate.
3. Pollution Liability insurance covering offshore oil pollution with limits of at least \$10,000,000 per occurrence.
4. Control of Well and Seepage and Pollution insurance with limits of at least \$10,000,000 per occurrence or participation in Oil Insurance Limited.
5. Non-owned aviation liability insurance in the amount of \$1,000,000 per occurrence covering liability arising out of any leased aircraft used in the connection with the work to be performed under the Joint Operating Agreement.

All of the above coverages shall be endorsed to waive the insurers' rights of subrogation against Operator and all other Parties to the Agreement and all parties shall waive rights of recovery against all other Parties, subject to indemnities provided elsewhere in this agreement. Any Party to the Agreement, at the request of any other Party to the Agreement, shall advise all of the other Parties to the Joint Operating Agreement as to whether it will insure or self-insure the above mentioned coverages. If Insurance is purchased, upon request, a Party will provide all other Parties to the Joint Operating Agreement with a certificate of insurance evidencing that all of the above insurance and special insuring provisions are in place.

In the event a Party elects to self-insure all or part of the above requirements, and if any of the other Parties to the Joint Operating Agreement believe or have a concern that the Party does not have the financial capability to meet its obligations under such self-insurance programs, any Party to the Agreement may

request any other Party to provide proof of its ability to self-insure these risks. Proof will consist of independently audited financial statements demonstrating Net Worth and assets in the United States in an amount at least equal to six (6) times the amount of the above required insurance that the Party elects to self-insure. If the self-insuring Party is unable to meet that test, the other Parties to the Agreement may, but are not required to do so, purchase any or all of the insurance that the Party elected to self-insure. The cost of said insurance shall be for the individual account of the Party on whose behalf the insurance was purchased.

### **III. CONTRACTOR'S INSURANCE**

Operator (including any Party conducting Non-Consent Operations) shall use its commercially reasonable efforts to require each contractor who performs work in furtherance of or on behalf of the Joint Operating Agreement to carry the following insurance :

1. Workers' Compensation and Employers' Liability insurance in accordance with all State and Federal Regulations in the jurisdiction where the work is to be performed, including if applicable, coverage for U.S. Longshoremen and Harbor Workers' Act, and Outer Continental Shelf Lands Act. The limit for Employer's Liability shall be not less than \$1,000,000 per accident, \$1,000,000 per disease, per employee and \$1,000,000 per disease, aggregate.
2. Commercial General Liability insurance and/or Excess Liability insurance, including contractual liability, with combined single limits of not less than \$10,000,000 per occurrence and in the aggregate for injuries to or death of persons and damage to property.
3. Automobile Liability insurance covering all owned, non-owned and hired vehicles with combined single limits of at least \$1,000,000 per accident for injuries to or death of persons and damage to property.
4. Protection and Indemnity Insurance - in the event watercraft is used by the Contractor, contractor shall carry or require owners of such watercraft to carry Protection and Indemnity Insurance in the amount of not less than the market value of the vessel or \$5,000,000, whichever is greater.
5. Aircraft Liability Insurance - if Contractor's operations require it to use aircraft, Contractor shall carry or require the owners of such aircraft to carry aircraft liability insurance with a combined single limit of \$5,000,000 per passenger seat or \$25,000,000, whichever is greater.

6. Contractor's Pollution Liability Insurance - if applicable, Contractor shall maintain in force for the duration of this Contract Contractor's pollution liability insurance (on an occurrence basis) applicable to bodily injury and property damage, including loss of use of the damaged property or of property that has not been physically injured or destroyed; cleanup costs; defense, including costs and expenses incurred in the investigation, defense, or settlement of claims; all in connection with any pollution condition caused loss arising from the contractor's covered operations. Coverage shall be with minimum limits of \$5,000,000. Such coverage will include BP as an Insured.

6. Any other insurance that Operator deems necessary.

To the greatest extent allowed by law, all of the insurance carried by Contractors pursuant to Sections 1 through 6 above shall contain endorsements waiving the insured's rights of subrogation against Operator and all other Parties to the Agreement, where applicable and Operator itself shall waive rights of recovery.

Operator shall make commercially reasonable efforts to obtain all of the above required insurance and special insuring provisions. Operator shall also make commercially reasonable efforts to obtain endorsements naming the Operator and any Party, Co-Owner or Joint Venturer as an Additional Insured on the policies of insurance where appropriate. However, Operator shall not be liable, unless in the event of gross negligence or willful misconduct, to non-operators or to their parent companies, subsidiaries or any affiliated companies for failure to do any of the above. It is recognized in the industry that there are certain contractors and service companies whose services are necessary to operations contemplated by the Parties, who as a matter of their policy refuse contractually to indemnify working interest owners or to carry any insurance indemnifying Working Interest owners. As to those entities, Operator may waive any requirement of contractual indemnity or any or all of the insurance or special insurance provisions required above.

#### **IV. NOTICE**

Operator shall promptly notify Non-operators of any loss, damage or claim not covered by the insurance obtained hereunder for the joint account. All losses which are not covered and all losses in excess of insurance coverage shall be borne by the Parties in accordance with the terms of the Joint Operating Agreement under which said operations are being conducted by the Parties.



## EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated October 1, 2009 by and between BP Exploration & Production Inc., as Operator, and MOEX Offshore 2007 LLC, as Non-Operator

### ACCOUNTING PROCEDURE PROJECT TEAM JOINT OPERATIONS

#### I. GENERAL PROVISIONS

##### 1. DEFINITIONS

All terms used in this Accounting Procedure, if not otherwise defined in the Agreement to which this Accounting Procedure is attached, shall have the following meaning:

"Affiliate" shall mean, with respect to any Party, any separate legal entity directly or indirectly controlling, controlled by, or under common control with such Party, unless otherwise defined in the Agreement to which this Accounting Procedure is attached. For the purposes of this agreement, Affiliates shall include those listed in Appendix A to this Exhibit C.

"Controllable Material" shall mean Material that at the time of acquisition or disposition by the Joint Account is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies (COPAS).

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of the Operator's field employees and/or contract labor directly employed on the Joint Property in the conduct of Joint Operations.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations that are to be shared by the Parties.

"Joint Operations" shall mean activities required to handle operating conditions and problems for the exploration, appraisal, development, production, protection, maintenance, abandonment, and restoration of the Joint Property.

"Joint Property" shall mean the real and personal property subject to the Agreement to which this Accounting Procedure is attached. For operations involving subsea or remote structures, the phrase "on the Joint Property" may include a platform, surface production facility, remote facility, or floating production storage facility, which is the surface location from which Joint Operations are conducted, even if such location is not owned by the Joint Account.

"Material" shall mean personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.

"Non-Operators" shall mean the Parties to this Agreement other than the Operator.

"Offshore Facilities" shall mean platforms, surface and subsea development and production systems, and other support systems such as oil and gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping, heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities necessary in the conduct of offshore operations, all of which are located offshore.

"Operator" shall mean the Party designated to conduct the Joint Operations.

"Parties" shall mean legal entities signatory to the Agreement or their successors or assigns to which this Accounting Procedure is attached.

"Personal Expenses" shall mean reimbursed costs for travel, temporary living, relocation, and other expenses of Operator's employees, as well as similar expenses incurred by a Non-Operator or any Party's Affiliate for personnel assigned to a Project Team.

"Project Team" shall mean employees of the Parties, Affiliates, or contractors assigned to perform work and/or studies as authorized under the terms of the Agreement.

"Shore Base Facilities" shall mean onshore support facilities that during Joint Operations provide such services to the Joint Property as a receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services; communication, scheduling and dispatching center; and other associated functions benefiting the Joint Property.

"Technical Employees" shall mean personnel having special and specific engineering, geoscience, or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

## **2. STATEMENTS AND BILLINGS**

- A. The Operator shall bill Non-Operators on or before the last day of the month for their proportionate share of the Joint Account for the preceding month. Such bills shall be accompanied by statements that identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate categories of investment and expense. In lieu of detailed descriptions, Controllable Material may be summarized by major Material classifications. Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.
- B. Non-Operators shall bill the Operator, on a monthly basis, in accordance with the provisions contained herein, for the salaries, wages, payroll burden, and Personal Expenses, if any, of its employees assigned to the Project Team. In a like manner, the Non-Operator shall bill the Operator for such expenses of the Non-Operator's Affiliate employees and/or contractor employees retained by the Non-Operator who are assigned to the Project Team. The Operator shall reimburse the Non-Operators in accordance with Section I, Paragraph 3.B. For the purposes of Paragraphs 3, 4, and 5 of this Section I, the Non-Operator's costs shall be considered a Joint Account.
- C. The Operator or Non-Operators may make available to the Parties any statements and bills required under Section I.2 and/or Section I.3.A (*Advances and Payments by the Parties*) via email, electronic data interchange, internet websites or other equivalent electronic media in lieu of paper copies. The Operator or Non-Operator shall provide the Parties instructions and any necessary information to access and receive the statements and bills within the timeframes specified herein. A statement or billing shall be deemed as delivered twenty-four (24) hours (exclusive of weekends and holidays) after the Operator or Non-Operator notifies the Parties that the statement or billing is available on the website and/or sent via email or electronic data interchange transmission.

## **3. ADVANCES AND PAYMENTS BY THE PARTIES**

- A. If gross expenditures for the Joint Account are expected to exceed \$50,000 in the next succeeding month's operations, the Operator may require the Non-Operators to advance their share of the estimated cash outlay for such month's operations. Unless otherwise provided in the Agreement, any billing for such advance shall be payable within 30 days after receipt of the advance request or by the first day of the month for which the advance is required, whichever is later. The Operator shall adjust each monthly billing to reflect advances received from the Non-Operators for such month. If a refund is due, the Operator shall apply the excess to subsequent month's billings or advances, unless a refund is specifically requested.
- B. Except as provided below, each Party shall pay its proportionate share of all bills in full within thirty (30) days of receipt date. If payment is not made within such time, the unpaid balance shall bear interest compounded monthly at the prime rate published by the *Wall Street Journal* on the first day of each month the payment is delinquent, plus three percent (3%), per annum, or the maximum contract rate permitted by the applicable usury Laws governing the Joint Property, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts. If the *Wall Street Journal* ceases to be published or discontinues publishing a prime rate, the unpaid balance shall bear interest compounded monthly at the prime

rate published by the Federal Reserve plus three percent (3%) per annum. Interest shall begin accruing on the first day of the month in which the payment was due.

[X] Electronic Fund Transfer (optional)

- C. Payments by Parties for monthly cash advances and billings shall be made by Electronic Fund Transfer (EFT) or Automated Clearing House (ACH) transaction.

#### 4. ADJUSTMENTS

- A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof; however, all bills and statements (including payout status statements) rendered during any calendar year shall conclusively be presumed to be true and correct, with respect only to expenditures, after 24 months following the end of any such calendar year, unless within said period a Party takes specific detailed written exception thereto requesting review for adjustment.
- B. All adjustments initiated by the billing Parties except those described in (1) through (4) below are limited to the 24-month period following the end of the calendar year in which the original charge appeared or should have appeared on the billing Party's Joint Account statement or payout status statement. Adjustments made beyond the 24-month period are limited to the following:
- (1) a physical inventory of Controllable Material as provided for in Section V,
  - (2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception granted by the Party relating to another property,
  - (3) a government/regulatory audit, and/or
  - (4) working interest ownership adjustments

#### 5. EXPENDITURE AUDITS

- A. A Non-Operator, upon notice in writing to the Operator and other Non-Operators including any non-participating Parties, shall have the right to audit the Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; however, conducting an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. The Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of the Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit. The lead audit company's audit report shall be issued within ninety (90) days after completion of the audit testing and analysis but no later than ninety (90) days after the end of the calendar year in which the audit was commenced; however, the ninety (90) day time period shall not extend the twenty-four (24) month requirement for taking specific detailed written exception as required in Paragraph 4.A above. All claims shall be supported with sufficient documentation. Failure to issue the report within the prescribed time or to take specific written exception within the twenty-four (24) month period will preclude the Non-Operator from taking exception to any charge billed within the time period audited.

A timely filed audit report or any timely submitted response thereto shall suspend the running of any applicable statute of limitations regarding claims made in the audit report. While any audit claim is being resolved, the applicable statute of limitations will be suspended; however, the failure to comply with the deadlines provided herein shall cause the statute to commence running again.

- B. The Operator shall allow or deny all exceptions in writing to an audit report within one hundred eighty (180) days after receipt of such report. Denied exceptions should be accompanied by a substantive response.
- C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and the Operator shall reply to the lead audit company's follow-up response within ninety (90) days of receipt.

The Operator or any audit participant may call an audit resolution meeting for the purpose of resolving audit issues/exceptions that are outstanding at least fifteen (15) months after the date of the audit report. The meeting will require one month's written notice to the Operator and all audit participants, a mutually agreed upon time and location, and attendance by representatives of the Operator and audit participants with authority to resolve such outstanding audit issues.

The lead audit company will coordinate the response and positions of the audit participants throughout the audit resolution process. Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive information supporting its position. An audit resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting can be discussed at subsequent meetings until each such issue is resolved.

- E. This Accounting Procedure contemplates Non-Operators may incur Project Team expenditures that are subsequently billed to the Operator and charged to the Joint Account pursuant to Section I, Paragraph 2.B. Accordingly, such Non-Operators are required to maintain auditable records supporting such charges. Regarding such charges, the Operator and/or any other Non-Operators are hereby provided the same rights and obligations as set forth in Section I, Paragraphs 5.A. through 5.D., as pertain to the Non-Operators in audit of the Joint Account. Conversely in such situation, the Non-Operator being audited is hereby provided the same rights and obligations as set forth in Section I, Paragraphs 5.A. through 5.D. for the Operator.

## **6. APPROVAL BY PARTIES**

Where an approval or other agreement of the Parties is expressly required under other sections of this Accounting Procedure, the Operator shall notify all Parties of the proposal.

If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, an affirmative vote of two (2) or more Parties having a combined participating interest of at least fifty-one percent (51%) shall be controlling.

For the purpose of administering the voting procedures of this Paragraph 6, if two or more Parties to this Agreement are Affiliates of each other, such Affiliated Parties shall be treated as a vote by a single Party having the combined interest of the Affiliated Parties.

## **II. DIRECT CHARGES**

The Operator shall charge the Joint Account with the following items:

### **1. RENTALS AND ROYALTIES**

Lease rentals and royalties paid by the Operator, on behalf of all Parties, for the Joint Operations

### **2. LABOR**

- A. Salaries and Wages including Incentive Compensation Programs, as set forth in COPAS Model Form Interpretation 37, for personnel serving the Joint Property shall be chargeable in accordance with the following provisions.

(1) Project Team

All salaries and wages of employees of the Operator and Non-Operator, including seconded employees, assigned to or providing services for the Project Team on a full-time or part-time basis shall be considered a direct cost and shall be charged to the Joint Account. Such employees shall include, but are not limited to, personnel who are directly engaged in project management, evaluation, design, construction, and installation activities, such as, project managers, superintendents, technical managers, engineers, inspectors, environmentalists, technologists, engineering assistants, technicians, draftsmen, engineering clerks, secretaries, construction representatives, purchasing representatives, material expeditors, financial support and other technical professional and support personnel performing services for the Project Team, regardless of location. Part-time Project Team personnel specifically assigned to the Project Team shall be charged to the Joint Account, based on actual days worked, only when such time involves at least one full-day equivalent per month that is devoted to the project. Employees not assigned to the Project Team but working under the direction of the Project Team shall be charged to the Joint Account based on actual days worked, only when such time involves at least one full-day equivalent per month. Contractor and Affiliate charges for personnel assigned to the Project Team are chargeable pursuant to Section II, Paragraphs 5 and 7.

(2) Other Operations—Non-Project Team

The following salaries and wages shall be charged for employees:

- (a) Salaries and wages of the Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations
  - (b) Salaries and wages of the Operator's employees directly employed on Shore Base Facilities or other Offshore Facilities serving the Joint Property if such costs are not charged under Paragraph 6 of this Section II
  - (c) Salaries of First Level Supervisors
  - (d) Salaries and wages of Technical Employees directly employed on the Joint Property in the conduct of Joint Operations, or on Offshore Facilities serving the Joint Property, if such charges are excluded from the Overhead rates and/or
  - (e) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- B. Cost of holiday, vacation, sickness and disability benefits, and other customary allowances paid to personnel to the extent their salaries and wages are chargeable to the Joint Account under Paragraph 2.A of this Section II, excluding severance payments or other termination allowances. Such costs under this Paragraph 2.B may be charged on a "when and as-paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2.A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's or Non-Operators' cost experience, as appropriate.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to costs chargeable to the Joint Account under Paragraphs 2.A and 2.B of this Section II

- D. Personal Expenses, other than relocation costs, of personnel whose salaries and wages are chargeable to the Joint Account under Paragraph 2.A of this Section II

Relocation costs, consistent with the employer's established policy, are chargeable to the extent their salaries and wages are chargeable, in accordance with the following:

- (1) For personnel transferred and assigned to a Project Team for a minimum of 12 consecutive months

☒ shall be charged to the Joint Account

For those assigned for less than 12 consecutive months shall not be chargeable unless agreed to by the Parties.

- (2) For Operator's field employees and/or First Level Supervisors

☒ shall be charged to the Joint Account

Notwithstanding the foregoing, relocation costs that result from reorganization or merger of a Party shall not be chargeable to the Joint Account.

- E. Training costs shall be chargeable as specified in COPAS Model Form Interpretation 35 and as provided in Section II, Paragraph 13. This training charge shall include the wages, salaries, training course cost, and Personal Expenses incurred during the training session for personnel to the extent their salaries and wages are chargeable under Paragraph 2.A of this Section II.

In addition, third party fees for instructors, books, tuition and training facility costs are chargeable to the Joint Account. Operator developed training shall be charged at Operator's cost. An Operator owned training facility shall be charged in accordance with Section II, Paragraph 6.

- F. Cost of established plans for employees' benefits as described in COPAS Model Form Interpretation 27, determined by applying the employee benefits limitation percentage most recently recommended by COPAS to the chargeable salaries and wages.

- G. Award payments to employees, in accordance with COPAS Model Form Interpretation 49 ("Awards to Employees and Contractors"), or as agreed to by the Parties, for personnel whose salaries and wages are chargeable under Section II.2.A

### 3. MATERIAL

Materials purchased or furnished by the Operator for use on the Joint Property in the conduct of Joint Operations as provided under Section IV. Only such Materials shall be purchased for or transferred to the Joint Property as may be required for immediate use or is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

### 4. TRANSPORTATION

Transportation of Operator's, Non-Operator's, Affiliate's or contractor's personnel, and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest supply store where like Material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

- B. If surplus Material is moved to the Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest supply store where like Material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties unless agreed to by the Parties.
- C. In the application of Paragraphs 4.A. and 4.B. above, the option to equalize or charge actual trucking cost is available when the actual charge is less than the amount most recently recommended by COPAS, excluding accessorial charges, as set forth in COPAS Model Form Interpretation 38.

## **5. SERVICES**

The cost of contract services, equipment, and utilities used in the conduct of Joint Operations and provided by sources other than the Parties, except for contract services, equipment, and utilities covered by the Section III overhead provisions, Paragraph 7 of this Section II, or excluded under Paragraph 9 of this Section II. Notwithstanding anything herein to the contrary, the cost of contract personnel assigned to the Project Team or working at the direction of the Project Team are directly chargeable to the Joint Account, regardless of their location.

Award payments to contractors, in accordance with COPAS Model Form Interpretation 49 ("Awards to Employees and Contractors"), or as agreed to by the Parties.

## **6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR**

In the absence of a separately negotiated agreement, equipment and facilities furnished by the Operator will be charged as follows and / or as indicated in Appendix B to this Exhibit C:

- A. Equipment and facilities owned by the Operator shall be charged to the Joint Account at the average prevailing commercial rate for such equipment. If an average commercial rate is used to bill the Joint Account, the Operator shall adequately document and support such rate and shall periodically review and update the rate and the supporting documentation.
- B. In lieu of charges in Paragraph 6.A. above, or if a prevailing commercial rate is not available, equipment and facilities owned by the Operator will be charged to the Joint Account at the Operator's actual cost. Such costs shall be limited to expenses that would be chargeable pursuant to this Section II if such equipment and facilities were jointly owned, depreciation using straight line depreciation method, and interest on investment (less gross accumulated depreciation) not to exceed 10% per annum. In addition, for platforms, subsea production systems, fiber optics systems, and production handling facilities, the rate may include an element of the estimated cost of abandonment, reclamation, and dismantlement. Depreciation shall not be charged when the equipment and facilities investment have been fully depreciated. Charges shall not exceed the average prevailing commercial rate, if available.
- C. When applicable for Operator-owned or leased motor vehicles, the Operator shall use rates published by the Petroleum Motor Transport Association or such other organization recognized by COPAS as the official source of such rates. When such rates are not available, the Operator shall comply with the provisions of Paragraph 6.A. or 6.B. above.

## **7. AFFILIATES**

Affiliate Materials, facilities, and services provided for the Joint Operations shall be chargeable to the Joint Account as herein provided.

- A. An Affiliate of the Operator or Non-Operator working at the request of a Project Team or supplying a service in furtherance of the work of the Project Team shall be chargeable to the

Joint Account at the rate and / or amount that the Affiliate customarily charges the Operator or Non-Operator for its services.

- B. If the Operator's or a Non-Operator's Affiliate provides Materials, facilities, or services for operations not under the direction of a Project Team, such charges shall be considered third-party services as provided in Paragraph 5 of this Section II.
- C. The Parties agree that Affiliate records relating to Materials, facilities or services provided by an Affiliate are not subject to and will not be made available for audit. However, if Affiliate charges are based on rates, the audit of the Affiliate charges shall be limited to verification that the units or basis to which the rates were applied are correct. Upon request by any Party, the Operator or Non-Operator shall furnish a certificate by the Party's independent accounting firm confirming that rates or amounts charged by an Affiliate reflect actual cost and do not include any element of profit.

#### **8. DAMAGES AND LOSSES TO JOINT PROPERTY**

All costs or expenses necessary for the repair or replacement of Joint Property resulting because of damages or losses incurred, except to the extent such damages or losses result from a Party's gross negligence or willful misconduct, in which case such Party shall be solely liable.

#### **9. LEGAL EXPENSE**

The Operator may not charge for services of the Operator's legal staff or fees and expenses of outside attorneys unless approved by the Parties, except that title examinations and curative work shall be chargeable, unless otherwise provided for in the Agreement. Other types of legal expense, other than attorney fees, such as recording fees and handling, settling, or otherwise discharging litigation, claims, and liens necessary to protect or recover the Joint Property shall be chargeable.

#### **10. TAXES AND PERMITS**

All taxes and permits of every kind and nature, assessed or levied upon or in connection with the Joint Property, or the production therefrom, and which have been paid by the Operator for the benefit of the Parties, including penalties and interest, except to the extent the penalties and interest result from the Operator's gross negligence or willful misconduct

If ad valorem taxes paid by the Operator are based in whole or in part upon separate valuations of each Party's working interest, then notwithstanding any contrary provisions, the charges to Parties will be made in accordance with the tax value generated by each Party's working interest.

#### **11. INSURANCE**

Net premiums paid for insurance required to be carried for Joint Operations for the protection of the Parties. If Joint Operations are conducted at locations where the Operator acts as self-insurer in regard to its workers' compensation and employer's liability insurance obligation, the Operator shall charge the Joint Account manual rates for the risk assumed in its self-insurance program as regulated by the jurisdiction governing the Joint Property. Such rates shall be adjusted for offshore operations by the U.S. Longshoreman and Harbor Workers (USL&H) or Jones Act surcharge, as appropriate.

#### **12. COMMUNICATIONS**

Costs of acquiring, leasing, installing, operating, repairing, and maintaining communication facilities or systems, including fiber optic, satellite, radio and microwave facilities, between the Joint Property and the Operator's offices directly responsible for field operations in accordance with the provisions of COPAS Model Form Interpretation 44. In the event communication facilities



or systems serving the Joint Property are Operator or Affiliate-owned, charges to the Joint Account shall be made as provided in Section II, Paragraph 6 or 7 as applicable.

### **13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY**

#### **A. Ecological and Environmental costs incurred**

☒ for the benefit of the Joint Property

resulting from laws, rules, regulations, or orders for archaeological and geophysical surveys relative to identification and protection of cultural resources and/or other environmental or ecological surveys as may be required by the Minerals Management Service or other regulatory authority. Also, costs to provide or have available pollution containment and removal equipment plus actual costs of control and cleanup and resulting responsibilities of oil and other spills as well as discharges from permitted outfalls as required by applicable laws and regulations are chargeable. Ecological and environmental costs incurred by the Operator as deemed by the Operator to be appropriate for prudent operations are also chargeable to the extent such costs directly benefit Joint Operations. Also, ecological and environmental costs incurred in planning, exploration, appraisal and development operations are chargeable when included in an approved AFE.

#### **B. Safety costs incurred**

☒ for the benefit of the Joint Property

to conduct and/or implement safe operational practices/guidelines as a result of laws, rules, regulations, or orders or as recommended for voluntary compliance. Examples are the requirements mandated by the Occupational Safety and Hazards Act (OSHA), Safety and Environmental Management Program (SEMP), Process Safety Management (PSM), and/or requirements which may be mandated/recommended by similar programs or by other current or successor regulatory agencies. Safety costs incurred by the Operator as deemed by the Operator to be appropriate for prudent operations are also chargeable to the extent such costs directly benefit Joint Operations.

#### **C. Environmental, ecological, and safety training costs for personnel whose time would otherwise be chargeable under Paragraph 13.A or B above, regardless of whether training is mandated by statute or regulatory agency, is chargeable to the Joint Account.**

In the event of a conflict between the provisions of this Paragraph 13 and Section III, Paragraphs i. and ii. the following election shall prevail:

☒ Section II, Paragraph 13

### **14. ABANDONMENT AND RECLAMATION**

Costs incurred for abandonment and reclamation of the Joint Property, including costs required by governmental, regulatory, or judicial authority

### **III. OVERHEAD**

As compensation for administrative, management, office services and warehousing costs, the Operator shall charge the Joint Account in accordance with this Section III.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of offices and salaries or wages plus applicable burdens and expenses of personnel, except those costs identified as directly chargeable under Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, purchasing, accounting,

administrative or clerical duties, or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in this Section III unless directly chargeable under Section II or such costs are agreed to by the Parties as a direct charge to the Joint Account. Costs of functions which solely benefit the Operator are not recoverable from the Joint Account.

- i. Except as otherwise provided in Paragraphs 1 and 3 of this Section III, the salaries, wages, related payroll burden and Personal Expenses of Technical Employees, and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property in the conduct of Joint Operations

~~shall be covered by the overhead rates~~

[XX] shall not be covered by the overhead rates because they are to be charged directly to the Joint Account

- ii. Except as otherwise provided in Paragraphs 1 and 3 of this Section III, the salaries, wages, related payroll burden and Personal Expenses of Technical Employees provided by Operator or its Affiliates, and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in:

- A. Any phase of any Exploration, Appraisal and / or Development operations, which shall include, but not be limited to, drilling, re-drilling, deepening, or sidetracking operations, through completion, temporary abandonment, or abandonment if a dry hole, permitting, engineering, feasibility studies, geoscience, seismic, planning and water current work or studies for the benefit of the Joint Property,

~~shall be covered by the overhead rates~~

[XX] shall not be covered by the overhead rates because they are to be charged directly to the Joint Account

- B. Production operations, which are all operations other than Exploration, Appraisal, and Development operations and those covered by Section III.3 (Overhead - Major Construction and Catastrophe),

[XX] shall be covered by the overhead rates

~~shall not be covered by the overhead rates because they are to be charged directly to the Joint Account~~

## 1. OVERHEAD—PROJECT TEAM

To compensate the Parties for overhead costs incurred to support a Project Team involved in activities other than major construction and catastrophe, the Parties shall charge Project Team Overhead. The costs compensated by the Project Team Overhead include, but shall not be limited, the following: all personnel not directly chargeable to the Joint Account but who provide services to the Project Team, and all equipment and supplies not directly chargeable to the Joint Account under Section II, Paragraph 6 or 7.

The overhead recovery shall be made pursuant to the following:

- X The Operator shall charge a rate of Four Percent (4%) of the total cost of a Project Team involved in activities other than major construction and catastrophe

## 2. OVERHEAD—DEVELOPMENT AND OPERATING

As compensation for overhead in connection with drilling and producing operations not covered by other provisions of this Section III, Operator shall charge on a Percentage Basis

**A. OVERHEAD—PERCENTAGE BASIS**

(1) Operator shall charge the Joint Account at the following rates:

- (a) Development Operations Rate of Four Percent (4%) of the cost of development of the Joint Property exclusive of costs provided under Section II, Paragraph 9 and all salvage credits.
- (b) Operating and Maintenance Rate of Thirteen Percent (13%) of the cost of operating the Joint Property exclusive of costs provided under Section II, Paragraphs 1 and 9; all salvage credits; the value of substances purchased for enhanced recovery; all property and ad valorem taxes and any other taxes and assessments that are levied, assessed, and paid upon the mineral interest in and to the Joint Property, and overhead charges provided under Section III, Paragraph 2.A(1)(a).

(2) Application of Overhead—Percentage Basis shall be as follows:

- (a) Development Operations rate set forth in Section III, Paragraph 2.A(1)(a) shall be applied to all costs in connection with
  - [1] drilling, redrilling, plugging back, Sidetracking, or Deepening of a well,
  - [2] Workover operations or waterflood or other secondary or tertiary Hydrocarbon recovery operations requiring a period of 15 consecutive work days or more on a well
  - [3] preliminary expenditures necessary in preparation for drilling a well or conducting subsequent operations after a well has reached its Objective Depth,
  - [4] expenditures incurred in temporarily or permanently abandoning a well when a well is not completed as a producer, and
  - [5] original construction or installation of fixed assets, expansion of fixed assets, and any other project clearly discernible as a fixed asset except Major Construction as defined in Section III, Paragraph 3 or any Project Team expenses and overhead.
- (b) Operating and Maintenance rate set forth in Section II, 2.A(1)(b) shall be applied to all other costs in connection with Joint Operations except those subject to Section III Paragraphs 1, 2.A(1)(a), and 3.

**3. OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHE**

Major Construction is defined as any project requiring an AFE, under the terms of the Agreement to which this Accounting Procedure is attached, for the construction and installation of fixed assets; the expansion of fixed assets; or the abandonment of fixed assets and any associated reclamation required for the exploration, development, and operation of the Joint Property, including any activity or operation conducted under Articles 12 or 14 of the Agreement.

Catastrophe is defined as a calamitous event bringing damage, loss, or destruction resulting from a single occurrence requiring an AFE to restore the Joint Property to the equivalent condition that existed prior to the event causing the damage.

To compensate the Operator for overhead costs incurred in connection with Major Construction and Catastrophes, the Operator shall charge the Joint Account for overhead based on the following rates:

- A. If the Operator charges, to a Project Team AFE, the engineering, design, and drafting costs associated with a Major Construction or Catastrophe project AFE, the overhead assessment shall be four percent (4%) of total project costs.

- B. If the Operator charges the engineering, design, and drafting costs related to a Major Construction or Catastrophe project AFE, the overhead assessment shall be four Percent (4%) of the total project costs.

For calculating Major Construction overhead, the cost of drilling and workover wells shall be excluded. For calculating Catastrophe overhead the cost of drilling relief wells, substitute wells, or conducting other well operations resulting from the catastrophic event shall be included. Expenditures to which these rates apply shall not be reduced by insurance recoveries. Overhead assessed under the Major Construction and Catastrophe provisions shall be in lieu of all other overhead provisions. In the event of any conflict between the provisions of this paragraph and the provisions of Section II, Paragraphs 2 and 5, the provisions of this paragraph shall govern. Total project costs shall exclude Project Team costs if recorded to a separate Project Team AFE and overhead is charged on Project Team costs pursuant to Section III, Paragraph 1.

#### **4. AFFILIATE CHARGES INCLUDED**

All costs billed for Affiliates under Section II, Paragraph 7 will be included in total costs for calculating Overhead in this Section III.

#### **5. AMENDMENT OF RATES**

The Overhead rates provided for in this Section III may be amended from time to time if, in practice, the rates are found to be insufficient or excessive, in accordance with the provisions of Section I, Paragraph 6.

### **IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS**

The Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for direct purchases, transfers, and dispositions. The Operator normally provides all Material for use in the conduct of Joint Operations but does not warrant the Material furnished. Except as otherwise provided in Section IV, Paragraph 4.A., Material may be supplied by Non-Operators at the Operator's option.

#### **1. DIRECT PURCHASES**

Direct purchases shall be charged to the Joint Account at the price paid by the Operator after deduction of all discounts received. A direct purchase is determined to occur when an agreement is made between an Operator and a third party for the acquisition of Materials for a specific well site or location. Material provided by the Operator under "vendor stocking programs," where the initial use is for a Joint Property and title of the Material does not pass from the vendor until usage, is considered a direct purchase. If Material is found to be defective or is returned to the vendor for any other reason, credit shall be passed to the Joint Account when adjustments have been received by the Operator from the manufacturer, distributor, or agent.

#### **2. TRANSFERS**

A transfer is determined to occur when the Operator furnishes Material from its storage facility or from another operated property. Additionally, the Operator has assumed liability for the storage costs and changes in value and has previously secured and held title to the transferred Material. Similarly, the removal of Material from a Joint Property to the Operator's facility or to another operated property is also considered a transfer. Material that is moved from the Joint Property to a temporary storage location pending disposition may remain charged to the Joint Account and is not considered a transfer.

#### **A. PRICING**

The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of transfer. Transfers of new Material will be priced using one of the following new Material bases:

- (1) Published prices in effect on date of movement as adjusted by the appropriate COPAS Historical Price Multiplier (HPM) or prices provided by the COPAS Computerized Equipment Pricing System (CEPS)

The HPMs and the associated date of published price to which they should be applied will be published by COPAS periodically.

- (a) For oil country tubulars and line pipe, the published price shall be based upon eastern mill (Houston for special end) carload base prices effective as of date of movement, plus transportation cost as defined in Section IV, Paragraph 2.B.
  - (b) For other Material, the published price shall be the published list price in effect at date of movement, as listed by a supply store nearest the Joint Property (where like Material is normally available) or point of manufacture, plus transportation costs as defined in Section IV, Paragraph 2.B.
- (2) A price quotation that reflects a current realistic acquisition cost may be obtained from a supplier/manufacturer.
- (3) Historical purchase price may be used, providing it reflects a current realistic acquisition cost on date of movement. Sufficient documentation should be available to Non-Operators for purposes of verifying Material transfer valuation.
- (4) As agreed to by the Parties

When higher than specification grade or size tubulars from the Operator's inventory are used on the Joint Property in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well design specification tubulars.

#### B. FREIGHT

Transportation costs should be added to the Material transfer price based on one of the following:

- (1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill to the railway receiving point nearest the Joint Property based on the carload weight basis as recommended by COPAS MFI 38 and COPAS Interpretations in effect at the time of the transfer.
- (2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the railway receiving point nearest the Joint Property. For transportation costs from other than eastern mills, the 30,000-pound Specialized Motor Carriers interstate truck rate shall be used. Transportation costs for macaroni tubing shall be calculated based on the Specialized Motor Carriers rate per weight of tubing transferred to the railway receiving point nearest the Joint Property.
- (3) Transportation costs for special end tubular goods shall be calculated using the 30,000-pound Specialized Motor Carriers interstate truck rate from Houston, Texas to the railway receiving point nearest the Joint Property.
- (4) Transportation costs for Material other than that described in Section IV, Paragraphs 2.B (1) through (3), if applicable, shall be calculated from the supply store or point of manufacture, whichever is appropriate, to the railway receiving point nearest the Joint Property.

#### C. CONDITION

- (1) Condition "A"—New and unused Material in sound and serviceable condition shall be charged at 100% of the price as determined in Section IV, Paragraphs 2.A. and 2.B. Material transferred from the Joint Property that was not placed in service shall be credited as charged without gain or loss. Any unused Material that was charged to the Joint Account through a direct purchase will be credited to the Joint Account at the original cost paid less restocking charges. All refurbishing costs required or necessary to return the Material to original condition or to correct handling or transportation damages and other related costs will be borne by the divesting property. The Joint Account is responsible for Material preparation, handling, and transportation costs for new and unused Material charged to the Joint Property either through a direct purchase or transfer. Any preparation costs incurred, including any internal or external coating and wrapping, will be credited on new Material provided these services were not repeated for such Material for the receiving property.

- (2) Condition "B"—Used Material in sound and serviceable condition and suitable for reuse without reconditioning shall be priced by multiplying the price determined in Section IV, Paragraphs 2.A. and 2.B. by

☒ 75%

All refurbishing cost or reconditioning required to return the Material to Condition "B" or to correct handling or transportation damages and other related costs will be borne by the divesting property.

If the Material was originally charged to the Joint Account as used Material and placed in service for the Joint Property, the Material will be credited at the price determined in Section IV, Paragraphs 2.A. and 2.B. multiplied by

☐ 65%

Used Material transferred from the Joint Property that was not placed in service on the property shall be credited as charged without gain or loss.

- (3) Condition "C"—Material that is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced by multiplying the price determined in Section IV, Paragraphs 2.A. and 2.B. by

☒ 50%

The cost of reconditioning shall be charged to the receiving property to the extent Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.

- (4) Condition "D"—Other Material that is no longer suitable for its original purpose but useable for some other purpose is considered Condition "D" Material. Included under Condition "D" is also obsolete items or Material that does not meet original specifications but still has value and can be used in other services as a substitute for items with different specifications. Due to the condition or value of other used and obsolete items, it is not possible to price these items under Section IV, Paragraph 2.A. The price used should result in the Joint Account being charged or credited with the value of the service rendered or use of the Material. In some instances, it may be necessary or desirable to have the Material specially priced as agreed to by the Parties.

- (5) Condition "E"—Junk shall be priced at prevailing scrap value prices.

#### D. OTHER PRICING PROVISIONS

- (1) Preparation Costs

Costs incurred by the Operator in making Material serviceable including inspection, third party surveillance services, and other similar services will be charged to the Joint Account at prices which reflect the Operator's actual costs of the services. Documentation must be retained to support the cost of service. New coating and/or wrapping may be charged in accordance with Section IV, Paragraph 2.A.

**(2) Loading and Unloading Costs**

Loading and unloading costs related to the movement of the Material to the Joint Property shall be charged at the rate most recently recommended by COPAS in accordance with the methods specified in COPAS Model Form Interpretation 38. In the event communication facilities or systems serving the Joint Property

**3. DISPOSITION OF SURPLUS**

Surplus Material is that Material, whether new or used, that is no longer required for Joint Operations. The Operator may purchase, but shall be under no obligation to purchase, the interest of the Non-Operator in surplus Material.

Dispositions for the purpose of this procedure are considered to be the relinquishment of title of the Material from the Joint Property to either a third party, a Non-Operator, or to the Operator. To avoid the accumulation of surplus Materials, the Operator should make good faith efforts to dispose of surplus within 12 months through buy/sale agreements, trade, sale to a third party, division in-kind, or other dispositions as agreed to by the Parties.

The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale value that is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this Accounting Procedure is attached without the prior approval of the Non-Operator. If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such Materials.

The Operator may dispose of Condition "D" and "E" Material under procedures normally utilized by the Operator without prior approval.

**4. SPECIAL PRICING PROVISIONS**

**A. PREMIUM PRICING**

Whenever Material is not readily replaceable but is available only at premium pricing due to national emergencies, strikes, or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property provided notice in writing is furnished to Non-Operators of the proposed charge prior to use of such Material.

**B. SHOP-MADE ITEMS**

Shop-made items shall be priced using the value of the Material used to construct the item plus the cost of labor to fabricate the item. If the Material is from the Operator's scrap or junk account, the Material shall be priced at either 25% of the current price as determined in Section IV, Paragraph 2.A. or scrap value, whichever is higher, plus the cost of labor to fabricate the item.

**C. MILL REJECTS**

Mill rejects purchased as "limited service" casing or tubing shall be priced at 80% of K-55/J-55 price as determined in Section IV, Paragraphs 2.A. and 2.B. Line pipe converted to casing or

tubing with casing or tubing couplings attached shall be priced as K-55/J-55 casing or tubing at the nearest size and weight.

## **V. INVENTORIES OF CONTROLLABLE MATERIAL**

The Operator shall maintain records of Controllable Material charged to the Joint Account as defined in the most recent COPAS Material Classification Manual, with sufficient detail to perform the physical inventories requested unless directed otherwise by the Non-Operators.

Adjustments to the Joint Account by the Operator resulting from a physical inventory of jointly owned Controllable Material shall be made within six months following the taking of the inventory or receipt of Non-Operator inventory. Charges and credits for overages or shortages will be valued for the Joint Account based on the Condition "B" prices in effect on the date of physical inventory as determined in accordance with Section IV, Paragraph 2.A. and 2.B. unless the inventorying Parties can prove another Material condition applies.

### **1. DIRECTED INVENTORIES**

With an interval of not less than five years, physical inventories shall be performed by the Operator upon written request of a majority in working interests of the Non-Operators.

Expenses of directed inventories will be borne by the Joint Account and may include the following:

- A. Audit per diem rate for each inventory person in accordance with the auditor rates recommended by COPAS at the time the inventory is conducted

The per diem should also be applied to a reasonable number of days for pre-inventory work and for report preparation. The amount of time required for this additional work may vary from inventory to inventory.

- B. Actual travel including Operator-provided transportation and Personal Expenses for the inventory team

- C. Reasonable charges for report typing and processing

The Operator is expected to exercise judgment in keeping expenses within reasonable limits. Unless otherwise agreed, costs associated with any post-report follow-up work in settling the inventory will be absorbed by the Party incurring such costs. Any anticipated disproportionate costs should be discussed and agreed upon prior to commencement of the inventory.

When directed inventories are performed, all Parties shall be governed by the results of such inventory.

### **2. NON-DIRECTED INVENTORIES**

#### **A. OPERATOR INVENTORIES**

Periodic physical inventories that are not requested by the Non-Operator may be performed by the Operator at the Operator's discretion. The expenses of conducting such Operator inventories shall not be charged to the Joint Account.

#### **B. NON-OPERATOR INVENTORIES**

Any Non-Operators may conduct a physical inventory at reasonable times at their sole cost and risk with prior notification to the Operator of at least 90 days. Non-Operator inventory findings shall be furnished to the Operator in writing within 90 days of completing the inventory field work.



### C. OTHER INVENTORIES

Other inventories may be taken whenever there is any sale or change of interest. When possible, the selling Party should notify all other owners at least 30 days prior to the anticipated closing date. When there is a change in Operator of the Joint Property, an inventory by the former and new Operator should be taken. The expenses of conducting other inventories shall be charged to the Joint Account in accordance with Section V, Paragraph 1.

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### APPENDIX A

Attached to and Made a Part of Exhibit C – Accounting Procedure

### AFFILIATES

- 1) BP Exploration and Production Technology (EPT) Group, or equivalent

APPENDIX B  
Attached to and Made a Part of Exhibit C – Accounting Procedure

EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

A. Operator may, under COPAS Accounting Guideline 25 ("Allocation of Rig Related Expenditures"), charge the Joint Account an allocated portion of any drillship or rig related commissioning and/or modification costs pursuant to the provisions of Section II, Paragraph 6 above, provided such drillship or rig related commissioning and/or modification costs are not included in the drillship or rig rate charged by the drilling contractor. Costs to be charged shall include all commissioning costs charged by the vendor and all costs (both onsite and offsite) incurred by the Operator, contractors or Affiliates to oversee the construction, modification and transportation of a rig including, but not limited to, their salaries and wages, personal expenses and support costs.

B. Operator may charge the Joint Account an allocated portion of the cost of the Onshore Drilling Center (ODC) or equivalent. This center is located offsite of the Joint Property with technology to plan, design, monitor, advise, and control a well or wells on a real time/on-line basis. The center will be used for planning, designing, drilling, re-drilling, side-tracking, or deepening, and/or completing a well, plug-back or work-over operations, plugging and abandonment. This center's costs will be charged pursuant to the provisions of Section II, Paragraph 6. Such charges shall include, but are not limited to, the following: facilities, communications, computers, software, system support, and ODC personnel provided by the Operator, contract services, or Affiliates.

C. Operator may charge the Joint Account an allocated portion of the cost of the Advanced Collaborative Environment Onshore Communication Facility (ACE), or equivalent, for communicating with field operations and optimizing well performance and reducing field operating expenses on a real time/online basis. This center's costs will be charged pursuant to the provisions of Section II, Paragraph 6 and COPAS Model Form Interpretation 44 (Field Computer and Communication Systems). Such charges shall include, but are not limited, to the following: facilities, communications, computers, software, system support, and ACE personnel provided by the Operator, contract services, or Affiliates.

D. Operator may charge the Joint Account an allocated portion of the cost of the Preservation and Maintenance Facility (PMF), or equivalent. This facility will be used to secure, preserve and maintain Gulf of Mexico non-warehouse materials for drilling and completions, wells, operations and subsea projects. The facility's costs will be charged pursuant to the provisions of Section II, Paragraph 6.

## EXHIBIT "D"

### Gas Balancing Agreement

Attached to and made a part of that certain Operating Agreement dated October 1, 2009 by and between BP Exploration & Production Inc., as Operator, and MOEX Offshore 2007 LLC, as Non-Operator

By signing the Joint Operating Agreement, to which this Exhibit "D" is attached, it is the intent of each Party to be bound by the terms and conditions of this Gas Balancing Agreement.

#### GAS BALANCING AGREEMENT ("AGREEMENT")

**1. DEFINITIONS:** The following definitions shall apply to this gas balancing agreement (the "Agreement"):

**1.01 "Arms Length Agreement"** shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales agreement with an affiliated purchaser where the sales price represents market value in the Balancing Area.

**1.02 "Balancing Area"** shall mean all of the acreage and depths subject to the Joint Operating Agreement.

**1.03 "Full Share of Current Production"** shall mean the Percentage Interest of each Party in the Gas actually produced from the Balancing Area during each month.

**1.04 "Gas"** shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel, recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.

**1.05 "Joint Operating Agreement"** shall mean the offshore operating agreement to which this Exhibit "D" is attached and made a part.

**1.06 "Makeup Gas"** shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full Share of Current Production, whether pursuant to Section 3.3 or Section 4.1.

**1.07 "Mcf"** shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic foot of space at sixty degrees

Fahrenheit, 14.73 pounds per square inch absolute (PSIA) and having a specific gravity of 1.00.

**1.08 "MMBtu"** shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a constant pressure of 14.73 pounds per square inch absolute.

**1.09 "Operator"** shall mean the individual or entity designated under the terms of the Joint Operating Agreement or, in the event this Agreement is not employed in connection with an operating agreement, the individual or entity designated as the operator of the well(s) located in the Balancing Area.

**1.10 "Overproduced Party"** shall mean any Party having taken a greater quantity of Gas from the Balancing Area than the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

**1.11 "Overproduction"** shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in the cumulative quantity of Gas produced from the Balancing Area.

**1.12 "Party"** shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors, transferees and assigns.

**1.13 "Percentage Interest"** shall mean the percentage or decimal interest of each Party in the Gas produced from the Balancing Area pursuant to the Joint Operating Agreement.

**1.14 "Royalty"** shall mean payments based on production of Gas from the Balancing Area to all owners of royalties.

**1.15 "Underproduced Party"** shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

**1.16 "Underproduction"** shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.

**1.17 "Winter Period"** shall mean the months October, November and December in one calendar year and the months of January, February and March in the succeeding calendar year.

## **2. BALANCING AREA**

**2.1** If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered by separate but identical agreements. All

balancing hereunder shall be on the basis of Gas taken from the Balancing Area measured in MMBtus.

**2.2** In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area, Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area, and each Party shall receive its proportionate share of Gas from each Balancing Area (each price category).

### **3. RIGHT OF PARTIES TO TAKE GAS**

**3.1** Each Party desiring to take Gas will notify the Operator of the volumes nominated, the name of the transporting pipeline and the pipeline contract number (if available) and meter station relating to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other requirements. Operator is authorized to deliver the volumes so nominated and confirmed (if confirmation is required) to the transporting pipeline in accordance with the terms of this Agreement and the transportation agreement governing those volumes (provided Operator is advised in writing of the relevant terms of said transportation agreement).

**3.2** Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month to the extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production.

**3.3** When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the right of the other Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any Gas that such Party fails to take. To the extent practicable, such Gas shall be made available initially to each Underproduced Party in the proportion that its Percentage Interest in the Balancing Area bears to the total Percentage Interest of all Underproduced Parties desiring to take such Gas. If all such Gas is not taken by the Underproduced Parties, the portion not taken shall then be made available to the other Parties in the proportion that their respective Percentage Interest in the Balancing Area bears to the total Percentage Interest of such Parties.

**3.4** All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is underproduced or overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking Party, provided however overriding royalties, production payments or similar burdens on interests shall be paid by each Party based on its entitlements, and not on actual takes.

**3.5** Notwithstanding the provisions of Section 3.3, no Overproduced Party shall be entitled in any month to take any Gas in excess of three hundred percent (300%) of its Percentage Interest of the Balancing Area's then current Maximum Monthly Availability; provided, however, that this limitation shall not apply to the extent that it would preclude production that is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production. "Maximum Monthly Availability" shall mean the maximum average monthly rate of production at which Gas can be delivered from the Balancing Area, as determined by the Operator, considering the maximum efficient well rate for each well within the Balancing Area, the maximum allowable(s) set by the appropriate regulatory agency, mode of operation, production facility capabilities and pipeline pressures.

**3.6** In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the Operator may sell any part of such Party's full share of Current Production that such Party fails to take for the account of such Party and render to such Party, on a current basis, the full proceeds of the sale less any third party compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of ninety (90) days. Notwithstanding the provisions of Article 3.4, Gas sold by Operator for a Party under the provisions hereof shall be deemed to be Gas taken for the account of such Party.

#### **4. IN-KIND BALANCING**

**4.1** Effective the first day of any calendar month following at least thirty (30) days' prior written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying fifty percent (50%) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than fifty percent (50%) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

**4.2** Notwithstanding the provisions of Section 4.1, no Overproduced Party will be required to provide more than twenty-five percent (25%) of its Full Share of Current Production for Makeup Gas during the Winter Period.

**4.3** Notwithstanding any other provision of this Agreement, but subject to Article 7, at such time and for so long as Operator, or (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to one hundred percent (100%) of such Overproduced Party's Full Share of Current Production until such time as recoverable reserves are actually equal to zero, or the Underproduced Party is in balance, whichever occurs first.

## **5. STATEMENT OF GAS BALANCES**

**5.1** The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account expressed in MMBtu's. Within thirty (30) days after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between the volume taken by each and that Party's Full Share of Current Production, (4) the Overproduction or Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum Accountants Societies Bulletin No. 24, as amended or supplemented hereafter. Each Party disposing of Gas in any month, to the extent required, shall furnish or cause to be furnished to the Operator by the last day of each calendar month a statement showing the total volume of Gas from the Balancing Area sold by such Party or taken in kind for its own account during the preceding calendar month ("Volume Data"), and Operator shall be entitled to rely and act upon the Volume Data for all purposes under this Agreement. A Party shall not utilize any Volume Data for any purpose other than implementing the terms of this Agreement.

**5.2** If any Party fails to provide the Volume Data required herein for four (4) consecutive production months, the Operator, or where the Operator has failed to provide Volume Data, another Party, may audit the production and Gas sales and transportation volumes of the non-reporting Party in connection with the Balancing Area to obtain the Volume Data. Such audit shall be conducted only after reasonable notice and during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit will be charged to the account of the Party failing to provide the Volume Data.

## **6. PAYMENTS ON PRODUCTION**



**6.1** Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas actually taken by such Party. For income tax purposes the Parties shall report income on all sales made pursuant to this Agreement in accordance with Treasury Regulation Section 1.761-2(d)(3) ("the cumulative gas balancing method").

**6.2** Each Party shall pay or cause to be paid Royalty due with respect to Royalty owners to whom it is accountable based on the volume of Gas actually taken for its account, provided however overriding royalties, production payments or similar burdens on interests shall be paid by each Party based on its entitlements, and not on actual takes.

**6.3** In the event that the United States Department of Interior requires that Royalty payments be made on any other basis than that provided for in this Section 6, each Party agrees to make such Royalty payments accordingly, commencing on the effective date required by such governmental authority, and the method provided for herein shall be thereby superseded.

## **7. CASH SETTLEMENTS**

**7.1** Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination of the Joint Operating Agreement, the termination of any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken from the Balancing Area for a period of twelve (12) consecutive months, any Party may give written notice calling for cash settlement of the Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.

**7.2** Within sixty (60) days after the notice calling for cash settlement under Section 7.1, the Operator will distribute to each Party a Final Gas Settlement Statement detailing the quantity of Overproduction owed by each Overproduced Party to each Underproduced Party and identifying the month to which such Overproduction is attributed, pursuant to the methodology set out in Section 7.4.

**7.3** Within sixty (60) days after receipt of the Final Gas Settlement Statement, each Overproduced Party will pay the cash settlement it owes as a result of being an Overproduced Party to the Operator. The Operator will pay to each Underproduced Party entitled to settlement the cash settlement it is owed as a result of being an Underproduced Party, accompanied by appropriate accounting detail.

**7.4** The amount of the cash settlement the Overproduced Party must pay shall be based on the proceeds received by the Overproduced Party under an Arm's Length Agreement for the Gas taken from time to time by the Overproduced Party in excess of the Overproduced Party's Share of Current Production. Any Makeup

Gas taken by the Underproduced Party prior to monetary settlement hereunder will be applied to offset Overproduction chronologically in the order of accrual.

**7.5** The values used for calculating the cash settlement under Section 7.1 will be based on the proceeds received for the sale of the Gas by the Overproduced Party calculated at the Balancing Area, under an Arm's Length Agreement, after deducting any production or severance taxes paid and any Royalty actually paid by the Overproduced Party to an Underproduced Party's Royalty owner(s), to the extent said payment amounted to a discharge of said Underproduced Party's Royalty obligation, as well as any actual third party marketing, compression, treating, gathering or transportation costs reasonably incurred directly in connection with the sale of the Overproduction.

**7.6** To the extent the Overproduced Party did not sell Overproduction under an Arm's Length Agreement, the cash settlement will be based on the weighted average price received by the Overproduced Party for any gas sold from the Balancing Area under Arm's Length Agreements during the months to which such Overproduction is attributed. In the event that no sales under Arm's Length Agreements were made during any such month, the cash settlement for such month will be based on the "Inside F.E.R.C.'s Gas Market Report" (the "Report") monthly index price published for the applicable geographic area during such month in a mutually acceptable pricing bulletin. If such Report ceases to be published or discontinues to quote the above referenced price, then from the last month published until termination of production, the price of the Overproduction for this period of time shall be equal to the proceeds actually received by the Overproduced Party for sales during the month(s) of Overproduction. The cash settlement shall be based on the number of MMBTU's of the Overproduction and shall be accompanied by a statement showing volumes, BTU adjustments, and prices for each month of accrued Overproduction. In the event the Underproduced Party has taken less than twenty percent (20%) of its proportionate share of cumulative Gas available for sale at cessation of production, the Overproduced Party(ies) shall be obligated to settle on only ninety percent (90%) of the Index price or the proceeds received for Gas removed from the leases(s) or unit(s), whichever is applicable. The cash settlement shall be less any Royalties, production taxes, severance taxes, and other reasonable costs associated with the transportation previously paid on the Overproduction by the Overproduced Party, and also net of any outstanding amounts related to the lease(s) or unit(s) which are owed by the Underproduced Party to the Overproduced Party.

**7.7** Interest compounded at the rate specified in Exhibit "C" of the Joint Operating Agreement or the maximum lawful rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1, beginning the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any Overproduced Party in

the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3 contributed to the accrual of the interest.

**7.8** In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party an offer to settle its Overproduction in-kind and at such rates, quantities, time and sources as may be agreed upon by the Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be furnished, within sixty (60) days after the Overproduced Party's offer to settle in-kind, which period may be extended by agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section 7.3. The making of an in-kind settlement offer under this Section will not delay the accrual of interest on the cash settlement should the Parties fail to reach agreement on an in-kind settlement.

## **8. OPERATING COSTS**

Nothing in this Agreement shall change or affect any Party's obligation to pay its proportionate share of all costs and liabilities incurred in operations on or in connection with the Balancing Area, as its share thereof is set forth in the Joint Operating Agreement, irrespective of whether any Party is at any time selling and using Gas or whether such sales or use are in proportion to its Percentage Interest in the Balancing Area.

## **9. LIQUIDS**

The Parties shall share proportionately in and own all liquid hydrocarbons recovered with Gas by field equipment operated for the joint account in accordance with their Percentage Interests in the Balancing Area.

## **10. AUDIT RIGHTS**

Notwithstanding any provision in this Agreement or any other agreement between the Parties, and further notwithstanding any termination or cancellation of this Agreement, for a period of two (2) years from the end of the calendar year in which any information to be furnished under Section 5 or 7 is supplied, any Party shall have the right to audit the records of any other Party regarding the quantity of Gas, including, but not limited to, information regarding Btu-content. Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning Gas values, including, but not limited to, information regarding prices and disposition of Gas from the Balancing Area. Any such audit shall be conducted in accordance with the audit provisions of Exhibit "C" of the Joint Operating Agreement. Each Party agrees to maintain records as to the volumes and prices of Gas sold each month and the volumes of Gas used in its own operations, along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights

provided for in this Section 10 shall be in addition to those provided for in Section 5.2 of this Agreement.

## **11. MISCELLANEOUS**

**11.1** As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of any gas sales contract, the provisions of this Agreement shall govern.

**11.2** Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability, losses, costs, damages and claims ("Losses") arising out of any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under the provisions of this Agreement, and does further agree to save the other Parties harmless from all Losses sustained or incurred in connection therewith.

**11.3** Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party (other than Operator) to pay any amounts owed pursuant to the terms hereof. Nothing herein shall be construed to deny any Party the right, from time to time, upon reasonable advance notice in writing to the Operator, to produce and take or deliver to its purchaser the full well stream for a reasonable period to meet the deliverability test required by its purchaser.

**11.4** This Agreement shall remain in full force and effect for as long as the Joint Operating Agreement shall remain in force and effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to the benefit of and be binding upon the Parties, and their respective heirs, successors, legal representatives and assigns, if any. The Parties agree to give notice of the existence of this Agreement to any successor in interest of any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of any interest subject to the Joint Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

**11.5** Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

**11.6** This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed or interpreted as creating any rights in any person or entity not a Party hereto, or as being a stipulation in favor of any such person or entity.

**11.7** In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all Parties, each Party agrees to compute and report income to the Internal Revenue Service based on the quantity of Gas taken for its account in accordance with such regulations, insofar as same relate to sales method tax computations.

## **12. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT**

**12.1** Subject to the provisions of Section 12.2, if any Party assigns (including any sale, exchange or other transfer) any of its working interest in the Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other act of transfer shall, insofar as the Parties are concerned, include all interest of the assigning or transferring Party in the Gas, all rights to receive or obligations to provide or take Makeup Gas and all rights to receive or obligations to make any monetary payment which may ultimately be due hereunder, as applicable. Operator and each of the other Parties shall thereafter treat the assignment accordingly, and the assigning or transferring Party shall look solely to its assignee or other transferee for any interest in the Gas or monetary payment that such Party may have or to which it may be entitled, and shall cause its assignee or other transferee to assume its obligations hereunder.

**12.2** In the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are Parties in such Balancing Area of such fact at least sixty (60) days prior to closing the transaction.

Thereafter, any Underproduced Party has the right to a cash settlement as a condition precedent to the assignment of the Overproducing Party's assignment of its interests in the Balancing Area. To exercise this right, the Underproduced Party may demand from such Overproduced Party in writing, within thirty (30) days after receipt of the Overproduced Party's notice, a cash settlement of its Underproduction from the Balancing Area. If more than one Underproduced Party demands a cash settlement, such settlements must be made with all Underproduced Parties proportionately based on the relative imbalances of the Underproduced Parties. The Operator shall be notified of any such demand and of any cash settlement pursuant to this Section 12, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash settlement pursuant to this Section 12 shall be paid by the Overproduced Party on or before the earlier to occur (i) of sixty (60) days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in Sections 7.4 through 7.6, and, to the

extent any interest is due, shall bear interest at the rate set forth in Section 7.7 . Any Underproduced Party accepting a cash settlement from an Overproduced Party shall thereby indemnify and hold the Overproduced Party harmless against any causes of action, claims, losses or other actions which may be claimed by any third party with respect to the Underproduced Party's Underproduction on which the cash settlement is based, provided that this indemnity shall not relieve the Overproduced Party from obligations associated with its failure to make payment of taxes or royalties on the Underproduced Party's Underproduction, except to the extent of cash which is owed to the royalty owner or other party entitled thereto but which is paid to the Underproduced Party.

**12.3** The provisions of this Section 12 shall not be applicable in the event any Party mortgages its interest or disposes of its interest by merger, reorganization, consolidation or sale of all or substantially all of its assets to a subsidiary or parent company, or to any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

## EXHIBIT "E"

### NONDISCRIMINATION CLAUSE

Attached to and made a part of that certain Operating Agreement dated October 1, 2009 by and between BP Exploration & Production Inc., as Operator, and MOEX Offshore 2007 LLC, as Non-Operator

During the performance of this Agreement, the "contractor" (meaning and referring separately to each party hereto), agrees, unless exempt therefrom to comply with all provisions of Executive Order 11246 which are incorporated herein by reference, and (a) if contractor has more than 50 employees or contracts with another party hereto in excess of \$10,000, contractor must file Standard Form 100 (EEO-1), (b) if contractor has 50 or more employees and a contract of \$50,000 or more, contractor is required to develop a written "Affirmative Action Compliance Program" for each of its establishments according to the Rules and Regulations published by the United States Department of Labor in 41 CFR, Chapter 60. Further, contractor hereby certifies that it does not now and will not maintain any facilities provided for its employees in a segregated manner or permit its employees to perform their services at any location under its control where segregated facilities are maintained, as such segregated facilities are defined in Title 41, Chapter 60-1.8, Code of Federal Regulations, revised as of January 1, 1969, unless exempt therefrom. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion or national origin because of habit, local custom or otherwise. Contractor further warrants that no other law, regulation or ordinance of the United States, or any state, or any governmental authority or agency has been violated in the manufacture, procurement or sale of any good furnished, work performed or service rendered pursuant to this contract.

Unless exempt by rules, regulations or orders of the United States Secretary of Labor, issued pursuant to Section 204 of Executive Order 11246, dated September 24, 1965, during the performance of this contract, the contractor agrees as follows:

"(1) The contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The contractor will take affirmative action to ensure that applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to, the following: Employment, upgrading, demotion, transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause."

"(2) The contractor will, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin."

"(3) The contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the contractor's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment."

"(4) The contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor."

"(5) The contractor will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigating to ascertain compliance with such rules, regulations and orders."

"(6) In the event of the contractor's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law."

"(7) The contractor will include the provisions of paragraph (1) through (8) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance: Provided, however, that in the event the contractor becomes involved in, or is result of such direction by the contracting agency, the contractor may request the United States to enter into such litigation to protect the interests of the United States."

"(8) Contractor agrees and covenants that none of its employees or employees of its subcontractors who provided services pursuant to this contract are unauthorized aliens, as defined in the Immigration, Reform and Control Act of 1986."

"(9) Contractor further agrees that (except where it has obtained identical certifications from proposed subcontractors) prior to the award of subcontracts exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that it will retain such certifications in its files; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods):

NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certification of Nonsegregated Facilities, as required by the May 9, 1967, order on Elimination of Segregated Facilities, by the Secretary of Labor (32 Fed. Reg. 7439, May 19, 1967), must be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semiannually or annually). (1968 MAR.) (Note: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.)"



## **EXHIBIT "F"**

Attached to and made a part of that certain Operating Agreement dated October 1, 2009 by and between BP Exploration & Production Inc., as Operator, and MOEX Offshore 2007 LLC, as Non-Operator

### **ARTICLE 6.3 ET SEQ. DEEPWATER OPERATING AGREEMENT (Louisiana)**

Security Rights; Default; Unpaid Charges; Carved-out Interests.

#### **6.3 Security Rights.**

a. Security Rights - Properties Located Offshore Adjacent to the State of Louisiana. In addition to any other security rights and remedies provided by law with respect to services rendered or materials and equipment furnished under this Agreement, for and in consideration of the covenants and mutual undertakings of the Operator and the Non-Operating Parties herein, the Parties shall have the following security rights:

(i) Mortgage in Favor of the Operator. Each Non-Operating Party hereby grants to the Operator a mortgage, hypothecate, and pledge of and over all of its rights, titles, and interests in and to (a) the Leases, (b) the oil and gas in, on, under, and that may be produced from the lands within the Contract Area, and (c) all other immovable property susceptible of mortgage situated within the Contract Area.

This mortgage is given to secure the complete and timely performance of and payment by each Non-Operating Party of all obligations and indebtedness of every kind and nature, whether now owed by such Non-Operating Party or hereafter arising, pursuant to this Agreement. To the extent susceptible under applicable law, this mortgage and the security interests granted in favor of the Operator herein shall secure the payment of all Costs and other expenses properly charged to such Party, together with (A) interest on such indebtedness, Costs, and other expenses at the rate set forth in Exhibit "C" attached hereto (the "Accounting Procedure") or the maximum rate allowed by law, whichever is the lesser, (B) reasonable attorneys' fees, (C) court costs, and (D) other directly related collection costs. If any Non-Operating Party does not pay such Costs and other expenses or perform its obligations under this Agreement when due, the Operator shall have the additional right to notify the purchaser or purchasers of the defaulting Non-Operating Party's Hydrocarbon production and collect such Costs and other expenses out of the proceeds from the sale of the defaulting Non-Operating Party's share of Hydrocarbon production until the amount owed has been paid. The Operator shall have the right to offset the amount owed against the proceeds from the sale of such defaulting Non-Operating Party's share of Hydrocarbon production. Any purchaser of such production shall be entitled to rely on the Operator's statement concerning the amount of Costs and other expenses owed by the defaulting Non-Operating Party and payment made

to the Operator by any purchaser shall be binding and conclusive as between such purchaser and such defaulting Non-Operating Party.

The maximum amount for which the mortgage herein granted by each Non-Operating Party shall be deemed to secure the obligations and indebtedness of such Non-Operating Party to the Operator as stipulated herein is hereby fixed in an amount equal to \$25,000,000.00 (the "Limit of the Mortgage of each Non-Operating Party"). Except as provided in the previous sentence (and then only to the extent such limitations are required by law), the entire amount of obligations and indebtedness of each Non-Operating Party to the Operator is secured hereby without limitation. Notwithstanding the foregoing Limit of the Mortgage of each Non-Operating Party, the liability of each Non-Operating Party under this Agreement and the mortgage and security interest granted hereby shall be limited to (and the Operator shall not be entitled to enforce the same against such Non-Operating Party for, an amount exceeding) the actual obligations and indebtedness (including all interest charges, costs, attorneys' fees, and other charges provided for in this Agreement or in the Memorandum of Operating Agreement and Financing Statement (Louisiana), as such term is defined in Section 6.3.b.(v) hereof) outstanding and unpaid and that are attributable to or charged against the interest of such Non-Operating Party pursuant to this Agreement.

(ii) Security Interest in Favor of the Operator. To secure the complete and timely performance of and payment by each Non-Operating Party of all obligations and indebtedness of every kind and nature, whether now owed by such Non-Operating Party or hereafter arising, pursuant to this Agreement, each Non-Operating Party hereby grants to the Operator a continuing security interest in and to all of its rights, titles, interests, claims, general intangibles, proceeds, and products thereof, whether now existing or hereafter acquired, in and to (a) all oil and gas produced from the lands or offshore blocks covered by the Leases or the Contract Area or attributable to the Leases or the Contract Area when produced, (b) all accounts receivable accruing or arising as a result of the sale of such oil and gas (including, without limitation, accounts arising from gas imbalances or from the sale of oil and gas at the wellhead), (c) all cash or other proceeds from the sale of such oil and gas once produced, and (d) all Development Systems, wells, facilities, fixtures, other corporeal property, whether movable or immovable, whether now or hereafter placed on the lands or offshore blocks covered by the Leases or the Contract Area or maintained or used in connection with the ownership, use or exploitation of the Leases or the Contract Area, and other surface and sub-surface equipment of any kind or character located on or attributable to the Leases or the Contract Area and the cash or other proceeds realized from the sale, transfer, disposition or conversion thereof. The interest of the Non-Operating Parties in and to the oil and gas produced from or attributable to the Leases or the Contract Area when extracted and the accounts receivable accruing or arising as the result of the sale thereof shall be financed at the wellhead of the well or wells located on the Leases or the Contract Area. To the extent susceptible under applicable law, the security interest granted by each Non-Operating Party hereunder covers: (A) all substitutions, replacements, and accessions to the property of such Non-Operating Party described herein and is intended to cover all of the rights,

titles and interests of such Non-Operating Party in all movable property now or hereafter located upon or used in connection with the Contract Area, whether corporeal or incorporeal; (B) all rights under any gas balancing agreement, farmout rights, option farmout rights, acreage and cash contributions, and conversion rights of such Non-Operating Party in connection with the Leases or the Contract Area, or the oil and gas produced from or attributable to the Leases or the Contract Area, whether now owned and existing or hereafter acquired or arising, including, without limitation, all interests of each Non-Operating Party in any partnership, tax partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area; and (C) all rights, claims, general intangibles, and proceeds, whether now existing or hereafter acquired, of each Non-Operating Party in and to the contracts, agreements, permits, licenses, rights-of-way, and similar rights and privileges that relate to or are appurtenant to the Leases or the Contract Area, including the following:

(1) all of its rights, titles, and interests, whether now owned and existing or hereafter acquired or arising, in, to, and under or derived from any present or future operating, farmout, bidding, pooling, unitization, and communitization agreements, assignments, and subleases, whether or not described in Exhibit "A," to the extent, and only to the extent, that such agreements, assignments, and subleases cover or include any of its rights, titles, and interests, whether now owned and existing or hereafter acquired or arising, in and to all or any portion of the Leases or the Contract Area, and all units created by any such pooling, unitization, and communitization agreements and all units formed under orders, regulations, rules, or other official acts of any governmental authority having jurisdiction, to the extent and only to the extent that such units cover or include all or any portion of the Leases or the Contract Area;

(2) all of its rights, titles, and interests, whether now owned and existing or hereafter acquired or arising, in, to, and under or derived from all presently existing and future advance payment agreements, and oil, casinghead gas, and gas sales, exchange, and processing contracts and agreements, including, without limitation, those contracts and agreements that are described on Exhibit "A," to the extent, and only to the extent, those contracts and agreements cover or include all or any portion of the Leases or the Contract Area; and

(3) all of its rights, titles, and interests, whether now owned and existing or hereafter acquired or arising, in, to, and under or derived from all existing and future permits, licenses, rights-of-way, and similar rights and privileges that relate to or are appurtenant to the Leases or the Contract Area.

(iii) Mortgage in Favor of the Non-Operating Parties. The Operator hereby grants to each Non-Operating Party a mortgage, hypotheca, and pledge of and over all of its rights, titles, and interests in and to (a) the Leases; (b) the oil and gas in, on, under, and that may be produced from the lands within the

Contract Area; and (c) all other immovable property or other property susceptible of mortgage situated within the Contract Area.

This mortgage is given to secure the complete and timely performance of and payment by the Operator of all obligations and indebtedness of every kind and nature, whether now owed by the Operator or hereafter arising, pursuant to this Agreement. To the extent susceptible under applicable law, this mortgage and the security interests granted in favor of each Non-Operating Party herein shall secure the payment of all Costs and other expenses properly charged to the Operator, together with (A) interest on such indebtedness, Costs, and other expenses at the rate set forth in the Accounting Procedure or the maximum rate allowed by law, whichever is the lesser, (B) reasonable attorneys' fees, (C) court costs, and (D) other directly related collection costs. If the Operator does not pay such Costs and other expenses or perform its obligations under this Agreement when due, the Non-Operating Parties shall have the additional right to notify the purchaser or purchasers of the Operator's Hydrocarbon production and collect such Costs and other expenses out of the proceeds from the sale of the Operator's share of Hydrocarbon production until the amount owed has been paid. The Non-Operating Parties shall have the right to offset the amount owed against the proceeds from the sale of the Operator's share of Hydrocarbon production. Any purchaser of such production shall be entitled to rely on the Non-Operating Parties' statement concerning the amount of Costs and other expenses owed by the Operator and payment made to the Non-Operating Parties by any purchaser shall be binding and conclusive as between such purchaser and the Operator.

The maximum amount for which the mortgage herein granted by the Operator shall be deemed to secure the obligations and indebtedness of the Operator to all Non-Operating Parties as stipulated herein is hereby fixed in an amount equal to \$25,000,000.00 in the aggregate (the "Limit of the Mortgage of the Operator"). Except as provided in the previous sentence (and then only to the extent such limitations are required by law), the entire amount of obligations and indebtedness of the Operator to the Non-Operating Parties is secured hereby without limitation. Notwithstanding the foregoing Limit of the Mortgage of the Operator, the liability of the Operator under this Agreement and the mortgage and security interest granted hereby shall be limited to (and the Non-Operating Parties shall not be entitled to enforce the same against the Operator for, an amount exceeding) the actual obligations and indebtedness (including all interest charges, costs, attorneys' fees, and other charges provided for in this Agreement or in the Memorandum of Operating Agreement and Financing Statement (Louisiana), as such term is defined in Section 6.3.b.(v) hereof) outstanding and unpaid and that are attributable to or charged against the interest of the Operator pursuant to this Agreement.

(iv) Security Interest in Favor of the Non-Operating Parties. To secure the complete and timely performance of and payment by the Operator of all obligations and indebtedness of every kind and nature, whether now owed by the Operator or hereafter arising, pursuant to this Agreement, the Operator hereby grants to each Non-Operating Party a continuing security interest in and to all of

its rights, titles, interests, claims, general intangibles, proceeds, and products thereof, whether now existing or hereafter acquired, in and to (a) all oil and gas produced from the lands or offshore blocks covered by the Leases or included within the Contract Area or attributable to the Leases or the Contract Area when produced, (b) all accounts receivable accruing or arising as a result of the sale of such oil and gas (including, without limitation, accounts arising from gas imbalances or from the sale of oil and gas at the wellhead), (c) all cash or other proceeds from the sale of such oil and gas once produced, and (d) all Development Systems, wells, facilities, fixtures, other corporeal property whether movable or immovable, whether now or hereafter placed on the offshore blocks covered by the Leases or the Contract Area or maintained or used in connection with the ownership, use or exploitation of the Leases or the Contract Area, and other surface and sub-surface equipment of any kind or character located on or attributable to the Leases or the Contract Area and the cash or other proceeds realized from the sale, transfer, disposition or conversion thereof. The interest of the Operator in and to the oil and gas produced from or attributable to the Leases when extracted and the accounts receivable accruing or arising as the result of the sale thereof shall be financed at the wellhead of the well or wells located on the Leases or the Contract Area. To the extent susceptible under applicable law, the security interest granted by the Operator hereunder covers: (A) all substitutions, replacements, and accessions to the property of the Operator described herein and is intended to cover all of the rights, titles and interests of the Operator in all movable property now or hereafter located upon or used in connection with the Contract Area, whether corporeal or incorporeal; (B) all rights under any gas balancing agreement, farmout rights, option farmout rights, acreage and cash contributions, and conversion rights of the Operator in connection with the Leases or the Contract Area, the oil and gas produced from or attributable to the Leases or the Contract Area, whether now owned and existing or hereafter acquired or arising, including, without limitation, all interests of the Operator in any partnership, tax partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area; and (C) all rights, claims, general intangibles, and proceeds, whether now existing or hereafter acquired, of the Operator in and to the contracts, agreements, permits, licenses, rights-of-way, and similar rights and privileges that relate to or are appurtenant to the Leases or the Contract Area, including the following:

- (1) all of its rights, titles, and interests, whether now owned and existing or hereafter acquired or arising, in, to, and under or derived from any present or future operating, farmout, bidding, pooling, unitization, and communitization agreements, assignments, and subleases, whether or not described in Exhibit "A," to the extent, and only to the extent, that such agreements, assignments, and subleases cover or include any of its rights, titles, and interests, whether now owned and existing or hereafter acquired or arising, in and to all or any portion of the Leases or the Contract Area, and all units created by any such pooling, unitization, and communitization agreements and all units formed under orders, regulations, rules, or other official acts of any governmental authority having jurisdiction, to the extent and only to the extent that such units

cover or include all or any portion of the Leases or the Contract Area;

(2) all of its rights, titles, and interests, whether now owned and existing or hereafter acquired or arising, in, to, and under or derived from all presently existing and future advance payment agreements, and oil, casinghead gas, and gas sales, exchange, and processing contracts and agreements, including, without limitation, those contracts and agreements that are described on Exhibit "A," to the extent, and only to the extent, those contracts and agreements cover or include all or any portion of the Leases or the Contract Area; and

(3) all of its rights, titles, and interests, whether now owned and existing or hereafter acquired or arising, in, to, and under or derived from all existing and future permits, licenses, rights-of-way, and similar rights and privileges that relate to or are appurtenant to any of the Leases or the Contract Area.

b. Default. If any Party does not pay its share of the charges authorized under this Agreement when due, the Operator may give the defaulting Party notice that unless payment is made within thirty (30) days from delivery of the notice, the non-paying Party shall be in default. A Party in default shall have no further access to the rig, Production System, Facilities, any Confidential Data or other maps, records, data, interpretations, or other information obtained in connection with activities or operations hereunder or be allowed to participate in meetings. A Party in default shall not be entitled to Vote or to make an Election until such time as the defaulting Party is no longer in default. The voting interest of each non-defaulting Party shall be counted in the proportion its Working Interest bears to the total non-defaulting Working Interests. As to any operation approved during the time a Party is in default, such defaulting Party shall be deemed to be a Non-Participating Party, except where such approval is binding on all Parties or Participating Parties, as applicable. In the event a Party believes that such statement of charges is incorrect, the Party shall nevertheless pay the amounts due as provided herein, and the Operator shall attempt to resolve the issue as soon as practicable, but said attempt shall be made no later than sixty (60) days after receiving notice from the Party of such disputed charges.

c. Unpaid Charges. If any Participating Party fails to pay its share of the Costs and other expenses authorized under this Agreement within thirty (30) days after receipt of an invoice therefor or to otherwise perform any of its obligations under this Agreement when due, the Party to whom such payment is due, in order to take advantage of the provisions of this Section 6.3, shall notify the other Party by certified or registered U.S. Mail that it is in default and has thirty (30) days from the receipt of such notice to pay. If such payment is not made timely by the non-paying Party after the issuance of such notice to pay, the Party requesting such payment may take immediate steps to diligently pursue collection of the unpaid Costs and other expenses owed by such Participating Party, to collect consequential damages as a result of the default, and to exercise the mortgage and security rights granted by this Agreement. The bringing of a suit and the obtaining of a judgment by any Party for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the security rights granted herein. In addition to any other remedy afforded by law, each

Party shall have, and is hereby given and vested with, the power and authority to foreclose the lien, mortgage, pledge, and security interest established hereby in its favor in the manner provided by law, to exercise the Power of Sale provided for herein, if applicable, and to exercise all rights of a secured party under the Uniform Commercial Code as adopted by the state in which the Contract Area is located or such other states as such Party may deem appropriate. The Operator shall keep an accurate account of amounts owed by the nonperforming Party (plus interest and collection costs) and any amounts collected with respect to amounts owed by the nonperforming Party. In the event there become three or more Parties to this Agreement, then if any nonperforming Party's share of Costs remains delinquent for a period of sixty (60) days, each other Participating Party shall, upon the Operator's request, pay the unpaid amount of Costs in the proportion that its Working Interest bears to the total non-defaulting Working Interests. Each Participating Party paying its share of the unpaid amounts of a nonperforming Party shall be subrogated to the Operator's mortgage and security rights to the extent of the payment made by such Participating Party.

d. Carved-out Interests. Any agreements creating any overriding royalty, production payment, net proceeds interest, net profits interest, carried interest or any other interest carved out of a Working Interest in the Leases or the Contract Area shall specifically make such interests inferior to the rights of the Parties to this Agreement. If any Party whose Working Interest is so encumbered does not pay its share of Costs and other expenses authorized under this Agreement, and the proceeds from the sale of its Hydrocarbon production pursuant to this Section are insufficient to pay such Costs and expenses, the security rights provided for in this Section may be applied against the carved-out interests with which the defaulting or non-performing Party's interest in the Leases or the Contract Area is burdened. In such event, the rights of the owner of such carved-out interest shall be subordinated to the security rights granted by this Section.

## **EXHIBIT "G"**

### **PROJECT TEAM EXHIBIT (with Technology Sharing Provisions)**

Attached to and made a part of that certain Operating Agreement dated October 1, 2009 by and between BP Exploration & Production Inc., as Operator, and MOEX Offshore 2007 LLC, as Non-Operator

#### **SECTION 1 DEFINITIONS**

**1.1 Background Technology and Information**

Any Participating Party's proprietary geophysical, geochemical, drilling, engineering, or other similar technical information or technology, along with information, reports, studies, analyses, models, or similar data and documents incorporating such information, that is (a) developed, acquired, owned, or controlled by an individual Participating Party as a result of activities outside the scope of both this Exhibit and the Operating Agreement, or (b) developed, acquired, owned, or controlled by an individual Participating Party as result of activities that are within the scope of either this Exhibit or the Operating Agreement, but where such activities were conducted as a Non-Consent Operation, and (c) identified and declared as Background Technology and Information prior to its submission to the Project Team pursuant to the terms of this Exhibit.

**1.2 Confidential Information**

All Project Technology and Information and Background Technology and Information. Confidential Information does not include "Confidential Data", as that term is defined in the Operating Agreement. To the extent that "Confidential Data" is submitted by a Participating Party for use by the Project Team, such "Confidential Data" continues to be governed solely by the terms of the Operating Agreement.

**1.3 Project Manager**

The Operator's designated representative who will direct, supervise, and oversee the work of the Project Team.

**1.4 Project Technology and Information**

All engineering or other similar technical data, along with all information, reports, studies, analyses, models, or similar data and documents incorporating such data, that (a) are acquired or developed by the Project Team, or provided to the Project Team by one or more of the Participating Parties and (b) are charged to the Joint Account.

**1.5 Operating Agreement**



That certain Operating Agreement effective October 1, 2009, between BP Exploration & Production Inc. and MOEX Offshore 2007 LLC, covering the Contract Area.

1.6 Other Terms

Except as defined in this Exhibit, capitalized terms used herein have the same meaning as defined in the Operating Agreement.

**SECTION 2**  
**INTEGRATED PROJECT TEAM FORMATION AND ADMINISTRATION**

2.1 Formation and Staffing of the Project Team

An Project Team shall be proposed pursuant to the terms of Article 12 of the Operating Agreement. The Project Team will be composed of representatives nominated by each Participating Party. The individuals nominated for participation by the Participating Parties must have experience commensurate with the needs and objectives of the Project Team as described in the Project Team AFE and scope of work prepared in accordance with Section 3.1 of this Exhibit.

The Project Manager shall staff the Project Team from the pool of nominated representatives designated by each Participating Party; provided, however, if the Project Manager has not staffed a position from the pool of representatives, the Project Manager may request additional representatives be nominated for consideration.

These nominated representatives must be employees or contractors (as used in this Exhibit, "contractors" includes "consultants") of either the Participating Party or its Affiliates. The Project Manager must approve actual participation of any individual nominated by a Participating Party for participation on the Project Team, but such approval shall not be unreasonably withheld. In selecting team members, the Project Manager will give Participating Party or Affiliate employees preference over contractors, and contractors may not displace qualified employees as a team member. Contractors may not be placed in supervisory positions on a Project Team unless there are no employee team members available for such supervisory positions. Each Participating Party has the right, but not the obligation, to have percentage representation on the Project Team up to its respective Participating Interest Share of the total number of personnel to be assigned to the Project Team. In the event any Participating Party nominates less than its full Participating Interest Share of Project Team members or later withdraws some or all of its members, the number of Project Team members that the other Participating Parties are entitled to have on the Project Team will be increased proportionately.

The Project Team may utilize the resources of the Participating Parties, their Affiliates, and contractors to carry out the work of the Project Team.

Subject to Article 12.2 of the Operating Agreement, the Project Manager will determine the make-up and size of the Project Team and the qualifications of its members and must notify the Participating Parties of the initial positions that may be available on the Project Team within sixty (60) days of the formation of the Project Team. The size of the Project Team may be no larger than is reasonably necessary to accomplish the Project Team's tasks. If the Project Manager decides that an Project Team member should be replaced, the Participating Party whose representative is to be replaced must make arrangements to effect a reassignment of the member in question. That Participating Party is then entitled to nominate another person to fill the vacant position on the Project Team.

## 2.2 Status of Project Team Participants

Each employee Project Team member (i.e., a Project Team member who is an employee of a Participating Party or its Affiliate) remains an employee of its respective company, and each company remains responsible for their employee's salaries and benefits, as well as maintaining worker's compensation insurance on their employees. Accordingly, each employer company will continue to administer the compensation, benefits, allowances, and careers of its employees on the Project Team. However, employee Project Team members will receive team assignments and general supervision from the Project Manager in connection with their day to day work. An individual selected to the Project Team will, insofar as possible, and consistent with the needs of the individual's employer, serve on the Project Team for the duration of the Project Team, unless such individual is designated a temporary Project Team member by his or her employer or the Project Manager. Notwithstanding the above, if an Project Team member is designated a temporary Project Team member by his or her employer or the Project Manager, such Project Team member will leave the Project Team upon completion of the specific task or phase of the Project Team's work to which such member was assigned by the Project Manager.

In the event a contractor of a Participating Party or its Affiliate is an Project Team member, such Participating Party or Affiliate will remain responsible for and will administer such contractor's compensation, unless agreed otherwise by the Project Manager. The Project Manager will administer the compensation of contractors whose services are secured directly by the Project Team.

## 2.3 Project Manager

The Project Team will operate under the direction of the Project Manager, who will be selected by the Operator. The Operator is responsible for ensuring that the Project Manager acts in accordance with this Exhibit and the Operating Agreement.

The Project Manager is responsible for:

- a. the overall management and supervision of the Project Team work, and
- b. making team assignments, and

- c. determining the time and place for Project Team meetings and the location or locations where Project Team activities and work will be conducted, and
- d. selecting team members from the nominations provided by the Participating Parties, and
- e. determining the need for and selecting contractors to perform Integrated Project Team activities, and
- f. acquiring supplies and services needed by the Project Team, and
- g. instituting procedures for maintaining Confidential Information, and
- h. making presentations on the work of the Project Team and associated documentation at meetings conducted under the Operating Agreement.

#### **2.4 Withdrawal From Project Team**

Any Participating Party may withdraw one or more of its representatives from the Project Team at any time; however, such a withdrawal will not cause the Project Team to terminate or otherwise affect the obligations of such withdrawing Participating Party to pay its share of the costs and expenses associated with the approved Project Team AFE and any approved supplemental AFE's thereto. Likewise, the withdrawal of one or more representatives by a Participating Party will not affect the other rights and obligations of such Participating Party under this Exhibit. In the event a Participating Party withdraws one or more representatives from a Project Team, then the Participating Parties must follow the provisions of Sub Section 2.1 for the selection of substitute Project Team members.

If all but one of the Participating Parties withdraw all their employees or contractors from participation in the Project Team, then at its sole option, the remaining Participating Party may either (1) allow the Project Team to continue to work under the approved Project Team AFE, and any approved supplemental AFE's thereto, with all Participating Parties remaining liable for and paying their share of Project Team costs under such AFE's or (2) terminate the Project Team. Upon such termination of the Project Team under (2) above; any further work on the Development System will be conducted pursuant to the terms of the Operating Agreement. Any expenditure under an approved Project Team AFE, and any approved supplemental AFE's thereto, which have not been accounted for at the time the Project Team terminates will continue to be accounted for under the Project Team provisions of Exhibit "C" (Accounting Procedure).

### **SECTION 3.0**

## **WORK SCOPE AND DURATION OF INTEGRATED PROJECT TEAM**

### **3.1 Work Scope of the Project Team**

The primary objective for forming any Project Team is to pool the talents of the Parties in preparing the Development Plan and provide each Participating Party the opportunity to have input regarding the planning, design, engineering, fabrication, transportation and installation of any Development System. The proposal of the Development Plan (including the Initial Production System) and commitment of funds thereto shall be handled in accordance with Article 12 of the Operating Agreement. For any project undertaken by the Project Team, the Operator shall provide: (1) a memo describing the anticipated scope of the team's work to be undertaken in reasonable detail such that the Non-Operator may make an informed decision concerning its participation in the Project Team; (2) a memo describing the type and number of staff required to complete the assignment, and (3) an AFE itemizing the Operator's estimate of the Cost of the Project Team, (4) the proposed locations where the Project Team representatives will serve, and (5) the estimated duration of the Project Team.

### **3.2 Reports by the Project Team**

The Project Team shall review the progress of its work with all Participating Parties at least quarterly, and present the results of any studies or planning upon their conclusion. The time and place of the meetings of the Project Team and location for conducting Project Team activities shall be determined by the Project Manager.

### **3.3 Duration of the Project Team**

The Project Team shall remain in place until (1) the team has completed the work described in the Project Team AFE and scoping memo, or (2) the planning, design, construction, installation and start-up phase of any Development System has been completed, or (3) Project Team work has been terminated by approval of the Participating Parties as a General Matter, whichever is the earlier event. Upon dissolution of the Project Team, the Operator shall conduct any further work required for the installation of the Development System. Any AFE in progress at the time of the Project Team's dissolution shall continue to be accounted for under the Project Team provisions of Exhibit "C", except as otherwise agreed.

### **3.4 Re-instatement of Project Team**

The Project Team created for planning and designing the Initial Production System may be reinstated by the Operator to assist in further work on the Initial Production System or planning and designing any Subsequent Production System. Any reinstated Project Team shall utilize the procedures of this Exhibit, with any applicable time periods in Article 12 of the Operating Agreement running from the date of reinstatement of the Project Team.

**SECTION 4.0**  
**COSTS AND ADMINISTRATION OF THE INTEGRATED PROJECT TEAM**

**4.1 Integrated Project Team Costs**

The costs and expenses for the Project Team shall be charged to the Joint Account pursuant to Exhibit "C", (Accounting Procedures) of the Operating Agreement. Each Participating Party in the Project Team shall be responsible for its Participating Interest Share of the Project Team expenses, regardless of its level of employee or contractor participation on the Project Team.

**4.1.1 Employee Charges:** Each Participating Party in an Project Team shall recover the Costs of employees, including expatriates, assigned to or working under the direction of the Project Team through direct charges to the Joint Account under Exhibit "C" (Accounting Procedure) of the Operating Agreement.

**4.1.2 Contractors and Consultants:** The Project Manager may retain the services of such consultants and contractors as is reasonably necessary to carry out the studies and tasks assigned to the Project Team. Costs of consultants and contractors assigned to the Project Team shall be recovered by Operator through direct charges to the Joint Account under Exhibit "C" (Accounting Procedure) of the Operating Agreement. So long as the Costs of the consultant or contractor are within the scope of an approved AFE, the Project Manager's retention of consultants shall not require additional approval by the Participating Parties.

**SECTION 5**  
**CONFIDENTIALITY**

**5.1 Obligation of Confidentiality and Restrictions on Use**

Each Participating Party must maintain as confidential all Confidential Information and not disclose to any third party or use such Confidential Information, except as expressly provided hereunder, for a confidentiality period commencing on the date of execution of the Operating Agreement and extending through the earlier of (a) two (2) years following the termination of the Project team work in accordance with the terms of the Operating Agreement or (b) one (1) year following the date the Operating Agreement expires by its terms. After expiration of the confidentiality period, the disclosing Participating Party's obligations of confidentiality and restrictions on use regarding the Confidential Information will be determined in accordance with Sub-Sections 6.4, 6.5 and 6.6. Each Participating Party must treat the disclosure of the Confidential Information in the same manner as it treats its own similar data and information.

**5.2 Exceptions**

Any Participating Party may disclose Confidential Information to third parties if such disclosure is either subject to an exception to the confidentiality obligation or ceases to be confidential in nature as listed below:

- a. The provisions of Sub-Section 5.1 do not apply to Confidential Information that:
  - 1. was in the public knowledge or literature at the time of development or receipt hereunder, or
  - 2. was already in the receiving Participating Party's (or its Affiliate's) possession without obligation of confidentiality, at the time of development or receipt by the receiving Participating Party.
- b. The provisions of Sub-Section 5.1 cease to apply to Confidential Information that:
  - 1. becomes part of the public knowledge subsequent to its development or receipt hereunder and without fault of the receiving Participating Party, or
  - 2. is disclosed to the receiving Participating Party without obligation of confidentiality by a third party having legal right to do so, or
  - 3. is independently developed by or for the receiving Participating Party, or
  - 4. is required to be disclosed pursuant to applicable law or order of a court of competent jurisdiction, provided the disclosing Participating Party gives the other Participating Parties notice of such disclosure prior to such disclosure.

## **SECTION 6 CONFIDENTIAL INFORMATION**

### **6.1 Right to Receive Project Technology and Information**

Each Participating Party has the right to receive all Project Technology and Information, whether such information is developed by a Participating Party, an Affiliate, or by a third party.

### **6.2 Right to Use Confidential Information**

Subject to the obligation of confidentiality of Section 5 and the obligation of Sub-Sections 6.5 and 6.6, and subject to the patent rights of the Participating Parties, each Participating Party may use all Confidential Information, without otherwise accounting to any other Participating Party, including, subject to Sub-Section

6.3.d., use by or for a joint venture or production sharing arrangement in which a Participating Party has an ownership interest.

6.3 Right to Disclose

Subject to the foregoing, each Participating Party may disclose Confidential Information during the period of confidentiality set forth in Sub-Section 5.1 upon the following conditions:

- a. Each Participating Party may disclose and extend the rights to use Confidential Information to each of its Affiliates who accepts and agrees in writing to obligations of confidentiality and restrictions on use at least as restrictive as those set forth in this Exhibit. The rights to use and disclose provided herein are subject to whatever patents may apply.
- b. Each Participating Party and its Affiliates may disclose Confidential Information to contractors who agree in writing to hold such Confidential Information in confidence, in terms at least as restrictive as those set forth herein, and to use it only for the benefit of a Participating Party or its Affiliates.
- c. Each Participating Party and its Affiliates may disclose Confidential Information to governmental agencies and insurance companies as such Participating Parties or its Affiliates deem necessary, either in confidence or not in confidence if the Participating Party or its Affiliates has made a reasonable but unsuccessful attempt to obtain a confidentiality agreement.
- d. Each Participating Party and its Affiliates may disclose Confidential Information to other members of joint ventures or production sharing arrangements, outside the Contract Area, in which the Participating Party or its Affiliates has an ownership interest, provided the other members agree in writing to hold the Confidential Information in confidence, in terms at least as restrictive as those set forth herein, and to use it only for the benefit of that joint venture or production sharing arrangement.
- e. Each Participating Party may disclose Confidential Information that is specifically related to the Contract Area to any potential purchaser of all or any portion of such Participating Party's interest therein, provided that such potential purchaser agrees in writing to hold the Confidential Information in confidence, in terms at least as restrictive as those set forth herein, and to use it only for the purposes for which it was disclosed.
- f. Each Participating Party may use Confidential Information as reasonably necessary or appropriate to file patent applications pursuant to Section 7 below. Prompt notice will be provided to the other Participating Parties of any such filing.

- g. With unanimous approval, the Participating Parties may authorize the early publication, or release from confidentiality, of any Project Technology and Information covered by this Agreement.

6.4 Rights under Copyright and Following Expiration of Confidentiality

Following the expiration of the period of confidentiality set forth in Sub-Section 5.1 above, each Participating Party may freely use and disclose the Confidential Information identified in Sub-Section 6.2 without accounting to any other Participating Party, subject only to whatever patent rights may apply to the technology and, where applicable, to the obligations of Sub-Sections 6.5 and 6.6. Subject to the obligations of confidentiality set forth in this Exhibit, each Participating Party has the right to copy, display, publish, distribute and prepare derivative works of all documents, drawings or other writings or materials created or conveyed under this Exhibit, including the rights to license, sell or otherwise transfer such rights.

6.5 Notice of Third Party Limitations

6.5.1 Notwithstanding the provisions of Sub-Sections 6.2, 6.3 and 6.4 the Participating Parties acknowledge that Background Technology and Information may have been received from third parties under pre-existing restrictions, e.g., that the Participating Party may disclose the third party source technology or information to a co-venturer in a joint venture only under obligations of confidentiality and under the restriction that the co-venturer use the information only in connection with the joint venture. Each Participating Party must identify, in writing, any such restrictions in effect and secure the receiving Participating Party's acknowledgment prior to transmittal of such third party source technology or information. The receiving Participating Party's acknowledgment constitutes its acceptance of such obligations and restriction.

6.5.2 The Project Manager and each Participating Party soliciting work from contractors or from Affiliates must use its best efforts to secure contract terms with such contractor or Affiliate that contain applicable confidentiality terms and that support the rights of the Participating Parties consistent with the provisions of this Exhibit. Unless otherwise agreed to in writing by all Participating Parties, any contract with a contractor or an Affiliate for the acquisition or development of Project Technology and Information must, with respect to the use, disclosure and intellectual property rights as to such Project Technology and Information, grant the same rights to and impose the same obligations on each Participating Party. Furthermore, if the use, disclosure, and intellectual property rights provisions of any contract related to the acquisition or development of Project Technology and Information are inconsistent with the use, disclosure, and intellectual property rights provisions of this



Exhibit, those provisions must be submitted to each Participating Party in substantially final form for review and comment not less than thirty (30) days prior to contract execution.

6.6 Software

During the duration of the Project Team, a Participating Party or its Affiliate may authorize the other Participating Parties to use computer software proprietary to the authorizing Participating Party. Such proprietary software is not Project Technology and Information. Any authorization to use such proprietary software is not a license of any rights as to the proprietary software, which rights are retained by the authorizing Participating Party. Use of any such proprietary software is only for the purposes and duration of the Project Team; each Participating Party must destroy or return to the authorizing Participating Party all copies of any such proprietary software no later than the completion date of the Project Team's activities. Computer software and programs that are not proprietary to one of the Participating Parties or its Affiliate, but that are developed jointly by the Project Team, are Project Technology and Information.

6.7 Identification, Declaration, and Use of Background Technology and Information

Background Technology and Information must be identified and declared in writing before it is submitted to the Project Team. The decision to identify, declare, and submit Background Technology and Information to the Project Team is at the sole and absolute discretion of the individual Participating Party possessing such technology or Information. A Participating Party designating data as Background Technology and Information is not subject to the confidentiality obligation of this Exhibit or the Operating Agreement as to the identified Background Technology and Information. The Project Manager is responsible for maintaining a list describing all Background Technology and Information (and its ownership). This list will be updated from time to time as the Participating Parties submit such Background Technology and Information.

Nothing in the Operating Agreement or this Exhibit impairs the right of any owner of Background Technology and Information to use, exchange, disclose, or otherwise freely deal with its own Background Technology and Information.

## **SECTION 7 PATENTS AND PROJECT TEAM INVENTIONS**

7.1 Patent Assignment with Right to License and Sub-License

All inventions, whether patentable or not, that (1) are conceived by contractors of the Project Team, or conceived jointly by the Participating Parties (each including its respective Affiliates) while working on the Project Team and (2) result from work that has been charged to the Joint Account, are assigned to the Operator, who may seek patent(s) on same. The Operator hereby grants to each other Participating Party an irrevocable, non-exclusive, worldwide, royalty-free license to all such inventions and patents. Such license includes the right to make, have made, use, have used, and sell apparatus, and to use and have used methods,

covered by such inventions and patents, and includes the right to grant sublicenses to such inventions and patents to any third party or Affiliate on such other terms and conditions that such Party deems appropriate, without accounting to any other Party.

**7.2 Patent Assignment and License with Limited Right to Sub-License**

Patents on inventions not covered in Sub-Section 7.1 that (1) are conceived or first reduced to practice (actual or constructive) by a Participating Party or its Affiliate, including contractors of a Participating Party or its Affiliate, and (2) result from work that has been charged to the Joint Account, will be owned by that Participating Party. The Participating Party owning any such patent hereby grants to each other Participating Party an irrevocable, non-exclusive, worldwide, royalty-free license, under all such patents and inventions, to make, have made, use, have used, and sell apparatus, and to use and have used methods, for such other Participating Party's own business, including any joint venture or production sharing arrangement in which such other Participating Party has the right to extend these rights to its Affiliates, and to any joint venture or production sharing arrangement in which any such Affiliates have an ownership interest, but may not otherwise sub-license any such patent.

**7.3 No Other Commitment to License or Disclose**

Except as expressly set forth above, nothing in this Exhibit will be deemed to require any Participating Party or Affiliate to grant any licenses under any patents to anyone.

**7.4 Patent Immunity**

Each Participating Party hereby grants each other Participating Party an immunity from infringement of any patent of such Participating Party provided to the other Participating Party in connection with any and all activities conducted under the Operating Agreement, including preparation of Development Plans for the Contract Area and planning, designing, engineering, fabrication, transportation, installation, and subsequent operation of any Development System for the Contract Area. This immunity applies only to those patents of a Participating Party where such Participating Party has a right to grant such immunity without accounting to any third party.

**SECTION 8  
DISCLAIMER OR WARRANTIES; RELEASE; INDEMNITIES**

**8.1 DISCLAIMER OF WARRANTIES**

ALL INFORMATION OR TECHNOLOGY RECEIVED BY THE PARTICIPATING PARTIES HEREUNDER IS PROVIDED ON AN "AS IS" BASIS WITHOUT ANY WARRANTIES EITHER EXPRESS OR IMPLIED AS TO THE ACCURACY, VALIDITY OR UTILITY OF SUCH INFORMATION OR THAT IT CAN BE USED WITHOUT INFRINGING ANY THIRD PARTY PATENT, COPYRIGHT OR OTHER PROPRIETARY RIGHT. WITHOUT LIMITING THE PRECEDING, ANY

IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE ARE EXPRESSLY DISCLAIMED AND EXCLUDED FROM THIS AGREEMENT. IN NO EVENT IS A PARTICIPATING PARTY CONVEYING INFORMATION OR TECHNOLOGY LIABLE FOR ANY INCIDENTAL, CONSEQUENTIAL OR OTHER DAMAGES ARISING OUT OF OR RESULTING FROM THE USE OF THE INFORMATION OR TECHNOLOGY CONVEYED UNDER THIS EXHIBIT.

8.2 Releases

Each Participating Party releases the other Participating Parties from any loss, damage, claim, suit, liability, judgement, and expense that it may incur related to or in connection with its use (including use by others which it authorizes) outside of the Contract Area of any information or technology exchanged under or developed pursuant to this Exhibit.

8.3 Indemnities

Each Participating Party will defend, hold harmless, and indemnify the other Participating Parties from and against any loss, damage, claim, suit, liability, judgment, and expense including attorneys fees and other costs of litigation) related to or in connection with its use (including use by others which it authorizes) outside of the Contract Area of any information or technology exchanged under or developed pursuant to this Exhibit.

## **SECTION 9 MISCELLANEOUS**

9.1 Export Controls

Each Participating Party must abide by the United States Department of Commerce regulations concerning the export or re-export of United States source technical data, or the direct product thereof, to unauthorized destinations and regulations in respect of information supplied by or on behalf of any other Participating Party hereunder.

9.2 Independent Research

Nothing herein in any way restricts or impairs the right of any Participating Party to conduct its own independent research, development or design activities even though such activities may parallel or overlap the activities provided for herein. A Participating Party conducting such independent activities has no obligation arising therefrom with respect to the use or disposition of the results thereof, including but not limited to all information and data resulting therefrom.

9.3 Assignability

A third party (not currently a Party to this Agreement) who acquires a Working Interest in the Prospect Area may join the Project Team upon the approval of the Participating Parties as a General Matter. A new Party joining the Project Team must agree, in writing, to undertake all obligations set forth for a Party under this Exhibit. Such new party will have all rights, duties and obligations under this

Exhibit regarding the use of all Confidential Information exchanged or developed prior to the date it joins the Project Team and during its participation thereunder. However, patent rights received by such new Party hereunder pursuant to Section 7.0 of this Exhibit shall be limited to patents based on developments after the date such Party joins the Project Team. In the event that a Party assigns its entire interest in the Leases, the assigning Party shall have all the rights specified in this Exhibit, including patent rights and license rights thereunder, based on developments and exchanges prior to the effective date of such assignment and shall continue to have all obligations and duties with respect thereto as set forth in this Exhibit relating to the confidentiality, restrictions on use, patents, indemnity, and as applicable, duties to license the other Parties.

9.4 Confidential Information to a Non-Participating Party

Any Party that elected not to participate in a Project Team, but that receives, upon the satisfaction of the applicable non-consent provisions of Article 16.5.3 of the Operating Agreement, Confidential Information resulting from that Project Team, is subject to all obligations and duties, and has all the rights, set forth in this Exhibit with respect to confidentiality, restrictions on use, patents, licensing and sub-licensing, indemnity, and export controls.

9.5 Section and Sub-Section References

All references in this Exhibit to a "Section" or "Sub-Section", either in the singular or plural, mean a "Section" or "Sub-Section" of this Exhibit.

9.6 Survival of Certain Provisions

All provisions of this Exhibit related to the confidentiality and use of information, patents, licensing and sub-licensing, export controls, and indemnity will survive the termination of this Exhibit or the Operating Agreement or both.

9.7 Development System Proposals

The proposal of any Development System and commitment of funds thereto will be handled in accordance with the provisions of the Operating Agreement. The final decision on the selection of any Development System to be designed, fabricated and installed, and the election to participate in funding of that Development System, will be made in accordance with the terms and conditions of the Operating Agreement.

## EXHIBIT "H"

### DISPUTE RESOLUTION PROCEDURE

Attached to and made a part of that certain Operating Agreement dated October 1, 2009 by and between BP Exploration & Production Inc., as Operator, and MOEX Offshore 2007 LLC, as Non-Operator

#### I. OVERVIEW

A. *Description and Goals.* Arbitration as used in this statement is a procedure whereby an Arbitrator resolves any claim(s), controversy(ies) or dispute(s) (the "Dispute") between BP Exploration & Production Inc. and MOEX Offshore 2007 LLC (hereinafter referred to singularly as "Party" and collectively as "Parties"), involving more than \$500,000.00, arising out of, relating to, or in connection with that certain Operating Agreement effective October 1, 2009, by and between the Parties (hereinafter "Agreement") including the interpretation, validity, termination or breach thereof.

(i) *Binding.* The arbitration process is binding on the Parties and this arbitration is intended to be a final resolution of any Dispute between the Parties as described above, to the same extent as a final judgment of a court of competent jurisdiction. Each Party hereby expressly covenants that it shall not resort to court remedies except as provided for herein, and for preliminary relief in aid of arbitration.

(ii) *Violation.* A Party shall pay all legal and court costs incurred by the other Party in connection with the enforcement of the final resolution of any Dispute under this Dispute Resolution Procedure, if such other Party is successful in its enforcement efforts. Suits, actions or proceedings in connection with such enforcement shall be instituted in a federal court of proper jurisdiction and pursuant to Title IX of the United States Code. Each Party waives any option or objection which it may now or thereafter have to the laying of the venue in any such suit, action or proceeding and irrevocably submits to the jurisdiction of such court in any such suit, action or proceeding. If such court after the

institution of an action hereunder should decline jurisdiction, then the action may be commenced in any court, including state courts having jurisdiction.

B. *Duty to Negotiate.* The Parties shall inform one another promptly following the occurrence or discovery of any item or event, which might reasonably be expected to result in a Dispute in connection with the Agreement. The Parties will attempt to resolve satisfactorily any such matters.

C. *Notice of Unresolved Dispute.* Should a Dispute arise which the Parties cannot resolve satisfactorily, either Party may deliver to the other Party a written notice of the Dispute with supporting documentation as to the circumstances leading to the Dispute (the "Notice of Dispute"). Unless otherwise provided herein, all such notices shall be served in accordance with the provisions of the Agreement. The Parties, within ten (10) Business Days from delivery of a Notice of Dispute, shall then each appoint a management representative ("Management Representative") who has no prior direct involvement with the subject matter of the Notice of Dispute and who is duly authorized to investigate, negotiate and settle the Dispute. For a period not to exceed ninety (90) days following the appointment of the Management Representatives, the Management Representatives for each Party shall meet and confer as often as they deem reasonably necessary, in good faith negotiations, to try to resolve the Dispute amicably.

## **II. ARBITRATION PROCESS**

A. *Arbitration.* If the Parties are unable to resolve the Dispute within ninety (90) days following the end of the negotiation period between the Management Representatives described in I.C., or such additional time as may be mutually agreed upon, the matter shall be submitted to arbitration in accordance with the procedures set forth below.

B. *Initiation of Arbitration.* Either Party may initiate the arbitration by delivering to the other a Notice of Intention to Arbitrate.

C. *Governing Procedures.* Except as expressly provided herein, the arbitration shall be conducted in accordance with procedures that are mutually

acceptable to the Parties, including limited depositionless discovery and the presentation of live witness testimony, subject to cross examination, at the arbitration hearing.

- (i) *Governing Law.* The Arbitrator shall apply the governing substantive law of the state chosen by the Parties to the Agreement.
- (ii) *Location.* The arbitration hearing shall be conducted in a location mutually agreeable to the Parties to the arbitration.

D. *Arbitrator.* There shall be a panel of three (3) Arbitrators, each of whom must be experienced in the oil and gas industry and knowledgeable about or specializing in the subject matter involved in the Dispute the ("Panel"). The Panel shall be chosen as follows: within thirty (30) days after the delivery of a Notice of Intention to Arbitrate, each Party shall select one person to act as one of the three arbitrators. The two arbitrators selected by the Parties shall select a third arbitrator within thirty (30) days of their appointment. If the arbitrators selected by the Parties are unable or fail to agree on a third arbitrator within the second thirty (30) day period, or any mutually agreed upon extended period, then the Parties shall, within three (3) business days after expiration of the second thirty (30) day period or extended period, apply to the American Arbitration Association for the appointment of a third Arbitrator for or on behalf of the Parties. In such case the Arbitrator appointed by the American Arbitration Association shall meet the criteria set forth in this Section II.D. The Parties intend the involvement of the American Arbitration Association to be limited to appointing a third arbitrator in the event the arbitrators selected by the Parties are unable to do so; the Parties do not intend for the American Arbitration Association to manage the arbitration or to participate further in the arbitration process, unless the Parties mutually agree to further participation by the Association.

- (i) *Conflicts.* Any Arbitrator, prior to his or her appointment, shall disclose to the Parties all actual or perceived conflicts of interest and business relationships involving the Dispute or the Parties, including but not limited to, any professional or social relationships, present or past, with any Party (or its

affiliates), including any Party's (or its affiliates) directors, officers, and supervisory personnel and counsel. If an Arbitrator is appointed by the American Arbitration Association pursuant to Section II.D, any Party may challenge in writing the appointment of the Arbitrator for lack of independence, partiality, or any other cause likely to impair such Arbitrator's ability to effectively participate in the proceedings or render a fair and equitable decision. Where such challenge is made, the American Arbitration Association shall uphold or dismiss the challenge. In the event a challenge is upheld, the Arbitrator shall be replaced, and the replacement will be selected in the same manner as the original Arbitrator was selected. If an Arbitrator resigns or becomes unable or unwilling to continue to serve as an Arbitrator for any reason, a replacement shall be selected in the same manner as that Arbitrator was chosen.

(ii) *Multi-Party Arbitrations.* When more than two Parties are involved in the Dispute ("Multi-Party Arbitration"), all Parties identifying as "Claimants" (those delivering a Notice of Intention to Arbitration under Section II.B.) shall select a single Arbitrator and all those Parties identifying as "Respondents" (those responding to a Notice of Intention to Arbitration delivered under Section II.B.) shall select a single Arbitrator. The Arbitrator selected by the Claimant(s) and the Arbitrator selected by the Respondent(s) shall select the third Arbitrator pursuant to Section II.D. If Claimants or Respondents cannot agree as to the choice of their Arbitrator within the said thirty (30) days, they may, within three (3) business days after written notice to the other Parties, apply to the American Arbitration Association for the appointment of an Arbitrator as provided in Section II.D.

(iii) *Management of the Arbitration.* The Panel shall actively manage the proceedings so as to make the proceedings expeditious, economical, and less burdensome and adversarial than litigation.

E. *Confidentiality.* All documents, briefs, testimony, transcripts, as well as all Arbitrator decisions shall be confidential. Likewise, the views, suggestions,



admissions, proposals, and other information exchanged in the arbitration are confidential and are inadmissible in any other proceeding.

F. *Costs and Expenses.* The Parties shall each pay all costs, fees and expenses incurred by their Party-selected Arbitrator and shall share equally all costs, fees and expenses incurred by the third Arbitrator and any other incidental costs incurred in connection with the arbitration proceeding. Each Party is solely responsible for its own attorneys' fees and expenses incurred in the Arbitration.

G. *Submissions.* Within thirty (30) days after the selection of the Panel, each Party shall provide the Panel with a short and plain submission defining the issues to be decided and the nature of the relief that the Panel may award (the "Submission"). This Submission shall explicitly authorize the Panel to decide these issues. If the Parties are unable to reach consensus as to the issues involved, the Panel in its sole discretion shall frame the issues through a reasonable procedure. The Panel will render decisions on the specific issues established and shall fashion any remedy that the Panel deems appropriate so long as that remedy is consistent with the Parties' Submissions hereunder. Any money judgment entered by the Panel shall be payable in U.S. dollars.

H. *Transcriptions.* The presentations and argument at the arbitration hearing will be transcribed for the benefit of the Panel and the Parties.

I. *Discovery.* Commencing thirty (30) days after the receipt of the opposing Party's Submission, each Party may serve upon the other Party up to ten (10) requests for the production of documents, including sub-parts. The requests shall be made in good faith and not be served for the purpose of delay or harassment. Each request shall describe the type of document(s) sought and each request shall be limited to documents that are relevant to a claim or defense in the Arbitration proceeding, or reasonably calculated to lead to the discovery of admissible evidence. The requests need not be served all at once but may be served in stages.

(i) The Party served with a request under this provision shall provide the adverse Party with copies of the requested documents, and identify the request to which each document is responsive, within twenty (20) business days of the receipt of the request, or such longer time as may be agreed to by the Parties or set by the Panel. If the Party served with a request objects to the production of any of the requested documents, it shall nevertheless produce within the permitted time all documents responsive to any request that is not objected to by that Party.

(ii) A Party that is served with a request may challenge the propriety of the request within the time permitted for response by a short written objection, which shall be forwarded to the adverse Party and to the Panel. The adverse Party shall submit its response, if any, to the objecting Party and the Panel within five (5) business days of receipt of the objection. The Panel shall consider the request, the objection, and the response, if any, and decide whether the production shall be allowed or denied or whether the request should be modified within ten (10) days after the submission of the adverse Party's response.

J. *Presentations.* No later than twenty-five (25) days prior to the date that the arbitration hearing is to begin, each Party will submit to the Panel and serve on the other Party a written position statement. The original statement of each Party shall not exceed thirty-five (35) typewritten letter-size pages. Each Party shall have the right to submit reply statements no later than fifteen (15) days prior to the date of the arbitration hearing. Such reply statements shall not exceed twenty (20) typewritten letter-size pages.

(i) All documents and affidavits that a Party intends to use during its presentation at the arbitration hearing shall be submitted to the Panel and served on the other Party with the position and reply statements. All demonstrative exhibits and a list of the witnesses a Party anticipates calling to present live testimony at the arbitration hearing, along with a brief summary of the witnesses expected

testimony, shall be exchanged no later than ten (10) days in advance of the presentations.

- (ii) The Panel shall determine a reasonable time and location for the presentations.

(iii) Each Party shall make an oral and/or documentary presentation of its position at the arbitration hearing in such order and in accordance with the time schedule established by the Panel. The Panel may question each of the presenters and/or witnesses during or following any and all presentations.

K. *Decision and Award.* The Panel shall promptly (within sixty (60) days of conclusion of the presentations at the arbitration hearing or such longer period as the Parties may mutually agree) determine the claims of the Parties and render a final decision in writing. The decision shall state with specificity the findings of fact and conclusions of law on which it rests. The decision rendered by the Panel may be enforced in accordance with Section I.A.(ii), above, and may only be appealed pursuant to Section II. L. below. The decision shall be served upon each of the Parties by facsimile transmission and by overnight mail.

(i) If applicable law allows pre-award interest, the Panel may, in its discretion, grant pre-award interest and, if so, such interest may be at commercial rates in the state chosen by the Parties pursuant to Section II.C.(i) during the relevant period. The Panel shall not award consequential, punitive, indirect or other non-compensatory damages.

(ii) Within ten (10) days of receipt of the award either Party may submit a Motion to Modify the award. A response to the Motion to Modify shall be due within fifteen (15) days thereafter, and the Panel shall rule thereon within fifteen (15) days after receipt of the response.

(iii) Judgment on the award may be entered in the United States District Court for the federal district within which the arbitration hearing was held

at any time within one year after the decision is made. If such court after the institution of an action hereunder should decline jurisdiction, then the action may be commenced in any court, including state courts having jurisdiction.

L. *Vacation of Award and Appeal.* The Parties agree that an award made by the Panel may only be vacated or confirmed by a federal court of proper jurisdiction as established above. If such court after the institution of an action hereunder should decline jurisdiction, then the action may be commenced in any court, including state courts having jurisdiction. The Parties agree that an award made by the Panel may be vacated by a court only if the award was procured by or through fraud or corruption. An appeal from an order or judgment pursuant to this Section II.L. shall be instituted in a federal court of proper jurisdiction. If such court after the institution of an action hereunder should decline jurisdiction, then the action may be commenced in any court, including state courts having jurisdiction. Each Party waives any option or objection which it may now or thereafter have to the laying of the venue of any such suit, action or proceeding and irrevocably submits to the jurisdiction of the court in any such suit, action or proceeding. Each Party agrees that a remedy at law for a violation of this Section II.L. may not be adequate and therefore agrees that the remedies of specific performance and injunctive relief shall be available in the event of any violation in addition to any other right or remedy at law or in equity to which any Party may be entitled.

M. *Res Judicata.* To the extent permitted by law, any decision of the Panel shall not be *res judicata* or have any binding effect in any unrelated litigation or arbitration where any Party to this Agreement may also be a party.

EXHIBIT "I"

Well Data Trade and Confidentiality Agreement

Attached to and made a part of that certain Operating Agreement dated October 1, 2009 by and between BP Exploration & Production Inc., as Operator, and MOEX Offshore 2007 LLC, as Non-Operator

This Agreement ("Agreement") is made effective \_\_\_\_\_, 200\_\_ (the "Effective Date") between BP Exploration & Production Inc. ("BP") and \_\_\_\_\_ (collectively "the \_\_\_\_\_ Parties") and \_\_\_\_\_ ("\_\_\_\_\_"), and \_\_\_\_\_ (collectively "the \_\_\_\_\_ Parties"). In this Agreement, the \_\_\_\_\_ Parties and the \_\_\_\_\_ Parties may be sometimes referred to individually as a "Party" or collectively as the "Parties."

Recitals

The \_\_\_\_\_ Parties are the owners of the well data from the Operator's Name, Protraction Area Name Block #, OCS-G \_\_\_\_\_ No. 1 Well, identified on Exhibit "A" attached to and made a part of this Agreement (the "Insert Prospect Name Well Data").

The \_\_\_\_\_ Parties are the owners of the well data from the Operator's Name, Protraction Area Name Block #, OCS-G \_\_\_\_\_ No. \_\_ Well(s), identified on Exhibit "B" attached to and made a part of this Agreement (the "Insert Prospect Name Well Data").

The Parties have agreed to exchange all of the Insert Prospect Name Well Data for all of the Insert Prospect Name Well Data, unless otherwise specified in this agreement.

The Parties desire, by their execution of this Agreement, to set forth the terms and provisions of the well data exchange, and further desire to set forth the Parties' confidentiality obligations in regard to the well data received by each Party.

Accordingly, in consideration of the mutual advantages and benefits accruing to the Parties, and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

ARTICLE 1

Definitions

Affiliate:

"Affiliate," means any corporation, company, limited liability company, partnership, or other legal entity that:

- is owned or controlled by a Party, or
- is owned or controlled by any other corporation, company, limited liability company, partnership, or other legal entity that is owned or controlled by a Party, or
  - owns or controls a Party, or
- is owned or controlled by a corporation, company, limited liability company, partnership, or other legal entity that owns or controls a Party.

For the purposes of this definition, ownership or control means the ownership, directly or indirectly, of fifty percent (50%) or more of the shares, voting rights, or interest in a corporation, company, limited liability company, partnership, or other legal entity.

Confidential Information:

"Confidential Information" means (i) as to the \_\_\_\_\_ Parties, the Insert Prospect Name Well Data and any copies and reproductions thereof, and (ii) as to the \_\_\_\_\_ Parties, the Insert Prospect Name Well Data and any copies and reproductions thereof.

Consultant:

"Consultant" means an individual, corporation, company, limited liability company, partnership, financial analyst/institution, auditor or other legal entity that is engaged by a Party to evaluate, interpret, reprocess or make other technical studies of the well data received by that Party under the provisions of this Agreement, but shall not include one who is primarily engaged in the business of exploring for oil, gas, or other hydrocarbons.

Disclose or Disclosure:

"Disclose" or "Disclosure" means to display, show, reveal, or give access to, or permit to be viewed or accessed, the Confidential Information or any part thereof.

Transfer:

"Transfer" means a sale, assignment, trade, loan, conveyance, exchange, encumbrance, license, or other disposition of the Confidential Information.

ARTICLE 2

(Insert Prospect Name) Well Data

2.1 Grant of the (Insert Prospect Name) Well Data Use to the \_\_\_\_\_ Parties

The \_\_\_\_\_ Parties grant to the \_\_\_\_\_ Parties the non-exclusive, non-transferable (except as provided herein), perpetual right to use the \_\_\_\_\_ Well Data under the terms and conditions of this Agreement.

2.2 (Insert Prospect Name) Well Data Ownership

The Insert Prospect Name Parties represent and warrant that they hold full ownership rights in and to the \_\_\_\_\_ Well Data. The \_\_\_\_\_ Well Data is proprietary to the \_\_\_\_\_ Parties and the \_\_\_\_\_ Parties maintain all trade secret and copyright interests in such data. Except as provided herein, the \_\_\_\_\_ Parties retain the exclusive right to Disclose or Transfer the \_\_\_\_\_ Well Data to other parties at any time and under whatever terms and conditions they consider acceptable, subject to the terms of the joint operating agreement between the \_\_\_\_\_ Parties.

2.3 The \_\_\_\_\_ Parties' Obligation of Confidentiality and Restriction on Disclosure and Transfer

The \_\_\_\_\_ Parties agree to treat the \_\_\_\_\_ Well Data, and any copies and reproductions thereof, as confidential, agree to use the \_\_\_\_\_ Well Data only for their internal business purposes and the internal business purposes of their Affiliates, and agree not to Disclose or Transfer the \_\_\_\_\_ Well Data, except as specifically permitted under this Agreement and shall exercise the same degree of care to safeguard the \_\_\_\_\_ Well Data as they would for their own Confidential Information of a similar nature.

## 2.4 Exceptions to the Parties' Obligation of Confidentiality and Restriction on Disclosure and Transfer

- A. The \_\_\_\_\_ Parties, or each of them, may Disclose or Transfer the \_\_\_\_\_ Well Data to their Affiliate(s) provided that such Affiliate(s) agrees to the obligations of confidentiality and restrictions on Disclosure or Transfer set forth in this Agreement.
- B. The \_\_\_\_\_ Parties, or each of them, may Disclose the \_\_\_\_\_ Well Data, including providing copies of the \_\_\_\_\_ Well Data, to a Consultant retained by such Party ("the Disclosing Insert Prospect Name Party") to evaluate, reprocess, or interpret the \_\_\_\_\_ Well Data, provided that before any such Disclosure occurs, the Consultant must agree in writing that: (1) any evaluation, reprocessing or interpretation of the \_\_\_\_\_ Well Data is for the sole benefit of the Disclosing Insert Prospect Name Party, or its Affiliate, making the Disclosure, (2) the \_\_\_\_\_ Well Data will be maintained in accordance with Section 2.3 above and will not be Disclosed to any third party without the prior written permission of the \_\_\_\_\_ Parties, and (3) upon completion of its work, all copies of the \_\_\_\_\_ Well Data will be returned to the Disclosing \_\_\_\_\_ Party, or its Affiliate, making the Disclosure.
- C. The \_\_\_\_\_ Parties' obligation of confidentiality and restriction on Disclosure does not apply to the extent any portion of the \_\_\_\_\_ Well Data: (1) comes legally into the possession of the \_\_\_\_\_ Parties, or any of them, or the possession of an Affiliate, independent of this Agreement, or is legally divulged to the \_\_\_\_\_ Parties, or any of them, or an Affiliate, by a third party without limitation on disclosure, or (2) becomes part of the public domain through no fault or neglect of the \_\_\_\_\_ Parties, or any of them, or an Affiliate, or (3) must be disclosed to third parties under requirement of law, including, but not limited to, the regulations of the Minerals Management Service ("MMS") of the Department of Interior. In the event the \_\_\_\_\_ Parties are required by any rule, law or court order to disclose \_\_\_\_\_ Well Data, the \_\_\_\_\_ Parties shall immediately notify the \_\_\_\_\_ Parties and make good faith efforts to cooperate in the \_\_\_\_\_ Parties' efforts to obtain any injunctive or protective orders that the \_\_\_\_\_ Parties may unilaterally deem desirable or necessary.

## 2.5 Responsibility for Unauthorized Disclosure or Transfer

The \_\_\_\_\_ Parties shall be responsible for ensuring that all persons to whom it Discloses or Transfers the \_\_\_\_\_ Well Data keep such Well Data confidential and not Disclose or Transfer such Well Data to any unauthorized person, and comply with the use restrictions set forth in this Agreement. No \_\_\_\_\_ Party shall be liable for any breach of this Agreement by any other \_\_\_\_\_ Party, and the \_\_\_\_\_ Parties agree to hold all such non-breaching \_\_\_\_\_ Party harmless for any breach of this Agreement by a breaching \_\_\_\_\_ Party.

## 2.6 Paleo. Samples and Preparation

The \_\_\_\_\_ Parties agree to make reasonably available to the \_\_\_\_\_ Parties raw cutting samples for all depths collected in the respective borehole(s) corresponding to the \_\_\_\_\_ Well Data. Raw cuttings should be in quantities sufficient to conduct standard preparations for foraminifera and nannofossil analyses. In the event that the quantity of raw cuttings are insufficient to conduct standard paleo analyses, the \_\_\_\_\_ Parties are each entitled to borrow the previously prepared foraminifera wash and nannofossil slides used for the \_\_\_\_\_ Parties' paleontological analyses. After the \_\_\_\_\_ Parties have completed the

biostratigraphic analyses, the \_\_\_\_\_ Parties each agree to return all previously prepared foraminifera wash and nannofossil slide materials that were borrowed. Any unused, unprocessed raw materials provided to any of the \_\_\_\_\_ Parties will be returned after sample preparation is complete. Materials and residues resulting from sample processing (foram wash, nanno slurries, etc.) will become the property of the \_\_\_\_\_ Parties. All such furnished material shall be deemed to constitute a part of the \_\_\_\_\_ Well Data for all purposes.

#### 2.7 Summary Reports

The \_\_\_\_\_ Parties agree to provide original paleontologic data in digital format, where possible, and to make reasonably available to the \_\_\_\_\_ Parties paleontological and biostratigraphic interpretations equivalent to or more detailed than what is provided to the MMS. The interpretations provided by the \_\_\_\_\_ Parties will be in the form of a summary of foraminiferal and nannofossil species events or "tops" and paleoenvironmental interpretations. All such furnished material shall be deemed to constitute a part of the \_\_\_\_\_ Well Data for all purposes.

#### 2.8 Conventional Core

The \_\_\_\_\_ Parties agree to make reasonably available to the \_\_\_\_\_ Parties all conventional core data taken from all depths in the wellbore(s) which is part of the \_\_\_\_\_ Well Data. The \_\_\_\_\_ Parties shall be allowed to look at the conventional core photographs, as well as, physically inspect the conventional core at \_\_\_\_\_ Labs. The \_\_\_\_\_ Parties, individually, shall be allowed up to three physical inspection(s) of the conventional core within a period of one year from the date on which the last Party has executed this Agreement. Any costs associated with viewing the conventional core shall be at the sole cost of the viewing company. The \_\_\_\_\_ Parties shall also be allowed access to thin section samples made from conventional core and rotary cores, as well as petrographic (point count) data derived from the thin sections, and scanning electron microscopy (SEM) and X-Ray diffraction (XRD) data.

(Optional)

#### 2.9 Data Being Withheld From Prospect Name/Prospect Name Trade

It is understood and agreed to between the \_\_\_\_\_ Parties and the \_\_\_\_\_ Parties that the Conventional Core data and the Palynostratigraphic Analysis from the Insert Prospect Name Well will not be made a part of this data exchange.

### ARTICLE 3

(Insert Prospect Name) Well Data

Grant of the (Insert Prospect Name) Well Data Use to the \_\_\_\_\_ Parties

The \_\_\_\_\_ Parties grant to the \_\_\_\_\_ Parties the non-exclusive, non-transferable (except as provided herein), perpetual right to use the \_\_\_\_\_ Well Data under the terms and conditions of this Agreement.

#### 3.2 (Insert Prospect Name) Well Data Ownership



The Insert Prospect Name Parties represent and warrant that they hold full ownership rights in and to the \_\_\_\_\_ Well Data. The \_\_\_\_\_ Well Data is proprietary to the \_\_\_\_\_ Parties and the \_\_\_\_\_ Parties maintain all trade secret and copyright interests in such data. Except as provided herein, the \_\_\_\_\_ Parties retain the exclusive right to Disclose or Transfer the \_\_\_\_\_ Well Data to other parties at any time and under whatever terms and conditions they consider acceptable, subject to the terms of the joint operating agreement between the \_\_\_\_\_ Parties.

3.3 The \_\_\_\_\_ Parties' Obligation of Confidentiality and Restriction on Disclosure and Transfer  
The \_\_\_\_\_ Parties agree to treat the \_\_\_\_\_ Well Data, and any copies and reproductions thereof, as confidential, agree to use the \_\_\_\_\_ Well Data only for their internal business purposes and the internal business purposes of their Affiliates, and agree not to Disclose or Transfer the \_\_\_\_\_ Well Data, except as specifically permitted under this Agreement and shall exercise the same degree of care to safeguard the \_\_\_\_\_ Well Data as they would for their own Confidential Information of a similar nature.

3.4 Exceptions to the \_\_\_\_\_ Parties' Obligation of Confidentiality and Restriction on Disclosure and Transfer

A. The \_\_\_\_\_ Parties, or each of them, may Disclose or Transfer the \_\_\_\_\_ Well Data to their Affiliate(s) provided that such Affiliate(s) agrees to the obligations of confidentiality and restrictions on Disclosure or Transfer set forth in this Agreement.

B. The \_\_\_\_\_ Parties, or each of them, may Disclose the \_\_\_\_\_ Well Data, including providing copies of such \_\_\_\_\_ Well Data, to a Consultant retained by such Party ("the Disclosing Insert Prospect Name Party") to evaluate, reprocess, or interpret the \_\_\_\_\_ Well Data, provided that before any such Disclosure occurs, the Consultant must agree in writing that: (1) any evaluation, reprocessing, or interpretation of the \_\_\_\_\_ Well Data is for the sole benefit of the Disclosing \_\_\_\_\_ Party, or its Affiliate, making the Disclosure, (2) the \_\_\_\_\_ Well Data will be maintained in accordance with Section 3.3 above and will not be Disclosed to any third party without the prior written permission of the \_\_\_\_\_ Parties, and (3) upon completion of its work, all copies of the \_\_\_\_\_ Well Data will be returned to the Disclosing \_\_\_\_\_ Party, or its Affiliate, making the Disclosure.

C. The \_\_\_\_\_ Parties' obligation of confidentiality and restriction on disclosure does not apply to the extent any portion of the \_\_\_\_\_ Well Data: (1) comes legally into the possession of the \_\_\_\_\_ Parties, or any of them, or the possession of an Affiliate, independent of this Agreement, or is legally divulged to the \_\_\_\_\_ Parties, or any of them, or an Affiliate, by a third party without limitation on disclosure, or (2) becomes part of the public domain through no fault or neglect of the \_\_\_\_\_ Parties, or any of them, or an Affiliate, or (3) must be disclosed to third parties under requirement of law, including, but not limited to, the regulations of the MMS. In the event the \_\_\_\_\_ Parties are required by any rule, law or court order to disclose \_\_\_\_\_ Well Data, the \_\_\_\_\_ Parties shall immediately notify the \_\_\_\_\_ Parties and make good faith efforts to cooperate in the \_\_\_\_\_ Parties' efforts to obtain any injunctive or protective orders that the \_\_\_\_\_ Parties may unilaterally deem desirable or necessary.

3.5 Responsibility for Unauthorized Disclosure or Transfer  
The \_\_\_\_\_ Parties shall be responsible for ensuring that all persons to whom it Discloses or

Transfers the \_\_\_\_\_ Well Data keep such Well Data confidential and not Disclose or Transfer such Well Data to any unauthorized person, and comply with the use restrictions set forth in this Agreement. No \_\_\_\_\_ Party shall be liable for any breach of this Agreement by any other \_\_\_\_\_ Party, and the \_\_\_\_\_ Parties agree to hold all such non-breaching \_\_\_\_\_ Party harmless for any breach of this Agreement by a breaching \_\_\_\_\_ Party.

### 3.6 Paleo. Samples and Preparation

The \_\_\_\_\_ Parties agree to make reasonably available to the \_\_\_\_\_ Parties raw cutting samples for all depths collected in the respective borehole(s) corresponding to the \_\_\_\_\_ Well Data. Raw cuttings should be in quantities sufficient to conduct standard preparations for foraminifera and nannofossil analyses. In the event that the quantity of raw cuttings are insufficient to conduct standard paleo analyses, the \_\_\_\_\_ Parties are each entitled to borrow the previously prepared foraminifera wash and nannofossil slides used for the \_\_\_\_\_ Parties paleontological analyses. After the \_\_\_\_\_ Parties have completed the biostratigraphic analyses, the \_\_\_\_\_ Parties each agree to return all previously prepared foraminifera wash and nannofossil slide materials that were borrowed. Any unused, unprocessed raw materials provided to any of the \_\_\_\_\_ Parties will be returned after sample preparation is complete. Materials and residues resulting from sample processing (foram wash, nanno slurries, etc.) will become the property of the \_\_\_\_\_ Parties. All such furnished material shall be deemed to constitute a part of the \_\_\_\_\_ Well Data for all purposes.

### 3.7 Summary Reports

The \_\_\_\_\_ Parties agree to provide original paleontologic data in digital format, where possible, and to make reasonably available to the \_\_\_\_\_ Parties paleontological and biostratigraphic interpretations equivalent to or more detailed than what is provided to the MMS. The interpretations provided by the \_\_\_\_\_ Parties will be in the form of a summary of foraminiferal and nannofossil species events or "tops" and paleoenvironmental interpretations. All such furnished material shall be deemed to constitute a part of the \_\_\_\_\_ Well Data for all purposes.

### 3.8 Conventional Core

The \_\_\_\_\_ Parties agree to make reasonably available to the \_\_\_\_\_ Parties all conventional core data taken from all depths in the wellbore(s) which is part of the \_\_\_\_\_ Well Data. The \_\_\_\_\_ Parties shall be allowed to look at the conventional core photographs, as well as, physically inspect the conventional core at \_\_\_\_\_ Labs. The \_\_\_\_\_ Parties, individually, shall be allowed up to three physical inspection(s) of the conventional core within a period of one year from the date on which the last Party has executed this Agreement. Any costs associated with viewing the conventional core shall be at the sole cost of the viewing company. The \_\_\_\_\_ Parties shall also be allowed access to thin section samples made from conventional core and rotary cores, as well as petrographic (point count) data derived from the thin sections, and scanning electron microscopy (SEM) and X-Ray diffraction (XRD) data.

(Optional)

### 3.8 Data Being Withheld From Prospect Name/Prospect Name Trade

It is understood and agreed to between the \_\_\_\_\_ Parties and the \_\_\_\_\_ Parties that the Conventional Core data and the Palynostratigraphic Analysis from the \_\_\_\_\_ Well will not

be made a part of this data exchange.

ARTICLE 4  
General Provisions

4.1 Waiver of Representations and Warranties

THE \_\_\_\_\_ WELL DATA AND THE \_\_\_\_\_ WELL DATA ARE PROVIDED "AS IS" AND EACH PARTY RECEIVING SUCH DATA ACKNOWLEDGES THAT IT IS ACCEPTING THE DATA "AS IS," SUBJECT TO ARTICLES 2.2 AND 3.2 CONTAINED HEREIN, THE RESPECTIVE OWNERS OF SUCH DATA MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, OF ANY KIND OR DESCRIPTION IN RESPECT THERETO AND SUCH DATA IS DELIVERED HEREUNDER WITH THE EXPLICIT UNDERSTANDING AND AGREEMENT THAT ANY ACTION A PARTY MAY TAKE BASED ON SUCH DATA RECEIVED SHALL BE AT THE PARTY'S OWN RISK AND RESPONSIBILITY AND SUCH PARTY SHALL HAVE NO CLAIM AGAINST THE OWNER OF SUCH DATA AS A CONSEQUENCE THEREOF.

4.2 Grant of Well Data under Articles 2 and 3

The well data to be granted pursuant to Articles 2 and 3 is of equal value. The Parties will identify the data to be granted, to the extent that it is not already identified in this Agreement before forty-five (45) days after the date of the first delivery of data, and the Parties will complete the grant of well data so that all Parties have received all data to be granted subject to this agreement prior to the earlier of (1) one hundred and eighty (180) days after the date of the first delivery of data, or (2) the due date, including any extensions thereof, for any Parties' tax return for the year in which data is first delivered.

4.3 Delivery of Well Data

Except for [set forth reciprocal data not now available by both Parties], within \_\_\_\_\_ ( ) days from the date on which the last Party hereto has executed this Agreement, the Insert Prospect Name Operator shall deliver to each of the \_\_\_\_\_ Parties the \_\_\_\_\_ Well Data, and the Insert Prospect Name Operator shall deliver to each of the \_\_\_\_\_ Parties the \_\_\_\_\_ Well Data. The contacts for purposes of arranging for delivery and receipt of the well data are set forth below:

(INSERT PROSPECT NAME) PARTIES:

(INSERT PROSPECT NAME) PARTIES:

Each of the following items:

[set forth reciprocal data not now available by both Parties]

shall be delivered within \_\_\_\_\_ ( ) days of the day on which the \_\_\_\_\_ Operator notifies the \_\_\_\_\_ Operator in writing that it is in possession of these items in the quantities required in this Section 4.3.

#### 4.4 Term

This Agreement shall remain in effect in perpetuity, however, the confidentiality obligations and disclosure restrictions of this Agreement, as to each referenced set of well data, are effective for a period of \_\_\_\_ ( ) years from the Effective Date of this Agreement, or until the Confidential Information becomes publicly available through the MMS, whichever event occurs first.

Following expiration of such confidentiality obligations and disclosure restrictions each Party may keep and use the well data received from the other Party hereunder without such obligations or restrictions.

#### 4.5 Assignment

Each Party may Transfer this Agreement to an Affiliate. Except as otherwise provided herein, this Agreement may not be Transferred.

#### 4.6 Headings for Convenience

Except for the definition headings contained in Article 1, all paragraph headings used in this Agreement are for convenience only and in no way define, limit, or describe the scope or intent of this Agreement or any part thereof; nor do the paragraph headings have any legal effect other than to aid in the reasonable interpretation of this Agreement.

#### 4.7 Entire Agreement

This Agreement supersedes and replaces all oral or written communication between the Parties regarding their exchange and use of the \_\_\_\_\_ Well Data and the \_\_\_\_\_ Well Data.

#### 4.8 Selection of Law

This Agreement will be construed under the laws of the State of Texas, without regard to choice of law rules of any jurisdiction.

#### 4.9 Drafting of Agreement and Construction

The Parties each declare that they have contributed to the drafting of this Agreement or have had it reviewed by its counsel before signing it. Each agrees that this Agreement has been purposefully drawn and correctly reflects the understanding of the Parties regarding the subject transaction. In the event of a dispute between the Parties concerning the application or construction of this Agreement, the Parties agree that this Agreement will be construed fairly and reasonably and neither more strongly in favor or against any Party.

#### 4.10 Waiver

A. The rights of each Party may be exercised from time to time, by the Parties individually or jointly, and singularly or in combination with other rights.

B. No waiver of any breach of a term, provision or condition of this Agreement by one Party shall be deemed to have been made by another Party hereto unless such waiver is in writing and signed by an authorized representative of such other Party. The failure of a Party to insist upon the strict performance of any term, provision or condition of this Agreement shall not be construed as a waiver or relinquishment in the future of the same or any other term, provision or condition.

#### 4.11 Relationship of the Parties

This Agreement is not intended to be nor shall it be construed as a joint venture, association, partnership

or other form of a business organization or agency relationship between the Parties.

#### 4.12 Severability

If any term or other provision of this Agreement is determined by any court or other governmental agency of competent jurisdiction to be invalid, illegal or unenforceable, all other conditions and provisions of this Agreement will nevertheless remain in full force and effect.

#### 4.13 Equitable Relief

The Parties agree that the respective owners of the \_\_\_\_\_ Well Data and the \_\_\_\_\_ Well Data may be irreparably injured by a breach of this Agreement by a Party, and that the respective owners of such data will be entitled to seek equitable relief, including injunctive relief and specific performance, in the event of any breach of the provisions of this Agreement by a Party receiving such data. Such remedies will not be deemed to be the exclusive remedies for a breach of this Agreement, but will be in addition to all other remedies available to each respective owner of such data at law or equity.

Each Party waives the right to claim or recover incidental, consequential, indirect and punitive damages against all other Parties.

#### 4.14 Counterparts

This Agreement may be executed by signing the original or a counterpart thereof. If this Agreement is executed in counterparts, all counterparts taken together will have the same effect as if all the Parties had signed the same instrument.

#### 4.15 Successors and Assigns

This Agreement shall be binding upon and inure to the benefit of the Parties, their Affiliates, and their successors and permitted assigns.

This Agreement is executed by each Party on the dates indicated below, but is effective for all purposes as of the Effective Date.

(INSERT PROSPECT NAME) PARTIES

(INSERT PROSPECT NAME) PARTIES

COMPANY NAME

COMPANY NAME

By:

By:

Title:

Title:

Date: \_\_\_\_\_

Date: \_\_\_\_\_

COMPANY NAME

COMPANY NAME

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Exhibit "A"

**Attached to and made a part of that certain Well Data  
Trade and Confidentiality Agreement between**  
\_\_\_\_\_ **and**  
\_\_\_\_\_ **and** \_\_\_\_\_  
**and** \_\_\_\_\_, **dated effective**  
\_\_\_\_\_, **2005.**

**(Insert Prospect Name) Well Data**  
**Insert Prospect Name Well Data includes all data**  
**obtained from the (1) Insert Protraction Area Name**  
**Insert Block # #1 \_\_\_\_\_ Prospect, INSERT**  
**API # \_\_\_\_\_, OCSG- \_\_\_\_\_ 1, unless specifically**  
**excluded on this Exhibit "A". The data set forth**  
**below may not be a complete list of the Insert Prospect**  
**Name Well Data**

Data Summary

Type	Format	File name	Depth Range
LOGS			
LWD Digits	LAS		
Prints	PDS		
Wireline			

Mud Digits	LAS		
Image	EMF/CGM		
MDT	PDF		
SURVEYS			
Directional Survey	TXT		
SP/Checkshot			
REPORTS			
Show Reports	PDF		
Drilling Reports	PDF		
PALEO	DIGITAL		
DATA			
Geochemical Data			

Data Summary  
 Insert Protraction Area Name Block # #1 \_\_\_\_\_ Prospect  
 Insert API #  
 OCSG-\_\_\_\_\_ 1

Type	Format	File name	Depth Range
LOGS			
LWD Digits	LAS		
Images	PDS		
Wireline	LAS		



Images	PDF		
Mud Digits	LAS		
Image	EMF/CGM		
MDT	PDF PDS		
SURVEYS			
Directional Survey	TXT		
SP/Checkshot			
REPORTS			
Show Reports	PDF		
Drilling Reports	PDF		All Days
Side Wall Core Reports			
PALEO			
DATA			
Geochemical Data			

The following data will be excluded from Exhibit "A":

Well Core Data  
Palynostratigraphic Analysis

\*\*\*\* END OF EXHIBIT "A" \*\*\*\*

Exhibit "B"

**Attached to and made a part of that certain Well Data  
Trade and Confidentiality Agreement between**

**and** \_\_\_\_\_ **and**

**dated effective** \_\_\_\_\_ **, 2005.**

(Insert Prospect Name) Well Data

**Insert Prospect Name Well Data includes all data  
obtained from the Insert Protraction Area Name Insert  
Block # #1 OCS-G \_\_\_\_\_, unless specifically  
excluded on this Exhibit "B". The data set forth below  
may not be a complete list of the Insert Prospect Name  
Well Data**

Data Type		ST01	ST02
Drilling Reports, Directional Surveys, Mudlogging Reports, Geologic reports, Mud reports			
ARC, ISONIC, APWD, DIR End of Well Report- Schlumberger	' to ' MD	' to ' MD	' to ' MD
Lithology, Gas Chromatograph End of Well Report-Sperry Sun	' to ' MD	' to ' MD	' to ' MD

Combo, Pressure, Show logs				
GR, AIT, DEN, NEUT, CMR, DSI, OBMI, MDT	' to ' MD	N/A	' to ' MD	
Final Paleo Biostratigraphic Summary (Nanno and Foram) Reports	' to ' MD BP00 ' to ' MD BP02	' to ' MD	' to ' MD	
Mud Gas Isotube Analysis- Isotech Headspace Gas Analysis- Baseline MDT oil and Gas Data analysis	' to ' MD	' to ' MD	' to ' MD	
_____ Labs - cuttings & SWC	_____ ' to _____ ' cuttings from BP00, ' to ' MD SWC's from BP02	N/A	N/A	
Walk-away VSP raw data Walk-away VSP processed image	N/A	N/A	' to ' MD	

Geochemical and Fluid Analysis Further Defined:

Original Hole

- 1)
- 2)
- 3)
- 5)
- 6)
- 7)

BP01

BP02

- 1)
- 2)
- 3)
- 4)
- 5)

- 6)
- 7)

ST01

- 1)
- 2)

ST02

- 1)
- 2)
- 3)
- 4)

Baseline reports of MDT fluid geochemistry

- 1)
- 2)
- 3)
- 4)
- 5)

Isotech Data disk

- 1)
- 2)

Pencor and ADS oil and water reports

BP02

- 1)
- 2)
- 3)

ST02

The following data will be excluded from Exhibit "B":

Well Core Data  
Palynostratigraphic Analysis

\*\*\*\*END OF EXHIBIT "B" \*\*\*\*

## EXHIBIT "K"

### HEALTH, SAFETY AND ENVIRONMENT ("HSE")

Attached to and made a part of that certain Operating Agreement dated October 1, 2009 by and between BP Exploration & Production Inc., as Operator, and MOEX Offshore 2007 LLC, as Non-Operator

#### Health, Safety and Environmental Management Systems

1. Plan Requirements for Operator: Operator shall have an effective Health, Safety & Environmental Management Plan or Plans, in accordance with API RP75, or an equivalent standard, including Operator's internal policies, for all operations conducted under the Operating Agreement to which this Exhibit is attached.
2. Overview of Plan for Non-Operators: Upon the written request of any Non-Operator, the Operator will present to the Non-Operators, at a meeting called in accordance with the Operating Agreement, a sufficient overview of its Health, Safety and Environmental Management systems to evidence compliance with Paragraph 1 herein.
3. Operator's HSE Performance as an Agenda Item: Upon written request, Operator's HSE performance shall be an agenda item for all meetings of the Parties where past HSE statistical performance as well as ongoing and future HSE improvement initiatives are presented and discussed.

#### Health, Safety and Environmental Reporting

4. Operator's Obligation to Notify Non-Operators: The Operator shall notify the Non-Operators in a timely manner after any of the following incidents occur:
  - (a) well blow-out,
  - (b) a fatality associated with operators operations
  - (c) multiple serious injuries
  - (d) significant adverse reaction from authorities, media, NGO's or the general public
  - (e) cost of accidental damage exceeding US \$500,000
  - (f) oil spill of more than five (5) barrels
  - (g) release of more than ten tones of a classified chemical such notification will be followed by a written report.
5. HSE Audits: Upon request of the Non-Operators, the Operator shall provide the copies of any HSE audits conducted of the drilling operations on the subject well.
6. Maintenance and Non-Operator's Review of HSE Statistics: HSE statistics for activities and operations conducted under the Operating Agreement will be maintained and be reported to Non-Operators on a monthly basis in a format to be mutually agreed to by the Parties. HSE statistics are defined as: Recordable Injuries, Lost Time Injuries, Lost Time Injury Frequency, Reportable Spills, Fines or Incidents of Non-compliance [all as defined by the Occupational Safety and

Health Administration (OSHA), Minerals Management Service (MMS), or United States Coast Guard (USGC), whichever is applicable]. In addition to opportunities to review data through audits, Operator will, upon request, furnish HSE performance information upon the completion of the well and be amenable to a timely meeting with Non-Operators specifically to review and discuss HSE performance applicable to this Operating Agreement.

#### **Health, Safety and Environmental Inspections**

**Non-Operator's Right of Access:** For purposes of conducting health, safety and environmental inspection, the Non-Operators shall have the right of access to activities and operations and shall have access to Operator's HSE files as provided for in this Operating Agreement. The notable exceptions are a) may implicate privacy issues, b) is covered by an enforceable legal privilege, or c) can otherwise be protected under laws and legal principles involving confidentiality or secrecy. Operator will cooperate fully in these health, safety and environmental inspections.

## EXHIBIT "L"

### GEOPHYSICAL OPERATIONS

Attached to and made a part of that certain Operating Agreement dated October 1, 2009 by and between BP Exploration & Production Inc., as Operator, and MOEX Offshore 2007 LLC, as Non-Operator

**1.0 Proprietary Geophysical Operations:** For purposes of this Exhibit L, Proprietary Geophysical Operations means the acquisition and initial processing of a geophysical survey which (1) exclusively covers all or a portion of the Contract Area, (2) is conducted solely on behalf of and for the benefit of the Participating Parties in accordance with Section 1.5 of this Exhibit "L", and (3) is not a group-shoot or speculative geophysical survey, shallow hazard survey or velocity survey (or similar wellbore geophysical operation). Any Party may propose Proprietary Geophysical Operations at any time during the term of this Agreement. Such a proposal (i) shall include the timing, location, acquisition parameters, processing parameters, and Costs of such operations and (ii) requires approval by Election. The Costs in the proposal shall include all tape copy, film, and reproduction costs to be allocated to each Participating Party, as well as mobilization, acquisition, and processing costs to be shared by the Participating Parties. Proprietary Geophysical Operations are independent operations and are not Exploratory, Appraisal or Development Operations; however, they may be conducted simultaneously with Exploratory, Appraisal or Development Operations.

**1.1 Response to Proposal:** Any other Party may, within five (5) days (exclusive of Saturdays, Sundays and federal holidays) of its receipt of a proposal for Proprietary Geophysical Operations, submit a separate proposal for Proprietary Geophysical Operations (along with the associated AFE and the plan for the operation). If no other proposal is submitted, the Parties shall make an Election on the lone proposal submitted. If an additional proposal is submitted, then the Operator shall call a meeting of the Parties which shall be held within five (5) days of the conclusion of the five (5) day period for the submission of other proposals.

At such meeting the Parties shall approve by Vote on which proposal the Parties shall make their Election.

- 1.2 Non-Participating Parties In Proprietary Geophysical Operations:** If a Non-Participating Party in Proprietary Geophysical Operations makes a revised Election or Vote to become a Participating Party in the Proprietary Geophysical Operations in which it originally Elected or Voted not to participate, such Non-Participating Party is an Underinvested Party subject to Article 16.5.3 (*Proprietary Geophysical Operations, Project Team AFE, Pre-Development AFEs, or Final Design AFE*), and the Operator shall deliver the data, information and results from the Proprietary Geophysical Operations in which the Underinvested Party originally Elected or Voted not to participate to the Underinvested Party within fifteen (15) of it's the Operator's receipt of such notice.
- 1.3 Conduct of Proprietary Geophysical Operations:** The Operator shall provide the Participating Parties with copies of all field data and support documentation as appropriate for all seismic data collected from the Proprietary Geophysical Operations. The Operator shall obtain all licenses and permits from all governmental agencies necessary to conduct Proprietary Geophysical Operations. The Participating Parties in Proprietary Geophysical Operations own the geophysical data derived from such Proprietary Geophysical Operations; provided, however that such ownership is limited to the field tapes, i.e., raw data and initial processed data, and does not include any re-processed or interpreted data.
- 1.4 Disclosure of Data Outside the Contract Area:** In the event any geophysical data is acquired pursuant to this Article 10.5 which covers lands outside the Contract Area, a Participating Party in such data shall not be obligated to obtain permission from the other Participating Parties to disclose such data covering lands outside the Contract Area to third parties.



1.5 **Timely Operations for Geophysical Surveys:** Actual Proprietary Geophysical Operations shall be commenced within one hundred and eighty (180) days from the conclusion of the period for approval of Proprietary Geophysical Operations. In all events, including the occurrence of a Force Majeure, if the Operator does not commence actual Proprietary Geophysical Operations within six (6) months from the conclusion of the period for approval of Proprietary Geophysical Operations, the proposal of the Proprietary Geophysical Operations and its approval will be deemed withdrawn. If a proposal for Proprietary Geophysical Operations is deemed withdrawn, any Costs incurred in the preparation for or in furtherance of such Proprietary Geophysical Operations will be chargeable to the Participating Parties.

2.0 **Group-Shoot And Speculative Seismic Surveys:** The Operator shall coordinate the acquisition of and participation in any new group-shoot or speculative seismic surveys covering one or more of the Leases. For such seismic data acquisitions, the acquiring Parties shall unanimously agree upon the Cost shares of the total licensing fee (rather than basing their shares on their Working Interest).