

**AAPL MODEL FORM  
OF OFFSHORE DEEPWATER  
OPERATING AGREEMENT**

**AAPL-810 (2007)**

13204
Exhibit No. _____
Worldwide Court Reporters, Inc.

US\_PP\_WAL001597

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**Outer Continental Shelf – Gulf of Mexico**

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

3 This Agreement, effective as of \_\_\_\_\_ (the "Effective Date"),  
4 is between \_\_\_\_\_, the signers of  
5 this Agreement, each referred to individually as a "Party" and collectively as the  
6 "Parties."

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

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

13

**ARTICLE 1 – CONTRACT APPLICATION**

14 **1.1 Application in General**

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

19 **1.2 Application to the Contract Area**

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

1 **ARTICLE 2 – DEFINITIONS**

2 **2.1 Additional Testing, Logging, or Sidewall Coring**

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

6 **2.2 Affiliate**

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

- 9 (a) is owned or controlled by a Party,
- 10 (b) is owned or controlled by another corporation, company, limited liability  
11 company, partnership, or other legal entity that is owned or controlled by a  
12 Party,
- 13 (c) owns or controls a Party, or
- 14 (d) is owned or controlled by a corporation, company, limited liability company,  
15 partnership, or other legal entity that owns or controls a Party.

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

20 **2.3 Agreement**

21 This operating agreement, together with its attached Exhibits.

22 **2.4 Annual Operating Plan**

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

25 **2.5 Appraisal Operation**

26 An operation (including, but not limited to, an operation after an Appraisal Well  
27 has reached its Objective Depth but before the attempted completion of the well)  
28 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  
17       data acquired or derived from operations conducted under this Agreement and  
18       all analyses, compilations, maps, models, interpretations, and other documents  
19       that 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."

1 **2.11 Costs**

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

5 **2.12 Deepen or Deepening**

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

9 **2.13 Deeper Drilling**

10 The drilling of an Appraisal Well or Development Well below the Deepest  
11 Producing Reservoir in existence when the well is proposed.

12 **2.14 Deepest Producing Reservoir**

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

15 **2.15 Define AFE**

16 The AFE for the Define Stage.

17 **2.16 Define Stage**

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

24 **2.17 Development Operation**

25 An operation (including, but not limited to, a Recompletion, a Workover, the  
26 attempted completion of an Exploratory Well or an Appraisal Well, or an  
27 operation after a Development Well has reached its Objective Depth) conducted  
28 under Article 13 (*Development Operations*).

29  [Optional provision; check if applicable, that is, if the appropriate option in Article 11.6 is selected.]

30 or under Article 11.6 (*Operations Before the Approval of the Development Plan*).

1 **2.18 Development Phase**

2 The proposals, activities, and operations associated with determining the  
3 feasibility of development and the design, fabrication or acquisition, and  
4 installation of a Development System.

5 **2.19 Development Plan**

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

8 **2.20 Development System**

9 A Production System and its associated Facilities.

10 **2.21 Development Well**

11 A well proposed and drilled as a Development Operation [including, but not  
12 limited to, a substitute well for a Development Well abandoned under Article  
13 13.1.4 (*AFE Overruns and Substitute Well*)].

14 **2.22 Disproportionate Spending**

15 The payment of the Costs of an activity or operation by a Participating Party in  
16 excess of its Participating Interest Share of the Costs of that activity or operation  
17 in order to settle an Underinvestment previously incurred by that Participating  
18 Party.

19 **2.23 Election, Elect, Elects, Elected, Electing**

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

23 **2.24 Enhanced Recovery Project Team AFE**

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

27 **2.25 Execution AFE**

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



1 **2.26 Execution Stage**

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

6 **2.27 Exploratory Operation**

7 An operation (including, but not limited to, an operation after an Exploratory Well  
8 has reached its Objective Depth but before the attempted completion of the well,  
9 except for Production Testing) conducted under Article 10 (*Exploratory  
10 Operations*).

11 **2.28 Exploratory Well**

12 A well proposed and drilled as an Exploratory Operation [including, but not  
13 limited to, a substitute well for an Exploratory Well abandoned under Article  
14 10.1.4 (*AFE Overruns and Substitute Well*)].

15 **2.29 Export Pipelines**

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

19 **2.30 Facilities**

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

31 **2.31 Feasibility AFE**

32 The AFE for the Feasibility Stage.

1 **2.32 Feasibility Stage**

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

6 **2.33 Feasibility Team**

7 A group of employees, contractors, and/or consultants of the Participating  
8 Parties or their respective Affiliates that assists the Operator during the  
9 Feasibility Stage.

10 **2.34 Force Majeure**

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

19 **2.35 HSE**

20 Health, safety, and environment.

21 **2.36 Hydrocarbon Recoupment**

22 An amount to be recovered by the Participating Parties from all or part of the  
23 Non-Participating Interest Share of the proceeds from the sale of future  
24 Hydrocarbon production equal to the Non-Participating Interest Share of the  
25 Costs of the Non-Consent Operation multiplied by the applicable percentage in  
26 Article 16 (*Non-Consent Operations*).

27 **2.37 Hydrocarbons**

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

1 **2.38 Joint Account**

2 The account maintained by the Operator under this Agreement, showing the  
3 charges paid and credits received in connection with the activities and  
4 operations conducted under this Agreement.

5 **2.39 Lease**

6 Each OCS federal oil and gas lease (or portion thereof) identified in Exhibit "A"  
7 and each oil and gas lease covering one or more OCS blocks, or portions  
8 thereof, in the Contract Area that is acquired during the term of this Agreement  
9 by the Operator and the Non-Operating Parties (including substitutions for and  
10 replacements of existing Leases).

11 **2.40 BOEM**

12 The Bureau of Ocean Energy Management United States Department of Interior,  
13 or its successor agency.

14 **2.41 BSEE**

15 The Bureau of Safety and Environmental Enforcement, United States  
16 Department of Interior, or its successor agency.

17 **2.42 News Release**

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

23 **2.43 Non-Consent Operation**

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

28 **2.44 Non-Operating Party**

29 A Party other than the Operator.

1 **2.45 Non-Participating Party**

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

7 **2.46 Non-Participating Interest Share**

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

12 **2.47 Objective Depth**

13 For each well, the shallower of the total footage to be drilled by that well (as  
14 measured in true vertical subsea depth) or the penetration by the drill bit to the  
15 base of the deepest target formation or interval in that well, as that depth or  
16 target formation or interval is stated in the AFE for the well.

17 **2.48 OCS**

18 The Outer Continental Shelf of the Gulf of Mexico.

19 **2.49 Offsite Host Facilities**

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

26 **2.50 Operator**

27 The Party designated in Article 4.1 (*Designation of the Operator*), a successor  
28 Operator selected under Article 4.5 (*Selection of Successor Operator*), and, if  
29 applicable, a substitute Operator selected under Article 4.2 (*Substitute*  
30 *Operator*).

31 **2.51 Overinvested Party**

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

1 **2.52 Participating Interest Share**

2 A Participating Party's percentage of participation in:

- 3 (a) the Costs, risks, and benefits (including rights to Hydrocarbons) of an  
4 approved activity or operation; or,  
5 (b) if applicable, interests to be assigned to the Parties.

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

10 **2.53 Participating Party**

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

- 12 (a) the Costs, risks, and benefits (including rights to Hydrocarbons) of an  
13 approved activity or operation; or,  
14 (b) if applicable, the interests to be assigned to the Parties.

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

18 **2.54 Post-Production Project Team AFE**

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

21 **2.55 Producible Reservoir**

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

25 **2.56 Producible Well**

26 A well on the Contract Area that:

- 27 (a) produces Hydrocarbons;

1 (b) meets, according to the BOEM and/or BSEE, the "well producibility criteria"  
2 in Title 30 CFR 250.116 or any succeeding order or regulation issued by  
3 an appropriate governmental authority; or

4 (c) the Participating Parties in the subject well unanimously agree is a  
5 Producing Well.

6 **2.57 Production System**

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

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

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

13 (c) any combination of the items mentioned in clauses (a) and (b);

14 (d) any other type of structure designed to develop and produce  
15 Hydrocarbons; and

16 (e) all associated components of the items mentioned above, including, but not  
17 limited to, a drilling rig, mooring lines, and anchor piles.

18 Production System excludes Facilities, mobile offshore drilling units, and the  
19 facilities referred to in Article 15.2 (*Facilities to Take in Kind*).

20 **2.58 Production Testing**

21 Operations for the controlled flow of Hydrocarbons to the surface for the purpose  
22 of measuring flow rates or flowing pressures, or gaining other subsurface data.

23 **2.59 Project Team**

24 A group of employees, contractors, and/or consultants of the Participating  
25 Parties or their respective Affiliates, who assists the Operator in carrying out the  
26 scope of work for the Selection Stage, Define Stage, and Execution Stage and  
27 the scope of work under Articles 12.8 (*Post-Production Project Team AFEs*) and  
28 12.11 (*Enhanced Recovery and/or Pressure Maintenance Program Proposals*).

1 **2.60 Recompletion**

2 A Development Operation in a single well bore in which a completion in one  
3 Producing Reservoir is abandoned in order to attempt a completion in a different  
4 Producing Reservoir. To "Recomplete" means to conduct a Recompletion.

5 **2.61 Selection AFE**

6 The AFE for the Selection Stage.

7 **2.62 Selection Stage**

8 The stage of a Development Phase during which the Operator, with the  
9 assistance of the Project Team, if applicable, will determine whether to:

10 (a) install a Development System on the Contract Area, or

11 (b) tie-back to, and utilize,

12 (i) a Development System resulting from a previous Development  
13 Phase or

14 (ii) a development system and/or facilities located outside the Contract  
15 Area

16 in order to produce Hydrocarbons.

17 **2.63 Sidetracking**

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

24 **2.64 Transfer of Interest**

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

27 **2.65 UnderInvested Party**

28 A Party with an Underinvestment.

1 **2.66 Underinvestment**

2 A monetary obligation incurred under this Agreement to be settled under Article  
3 16.9 (*Settlement of Underinvestments*).

4 **2.67 Vote**

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

8 **2.68 Well Plan**

9 A detailed written description accompanying a proposal to drill an Exploratory  
10 Well, Appraisal Well, or Development Well, or to conduct a Workover,  
11 Recompletion, well repair, or subsequent operation at Objective Depth, which  
12 must include, at a minimum:

- 13 (a) the surface and target bottomhole locations of the operation, if applicable;
- 14 (b) the expected commencement date of the operation and the anticipated time  
15 necessary to conclude the operation;
- 16 (c) the total vertical subsea depth to be drilled, along with the specified  
17 Objective Depth (and the target zones to be penetrated), if applicable;
- 18 (d) the proposed drilling plan, if applicable, and the proposed completion plan,  
19 including the casing program and directional details, if applicable;
- 20 (e) details of all coring, logging, and other evaluation operations to be  
21 conducted, if applicable; and
- 22 (f) information about the drilling rig to be used, including day rates, water  
23 depth rating, and other limitations relevant to the operations to be  
24 conducted, if applicable.

25 **2.69 Working Interest**

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



1 **2.70 Workover**

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

5 **ARTICLE 3 – EXHIBITS**

6 **3.1 Exhibits**

7 All references in this Agreement to “Exhibits” without further qualification mean  
8 the Exhibits listed below and attached to this Agreement. Each Exhibit is made  
9 a part of this Agreement and is incorporated into this Agreement by this  
10 reference. If any provision of an Exhibit conflicts with any provision of the body  
11 of this Agreement, the provision of the body of this Agreement shall prevail, with  
12 the exception of Exhibits “C,” “D,” and “G,” each provision of which shall prevail  
13 over any provision of the body of this Agreement, except as provided in Article  
14 6.2.4 (*Long Lead Well Operation AFEs*). If any provision of Exhibit “C” conflicts  
15 with any provision of Exhibit “G,” the provision of Exhibit “G” shall prevail. If any  
16 provision of Exhibit “C” conflicts with any provision of Exhibit “D,” the provision of  
17 Exhibit “\_\_\_\_\_” shall prevail.

18 **Exhibit “A”** Description of Leases, Working Interests of the Parties, and  
19 Representatives

20 **Exhibit “B”** Insurance Provisions

21 **Exhibit “C”** Accounting Procedure

22 **Exhibit “D”** Gas Balancing Agreement

23 **Exhibit “E”** Certification of Non-segregated Facilities

24 **Exhibit “F”** Security Interest Provisions

25 **Exhibit “G”** Project Team and Technology Sharing

26  [Optional; check if Dispute Resolution Procedure Exhibit is to be attached.]

27 **Exhibit “H”** Dispute Resolution Procedure

28 **Exhibit “I”** Well Data Trade and Confidentiality Agreement

1  [Optional; check if Tax Partnership Exhibit is to be attached.]

2 **Exhibit "J"** Tax Partnership

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

4  [Optional; check if Geophysical Operations Provisions Exhibit is to be attached.]

5 **Exhibit "L"** Geophysical Operations Provisions

6  [Optional; check if Memorandum of Operating Agreement Exhibit is to be attached.]

7 **Exhibit "M"** Memorandum of Operating Agreement

8  [Optional; check if Financing Statement Exhibit is to be attached.]

9 **Exhibit "N"** Financing Statement

10 **ARTICLE 4 – SELECTION OF OPERATOR**

11 **4.1 Designation of the Operator**

12 \_\_\_\_\_ is designated as the Operator of the Contract Area. The Parties  
13 shall promptly execute and file all documents required by the BOEM in  
14 connection with the designation of \_\_\_\_\_ as Operator or with the designation  
15 of any other Party as a substitute or successor Operator. Unless agreed  
16 otherwise by all the Parties, the Operator shall be classified as the designated  
17 applicant for oil spill financial responsibility purposes, and each Non-Operating  
18 Party shall promptly execute the appropriate documentation reflecting that  
19 classification and promptly provide that documentation to the Operator for filing  
20 with the BOEM.

21 **4.2 Substitute Operator**

22 **4.2.1 Substitute Operator if Operator is a Non-Participating Party**

23 Except as otherwise provided in Article 4.2.3 (*Circumstances Under*  
24 *Which the Operator Must Conduct a Non-Consent Operation*), if the  
25 Operator is a Non-Participating Party in a Non-Consent Operation, the  
26 Participating Parties may approve by Vote the designation of any  
27 Participating Party as the substitute Operator. The substitute Operator  
28 shall serve as the Operator only (a) for the Non-Consent Operation (if  
29 the Non-Consent Operation is the drilling of a well, through the release  
30 of the drilling rig for that well), (b) of the Lease affected by the Non-

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

1           **4.2.3     Circumstances Under Which the Operator Must Conduct a Non-**  
2           **Consent Operation**

3           If:

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

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

18           **4.2.4     Operator's Conduct of a Non-Consent Operation in Which it is a**  
19           **Non-Participating Party**

20           When, under Article 4.2.1 (*Substitute Operator if Operator is a Non-*  
21           *Participating Party*) or Article 4.2.3 (*Circumstances Under Which the*  
22           *Operator Must Conduct a Non-Consent Operation*), the Operator  
23           conducts a Non-Consent Operation in which it is a Non-Participating  
24           Party, it shall follow the practices and standards in Article 5 (*Rights and*  
25           *Duties of Operator*). The Operator shall not be required to proceed with  
26           the Non-Consent Operation until the Participating Parties have  
27           advanced the Costs of the Non-Consent Operation to the Operator.  
28           The Operator shall never be obligated to expend any of its own funds  
29           for the Non-Consent Operation.

30           **4.2.5     Appointment of a Substitute Operator**

31           After expiration of all applicable response periods for the Non-Consent  
32           Operation and selection of a substitute Operator, each Party shall

1 promptly provide the substitute Operator with the appropriate BOEM  
2 designation of operator forms and certification of oil spill financial  
3 responsibility forms. The Operator and the substitute Operator shall  
4 coordinate the change of operatorship to avoid interfering with ongoing  
5 activities and operations, if any, including but not limited to, lease  
6 maintenance activities and operations.

7 **4.2.6 Redesignation of Operator**

8 Within \_\_\_\_ (\_\_\_\_) days after conclusion of the Non-Consent Operation,  
9 all Parties shall execute and provide the Operator with the appropriate  
10 BOEM designation of operator forms and certification of oil spill  
11 financial responsibility forms to return operatorship to the Operator,  
12 thereby superseding the Parties' designation of the substitute Operator  
13 under Article 4.2.5 (*Appointment of a Substitute Operator*).

14 **4.3 Resignation of Operator**

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

21 **4.4 Removal of Operator**

22 The Operator may be removed under the following circumstances:

23 **4.4.1 Removal Upon Assignment**

24 If the Operator assigns part of its Working Interest (excluding an  
25 interest assigned to an Affiliate) and the assignment reduces the  
26 Operator's Working Interest to less than the Working Interest of a  
27 Non-Operating Party, whether accomplished by one or more  
28 assignments, then the removal of the Operator requires approval by  
29 Vote.

30 **4.4.2 Removal for Cause by Vote**

31 Under the following circumstances, the removal of the Operator shall  
32 be approved by Vote, excluding the Vote of the Operator:

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

24 **4.4.3 Timing of Vote to Remove Operator**

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

28 **4.5 Selection of Successor Operator**

29 Upon the resignation or removal of the Operator, a successor Operator shall be  
30 approved by Vote, subject to this limitation on the Voting right of Operator: if the  
31 resigned or removed Operator is not entitled to Vote, fails to Vote, or Votes only  
32 to succeed itself, then the successor Operator shall be approved by Vote after

1 excluding the Vote of the resigned or removed Operator. If the Operator assigns  
2 all or a part of its Working Interest, then under Article 4.3 (*Resignation of*  
3 *Operator*) or Article 4.4.1 (*Removal Upon Assignment*) the Party who acquired  
4 all or a part of the former Operator's Working Interest shall not be excluded from  
5 Voting for a successor Operator. If there are only two Parties to this Agreement  
6 when the Operator resigns or is removed, then the Non-Operating Party  
7 automatically has the right, but not the obligation, to become the Operator. If no  
8 Party is willing to become the Operator, this Agreement shall terminate under  
9 Article 26.1 (*Term*).

10 **4.6 Effective Date of Resignation or Removal**

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

25 **4.7 Delivery of Property**

26 On the effective date of resignation or removal of the Operator, the outgoing  
27 Operator shall deliver to the successor Operator custodianship of the Joint  
28 Account and possession of all items purchased for the Joint Account under this  
29 Agreement; all Hydrocarbons that are not the separate property of a Party; all  
30 equipment, materials, and appurtenances purchased for the Joint Account under  
31 this Agreement; and all books, records, and inventories relating to the Joint  
32 Account (other than those books, records, and inventories maintained by the  
33 outgoing Operator as the owner of a Working Interest). The outgoing Operator  
34 shall further use its reasonable efforts to transfer to the successor Operator, as

1 of the effective date of the resignation or removal, its rights as Operator under all  
2 contracts exclusively relating to the activities or operations conducted under this  
3 Agreement, and the successor Operator shall assume all obligations of the  
4 Operator that are assignable under the contracts. The Parties may audit the  
5 Joint Account and conduct an inventory of all property and all Hydrocarbons that  
6 are not the separate property of a Party, and the inventory shall be used in the  
7 return of, and the accounting by the outgoing Operator of, the property and the  
8 Hydrocarbons that are not the separate property of a Party. The inventory and  
9 audit shall be conducted under Exhibit "C."

## 10 ARTICLE 5 – RIGHTS AND DUTIES OF OPERATOR

### 11 **5.1 Exclusive Right to Operate**

12 Except as otherwise provided, the Operator has the exclusive right and duty to  
13 conduct (or cause to be conducted) all activities or operations under this  
14 Agreement. In performing services under this Agreement for the Non-Operating  
15 Parties, the Operator is an independent contractor, not subject to the control or  
16 direction of Non-Operating Parties, except as provided in Article 8.2 (*Voting and*  
17 *Election Procedures*) or Article 8.5 (*Approved by Unanimous Agreement*). The  
18 Operator is not the agent or fiduciary of the Non-Operating Parties. With the  
19 exception of any Feasibility Team or Project Team formed under this Agreement,  
20 the Operator shall select and determine the number of employees, Affiliates,  
21 contractors, and/or consultants used in conducting activities or operations under  
22 this Agreement and the hours of labor and the compensation for those  
23 employees, Affiliates, contractors, and/or consultants. All of those employees,  
24 Affiliates, contractors, and/or consultants shall be the employees, Affiliates,  
25 contractors, and/or consultants of the Operator. The Operator shall contract for  
26 and employ any drilling rigs, tools, machinery, equipment, materials, supplies,  
27 and personnel reasonably necessary for the Operator to conduct the activities or  
28 operations provided for in this Agreement; however, if a substitute Operator is  
29 designated to drill a well, the substitute Operator may utilize a rig, which it owns  
30 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 (a) that was entered into within \_\_\_\_\_ ( ) years before the commencement of  
19 drilling operations and (b) that contains terms, rates, and provisions that, when  
20 the contract was entered into, did not exceed those generally prevailing on the  
21 OCS for operations involving drilling rigs of an equivalent type, operating in  
22 similar environments and water depths, equipped to the Operator's standard  
23 conditions, and capable of drilling the proposed well or conducting other  
24 required operations within the schedule in the well AFE. The Operator may  
25 employ its own or its Affiliate's equipment, personnel, drilling rig, Workover rig,  
26 and snubbing unit in the conduct of those operations, either under Exhibit "C" or  
27 under a written agreement among the Participating Parties. If the Operator's or  
28 its Affiliate's equipment, personnel, drilling rig, Workover rig, or snubbing unit is  
29 employed in conducting operations under this Agreement, the terms, conditions,  
30 and rates for that employment shall be consistent with those currently prevailing  
31 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

1 the Hydrocarbons free from liens and encumbrances (except those provided in  
2 Exhibit "F") that might arise by reason of the activities or operations conducted  
3 under this Agreement. If a lien is placed on the Leases, Production Systems,  
4 Facilities, other equipment, or any Hydrocarbons, the Operator shall make  
5 reasonable efforts to remove the lien.

6 **5.5 Records**

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

19 **5.6 Reports to Government Agencies**

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

27 **5.7 Information to Participating Parties**

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

- 31 (a) a copy of each application for a permit to drill and all amendments to that  
32 application;

- 1 (b) drilling and Workover reports, which shall include, but not be limited to, the  
2 current depth, the corresponding lithological information, data on drilling  
3 fluid characteristics, information about drilling difficulties or delays (if any),  
4 mud checks, mud logs, and Hydrocarbon information, casing and  
5 cementation tallies, and estimated cumulative Costs, to be sent by  
6 facsimile or electronic transmission within \_\_\_\_\_ ( ) hours (exclusive of  
7 Saturdays, Sundays, and federal holidays) of well operations conducted in  
8 the preceding twenty-four (24) hour period; provided, however, the  
9 information and data set forth in this Article 5.7(b) shall be provided in "real  
10 time" if it is available to the Operator in "real time" and a Participating Party  
11 has contractual rights to utilize the "real time" system that the Operator is  
12 utilizing and has agreed to pay any incremental expenses associated with  
13 its accessing that information and data from that "real time system";
- 14 (c) a complete report of all core data and analyses;
- 15 (d) copies of logs and surveys as run, including all digitally recorded data;
- 16 (e) copies of well test results, bottomhole pressure surveys, Hydrocarbon  
17 analyses, and other similar information, including PVT analyses;
- 18 (f) copies of reports made to regulatory agencies;
- 19 (g) forty-eight (48) hours' advance notice of logging, coring, or testing  
20 operations (or, if conditions do not permit that much advance notice, as  
21 much advance notice as is reasonably possible);
- 22 (h) upon written request, and if sufficient quantities are available, samples of  
23 cutting and sidewall cores, marked as to depth, to be packaged and  
24 shipped at the expense of the requesting Party;
- 25 (i) copies of drilling prognoses;
- 26 (j) if conventional cores are taken, access to the rig to inspect and evaluate  
27 said cores; and
- 28 (k) samples of Hydrocarbons, if sufficient quantities are available, after  
29 performing routine tests.

1 Upon written request, the Operator shall use reasonable efforts to furnish to a  
2 requesting Participating Party any additional available information (including a  
3 complete slabbed section of all recovered cores, if requested and available),  
4 acquired by the Operator for the Participating Parties, not otherwise furnished  
5 under this Article (not including any derivative information independently  
6 developed at Operator's sole cost and risk). The Costs of gathering and  
7 furnishing the additional available information shall be charged to the  
8 Participating Party that requested it.

9 **5.8 Completed Well Information**

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

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

24 **5.9 Information to Non-Participating Parties**

25 The Operator shall furnish to each Non-Participating Party:

- 26 (a) as soon as reasonably practicable, copies of all non-confidential reports  
27 made to regulatory agencies, and

1 (b) if applicable, after Complete Recoupment, the information specified in  
2 Articles 5.7 (*Information to Participating Parties*) and 5.8 (*Completed Well*  
3 *Information*).

4 **5.10 Health, Safety, and Environment:**

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

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

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

22 **ARTICLE 6 – EXPENDITURES AND ANNUAL OPERATING PLAN**

23 **6.1 Basis of Charges to the Parties**

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

1 **6.2 AFEs**

2 The Operator shall not undertake an activity or operation whose Costs are  
3 \_\_\_\_\_ dollars (\$ \_\_\_\_\_) or more, unless an AFE has been  
4 included in a proposal for an activity or operation and the proposal has been  
5 approved by Vote, Election, or unanimous agreement, whichever is applicable,  
6 or the Operator is exercising one of its discretionary powers under this  
7 Agreement. An approved proposal grants the Operator authority to commit or  
8 expend funds on the approved proposal for the account of the Participating  
9 Parties. For an activity or operation whose Costs are in excess of  
10 \_\_\_\_\_ dollars (\$ \_\_\_\_\_), but less than \_\_\_\_\_  
11 dollars (\$ \_\_\_\_\_), the Operator shall furnish the Participating Parties with  
12 an AFE for information purposes only. Notwithstanding the foregoing, in the  
13 event of an emergency, or if in the sole discretion of the Operator a perceived  
14 emergency exists that poses an imminent threat to life, safety, property, or the  
15 environment, the Operator may immediately make those expenditures for the  
16 Joint Account as, in its opinion as a reasonable and prudent operator, are  
17 necessary to deal with the emergency, but only to the extent necessary to  
18 stabilize the situation and alleviate the imminent threat. The Operator shall  
19 report to the Participating Parties, as promptly as possible, the nature of the  
20 emergency, the action taken, and the Costs incurred.

21 **6.2.1 AFE Overrun Notice**

22 For informational purposes only, the Operator shall provide an AFE  
23 overrun notice to all the Participating Parties if it appears (based upon  
24 Operator's reasonable estimate) that the actual total Costs associated  
25 with an original AFE will exceed the estimated total expenditures in that  
26 original AFE by more than \_\_\_\_\_ percent (\_\_\_%) or \_\_\_\_\_ dollars  
27 (\$ \_\_\_\_\_), whichever is greater, but will not require the submission of  
28 a supplemental AFE under Article 6.2.2 (*Supplemental AFEs*).

29 **6.2.2 Supplemental AFEs**

30 Except as provided in Article 6.2.3 (*Further Operations During a Force*  
31 *Majeure*), if it appears (based upon the Operator's reasonable  
32 estimate) that the actual Costs associated with an original AFE or its  
33 approved supplemental AFEs will exceed the relevant permitted over-  
34 expenditure set forth below, the Operator shall promptly submit a

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supplemental AFE to the Participating Parties. A supplemental AFE shall include the dollar amount of the permitted over-expenditure from the previously approved AFE as part of the dollar amount of that supplemental AFE. Subject to Article 8.6.1 (*Well Proposals, Completions, and Workovers*), after receipt of the supplemental AFE each Participating Party has the right to make an Election as to its further participation in the approved activity or operation. If a proposed supplemental AFE is approved by Election, the Operator shall continue to conduct the approved activity or operation associated with the supplemental AFE at the sole Cost and risk of the Participating Parties in the supplemental AFE. Any Participating Party making an Election not to participate in an approved supplemental AFE becomes a Non-Participating Party in the activity or operation associated with the original AFE once the actual Costs expended on the activity or operation exceed the permitted over-expenditure amount of the last AFE in which the Non-Participating Party Elected to participate, without regard to whether all the activities or operations (including plugging and abandonment) in the original AFE have been conducted at the time of its Election not to participate. A Non-Participating Party in a supplemental AFE is subject to the same Hydrocarbon Recoupment premium, Underinvestment, or acreage forfeiture provision in Article 16 (*Non-Consent Operations*) that would apply to a Party Electing or Voting not to participate in the originally approved activity or operation, except a Hydrocarbon Recoupment premium or an Underinvestment shall apply only to the Costs of the approved activity or operation not borne by the Non-Participating Party. If a supplemental AFE is not approved by Election, the Operator shall conclude the activity or operation as soon as practical, and each Participating Party will be responsible for its Participating Interest Share of the Costs of the activity or operation, including Costs in excess of the permitted over-expenditure amount.

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

The permitted over-expenditure for an Exploratory Operation, an Appraisal Operation, or a Development Operation is an amount equal to \_\_\_\_\_ percent (\_\_\_\_%) of the

1 estimated Costs in the original AFE for that operation or its  
2 approved supplemental AFEs or \_\_\_\_\_ dollars  
3 (\$\_\_\_\_\_), whichever is less.

4 **6.2.2.2 Permitted Over-expenditures on the Feasibility AFE, a**  
5 **Post-Production Project Team AFE, or an Enhanced**  
6 **Recovery Project Team AFE**

7 The permitted over-expenditure for the Feasibility AFE, a  
8 Post-Production Project Team AFE, or an Enhanced  
9 Recovery Project Team AFE is an amount equal to  
10 \_\_\_\_\_ percent (\_\_\_\_%) of the estimated total Costs  
11 in the original AFE for that activity or its approved  
12 supplemental AFEs or \_\_\_\_\_ dollars  
13 (\$\_\_\_\_\_), whichever is less.

14 **6.2.2.3 Permitted Over-expenditures on a Selection AFE or**  
15 **Define AFE**

16 The permitted over-expenditure for the Selection AFE or the  
17 Define AFE is an amount equal to \_\_\_\_\_ percent  
18 (\_\_\_\_%) of the estimated total Costs in the original AFE for  
19 that activity or its approved supplemental AFEs or  
20 \_\_\_\_\_ dollars (\$\_\_\_\_\_), whichever is less.

21 **6.2.2.4 Permitted Over-expenditures on an Execution AFE**

22 The permitted over-expenditure for the Execution AFE is an  
23 amount equal to \_\_\_\_\_ percent (\_\_\_\_%) of the  
24 estimated total Costs in the original AFE for that activity or its  
25 approved supplemental AFEs or \_\_\_\_\_ dollars  
26 (\$\_\_\_\_\_), whichever is less. The "estimated total  
27 Costs in the original AFE for that activity" is the total dollar  
28 amount of the Execution AFE and all approved Long Lead  
29 Development System AFEs.

30 **6.2.2.5 Permitted Over-expenditures on All Other AFEs**

31 The permitted over-expenditure for all other AFEs is an  
32 amount equal to \_\_\_\_\_ percent (\_\_\_\_%) of the  
33 estimated total Costs in the original AFE for that activity or



1 operation or its approved supplemental AFEs or  
2 \_\_\_\_\_ dollars (\$ \_\_\_\_\_), whichever is  
3 less.

4 **6.2.3 Further Operations During a Force Majeure**

5 No Party is permitted to make an Election not to participate in further  
6 activities or operations under Article 6.2.2 (*Supplemental AFEs*) during  
7 a Force Majeure or during an emergency that poses a threat to life,  
8 safety, property, or the environment, but may make an Election not to  
9 participate in further activities or operations that are to be conducted  
10 after the termination of the Force Majeure or emergency.  
11 Notwithstanding any contrary provision of this Agreement, if Costs  
12 arising as a result of Force Majeure or emergency cause the amount of  
13 an original AFE and its approved supplemental AFEs to exceed their  
14 permitted over-expenditure in Article 6.2.2 (*Supplemental AFEs*), no  
15 supplemental AFE will be required; however, once stabilization takes  
16 place and Force Majeure or emergency expenditures are no longer  
17 being incurred, the Operator shall submit to the Participating Parties a  
18 supplemental AFE for the activities or operations that are to be  
19 conducted after termination of the Force Majeure or emergency in  
20 order for them to make an Election under Article 6.2.2 (*Supplemental*  
21 *AFEs*) as to their participation in those activities or operations.

22 **6.2.4 Long Lead Well Operation AFEs**

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

32 **6.2.4.1 Approval of a Long Lead Well Operation AFE**

33 Each Long Lead Well Operation AFE requires the unanimous  
34 agreement of the Parties.

1 [Select one of the following.]

2  Select this provision if the Operator bears the consequences of not using Long Lead Items.

3 **6.2.4.2 Non-Participating Parties in the Operations Associated**  
4 **with the Long Lead Well Operation AFE**

5 If a Party, who participated in a Long Lead Well Operation  
6 AFE, does not participate in a well or well operation, for which  
7 Long Lead Items were procured under that AFE, and if the  
8 Operator commences that well or well operation within \_\_\_\_  
9 ( ) years of the approval of that Long Lead Well Operation  
10 AFE, the Operator shall reimburse that Party its Participating  
11 Interest Share of the Costs of those Long Lead Items within  
12 thirty (30) days of the commencement of that well or well  
13 operation, provided, however, that Party's share of those  
14 Costs shall be included in the calculation of any Hydrocarbon  
15 recoupment to which it is subject as a result of that well or  
16 well operation. The Operator shall invoice the Participating  
17 Parties in that well or well operation for their proportionate  
18 share of the reimbursement under this Article 6.2.4.2 in  
19 accordance with Exhibit "C."

20 **6.2.4.3 Reimbursement for Items Associated with a Long Lead**  
21 **Well Operation AFE, which Are Not Used**

22 If the Operator does not commence a well or well operation,  
23 for which Long Lead Items were procured within \_\_\_\_ ( )  
24 years from the approval of the Long Lead Well Operation  
25 AFE, which included those Long Lead Items, the Operator  
26 shall reimburse the Participating Parties in the Long Lead  
27 Well Operation AFE their Participating Interest share of the  
28 Costs of the Long Lead Items within thirty (30) days of the  
29 conclusion of that \_\_\_\_ ( ) year period.

30  Select this provision if the Participating Parties in the well or well operation for which the Long Lead  
31 Items were ordered bear the consequences of not using those Long Lead Items.

32 **6.2.4.2 Non-Participating Parties in the Operations Associated**  
33 **with the Long Lead Well Operation AFE**

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If a Party, who participated in a Long Lead Well Operation AFE, does not participate in an approved well or well operation, for which Long Lead Items were procured under that AFE, the Operator shall reimburse that Party its Participating Interest Share of the Costs of those Long Lead Items within thirty (30) days of the approval of that well or well operation, provided, however, that Party's share of those Costs shall be included in the calculation of any Hydrocarbon recoupment to which it is subject as a result of that well or well operation. The Operator shall invoice the Participating Parties in that well or well operation for their proportionate share of the reimbursement under this Article 6.2.4.2 in accordance with Exhibit "C."

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

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

**6.3 Security Rights**

Exhibit "F" [TEXAS, (MISSISSIPPI, ALABAMA, FLORIDA)] or Exhibit "F" (LOUISIANA), as applicable, applies.

**6.4 Annual Operating Plan**

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

The Annual Operating Plan is for informational and planning purposes and does not obligate any Party to any course of action or expenditures or constitute a Vote, Election, or unanimous agreement to participate in any specific activity or operation. To the extent known on

1 the date of submission of the Annual Operating Plan, the Annual  
2 Operating Plan shall include the following items, without limitation:

3 **6.4.1.1 Capital Budget**

- 4 (a) a list of proposed wells to be drilled including their  
5 anticipated order, drilling time, depths, surface and  
6 bottomhole locations, objective sands, type of well  
7 (Development, Appraisal), purpose of well (production,  
8 injection), and estimated Costs;
- 9 (b) capital well operations listed by well, with their estimated  
10 Cost;
- 11 (c) capital projects that have estimated gross Costs greater  
12 than \_\_\_\_\_ dollars (\$\_\_\_\_\_). The  
13 term "capital project" includes addition of new equipment  
14 and expansion or upgrades of existing equipment; and
- 15 (d) an estimated total amount (in aggregate) for capital  
16 projects.

17 **6.4.1.2 Expense Budget**

- 18 (a) expense well operations listed by well, with their  
19 estimated Cost;
- 20 (b) expense projects that have estimated gross Costs  
21 greater than \_\_\_\_\_ dollars (\$\_\_\_\_\_).  
22 The term "expense project" includes repair,  
23 replacement, inspection, and maintenance of existing  
24 equipment;
- 25 (c) an estimated total amount (in aggregate) for expense  
26 projects; and
- 27 (d) estimated Operations and Maintenance (O&M)  
28 expenditures for the year may be shown in the  
29 aggregate. O&M expenses include the ongoing,  
30 everyday expenditures necessary to operate the field.

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**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 \_\_\_\_\_, 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 \_\_\_\_\_ 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

1 \_\_\_\_\_ of each year, at which time the Annual Operating Plan is  
2 deemed adopted by all Parties.

3 **ARTICLE 7 – CONFIDENTIALITY OF DATA**

4 **7.1 Confidentiality Obligation**

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

12 **7.1.1 Exceptions to Confidentiality**

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

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

26 **7.1.2 Permitted Disclosures**

27 **7.1.2.1 Operator's Permitted Disclosures**

28 The Operator may disclose items of Confidential Data to  
29 those third parties as may be necessary to conduct activities

1 and operations under this Agreement, if the third parties are  
2 bound by written agreement to keep the Confidential Data  
3 secret for the period of time set forth in the Operator's service  
4 agreement with those third parties or \_\_\_ ( ) years if a  
5 service agreement does not exist with those third parties.  
6 Notwithstanding the foregoing, should the Operator disclose  
7 Confidential Data to an Affiliate, then the Affiliate shall require  
8 its Affiliate to handle, hold, and protect the Confidential Data  
9 as if it were a Party to this Agreement.

10 **7.1.2.2 All Parties' Permitted Disclosures**

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

- 19 (a) to its Affiliate;
- 20 (b) to a bona fide, financially responsible, prospective  
21 assignee of any portion of the Party's Working Interest  
22 (including but not limited to an entity with whom a Party  
23 or its Affiliates is conducting bona fide negotiations  
24 directed toward a merger, consolidation or a sale of a  
25 Party's or an Affiliate's shares or substantially all of its  
26 assets on the OCS);
- 27 (c) to potential contractors, professional consultants, or  
28 outside legal counsel engaged by or on behalf of the  
29 Party and acting in a capacity where that disclosure is  
30 essential to the contractor's, consultant's, or outside  
31 legal counsel's work;

- 1 (d) to a bank or other financial institution to the extent  
2 appropriate to a Party arranging financing for its  
3 obligations under this Agreement;
- 4 (e) to the extent required by a Lease, or by law, order,  
5 decree, regulation, or rule (including, without limitation,  
6 those of any regulatory agency, securities commission,  
7 stock exchange, judicial, or administrative proceeding).  
8 If a Party is required to disclose Confidential Data under  
9 this Article 7.1.2.2(e), the Party shall promptly provide  
10 all other Parties to this Agreement written notice of  
11 those proceedings so that the non-disclosing Parties  
12 may seek a protective order or other remedy. A  
13 disclosing Party shall furnish only such Confidential  
14 Data as is legally required and will use its reasonable  
15 efforts to obtain confidential treatment for any  
16 Confidential Data disclosed;
- 17 (f) to an entity allocating or desiring to transport, process,  
18 or purchase Hydrocarbons produced under this  
19 Agreement for the purpose of making Hydrocarbon  
20 reserve estimates or other technical evaluations or  
21 allocating Hydrocarbon products to source points;
- 22 (g) to third parties for benchmarking studies and industry  
23 performance reviews; provided that the Confidential  
24 Data disclosed does not include competitive information  
25 or data and the studies blind the identities of the  
26 participants and the origin of the Confidential Data; and  
27
- 28 (h) to a contractor for the purpose of offsite storage of  
29 Confidential Data.

30 **7.1.3 Limited Releases to Offshore Scout Association**

31 The Operator may disclose Confidential Data to the Offshore Oil  
32 Scouts Association at their weekly meetings. The Confidential Data



1 that may be disclosed is limited to information concerning well  
2 locations, well operations, and well completions to the extent  
3 reasonable and customary in industry practice or required under the  
4 by-laws of the Offshore Oil Scouts Association.

5 **7.1.4 Continuing Confidentiality Obligation**

6 A Party who ceases to own a Working Interest remains bound by the  
7 confidentiality and use obligations of this Agreement as to Confidential  
8 Data obtained through this Agreement under Article 7.1 (*Confidentiality*  
9 *Obligation*).

10 **7.2 Ownership of Confidential Data**

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

16 **7.2.1 Trades of Confidential Data**

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

26 **7.2.2 Ownership of Non-Consent Data**

27 After Complete Recoupment has taken place and a Non-Participating  
28 Party has become a Participating Party in an activity or operation, that  
29 Non-Participating Party shall become an owner of the Confidential  
30 Data and information resulting from that activity or operation. Within  
31 fifteen (15) days after Complete Recoupment, the Operator shall  
32 furnish that Confidential Data and information to the former Non-  
33 Participating Party.

1 **7.3 Access to the Lease and Rig**

2 Except as provided in Article 6.3(b) (*Default*) in Exhibit "F," each Participating  
3 Party may attend meetings between the Operator and any contractors  
4 constructing the Production System or Facilities specified in the Execution AFE  
5 as well as access to the construction sites. Except as otherwise provided in  
6 Article 6.3(b) (*Default*) in Exhibit "F," each Participating Party shall have access  
7 to all drilling rigs, Production Systems, and Facilities to observe and inspect  
8 operations and wells in which it participates (and the pertinent records and other  
9 data). Access by the Participating Party to a drilling rig, Production System, or  
10 Facility serving a Contract Area shall be scheduled through the Operator at least  
11 forty-eight (48) hours in advance (or, if conditions do not permit that much  
12 advance scheduling, with as much advance scheduling as is reasonably  
13 possible). Each Party's access will be at reasonable times and may not  
14 unreasonably interfere with operations at the site.

15 **7.4 Development of Proprietary Information and/or Technology**

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

21 **ARTICLE 8 – APPROVALS AND NOTICES**

22 **8.1 Classes of Matters**

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

29 **8.1.1 Voting and Electing Interest**

30 If all Parties are entitled to make an Election or Vote, each Party has  
31 an Electing interest or a Voting interest equal to its Working Interest or  
32 its Participating Interest Share, as applicable. If a Party does not have

1 a right to make an Election or Vote, each of the other Parties has an  
2 Electing interest or a Voting interest, as applicable, equal to its  
3 Working Interest or its Participating Interest Share, as applicable,  
4 divided by the total Working Interest or Participating Interest, as  
5 applicable, of those Parties who have a right to make an Election or  
6 Vote.

7 **8.2 Voting and Election Procedures**

8 The Parties shall Vote or make an Election on proposals requiring a Vote or  
9 Election in the order in which those proposals are submitted, except as specified  
10 in Articles 10.2 (*Exploratory Operations at Objective Depth*), 11.2 (*Appraisal*  
11 *Operations at Objective Depth*), and 13.2 (*Development Operations at Objective*  
12 *Depth*). Subject to Article 6.2 (*AFEs*), after receipt of a notice properly given for  
13 an activity or operation requiring a Vote or Election, the Parties entitled to make  
14 that Vote or Election (a) may Vote or make an Election in accordance with this  
15 Article 8.2 (*Voting and Election Procedures*) and Article 8.7 (*Giving and*  
16 *Receiving Notices and Responses*) or (b) shall be deemed to have Voted or  
17 made an Election as provided in Article 8.6.5 (*Failure to Vote or Make an*  
18 *Election*).

19 A Vote or Election to participate in a proposal is evidenced by a Party making a  
20 written affirmative response to the proposal or by a Party's execution of the AFE  
21 associated with the proposal. Except as otherwise provided in this Agreement, a  
22 Vote or Election not to participate in a proposal is evidenced by a Party's written  
23 negative response to the proposal, a Party's failure to make a timely written  
24 affirmative response to the proposal or to timely execute the AFE associated  
25 with the proposal, or a Party's failure to timely make a subsequent Vote or  
26 Election under Article 8.3 (*Second Opportunity to Participate*).

27 **8.2.1 Approval by Vote**

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

- 29 (a) when one Party or two Parties are entitled to Vote, approval by  
30 Vote shall require an affirmative Vote of one or more Parties with  
31 a Voting interest of \_\_\_\_\_ percent (\_\_\_\_%) or more, or if  
32 two Parties entitled to Vote have the same Voting interest, the  
33 affirmative Vote of all Parties entitled to Vote; and

1 (b) when more than two Parties are entitled to Vote, approval by Vote  
2 shall require an affirmative Vote of \_\_\_\_\_ ( ) or more Parties  
3 entitled to Vote with a combined Voting interest of \_\_\_\_\_  
4 percent ( %) or more.

5 **8.2.2 Approval by Election**

6 Approval by Election shall be decided by an affirmative Election by one  
7 or more Parties, entitled to make an Election, with a combined Electing  
8 interest of \_\_\_\_\_ percent ( %) or more.

9 **8.3 Second Opportunity to Participate**

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

23 **8.4 Participation by Fewer Than All Parties**

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

30 (a) limit its participation in the approved activity or operation to its Working  
31 Interest share, or

1 (b) agree to bear its Participating Interest Share of the approved activity or  
2 operation

3 by written correspondence to the Operator. Failure to submit that written  
4 correspondence shall be deemed a written correspondence under (a). If a Party,  
5 who made an original or a subsequent Vote or Election to participate in the  
6 approved activity or operation, submits or is deemed to have submitted a written  
7 correspondence under (a) and the other Parties who made an original or a  
8 subsequent Vote or Election to participate in the approved activity or operation  
9 do not agree to bear all of the remaining Costs of the approved activity or  
10 operation within \_\_\_\_\_ ( ) days after the written correspondence period,  
11 the proposal of the approved activity or operation and all Votes and Elections in  
12 regard to the approved activity or operation shall be deemed withdrawn. Once  
13 the Parties, who made an original or a subsequent Vote or Election to participate  
14 in an approved activity or operation in which there is a Non-Participating Party,  
15 agree to bear all of the Costs of the approved activity or operation, the Operator  
16 shall commence the activity or operation at the sole Cost and risk of the  
17 Participating Parties in accordance with the applicable timely operations  
18 provisions of this Agreement. Notwithstanding the foregoing, the election periods  
19 in Articles 10.2 (*Exploratory Operations at Objective Depth*), 11.2 (*Appraisal*  
20 *Operations at Objective Depth*), and 13.2 (*Development Operations at Objective*  
21 *Depth*) shall govern in the event of a conflict.

22 **8.5 Approval by Unanimous Agreement**

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

28 **8.6 Response Time for Notices**

29 After receipt of an AFE or notice under this Article 8, the Parties may (a) submit  
30 their Vote or (b) make an Election or (c) submit a written statement, whichever is  
31 applicable. If requested in writing by a Party entitled to (a) submit their Vote or  
32 (b) make an Election or (c) submit a written statement on an AFE or notice, the  
33 Operator shall give prompt notice of the results of those Votes, Elections or  
34 written statements to each Party entitled to (a) submit their Vote or (b) make an

1 Election or (c) submit a written statement, as applicable. Except as otherwise  
2 provided in this Agreement, the response times for each type of proposal shall  
3 be as follows:

4 **8.6.1 Well Proposals, Recompletions, and Workovers**

5 When a well, Recompletion, or Workover is proposed, each Party  
6 entitled to Vote or make an Election or submit a written statement,  
7 whichever is applicable, has \_\_\_\_\_ ( ) days after receipt of the  
8 proposal (inclusive of Saturdays, Sundays, and federal holidays) to  
9 respond to it. If a drilling rig is on location and day rate rig charges are  
10 being charged to the Joint Account and if a Party, who is entitled to do  
11 so, has proposed the immediate commencement of a substitute well or  
12 a supplemental AFE to a well, or a Recompletion or Workover in or  
13 through the same well bore in which the previous operation was  
14 conducted or has submitted a supplemental AFE to a well, and if the rig  
15 that is on location is to conduct the operation or is to be utilized under  
16 the supplemental AFE, a Party entitled to Vote or make an Election or  
17 submit a written statement has forty-eight (48) hours after receipt of the  
18 proposal (inclusive of Saturdays, Sundays, and federal holidays) to  
19 respond to it. The response times for subsequent operations at  
20 Objective Depth are provided in Article 10.2 (*Exploratory Operations at*  
21 *Objective Depth*), Article 11.2 (*Appraisal Operations at Objective*  
22 *Depth*), and Article 13.2 (*Development Operations at Objective Depth*).

23 **8.6.2 Execution AFE**

24 Each Party entitled to make an Election on an Execution AFE has  
25 \_\_\_\_\_ ( ) days after the date of its receipt of the Execution  
26 AFE to make that Election.

27 **8.6.3 Other AFE Related Operations**

28 Except as otherwise provided in Articles 8.6.1 (*Well Proposals,*  
29 *Recompletions, and Workovers*) and 8.6.2 (*Execution AFE*), the  
30 response time to a proposed AFE, activity, or operation will depend  
31 upon the gross AFE amount. Response times will be as follows:

- 32 (a) AFE of \$ \_\_\_\_\_ or more but less than \$ \_\_\_\_\_; response  
33 will be made within thirty (30) days after receipt of said proposal;

- 1 (b) AFE of \$\_\_\_\_\_ or more but less than \$\_\_\_\_\_;
- 2 response will be made within ninety (90) days after receipt of said
- 3 proposal; and
- 4 (c) AFE of \$\_\_\_\_\_ or more; response will be made within one
- 5 hundred twenty (120) days after receipt of said proposal.

6 **8.6.4 Other Proposals**

7 For all other proposals requiring notice, and all supplemental AFEs

8 other than those subject to Article 8.6.1 (*Well Proposals,*

9 *Recompletions, and Workovers*), each Party has \_\_\_\_\_ (\_\_) days

10 after receipt of the proposal to respond to it.

11 **8.6.5 Failure to Vote or Make an Election**

12 Unless otherwise specifically provided, failure of a Party to Vote or

13 make an Election, whichever is applicable, within the period required

14 by this Agreement is deemed to be a Vote or Election not to participate.

15 **8.6.6 Suspensions of Operations and Suspensions of Production**

16 Notwithstanding any contrary provision in Article 8.6 (*Response Time*

17 *for Notices*), if the BOEM and/or BSEE grants a Suspension of

18 Production ("SOP"), a Suspension of Operations ("SOO"), or similar

19 regulatory grant for all or part of the Contract Area, and if the SOP,

20 SOO, or grant requires the commencement of an activity or operation

21 before the expiration of the period for Voting, making an Election, or

22 submitting a written statement, as provided in Article 8.5 (*Approval by*

23 *Unanimous Agreement*) for that activity or operation, the Parties shall

24 cast their Votes, make their Elections, or submit their written statement

25 on the activity or operation at least \_\_\_\_\_ (\_\_) days (inclusive of

26 Saturdays, Sundays and federal holidays) before the commencement

27 date required in the SOO, SOP, or grant.

28 **8.6.7 Standby Charges**

29 The Participating Parties in a well or well operation conducted

30 immediately prior to the delivery of (a) a proposal for a substitute well

31 or a subsequent operation in a well or (b) a supplemental AFE are

32 responsible for charges associated with the well or well operation that

1           accrue before that delivery. All charges, which accrue after that  
2           delivery, are the responsibility of the Participating Parties in the  
3           substitute well, subsequent operation, or supplemental AFE. If (a) the  
4           proposal of a substitute well or subsequent operation or (b) the  
5           supplemental AFE is not approved, the Participating Parties in the well  
6           or well operation conducted immediately prior to the delivery of that  
7           proposal or supplemental AFE are responsible for the charges that  
8           accrue after that delivery.

9       **8.7    Giving and Receiving Notices and Responses**

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

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

31       **8.8    Content of Notices**

32       A notice requiring a response shall indicate the appropriate response time  
33       specified in Article 8.6 (*Response Time for Notices*). A well proposal notice shall  
34       include the type of well being proposed, (for example, Exploratory Well,



1 Appraisal Well, or Development Well), a Well Plan, and an AFE that includes  
2 the Costs of permanently plugging and abandoning the well. If a proposed  
3 activity or operation is subject to Article 16.4 (*Non-Consent Operations to*  
4 *Maintain Contract Area*), the notice shall specify that the proposal is a Contract  
5 Area maintenance activity or operation.

6 **8.9 Designation of Representatives**

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

11 **8.10 Meetings**

12 Any Party may call a meeting. Except in an emergency, no meeting shall be  
13 called on less than \_\_\_\_\_ ( ) days' advance notice (inclusive of Saturdays,  
14 Sundays, and federal holidays), and the notice shall include a proposed agenda.  
15 The Operator shall be chairman of each meeting and take minutes of each  
16 meeting. Only matters included in the agenda may be considered at a meeting  
17 unless unanimously agreed to by the Parties.

18 **8.11 Obligations of Well Participation**

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

25 **ARTICLE 9 – NEWS RELEASES**

26 **9.1 Proposal of News Releases**

27 Any Party may propose for issuance a News Release about the activities or  
28 operations covered by this Agreement by submitting the text of the News  
29 Release to the Parties. A News Release proposal requires the unanimous  
30 agreement of the Parties. The Parties shall respond to a News Release  
31 proposal within \_\_\_\_\_ ( ) hours of their receipt of it by agreeing or disagreeing

1 with the text of the proposed News Release, or by submitting alternative text for  
2 the News Release. If a Party submits alternative text for the News Release, the  
3 Parties shall have \_\_\_\_\_ ( ) hours to agree or disagree with any of the  
4 proposed texts of the News Release. If a Party fails to respond, the Party shall  
5 be deemed to have not approved any of the proposed News Releases.

6 **9.1.1 Operator's News Release**

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

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

24 If the News Release does not pertain to a well or an operation in a well,  
25 it may only contain information that is not Confidential Data or  
26 Confidential Information (as defined in Exhibit "G") and does not  
27 substantially undermine the Parties' competitive advantage in the area  
28 surrounding, or trend or play pertaining to, the Contract Area. The  
29 Operator shall transmit the News Release to the Non-Operating Parties  
30 not less than seventy-two (72) hours (exclusive of Saturdays, Sundays,

1 and federal holidays) before the time at which the Operator wishes to  
2 issue it. Any Party may have its name excluded from the News  
3 Release by notifying the Operator of that desire within forty-eight (48)  
4 hours of that Party's receipt of the News Release.

5 **9.1.2 Non-Operating Party's News Release**

6 If the Operator does issue the News Release within \_\_\_\_ ( ) hours  
7 of the termination of the seventy-two (72) hour period referred to in  
8 Article 9.1.1 (*Operator's News Release*), any Participating Party may  
9 prepare and issue its own News Release, using the content guidelines  
10 and procedures provided in Article 9.1.1 (*Operator's News Release*),  
11 simultaneously with or following the Operator's News Release. If the  
12 Operator does not issue the News Release within \_\_\_\_ ( ) hours of  
13 the termination of the seventy-two (72) hour period referred to in Article  
14 9.1.1 (*Operator's News Release*), any Participating Party may prepare  
15 and issue its own News Release, using the content guidelines and  
16 procedures provided in Article 9.1.1 (*Operator's News Release*).

17 **9.2 Emergency New Releases**

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

24 **9.3 Mandatory News Releases**

25 Each Party has the right to issue a News Release which contains information not  
26 otherwise permitted under Article 9 (*News Releases*) in order to comply with the  
27 laws, orders, rules, or regulations of the country in which its parent company is  
28 incorporated; provided, however, prior to issuing that News Release, that Party  
29 must submit, not less than seventy-two (72) hours (exclusive of Saturdays,  
30 Sundays, and federal holidays) before issuance of the News Release, the text of  
31 that News Release to the other Parties and a statement from a licensed attorney  
32 in the country, with whose laws, orders, rules, or regulations the Party is  
33 complying, verifying that the News Release (including its content) is required  
34 under those laws, orders, rules, or regulations.  
35

1 **ARTICLE 10 – EXPLORATORY OPERATIONS**

2 **10.1 Proposal of Exploratory Wells**

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

6 *[Select one of the following.]*

- 7  Vote.  
8  Election.  
9  unanimous agreement.

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

13 **10.1.1 Revision of Well Plan**

14 A revision to an approved well proposal, Well Plan, or AFE prior to the  
15 commencement of actual drilling operations on an Exploratory Well  
16 requires the unanimous agreement of the Participating Parties. In the  
17 absence of unanimous agreement on a proposed revision to the Well  
18 Plan or AFE, the Well Plan and AFE will stand as approved. Only a  
19 major revision to an approved Well Plan or AFE will give a Non-  
20 Participating Party an additional opportunity to participate in an  
21 Exploratory Well. A revision is deemed a major revision if the  
22 Objective Depth of an Exploratory Well is changed

23 *[Optional provision; check if to be applicable.]*

24  or the bottomhole location is moved more than \_\_\_\_\_ feet  
25 (\_\_\_\_\_');

26 in which case each Non-Participating Party in the well may, for a period  
27 of \_\_\_\_\_ (\_\_\_\_) days after receipt of the revised Well Plan and  
28 revised AFE, notify the Operator in writing that it will participate in the  
29 revised Exploratory Well.

1 A Non-Participating Party timely submitting its participation notification  
2 under this Agreement due to a major revision in a Well Plan (a) shall  
3 become an Underinvested Party for Costs incurred on the modified  
4 Exploratory Well prior to the approved major modification and (b) with  
5 regard to that well, shall no longer be subject to Article 16 (*Non-*  
6 *Consent Operations*). The Non-Participating Party's Underinvestment  
7 obligation, resulting from its participation decision, shall be calculated  
8 as follows: actual Costs expended on that Exploratory Well multiplied  
9 by the Non-Participating Party's percentage Participating Interest  
10 Share in the modified Exploratory Well. If the Non-Participating Party  
11 forfeited and assigned its right, title, and interest in the Contract Area  
12 by not participating in that Exploratory Well, then within thirty (30) days  
13 after the Operator's receipt of the Non-Participating Party's  
14 participation notification under this Agreement, the Participating Parties  
15 in the original Exploratory Well proposal shall assign to the Non-  
16 Participating Party one hundred percent (100%) of the Non-  
17 Participating Party's former Working Interest in the Contract Area.

18 **10.1.2 Automatic Revision of the Well Plan**

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

26 **10.1.3 Timely Operations**

27 Except as provided below, drilling operations on an Exploratory Well  
28 shall be commenced within \_\_\_\_\_ ( ) days after the end of  
29 the period for the approval of the Exploratory Well. If the Operator,  
30 except for an occurrence of Force Majeure, does not commence drilling  
31 operations on the Exploratory Well within that \_\_\_\_\_ ( ) day  
32 period, the approved Exploratory Well proposal shall be deemed  
33 withdrawn, with the effect as if the Exploratory Well had never been  
34 proposed and approved.

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

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

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

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

15 **10.1.4 AFE Overruns and Substitute Well**

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

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

28 If an Exploratory Well is abandoned due to the conditions described  
29 under Article 10.1.4(b), then any Participating Party in the abandoned  
30 Exploratory Well may, within \_\_\_\_\_ ( ) days after abandonment  
31 of that Exploratory Well, propose the drilling of a substitute well for the  
32 abandoned Exploratory Well by giving notice of the proposal (along

1 with the associated AFE and Well Plan) to all other Participating  
2 Parties in the abandoned Exploratory Well, and that proposal requires  
3 approval by Election of the Participating Parties in the abandoned  
4 Exploratory Well. Notwithstanding any contrary provision of Article 10.4  
5 (*Conclusion of Exploratory Operations*), the substitute well shall be an  
6 Exploratory Well. The Well Plan for the substitute Exploratory Well  
7 shall be substantially the same as the Well Plan for the abandoned  
8 Exploratory Well and shall also take into account the conditions that  
9 rendered further drilling of the abandoned Exploratory Well impractical.

10 *[Optional provision; check if the following paragraph is to be applicable.]*

11  If the bottomhole location is moved more than \_\_\_\_\_ feet  
12 (\_\_\_\_'), each Non-Participating Party in the abandoned well may, for  
13 a period of \_\_\_\_\_ (\_\_\_\_) days after receipt of the approved  
14 substitute Exploratory Well proposal and its associated AFE, notify the  
15 Operator, in writing, that it will participate in the substitute Exploratory  
16 Well. If the Non-Participating Party forfeited and assigned its right,  
17 title, and interest in the Contract Area by not participating in the  
18 abandoned Exploratory Well, then within thirty (30) days after the  
19 Operator's receipt of the Non-Participating Party's participation  
20 notification under this Agreement, the Participating Parties in the  
21 abandoned Exploratory Well shall assign to the Non-Participating Party  
22 one hundred percent (100%) of the Non-Participating Party's former  
23 Working Interest in the Contract Area.

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

## 28 **10.2 Exploratory Operations at Objective Depth**

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



1 operation proposed under this Article 10.2 of its proposal to conduct subsequent  
2 operations in the well. Except for a proposal to permanently plug and abandon  
3 the well, the Operator's proposal shall include an associated AFE and a plan for  
4 the operation. The Parties entitled to make that Election are:

- 5 (a) the Participating Parties, and
- 6 (b) the Non-Participating Parties in the original well proposal if (1) the  
7 subsequent Exploratory Operation proposal is made at the well's Objective  
8 Depth and is for a Sidetrack or Deepening and (2) Article 16.2 (*Acreage*  
9 *Forfeiture Provisions*) was not applicable to the drilling of that Exploratory  
10 Well.

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

- 12 (a) conduct Additional Testing, Sidewall Coring, or Logging of the formations  
13 encountered prior to setting production casing;
- 14 (b) Sidetrack the well bore to conventionally core the formations encountered;
- 15 (c) Deepen the well to a new Objective Depth;
- 16 (d) Sidetrack the well (however, if in the Operator's sole opinion a casing  
17 string is required to Deepen the well, then option "d" shall have priority  
18 over Deepening 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 an Exploratory 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 Exploratory Well that has been temporarily abandoned under  
26 clause (g) shall be deemed a Development Operation proposal.

1 If the Operator fails to submit its proposal to the Participating Parties within  
2 \_\_\_\_\_ ( ) hours (inclusive of Saturdays, Sundays, and federal holidays)  
3 after receipt of all logs and test results from an Exploratory Well by the  
4 Participating Parties, then any Participating Party may make a proposal. In that  
5 event, the procedures in this Article 10.2 shall apply to that proposal, and any  
6 reference in this Article 10.2 to the "Operator's proposal" shall include a  
7 proposal made by a Participating Party.

8 **10.2.1 Response to Operator's Proposal**

9 A Participating Party may, within twenty-four (24) hours (inclusive of  
10 Saturdays, Sundays, and federal holidays) of its receipt of the  
11 Operator's proposal, make a separate proposal (along with an  
12 associated AFE and a plan for the operation, except if the proposal is  
13 to permanently plug and abandon the well) for one of the operations in  
14 Article 10.2 (*Exploratory Operations at Objective Depth*), and the  
15 Operator, immediately after the expiration of the twenty-four (24) hour  
16 period for making a separate proposal shall provide the Parties entitled  
17 to make an Election with a copy of all separate proposals so made. If  
18 no separate proposal is made, the Parties entitled to make an Election  
19 shall, within forty-eight (48) hours (inclusive of Saturdays, Sundays,  
20 and federal holidays) of their receipt of the Operator's proposal, make  
21 an Election on the Operator's proposal (except for a proposal to  
22 permanently plug and abandon). If a separate proposal is made, the  
23 Parties entitled to make an Election shall make an Election under the  
24 procedure in Article 10.2.2 (*Response to Highest Priority Proposal*). If  
25 a proposal to permanently plug and abandon the well is the only  
26 operation proposed, then the approval and Cost allocation provisions  
27 of Article 10.3 (*Permanent Plugging and Abandonment and Cost*  
28 *Allocation*) shall apply to that proposal. If Article 8.3 (*Second*  
29 *Opportunity to Participate*) or Article 8.4 (*Participation by Fewer Than*  
30 *All Parties*), or both, apply to any Election in Article 10.2 (*Exploratory*  
31 *Operations at Objective Depth*), then the response period in those  
32 articles shall be twenty-four (24) hours (inclusive of Saturdays,  
33 Sundays, and federal holidays) instead of forty-eight (48) hours  
34 (exclusive of Saturdays, Sundays, and federal holidays).  
35 Notwithstanding any contrary provision of this Agreement, if one or

1 more operations are proposed before the distribution of information  
2 resulting from the previously approved operation, then the response  
3 periods set forth above shall not commence until the Parties entitled to  
4 make an Election have received the information from the previously  
5 approved operation.

6 **10.2.2 Response to Highest Priority Proposal**

7 If a separate proposal is made, each Party entitled to make an Election  
8 shall, within twenty-four (24) hours (inclusive of Saturdays, Sundays,  
9 and federal holidays) after its receipt from the Operator of a complete  
10 copy of all separate proposals, make its Election on the highest priority  
11 proposal (except a proposal to permanently plug and abandon the  
12 well). Article 10.2(a) has the highest priority, and Article 10.2(h) has  
13 the lowest priority. If different depths or locations are proposed for the  
14 same type of operation, preference shall be given to the

15 *[Select one of the following.]*

16  shallowest depth  deepest depth,

17 or the location

18 *[Select one of the following.]*

19  nearest to  farthest from

20 the existing well bore, as applicable. If the proposal with the highest  
21 priority is approved, then the lower priority proposals shall be deemed  
22 withdrawn. Once the approved operation is completed, the Parties  
23 shall follow the procedure provided in this Article 10.2 (*Exploratory  
24 Operations at Objective Depth*) for all other proposals for operations in  
25 the well bore until such time as the well is temporarily abandoned or  
26 permanently abandoned.

27 **10.2.3 Response on Next Highest Priority Proposal**

28 If the proposal with the highest priority is not approved, then the next  
29 highest priority proposal shall be deemed the highest priority proposal  
30 and it shall be subject to the approval procedure in Article 10.2.2  
31 (*Response to Highest Priority Proposal*). This process will continue

1 until a proposal is approved to either temporarily abandon or  
2 permanently plug and abandon an Exploratory Well.

3 **10.2.4 Non-Participating Parties in Exploratory Operations at Objective**  
4 **Depth**

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

16 **10.2.5 Participation in a Sidetrack or Deepening by a Non-Participating**  
17 **Party in an Exploratory Well at Initial Objective Depth**

18 If an Exploratory Well is drilled to its initial Objective Depth and a Non-  
19 Participating Party in that Exploratory Well becomes a Participating  
20 Party in an approved Sidetracking or Deepening under Article 10.2(c)  
21 or (d), that former Non-Participating Party shall become an  
22 Underinvested Party in an amount equal to its Non-Participating  
23 Interest Share of the Costs of that Exploratory Well prior to that  
24 Sidetracking or Deepening. The original Participating Parties in an  
25 Exploratory Well are Overinvested Parties in that amount. A former  
26 Non-Participating Party in an Exploratory Well that becomes a  
27 Participating Party in an approved Sidetracking or Deepening remains  
28 a Non-Participating Party in that Exploratory Well to initial Objective  
29 Depth until (a) its Underinvestment is eliminated under Article 16.9  
30 (*Settlement of Underinvestments*), and (b) the Hydrocarbon  
31 Recoupment recoverable under Article 16.5.1 (*Non-Consent*  
32 *Exploratory Operations down to Objective Depth in the First Exploratory*  
33 *Well*), less the amount of the Underinvestment, has been recovered by  
34 the original Participating Parties. If a former Non-Participating Party

1 becomes a Participating Party in more than one approved Sidetracking  
2 or Deepening in the same Exploratory Well, that former Non-  
3 Participating Party shall become an Underinvested Party only with  
4 regard to the first Sidetracking or Deepening it approves; however, that  
5 Underinvestment shall not be relieved by an Underinvested Party's  
6 subsequent participation.

7 **10.3 Permanent Plugging and Abandonment and Cost Allocation**

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

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

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

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

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

#### 13 **10.4 Conclusion of Exploratory Operations**

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

### 19 **ARTICLE 11 – APPRAISAL OPERATIONS**

#### 20 **11.1 Proposal of Appraisal Wells**

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

25 *[Select one of the following.]*

- 26  Vote.
- 27  Election.
- 28  unanimous agreement.

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

4 **11.1.1 Revision of Well Plan**

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

8 **11.1.2 Automatic Revision of the Well Plan**

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

12 **11.1.3 Timely Operations**

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

21 If a Party submits an identical Appraisal Well proposal (except for any  
22 necessary modifications resulting from a change in the drilling rig to be  
23 utilized by the Operator) within \_\_\_\_\_ ( ) days after the deemed  
24 withdrawal of the approved original Appraisal Well proposal and if that  
25 identical Appraisal Well proposal is approved and if the Operator is a  
26 Participating Party in the identical Appraisal Well proposal, the  
27 Operator shall commence drilling operations on that well within  
28 \_\_\_\_\_ ( ) days after the end of the response period for that  
29 proposal. If the Operator, except for an occurrence of Force Majeure  
30 (excluding the inability to secure materials or a drilling rig), fails to  
31 commence drilling operations on the identical Appraisal Well within  
32 that \_\_\_\_\_ ( ) day period, the approved identical Appraisal Well  
33 proposal shall be deemed withdrawn, with the effect as if the identical

1 Appraisal Well proposal had never been proposed and approved, and  
2 the Non-Operating Parties may then select a substitute Operator under  
3 Article 4.2.2 (*Substitute Operator if Operator Fails to Commence*  
4 *Drilling Operations*). Within \_\_\_\_\_ ( ) days of the selection of  
5 the substitute Operator, the substitute Operator shall propose the  
6 drilling of an identical Appraisal Well (except for any necessary  
7 modifications resulting from a change in the drilling rig to be utilized by  
8 the substitute Operator), and it shall commence drilling operations on  
9 that well within \_\_\_\_\_ ( ) days after the end of the period for  
10 the approval of that Well.

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

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



1 actual drilling operations for the approved Appraisal Well are  
2 undertaken.

3 **11.1.4 AFE Overruns and Substitute Well**

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

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

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

1 [Optional provision; check if to be applicable.]

2  If the bottomhole location is moved more than \_\_\_\_\_ feet  
3 (\_\_\_\_\_), each Non-Participating Party in the abandoned well may, for  
4 a period of \_\_\_\_\_ (\_\_\_\_) days after receipt of the approved  
5 substitute Appraisal Well proposal and its associated AFE, notify the  
6 Operator, in writing, that it will participate in the substitute Appraisal  
7 Well.

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

12 **11.2 Appraisal Operations at Objective Depth**

13 After an Appraisal Well has been drilled to its Objective Depth and all operations  
14 in the controlling AFE have been conducted or terminated (except temporary  
15 abandonment and permanent plugging and abandonment) and all logs and test  
16 results have been distributed to the Participating Parties, the Operator shall  
17 promptly notify the Parties entitled to make an Election on an operation  
18 proposed under this Article 11.2 (*Appraisal Operations at Objective Depth*), of its  
19 proposal to conduct subsequent operations in the well. Except for a proposal to  
20 permanently plug and abandon the well, the Operator's proposal shall include an  
21 associated AFE and a plan for the operation. The Parties entitled to make that  
22 Election are:

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

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

- 30 (a) conduct Additional Testing, Sidewall Coring, or Logging of the formations  
31 encountered prior to setting production casing;

- 1 (b) Sidetrack the well bore to core the formations encountered;  
2 (c) Sidetrack the well;  
3 (d) Deepen 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 the Appraisal 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 Appraisal 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 \_\_\_\_\_ ( ) hours (inclusive of Saturdays, Sundays, and federal holidays)  
14 after receipt by the Participating Parties of all logs and test results from an  
15 Appraisal Well, then any Participating Party may make a proposal. In that event,  
16 the procedures in this Article 11.2 shall apply to that proposal, and any reference  
17 in this Article 11.2 to the "Operator's proposal" shall include a proposal made by  
18 a Participating Party.

19 **11.2.1 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  
24 to permanently plug and abandon the well) for one of the operations in  
25 Article 11.2 (*Appraisal 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,

1 and federal holidays) of its receipt of the Operator's proposal, make an  
2 Election on the Operator's proposal (except for a proposal to  
3 permanently plug and abandon). If a separate proposal is made, the  
4 Parties entitled to make an Election shall make an Election under the  
5 procedure in Article 11.2.2 (*Response to Highest Priority Proposal*). If  
6 a proposal to permanently plug and abandon the well is the only  
7 operation proposed, then the approval and Cost allocation provisions  
8 of Article 11.4 (*Permanent Plugging and Abandonment and Cost*  
9 *Allocation*) shall apply to that proposal. If Article 8.3 (*Second*  
10 *Opportunity to Participate*) or Article 8.4 (*Participation by Fewer Than*  
11 *All Parties*), or both, apply to any Election in Article 11.2 (*Appraisal*  
12 *Operations at Objective Depth*), then the response period in those  
13 articles shall be twenty-four (24) hours (inclusive of Saturdays,  
14 Sundays, and federal holidays) instead of forty-eight (48) hours  
15 (exclusive of Saturdays, Sundays, and federal holidays).  
16 Notwithstanding any contrary provision of this Agreement, if one or  
17 more operations are proposed before the distribution of information  
18 from the previously approved operation, then the response periods  
19 provided above shall not begin until the Parties entitled to make an  
20 Election have received the information from the previously approved  
21 operation.

22 **11.2.2 Response to Highest Priority Proposal**

23 If a separate proposal is made, each Party entitled to make an Election  
24 shall, within twenty-four (24) hours (inclusive of Saturdays, Sundays,  
25 and federal holidays) after its receipt from the Operator of a complete  
26 copy of all separate proposals, make its Election on the highest priority  
27 proposal (except a proposal to permanently plug and abandon the  
28 well). Article 11.2(a) has the highest priority, and Article 11.2(h) has  
29 the lowest priority. If different depths or locations are proposed for the  
30 same type of operation, preference shall be given to the

31 *[Select one of the following.]*

32  shallowest depth  deepest depth,

33 or the location

1 [Select one of the following.]

2  nearest to  farthest from

3 the existing well bore, as applicable. If the proposal with the highest  
4 priority is approved, then the lower priority proposals shall be deemed  
5 withdrawn. Once the approved operation is completed, the Parties  
6 shall follow the procedure provided in Article 11.2 (*Appraisal  
7 Operations at Objective Depth*) for all other proposals for operations in  
8 the well bore until such time as the well is temporarily abandoned or  
9 permanently abandoned.

10 **11.2.3 Response on Next Highest Priority Proposal**

11 If the proposal with the highest priority is not approved, then the next  
12 highest priority proposal shall be deemed the highest priority proposal  
13 and it shall be subject to the approval procedure in Article 11.2.2  
14 (*Response to Highest Priority Proposal*). This process will continue  
15 until a proposal is approved to either temporarily abandon or  
16 permanently plug and abandon an Appraisal Well.

17 **11.2.4 Non-Participating Parties in Appraisal Operations at Objective  
18 Depth**

19 A Non-Participating Party in an Appraisal Operation conducted on an  
20 Appraisal Well after it has reached its Objective Depth [except as  
21 provided for in this Article 11.2 (*Appraisal Operations at Objective  
22 Depth*)] is subject to Article 16.5.2 (*Non-Consent Appraisal Operations*)  
23 and is relieved of the Costs and risks of that Appraisal Operation,  
24 except that a Non-Participating Party in that Appraisal Operation  
25 remains responsible for its Participating Interest Share of the Costs of  
26 plugging and abandoning an Appraisal Well, less and except all Costs  
27 of plugging and abandoning associated solely with the subsequent  
28 Appraisal Operation in which it was a Non-Participating Party.

29 **11.2.5 Participation in a Sidetrack or Deepening by a Non-Participating  
30 Party in an Appraisal Well at Initial Objective Depth**

31 If an Appraisal Well is drilled to its Objective Depth and a Non-  
32 Participating Party in that Appraisal Well becomes a Participating Party  
33 in an approved Sidetracking or Deepening under Article 11.2(c) or (d),

1 that former Non-Participating Party shall become an Underinvested  
2 Party in an amount equal to its Non-Participating Interest Share of the  
3 Costs of that Appraisal Well to its Objective Depth prior to that  
4 Sidetracking or Deepening. The original Participating Parties in that  
5 Appraisal Well are Overinvested Parties in that amount. A former Non-  
6 Participating Party in an Appraisal Well that becomes a Participating  
7 Party in an approved Sidetracking or Deepening, remains a Non-  
8 Participating Party in the Appraisal Well to initial Objective Depth until  
9 (a) its Underinvestment is eliminated under Article 16.9 (*Settlement of*  
10 *Underinvestments*), and (b) the Hydrocarbon Recoupment recoverable  
11 under Article 16.5.2 (*Non-Consent Appraisal Operations*) less the  
12 Underinvestment, has been recovered by the original Participating  
13 Parties. If a former Non-Participating Party becomes a Participating  
14 Party in more than one approved Sidetracking or Deepening in the  
15 same Appraisal Well, that former Non-Participating Party shall become  
16 an Underinvested Party only with regard to the first Sidetracking or  
17 Deepening it approves; however, that Underinvestment shall not be  
18 relieved by an Underinvested Party's subsequent participation.

19 **11.3 Appraisal Well Proposals That Include Drilling Below the Deepest**  
20 **Producible Reservoir**

21 Any Party may propose an Appraisal Well with an Objective Depth below the  
22 Deepest Producing Reservoir, and in response to that well proposal each Party  
23 may in writing limit its participation in the drilling of that Appraisal Well to the  
24 base of the Deepest Producing Reservoir to be penetrated by that Appraisal  
25 Well. A Party who limits its participation in an Appraisal Well to the base of the  
26 Deepest Producing Reservoir shall bear its Participating Interest Share of the  
27 Cost and risk of drilling that Appraisal Well to the base of the Deepest  
28 Producing Reservoir (including abandonment), and it shall be a Non-  
29 Participating Party for the Deeper Drilling and shall be subject to Article 16.5.2  
30 (*Non-Consent Appraisal Operations*) in regard to drilling between those depths.

31 **11.4 Permanent Plugging and Abandonment and Cost Allocation**

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

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

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

30 The Participating Parties in an Appraisal Well proposal shall pay all Costs of  
31 plugging and abandoning that Appraisal Well, except all increased plugging and  
32 abandoning Costs associated solely with a Non-Consent Operation approved  
33 under Article 11.2 (*Appraisal Operations at Objective Depth*) or Article 6.2.2

1 (Supplemental AFEs). The Participating Parties in that Non-Consent Operation  
2 are responsible for the increased plugging and abandoning Costs attributable to  
3 that Non-Consent Operation.

4 **11.5 Conclusion of Appraisal Operations**

5 Upon the earlier of:

- 6 (a) the approval of the conclusion of Appraisal Operations by Vote; or  
7 (b) the point in time when no Appraisal Operation has been approved within a  
8 period of twelve (12) months from the rig release (or cessation of  
9 operations) from the previous Appraisal Operation; or  
10 (c) the abandonment of the \_\_\_\_\_ ( ) Appraisal Well, whether  
11 permanent or temporary, and the release of the rig from that Appraisal Well  
12 (including any substitute well for that Appraisal Well),.

13 Appraisal Operations for the ensuing Development Phase shall conclude and all  
14 subsequent operations in the Contract Area will be Development Operations for  
15 the ensuing Development Phase, including operations on temporarily  
16 abandoned

17 *[Check this box if the blanks in Article 11.6 are not completed with "Development."]*

18  Appraisal Wells.

19 *[Check this box if the blanks in Article 11.6 are completed with "Appraisal."]*

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  
24 Phase shall conclude when the well bore in which the Appraisal Operation is  
25 being 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



1 [Complete the following blank with "an Appraisal" or "a Development." If this blank is completed with "an Appraisal,"  
2 the box in Article 11.5 (Conclusion of Appraisal Operations) should be checked.]

3 \_\_\_\_\_ Well.

4 Unless Article 16.4 (Non-Consent Operations to Maintain Contract Area) applies  
5 to the proposal of that well, that proposal shall require the unanimous agreement  
6 of the Parties. Any substitute well for, and all operations at Objective Depth  
7 conducted in or through the well bore of that well shall be deemed

8 [Complete the following blank in the same manner as the previous blank in this Article 11.6, that is, with "Appraisal" or  
9 "Development."]

10 \_\_\_\_\_ Operations,

11 and shall be proposed, approved, and conducted accordingly.

12 **ARTICLE 12 – DEVELOPMENT PHASES**

13 **12.1 Phased Development**

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

26 **12.2 Feasibility Team Proposal**

27 The Feasibility Stage commences upon the approval of a proposal for the  
28 formation of a Feasibility Team and the Feasibility AFE. No Party may propose  
29 the formation of a Feasibility Team for a Development Phase until such time as  
30 any previously formed Feasibility Team for that Development Phase has  
31 terminated. For a period of \_\_\_\_\_ ( ) days from

1            *[Select one of the following.]*

2             the conclusion of Exploratory Operations,

3             other (describe): \_\_\_\_\_

4            \_\_\_\_\_

5            \_\_\_\_\_

6            the Operator has the exclusive right to propose the formation of a Feasibility  
7            Team and submit to the Parties a Feasibility AFE accompanied by a  
8            memorandum describing in detail the anticipated scope of work to be undertaken  
9            by the Feasibility Team and third party contractors and/or consultants during the  
10            Feasibility Stage, the estimated type and number of staff required to complete  
11            that scope of work, the estimated duration of the Feasibility Stage, and the  
12            estimated Costs of the Feasibility Stage. If the Operator does not propose the  
13            formation of a Feasibility Team and submit the Feasibility AFE during its  
14            exclusive period, any Party may propose the formation of a Feasibility Team and  
15            submit a Feasibility AFE.

16            The Feasibility Team will operate under the direction of the Operator. The  
17            employees of the Operator and Non-Operators and the contractors and/or  
18            consultants, set forth in the Feasibility AFE, shall initially compose the Feasibility  
19            Team. The Operator may, from time to time, revise the membership of the  
20            Feasibility Team, at its sole discretion, as long as the revisions are necessary to  
21            accomplish the scope of work set forth in the Feasibility AFE. The Operator  
22            shall charge the Joint Account for the labor of the Feasibility Team members in  
23            the same manner in which it charges the Joint Account for the labor of the  
24            Project Team members.

25            Each Feasibility Team member remains an employee of its respective employer,  
26            and each employer remains responsible for its employee's salaries and benefits,  
27            as well as maintaining worker's compensation insurance for its employee.  
28            Accordingly, each employer will continue to administer the compensation,  
29            benefits, allowances, and careers of its employees on the Feasibility Team.  
30            However, Feasibility Team members will receive team assignments and general  
31            supervision from the Operator in connection with their day-to-day work. An

1 individual on a Feasibility Team will, insofar as it is possible and consistent with  
2 the needs of his or her employer, serve on the Feasibility Team for the duration  
3 of the Feasibility Team, unless that individual is designated a temporary  
4 Feasibility Team member by his or her employer or the Operator. If a Feasibility  
5 Team member is designated a temporary Feasibility Team member by his or her  
6 employer or the Operator, that Feasibility Team member will leave the Feasibility  
7 Team upon completion of (a) the term designated by his or her employer for his  
8 or her service on the team or (b) the specific task or portion of the Feasibility  
9 Team's work assigned to that member by the Operator.

10 The Feasibility Team shall prepare an in-depth report containing its analyses of  
11 all of the development scenarios it considered and its findings as to the  
12 existence of at least one development scenario for a Producing Well on the  
13 Contract Area, which is technologically and economically feasible, and shall  
14 present a copy of that report to each of the Participating Parties as soon as it is  
15 completed.

16 **12.2.1 Feasibility AFE Approval**

17 A Feasibility AFE requires approval by

18 *[Select one of the following.]*

- 19  Vote.  
20  Election.  
21  unanimous agreement.

22 A Non-Participating Party in the Feasibility AFE is subject to Article  
23 16.5.3 (*Non-Consent Proprietary Geophysical Operations, Feasibility*  
24 *AFEs, Selection AFEs, Define AFEs, Long Lead Development System*  
25 *AFEs, Post-Production Project Team AFEs, or Enhanced Recovery*  
26 *Project Team AFEs).*

27 **12.2.2 Feasibility Team and Feasibility Stage Conclusion**

28 The Feasibility Team and the Feasibility Stage terminate immediately  
29 after (a) the Feasibility Team has (i) completed the scope of work in the

1 Feasibility AFE and its supplemental AFEs and (ii) presented to the  
2 Participating Parties the report referred to in Article 12.2 (*Feasibility*  
3 *Team Proposal*) or (b) the Participating Parties Vote to terminate the  
4 Feasibility Team prior to the occurrence of both of those events.

5 **12.3 Commencement of the Selection Stage**

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

7 **12.3.1 Proposal of a Project Team**

8 If a Feasibility AFE is approved, the Operator has the exclusive right  
9 for a period of \_\_\_\_\_ ( ) days from the conclusion of the  
10 Feasibility Stage to submit a Selection AFE. That AFE may call for the  
11 formation of a Project Team. It shall be accompanied by a  
12 memorandum describing in detail the anticipated scope of work to be  
13 undertaken during the Selection Stage, the estimated type and number  
14 of staff required to complete that scope of work, the estimated duration  
15 of the Selection Stage, and the estimated Costs of the Selection Stage.  
16 If the Operator does not submit a Selection AFE during its exclusive  
17 period referred to in this paragraph, any Party may submit a Selection  
18 AFE.

19 If a Feasibility AFE is not approved, but the drilling of one Appraisal  
20 Well into a Producing Reservoir and its permanent or temporary  
21 abandonment have taken place, the Operator has an exclusive right for  
22 a period of \_\_\_\_\_ ( ) days from the conclusion of those  
23 operations to submit the Selection AFE. If the Operator does not  
24 submit a Selection AFE during its exclusive period referred to in this  
25 paragraph, any Party may submit a Selection AFE. In response to any  
26 proposal made under this paragraph, a Party may propose the  
27 formation of a Feasibility Team and submit to the Parties a Feasibility  
28 AFE. A Feasibility AFE and Feasibility Team proposal under this  
29 paragraph shall take precedence over a Selection AFE proposal under  
30 this paragraph, and the Parties shall proceed as if the Feasibility AFE  
31 and Feasibility Team proposal, made under this paragraph, had been  
32 made under Article 12.2 (*Feasibility Team Proposal*). If the Parties do  
33 not approve the Feasibility AFE and Feasibility Team proposal made  
34 under this paragraph, the Parties shall proceed with the Selection AFE

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proposal made under this paragraph as if the Feasibility AFE and Feasibility Team proposal, made under this paragraph, had not been made.

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

*[Select one of the following.]*

- All Project Team Costs shall be handled under Exhibit "C."
  
- The Operator shall directly charge the Joint Account for all Costs associated with the Project Team, including those of Affiliates, for which the Operator is internally billed. The components of those Costs may include, but are not limited to:
  - a) Digital Business
  - b) Accounting
  - c) Building Services and Building and Grounds Maintenance
  - d) Human Resources
  - e) Procurement
  - f) Government and Public Affairs
  - g) Health, Safety, and Environment
  - h) Security
  - i) Audit
  - j) Tax
  - k) Crisis Management

1 I) Environmental Compliance

2 m) Security

3 n) \_\_\_\_\_

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

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

8 **12.3.2 Selection AFE Approval**

9 A Selection AFE requires approval by

10 *[Select one of the following.]*

11  Vote.

12  Election.

13  unanimous agreement.

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

19 **12.4 Proposal of a Development Plan**

20 The Operator has the exclusive right for a period of \_\_\_\_\_ (\_\_) days from  
21 the commencement of the Selection Stage to submit a Development Plan for the  
22 Parties' review and approval.

23 **12.4.1 Content of the Development Plan**

24 A Development Plan shall contain at a minimum the following  
25 information:

26 (a) **Development System:** Description of the Development System  
27 including:

- 1 (i) the type of Production System proposed, for example,  
2 tension leg well jacket, floating production system,  
3 including the Production System's location, configuration  
4 (number of well slots or subsea tiebacks), and production  
5 capacity;
- 6 (ii) the Facilities and their daily processing capacity for  
7 Hydrocarbon production and the gathering system  
8 necessary to transport the Hydrocarbons from the well  
9 heads to the interconnect with the pipeline or offtake point  
10 servicing the Contract Area;
- 11 (iii) a projected time schedule for designing, contracting,  
12 fabricating, constructing, or otherwise acquiring,  
13 transporting, and installing the Development System;
- 14 (iv) the estimated date of initial Hydrocarbon production and  
15 the estimated initial daily rate of Hydrocarbon production;
- 16 (v) the estimated Costs (not in the form of an AFE) of the  
17 Development System;
- 18 (vi) all proposed hydrate or paraffin control systems or  
19 techniques, method of pressure maintenance, or enhanced  
20 recovery plan;
- 21 (vii) a description of the proposed well completion techniques,  
22 that is, dual versus single; and
- 23 (viii) The equipment and space on, and the weight and the  
24 buoyancy of, the Development System, which are required  
25 to make the enhanced recovery and pressure maintenance  
26 plans and objectives referred to in Article 12.4.1(j)(iii)(D)  
27 possible;
- 28 (b) **Producible Reservoirs:** A description of the Hydrocarbon-  
29 bearing geological formations expected to be developed under

- 1 the Development Plan along with the area and depth of sands or  
2 reservoirs to be developed by the Production System;
- 3 (c) **Recoverable Reserves and Production Profile:** An estimate of  
4 recoverable reserves for the proposed Development Plan and a  
5 schedule of the estimated daily rate of Hydrocarbon production  
6 thereafter;
- 7 (d) **Pre-drilling Operations:** A description of pre-drilling operations,  
8 if any, planned in support of later development, including an  
9 estimate of the timing, Cost, and location of each pre-drilling  
10 operation;
- 11 (e) **Development Wells:** A description of drilling plans for all  
12 Development Wells in the Development Plan and the completion  
13 plans for all temporarily abandoned Exploratory Wells or  
14 temporarily abandoned Appraisal Wells that are to be completed  
15 and all Development Wells in the Development Plan, including an  
16 estimate of the timing, Cost, and surface and bottomhole location  
17 of each well;
- 18 (f) **Tieback Operations:** If the Development Plan requires the  
19 tieback or use of Offsite Host Facilities, a commitment from the  
20 owner of that Offsite Host Facilities to handle or process  
21 Hydrocarbons, the amount of all tariffs, processing or other fees  
22 the owner of that Offsite Host Facilities will charge the  
23 Participating Parties to handle or process Hydrocarbons, and the  
24 guaranteed capacity on the Offsite Host Facilities for the  
25 Hydrocarbons;
- 26 (g) **Define AFE:** An AFE containing the estimated Costs of the  
27 Define Stage, accompanied by a memorandum describing in  
28 detail the anticipated scope of work to be undertaken during the  
29 Define Stage, the estimated type and number of staff required to  
30 complete that scope of work, the estimated duration of the Define  
31 Stage, and the estimated Costs of the Define Stage; if a Project  
32 Team was not formed during the Selection Stage, the proposing



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Party may submit, along with the Define AFE, a proposal for the formation of a Project Team accompanied by a memorandum similar to the one referred to in Article 12.3.1 (*Proposal of a Project Team*);

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

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

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

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

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

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

(A) estimates of oil and gas in place;

(B) reservoir rock and fluid characteristics;

(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;

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

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

8 (H) other relevant information;

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

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

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

18 **12.5 Development Plan Approval**

19  
20 **12.5.1 Approval of Operator's Development Plan Submitted During its**  
21 **Exclusive Period**

22 The Operator has \_\_\_\_\_ (\_\_) days to obtain the unanimous  
23 agreement of the Parties on (a) the Development Plan submitted during  
24 its exclusive period or (b) the latest amended version of that plan which  
25 has been the result of comments by, or discussions among, the other  
26 Parties or the Project Team, if one exists, and the Operator (the "Latest  
27 Amended Version of the Plan").

28 **12.5.2 Approval of a Development Plan After the Conclusion of the**  
29 **Operator's Exclusive Period**

30 If:

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- (a) the Operator fails within the \_\_\_\_\_ (\_\_) day period in Article 12.5.1 (*Approval of Operator's Development Plan Submitted During its Exclusive Period*) to gain the unanimous agreement of the Parties on its Development Plan or Latest Amended Version of the Plan, whichever is applicable, or
- (b) the Operator fails to submit a Development Plan during its exclusive period,

any Party may submit a Development Plan and an AFE for the actual Costs it incurred in order to generate that Development Plan, and the Parties have \_\_\_\_\_ (\_\_) days in which to approve by Vote the Operator's Development Plan or Latest Amended Version of the Plan, whichever is applicable, or another Party's Development Plan or Latest Amended Version of the Plan, whichever is applicable, and its associated AFE. No new Development Plan may be submitted during the last \_\_\_\_\_ (\_\_) days of that \_\_\_\_\_ (\_\_) day period.

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

If no Development Plan or Latest Amended Version of the Plan is approved by Vote during the \_\_\_\_ (\_\_) day period in Article 12.5.2 (*Approval of a Development Plan After the Conclusion of the Operator's Exclusive Period*), and if there is only one Development Plan or Latest Amended Version of the Plan, whichever is applicable, submitted and that Development Plan or the Latest Amended Version of the Plan, whichever is applicable, receives an affirmative Vote of at least \_\_\_\_\_ percent (\_\_\_\_%) of the Voting interest, that Development Plan or the Latest Amended Version of the Plan, whichever is applicable, shall be deemed approved by the Parties. If there are two (2) or more Development Plans or Latest Amended Version of the Plans, whichever is applicable, submitted and one Development Plan or the Latest Amended Version of the Plan, whichever is applicable, receives an affirmative Vote of at least \_\_\_\_\_ percent (\_\_\_\_%) of the Voting interest and the other Development Plan or Latest Amended Version of the Plan, whichever is applicable, receives an affirmative Vote of less than \_\_\_\_\_ percent (\_\_\_\_%) of the Voting interest, then the Development Plan or the Latest Amended Version of the Plan,

1           whichever is applicable, receiving the affirmative Vote of at least  
2           \_\_\_\_\_percent (\_\_\_\_%) of the Voting interest shall be deemed  
3           approved by the Parties. If two competing Development Plans or Latest  
4           Amended Version of the Plans, whichever is applicable, each receive an  
5           affirmative Vote of fifty percent (50%) of the Voting interest, then the  
6           Development Plan or Latest Amended Version of the Plan, whichever is  
7           applicable, for which the Operator affirmatively Votes, shall be deemed  
8           approved.

9           **12.5.4    Approved Development Plan**

10           By unanimously agreeing or Voting to approve a Development Plan or  
11           Latest Amended Version of the Plan, whichever is applicable, or  
12           subsequently Voting to Participate in an approved Development Plan,  
13           under Article 8.3 (*Second Opportunity to Participate*), each Participating  
14           Party in an approved Development Plan also agrees or Votes to  
15           participate in its Define AFE, the AFE referred to Article 12.5.2  
16           (*Approval of a Development Plan After the Conclusion of the Operator's*  
17           *Exclusive Period*), if applicable, and the formation of a Project Team  
18           during the Define Stage, if applicable. If the Parties do not approve a  
19           Selection AFE and do not form a Project Team during the Selection  
20           Stage and if the Operator's Development Plan or Latest Amended  
21           Version of the Plan, whichever is applicable, is approved, the Operator  
22           shall directly charge the Joint Account the actual Costs it incurred in  
23           order to generate and submit the approved plan. Upon the approval of  
24           the Development Plan or Latest Amended Version of the Plan,  
25           whichever is applicable, the Selection Stage concludes and Appraisal  
26           Operations are deemed concluded; provided, however, if an Appraisal  
27           Operation is being conducted when the Development Plan is approved,  
28           Appraisal Operations shall be deemed concluded when the well bore in  
29           which the Appraisal Operation is being conducted is either temporarily  
30           or permanently abandoned. Any Non-Participating Party in the  
31           approved Development Plan's Define AFE is subject to Article 16.5.3  
32           (*Non-Consent Proprietary Geophysical Operations, Feasibility AFEs,*  
33           *Selection AFEs, Define AFEs, Long Lead Development System AFEs,*  
34           *Post-Production Project Team AFEs, or Enhanced Recovery Project*  
35           *Team AFEs*).

1 **12.6 Long Lead Development System AFEs**

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

21 **12.7 Define Stage and Execution Stage**

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

23 **12.7.1 Execution AFE**

24 The Operator has an exclusive period of \_\_\_\_\_ (\_\_\_) days  
25 from the commencement of the Define Stage to submit an Execution  
26 AFE, which conforms with the Development Plan approved during the  
27 Selection Stage to all Parties for approval by Election. The Execution  
28 AFE shall not include any Cost estimates or AFEs for Development  
29 Wells. If the Operator does not submit the Execution AFE during its  
30 exclusive period, any Party may submit an Execution AFE, which  
31 conforms with the approved Development Plan, and an AFE for the  
32 actual Costs it has incurred to generate the Execution AFE. If a Project  
33 Team was not formed during the Selection Stage or the Define Stage,  
34 the proposing Party may submit as a part of the Execution AFE a

1 proposal for the formation of a Project Team accompanied by a  
2 memorandum similar to the one referred to in Article 12.3.1 (*Proposal*  
3 *of a Project Team*).

4 **12.7.2 Approval of an Execution AFE and Commencement of the**  
5 **Execution Stage**

6 By Electing to participate in an Execution AFE, each Participating Party  
7 in an approved Execution AFE also Elects to participate in (a) the AFE  
8 for the actual Costs incurred by the proposing Party in order to  
9 generate the approved Execution AFE, referred to in Article 12.7.1  
10 (*Execution AFE*), if applicable, and (b) the formation of a Project Team  
11 during the Execution Stage, if applicable. If the Parties do not form a  
12 Project Team during the Selection Stage or the Define Stage and if the  
13 Operator's Execution AFE is approved, the Operator shall directly  
14 charge the Joint Account the actual Costs it incurred in order to  
15 generate and submit the Execution AFE. The Define Stage concludes  
16 and the Execution Stage commences upon the approval of the  
17 Execution AFE. A Non-Participating Party in the Execution AFE for the  
18 initial Development System is subject to Article 16.2 (*Acreage*  
19 *Forfeiture Provisions*).

20 **12.7.3 Minor Modifications to Development Plans**

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

28 (a) a modification, which (i) (A) is proposed prior to the  
29 commencement of the Execution Stage and does not cause the  
30 estimated Cost of the Define AFE to increase by more than  
31 \_\_\_\_\_ percent (\_\_\_\_%) or \_\_\_\_\_ million dollars  
32 (\$\_\_\_\_\_), whichever is less, or (B) is proposed after the  
33 commencement of the Execution Stage and does not cause the  
34 estimated Cost of the Execution AFE to increase by more than

1 \_\_\_\_\_ percent (\_\_\_\_%) or \_\_\_\_\_ million dollars  
2 (\$\_\_\_\_), whichever is less, and (ii) is not a major  
3 modification as defined in Article 12.7.4 (*Major Modifications to*  
4 *Development Plans*); or

5 (b) a modification that is necessary for health, safety, or  
6 environmental reasons or regulatory requirements and does not  
7 exceed \_\_\_\_\_ percent (\_\_\_\_%) of either dollar amount  
8 provided in 12.7.3(a), even if that modification constitutes a major  
9 modification as defined in Article 12.7.4 (*Major Modifications to*  
10 *Development Plans*).

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

19 **12.7.4 Major Modifications to Development Plans**

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

21 *[Select each that applies.]*

22  (a) the type of Production System, for example, tension leg well  
23 jacket floating production system, is to be changed; or

24  (b) the number of well slots of the Production System is to be  
25 changed by at least \_\_\_\_\_ percent (\_\_\_\_%); or

26  (c) the type of Hydrocarbon transmission system is changed  
27 (for example, pipeline versus barge); or

28  (d) the overall Cost of the Development System is to be  
29 increased or decreased by at least \_\_\_\_\_ percent (\_\_\_\_%), or  
30 \_\_\_\_\_ million dollars (\$\_\_\_\_), whichever is lesser; or

1             (e)    the initial selection of the location of the Production System  
2 is to be changed and the corresponding difference in water depth  
3 changes by more than \_\_\_\_\_ feet (\_\_\_\_') laterally in any  
4 direction; or

5             (f)    the initial daily production processing capacity of the  
6 Facilities is to be changed by at least \_\_\_\_\_ percent (\_\_\_\_ %); or

7             (g)    the number of Development Wells is to be increased or  
8 decreased by at least \_\_\_\_\_ percent (\_\_\_\_ %); or

9             (h)    the proposed hydrate or paraffin control system or  
10 technique, pressure maintenance system, or enhanced recovery plan  
11 is to be changed; or

12            (i)    the proposed number of well completions per wellbore, that  
13 is, dual versus single, is to be changed; or

14            (j)    the timing of the installation of the Production System or the  
15 timing of initial Hydrocarbon production from the Production System is  
16 to be changed by more than \_\_\_\_\_ (\_\_\_\_) days; or

17            (k)    in the case of a tieback to an Offsite Host Facility or a pre-  
18 existing Development System, the gathering and pipeline system  
19 necessary to transport the Hydrocarbons from the wellheads to an  
20 Offsite Host Facility or a pre-existing Development System, as provided  
21 in the Development Plan, is to be changed; or

22            (l)    the estimated capital expenditures in any calendar year are  
23 to be increased by at least \_\_\_\_\_ percent (\_\_\_\_ %) of the project's  
24 estimated total gross capital expenditures; or

25            (m)    the Operator proposes not to complete a Development Plan.

26           The "overall Cost of the Development System" is the total dollar  
27 amount of the Execution AFE and all approved Long Lead  
28 Development System AFEs.



1           **12.7.5    Major Modifications to Development Plans Prior to the Approval of**  
2           **the Execution AFE**

3           Whenever a major modification to a Development Plan is proposed  
4           during the Define Stage (prior to the approval of the Execution AFE),  
5           the Operator shall furnish the Participating Parties in the Development  
6           Plan with the proposed modification to the Development Plan (and  
7           associated AFEs). That major modification shall require approval by

8           *[Select one of the following.]*

9            Vote

10           unanimous agreement

11          of the Participating Parties in the Development Plan. If that major  
12          modification is approved, the Operator shall immediately provide the  
13          modified Development Plan (and associated AFEs) to each Non-  
14          Participating Party in the Development Plan. That Non-Participating  
15          Party has the right for a period of \_\_\_\_\_ (\_\_\_\_) days, after  
16          receipt of the modified Development Plan (and associated AFEs), in  
17          which to notify the Operator in writing that it will participate in the  
18          modified Development Plan (and associated AFEs). If that Non-  
19          Participating Party participates in the modified Development Plan, it  
20          shall be an Underinvested Party in an amount equal to its Non-  
21          Participating Interest Share of the actual Costs incurred on activities  
22          associated with the original Development Plan (and associated AFEs).

23          **12.7.6    Major Modifications to Development Plans After the Approval of the**  
24          **Execution AFE**

25          Whenever a major modification to a Development Plan is proposed  
26          during the Execution Stage (after the approval of an Execution AFE)  
27          and prior to the installation of the Development System, the Operator  
28          shall furnish the Participating Parties in the Execution AFE with the  
29          proposed modification to the Development Plan (and associated AFEs).  
30          That major modification shall require

31          *[Select one of the following.]*

1  Vote

2  unanimous agreement

3 of the Participating Parties in the Execution AFE. If that major  
4 modification is as provided in

5 *[Complete the sub-article letter for each that applies.]*

6 Article 12.7.4 (\_\_\_\_),

7 Article 12.7.4 (\_\_\_\_), or

8 Article 12.7.4 (\_\_\_\_)

9 and is approved, the Operator shall immediately provide the modified  
10 Development Plan (and associated AFEs) to each Non-Participating  
11 Party in the Execution AFE. For a period of \_\_\_\_\_ (\_\_\_\_) days  
12 after receipt of the modified Development Plan (and associated AFEs),  
13 the Non-Participating Party may notify the Operator in writing that it will  
14 participate in the modified Development Plan (and associated AFEs). If  
15 that Non-Participating Party participates in the modified Development  
16 Plan, it shall be an Underinvested Party in an amount equal to its Non-  
17 Participating Interest Share of the actual Costs incurred on activities  
18 associated with (a) the Execution AFE and (b) the original Development  
19 Plan (and associated AFEs) if it did not participate in that Development  
20 Plan. Within thirty (30) days of the elimination of the Underinvestment,  
21 the Participating Parties in the Execution AFE for the initial  
22 Development Phase shall deliver to that Non-Participating Party an  
23 assignment of one hundred percent (100%) of its former Working  
24 Interest in the Contract Area, the wells therein and production  
25 therefrom. If the Execution AFE was for a subsequent Development  
26 Phase, the Non-Participating Party shall not be subject to Article 16.5.5  
27 *(Non-Consent Subsequent Development System and Additional*  
28 *Facilities)* in regard to that AFE.

29 **12.7.7 Approval of Major Modifications**

30 If the major modification of the Development Plan is approved, the  
31 Development Plan (and associated AFEs) shall be deemed modified,

1 and the Operator shall carry out the modified Development Plan. If a  
2 major modification is not approved, the Operator shall continue to  
3 implement the Development Plan as it was before the proposed major  
4 modification.

5 **12.7.8 Termination of a Development Plan**

6 A Development Plan terminates if (a) the Execution AFE for that  
7 Development Plan is not approved by Election, (b) the Participating  
8 Parties in the Define Stage or in the Execution AFE unanimously agree  
9 to terminate the Development Plan, or (c) the fabrication or acquisition  
10 of the Development System is not commenced within the time frame  
11 provided in Article 12.7.9 (*Timely Operations for Development*  
12 *Systems*).

13 **12.7.8.1 Termination Prior to Execution AFE Approval**

14 The Costs, risks, and liabilities of generating and  
15 implementing a Development Plan that is terminated before  
16 its associated Execution AFE has been approved by Election  
17 shall be borne by the Parties who participated in the Define  
18 AFE and its supplemental AFEs, if any.

19 **12.7.8.2 Termination After Execution AFE Approval**

20 The Costs, risks, and liabilities of generating and  
21 implementing a Development Plan that is terminated after its  
22 associated Execution AFE has been approved by Election  
23 shall be borne by the Participating Parties in the Execution  
24 AFE and its supplemental AFEs, if any.

25 **12.7.9 Timely Operations for Development Systems**

26 The Operator shall commence or cause to be commenced the  
27 fabrication or acquisition of a Development System (a) within \_\_\_\_\_  
28 ( ) days after the end of the period for Elections of the Execution AFE  
29 or (b) \_\_\_\_\_ ( ) days prior to the date the Operator is required to  
30 commence that fabrication or acquisition under an SOP or Unit Plan,  
31 whichever is earlier. If the Operator, except for an occurrence of Force  
32 Majeure, fails to commence the fabrication or acquisition of a  
33 Development System within the applicable time period set forth above

1 in this Article 12.7.9, the Non-Operating Parties may then select a  
2 successor Operator under Article 4.5 (*Selection of Successor*  
3 *Operator*). Within \_\_\_\_\_ ( ) days of the selection of the  
4 successor Operator, the successor Operator shall commence the  
5 fabrication or acquisition of a Development System in the approved  
6 Development Plan. The fabrication or acquisition of a Development  
7 System commences on the date the first major fabrication contract for  
8 the Development System is awarded or the date the purchase contract  
9 for a Development System is executed.

10 **12.8 Post-Production Project Team AFEs**

11 The Execution Stage concludes upon the first production of Hydrocarbons from  
12 the Development System. At least \_\_\_\_\_ ( ) days, but not more than  
13 \_\_\_\_\_ ( ) days, prior to the first production of Hydrocarbons from the  
14 Development System, the Operator may propose for approval by

15 *[Select one of the following.]*

- 16  Vote
- 17  Election
- 18  unanimous agreement

19 of the continuance of the Project Team, if one exists, on a much smaller scale, or  
20 the formation of the Project Team, if one does not exist, in order to assist the  
21 Operator in the drilling of additional Development Wells approved by the Parties,  
22 de-bottlenecking the Development System, ramping up Hydrocarbon production,  
23 maximizing the recovery of Hydrocarbons during the Development Phase and  
24 activities related thereto. With its proposal, the Operator shall include an initial  
25 Post-Production Project Team AFE accompanied by a memorandum similar to  
26 the one described in Article 12.3.1 (*Proposal of Project Team*).

27 At least \_\_\_\_\_ ( ) days, but not more than \_\_\_\_\_ ( ) days,  
28 prior to the date on which the Operator anticipates the scope of work set forth in  
29 its original proposal for the continuance or formation of the Project Team and its  
30 associated AFE and memorandum to be completed, the Operator may propose  
31 for approval by

1 [Select one of the following.]

2  Vote

3  unanimous agreement

4 of the Parties the further continuance of the Project Team to assist the Operator  
5 in reservoir management and production optimizing activities other than  
6 contemplated under Article 12.11 (*Enhanced Recovery and/or Pressure  
7 Maintenance Program Proposals*). With that proposal, the Operator shall  
8 include a second Post-Production Project Team AFE accompanied by a  
9 memorandum similar to the one described in Article 12.3.1 (*Proposal of Project  
10 Team*). The administration of the Project Team during the period that it carries  
11 out the scope of work referred to in this Article 12.8 shall be handled under  
12 Exhibit "G." The Costs of the Project Team will be handled as they are under  
13 Article 12.3.1 (*Proposal of Project Team*). A Non-Participating Party in either or  
14 both of the two Post-Production Project Team AFEs is subject to Article 16.5.3  
15 (*Non-Consent Proprietary Geophysical Operations, Feasibility AFEs, Selection  
16 AFEs, Define AFEs, Long Lead Development System AFEs, Post-Production  
17 Project Team AFEs, or Enhanced Recovery Project Team AFEs*).

18 **12.9 Subsequent Development Phases**

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

24 **12.9.1 Proposal of a Subsequent Development Phase**

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

28 **12.9.2 Execution AFE in a Subsequent Development Phase**

29 Each Non-Participating Party in an Execution AFE for a subsequent  
30 Development Phase is subject to the non-consent provisions in Article  
31 16.5.5 (*Non-Consent Subsequent Development System and Additional  
32 Facilities*), not Article 16.2 (*Acreeage Forfeiture Provisions*). Although a

1 Non-Participating Party in an Execution AFE for a subsequent  
2 Development Phase will retain its Working Interest in the Contract  
3 Area, that Party will only be entitled to Hydrocarbon production from  
4 the subsequent Development Phase, in which it did not participate,  
5 after it has satisfied the non-consent provisions in Article 16.5.5 (*Non-*  
6 *Consent Subsequent Development System and Additional Facilities*). A  
7 Non-Participating Party in a subsequent Development Phase shall not  
8 unreasonably interfere with any activities or operations in that  
9 subsequent Development Phase. In all events, the Participating  
10 Parties in the Execution AFE for a subsequent Development Phase  
11 shall control the sequence of, and shall conduct, all activities and  
12 operations in that subsequent Development Phase.

#### 13 **12.10 Access to Existing Facilities**

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

#### 21 **12.11 Enhanced Recovery and/or Pressure Maintenance Program Proposals**

22 Any Party may propose the formation of a Project Team separate and apart from  
23 any Project Team already in existence for the purpose of assisting the Operator  
24 in designing an enhanced recovery and/or pressure maintenance program for a  
25 particular Development Phase by submitting to the Parties for approval by  
26 Election an Enhanced Recovery Project Team AFE accompanied by a  
27 memorandum similar to the one described in Article 12.3.1 (*Proposal of Project*  
28 *Team*). Any Non-Participating Party in that Enhanced Recovery Project Team  
29 AFE is subject to Article 16.5.3 (*Non-Consent Proprietary Geophysical*  
30 *Operations, Feasibility AFEs, Selection AFEs, Define AFEs, Long Lead*  
31 *Development System AFEs, Post-Production Project Team AFEs, or Enhanced*  
32 *Recovery Project Team AFEs*). The formation and administration of a Project  
33 Team for an enhanced recovery and/or pressure maintenance program will be  
34 handled under Exhibit "G." The Costs of the Project Team will be handled as

1 they are under Article 12.3.1 (*Proposal of Project Team*). After the Operator has  
2 designed the enhanced recovery and/or pressure maintenance program with the  
3 assistance of that Project Team, the Operator may submit an enhanced recovery  
4 and/or pressure maintenance program proposal and AFE to the Parties for  
5 approval by Vote. The program proposal and AFE shall contain sufficient detail  
6 to allow the Parties to adequately evaluate the scope, timing, Costs, and  
7 benefits of the proposed program and AFE. If approved, that proposal and AFE  
8 will be binding on all of the Participating Parties in the Execution AFE for that  
9 Development Phase, and the Operator shall commence the program at the Cost  
10 and risk of those Parties.

## 11 **ARTICLE 13 – DEVELOPMENT OPERATIONS**

### 12 **13.1 Proposal of Development Wells and Development Operations**

13 It is the intent of the Parties to proceed with the development of the Contract  
14 Area under an approved Development Plan.

15 *[Select one of the following.]*

16  Development Wells shall be subject to separate AFEs.

17  Development Wells shall be subject to separate AFEs unless a Development  
18 Plan calls for a number of Development Wells to be drilled together in order to  
19 set conductor casing or to be pre-drilled together prior to the installation of the  
20 Development System, in which case those wells may be included in a single  
21 AFE.

22 Once a Development Well has been completed and placed on production, the  
23 Participating Parties in that well must unanimously agree to allow any Party to  
24 conduct a Non-Consent Operation in that well, unless that well becomes  
25 incapable of producing in paying quantities. A proposal to conduct Development  
26 Operations in a Producing Reservoir requires the unanimous agreement of the  
27 Parties, unless the proposing Party designates the Producing Reservoir as an  
28 Objective Depth or completion zone in the proposal.

1           **13.1.1 Proposal of Development Wells Included in a Development Plan**

2           Subject to Article 13.1 (*Proposal of Development Wells and*  
3           *Development Operations*), any Participating Party in a Development  
4           Plan and Execution AFE may propose drilling a Development Well that  
5           was included in the Development Plan by giving notice of the proposal  
6           (along with the associated AFE and Well Plan) to the other Parties.  
7           Each proposed Development Well that was included in the  
8           Development Plan requires approval by

9           *[Select one of the following.]*

- 10            Vote.  
11            Election.  
12            unanimous agreement.

13           Each Non-Participating Party in a Development Well will be subject to  
14           either acreage forfeiture or Hydrocarbon Recoupment as provided in  
15           Article 16 (*Non-Consent Operations*).

16           **13.1.1.1 Revision of Well Plan**

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

22           **13.1.1.2 Automatic Revision of the Well Plan**

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

27           **13.1.2 Proposal of Development Operations Not Included in a**  
28           **Development Plan**

29           Subject to Article 13.1 (*Proposal of Development Wells and*  
30           *Development Operations*), any Participating Party in an Execution AFE  
31           may propose drilling a Development Well that was not included in the



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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:

*[Select one of the following.]*

- Vote.
- Election.
- unanimous agreement.

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*).

**13.1.3 Timely Operations**

Except as provided below, drilling operations on an Development Well shall be commenced within \_\_\_\_\_ (\_\_) days after the end of the period for the approval of the Development Well. If the Operator, except for an occurrence of Force Majeure, does not commence drilling operations on the Development Well within that \_\_\_\_\_ (\_\_) day period, the approved Development Well proposal shall be deemed withdrawn, with the effect as if the Development Well had never been proposed and approved.

If a Party submits an identical Development Well proposal (except for any necessary modifications resulting from a change in the drilling rig to be utilized by the Operator) within \_\_\_\_\_ (\_\_) days after the deemed withdrawal of the approved original Development Well proposal and if that identical Development Well proposal is approved and if the Operator is a Participating Party in the identical Development Well proposal, the Operator shall commence drilling operations on that well within \_\_\_\_\_ (\_\_) days after the end of the response period for that proposal. If the Operator, except for an occurrence of Force Majeure (excluding the inability to secure materials or a drilling rig), fails to commence drilling operations on the identical Development

1 Well within that \_\_\_\_\_ ( ) day period, the approved identical  
2 Development Well proposal shall be deemed withdrawn, with the effect  
3 as if the identical Development Well proposal had never been  
4 proposed and approved, and the Non-Operating Parties may then  
5 select a substitute Operator under Article 4.2.2 (*Substitute Operator if*  
6 *Operator Fails to Commence Drilling Operations*). Within \_\_\_\_\_  
7 ( ) days of the selection of the substitute Operator, the substitute  
8 Operator shall propose the drilling of an identical Development Well  
9 (except for any necessary modifications resulting from a change in the  
10 drilling rig to be utilized by the substitute Operator), and it shall  
11 commence drilling operations on that well within \_\_\_\_\_ ( ) days  
12 after the end of the period for the approval of that Well.

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

31 If an approved original or identical Development Well proposal is  
32 deemed withdrawn due to a failure to timely commence drilling  
33 operations on that well, all Costs incurred, which are attributable to the  
34 preparation for, or in furtherance of, that Development Well, will be

1 chargeable to the Participating Parties. Drilling operations for a  
2 Development Well under this Article 13.1.3 shall be deemed to have  
3 commenced on the date the rig arrives on location or, if the rig is  
4 already on location, the date when actual drilling operations for the  
5 approved Development Well are undertaken.

6 **13.1.4 AFE Overruns and Substitute Well**

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

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

19 If a Development Well is abandoned due to the conditions described  
20 under Article 13.1.4(b), then any Participating Party in the abandoned  
21 Development Well may, within \_\_\_\_\_ ( ) days after  
22 abandonment of that Development Well, propose the drilling of a  
23 substitute well for the abandoned Development Well by giving notice of  
24 the proposal (along with the associated AFE and Well Plan) to all other  
25 Participating Parties in the abandoned Development Well, and that  
26 proposal requires approval by Election of the Participating Parties in  
27 the abandoned Development Well. The Well Plan for the substitute  
28 Development Well shall be substantially the same as the abandoned  
29 Development Well's Well Plan and shall also take into account those  
30 conditions that rendered further drilling of the abandoned Development  
31 Well impractical.

1 [Optional provision; check if to be applicable.]

2  If the bottomhole location is moved more than \_\_\_\_\_ feet  
3 (\_\_\_\_'), each Non-Participating Party in the abandoned well may, for  
4 a period of \_\_\_\_\_ (\_\_\_\_) days after receipt of the approved  
5 substitute Development Well proposal and its associated AFE, notify  
6 the Operator, in writing, that it will participate in the substitute  
7 Development Well.

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

12 **13.2 Development Operations at Objective Depth**

13 After a Development Well has been drilled to its Objective Depth, all operations  
14 in the controlling AFE have been conducted or terminated (except temporary  
15 abandonment and permanent plugging and abandonment), and all logs and test  
16 results have been distributed to the Participating Parties, the Operator shall  
17 promptly notify the Parties entitled to make an Election on an operation  
18 proposed under this Article 13.2, of its proposal to conduct subsequent  
19 operations in the well. Except for a proposal to permanently plug and abandon  
20 the well, the Operator's proposal shall include an associated AFE and a plan for  
21 the operation. The Parties entitled to make an Election under this Article 13.2  
22 are:

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

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

- 30 (a) conduct Additional Testing, Sidewall Coring, or Logging of the formations  
31 encountered prior to setting production casing;

- 1 (b) complete the well at the Objective Depth in the objective zone or formation;  
2 (c) Sidetrack the well;  
3 (d) plug back the well and attempt a completion in a shallower zone or  
4 formation;  
5 (e) Deepen the well to a new Objective Depth;  
6 (f) conduct other operations on the well not listed;  
7 (g) temporarily abandon the well; or  
8 (h) permanently plug and abandon the well.

9 If the Operator fails to submit its proposal to the Participating Parties within  
10 \_\_\_\_\_ ( ) hours (inclusive of Saturdays, Sundays, and federal holidays)  
11 after receipt of all logs and test results from a Development Well, then any  
12 Participating Party may make a proposal. In that event, the procedures in this  
13 Article 13.2 (*Development Operations at Objective Depth*) shall apply to that  
14 proposal, and any reference in this Article 13.2 to the "Operator's proposal" shall  
15 include a proposal made by a Participating Party.

16 **13.2.1 Response to Operator's Proposal**

17 A Participating Party may, within twenty-four (24) hours (inclusive of  
18 Saturdays, Sundays, and federal holidays) of its receipt of the  
19 Operator's proposal, make a separate proposal (along with an  
20 associated AFE and a plan for the operation), except if the proposal is  
21 to permanently plug and abandon the well) for one of the operations in  
22 Article 13.2 (*Development Operations at Objective Depth*), and the  
23 Operator, immediately after the expiration of the twenty-four (24) hour  
24 period for making a separate proposal shall provide the Parties entitled  
25 to make an Election with a copy of all separate proposals so made. If  
26 no separate proposal is made, the Parties entitled to make an Election  
27 shall, within forty-eight (48) hours (inclusive of Saturdays, Sundays,  
28 and federal holidays) of its receipt of the Operator's proposal, make an  
29 Election on the Operator's proposal (except for a proposal to  
30 permanently plug and abandon). If a separate proposal is made, the

1 Parties entitled to make an Election shall make an Election under the  
2 procedure in Article 13.2.2 (*Response to Highest Priority Proposal*). If  
3 a proposal to permanently plug and abandon the well is the only  
4 operation proposed, then the approval and Cost allocation provisions  
5 of Article 13.5 (*Permanent Plugging and Abandonment and Cost*  
6 *Allocation*) shall apply to the proposal. If Article 8.3 (*Second*  
7 *Opportunity to Participate*) or Article 8.4 (*Participation by Fewer Than*  
8 *All Parties*), or both, apply to an Election, then the response period in  
9 those articles shall be twenty-four (24) hours (inclusive of Saturdays,  
10 Sundays, and federal holidays) instead of forty-eight (48) hours  
11 (exclusive of Saturdays, Sundays, and federal holidays).  
12 Notwithstanding any contrary provision of this Agreement, if one or  
13 more operations are proposed before the distribution of information  
14 from the previous approved operation, then the response periods  
15 provided above shall not begin until the Parties entitled to make an  
16 Election in Article 13.2 (*Development Operations at Objective Depth*)  
17 have received the information from the previous approved operation.

18 **13.2.2 Response to Highest Priority Proposal**

19 If a separate proposal is made, each Party entitled to make an Election  
20 shall, within twenty-four (24) hours (inclusive of Saturdays, Sundays,  
21 and federal holidays) after its receipt from the Operator of a complete  
22 copy of all separate proposals, make its Election on the highest priority  
23 proposal (except a proposal to permanently plug and abandon the  
24 well). Article 13.2(a) has the highest priority, and Article 13.2(h) has  
25 the lowest priority. If different depths or locations are proposed for the  
26 same type of operation, preference shall be given to the

27 *[Select one of the following.]*

28  shallowest depth  deepest depth,

29 or the location

30 *[Select one of the following.]*

31  nearest to  farthest from

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

8 **13.2.3 Response on Next Highest Priority Proposal**

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

16 **13.2.4 Non-Participating Parties in Development Operations at Objective**  
17 **Depth**

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

29 **13.2.5 Participation in a Sidetrack or Deepening by a Non-Participating**  
30 **Party in a Development Well at Initial Objective Depth**

31 If a Development Well is drilled to its Objective Depth and a Non-  
32 Participating Party in that Development Well becomes a Participating  
33 Party in an approved Sidetracking or Deepening under Article 13.2 (c)  
34 or (e), that former Non-Participating Party shall become an

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

19 **13.3 Development Well Proposals That Include Drilling Below the Deepest**  
20 **Producible Reservoir**

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

31 **13.3.1 Multiple Completion Alternatives Above and Below the Deepest**  
32 **Producible Reservoir**

33 If a Party Electing to limit its participation in a well to the base of the  
34 Deepest Producible Reservoir to be penetrated by the well under



1 Article 11.3 (*Appraisal Well Proposals That Include Drilling Below the*  
2 *Deepest Producing Reservoir*) or Article 13.3 (*Development Well*  
3 *Proposals That Include Drilling Below the Deepest Producing*  
4 *Reservoir*) considers the well to be capable of producing at or above  
5 the Deepest Producing Reservoir and has notified the Participating  
6 Parties down to Objective Depth of its desire to complete the well at or  
7 above the Deepest Producing Reservoir, the well will be drilled subject  
8 to the following provisions:

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

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

29 (i) the well is not a Producing Well at a depth deeper than  
30 the Deepest Producing Reservoir and the well is plugged  
31 back to a zone at or above the Deepest Producing  
32 Reservoir;

- 1 (ii) the well is completed as a Producing Well at a depth  
2 deeper than Deepest Producing Reservoir, but  
3 Hydrocarbon production from that depth is later depleted  
4 prior to Complete Recoupment (in regard to Deeper  
5 Drilling) and the well is plugged back to a zone at or above  
6 the Deepest Producing Reservoir;
- 7 (iii) the well is completed as a Producing Well at a depth  
8 deeper than the Deepest Producing Reservoir and the  
9 Participating Parties have achieved Complete Recoupment  
10 (in regard to the Deeper Drilling) from Hydrocarbon  
11 production from a zone deeper than the Deepest  
12 Producing Reservoir;
- 13 (iv) the well is plugged and abandoned prior to an attempted  
14 completion at or above the Deepest Producing Reservoir.

15 The Underinvestment will be depreciated at the rate of \_\_\_\_\_  
16 percent (\_\_\_%) per month from the date the Deeper Drilling commences  
17 to the date the Non-Participating Party is entitled to share in the  
18 Hydrocarbon production from zones deeper than Deepest Producing  
19 Reservoir, but that depreciation will not reduce the Underinvestment  
20 below \_\_\_\_\_ percent (\_\_\_%) of the original Underinvestment.

21 **13.3.2 Completion Attempts At or Above the Deepest Producing**  
22 **Reservoir**

23 If a Development Well in which Deeper Drilling is conducted is not  
24 completed for production below the Deepest Producing Reservoir,  
25 then the Participating Parties in that well down to the Deepest  
26 Producing Reservoir may use the well for completion in a zone at or  
27 above the Deepest Producing Reservoir. The Parties who paid their  
28 proportionate share of the drilling Costs to the base of the Deepest  
29 Producing Reservoir under Article 13.3 (*Development Well Proposals*  
30 *That Include Drilling Below the Deepest Producing Reservoir*) may  
31 participate in the completion attempt in the zone at or above the  
32 Deepest Producing Reservoir. The Participating Parties in the Deeper  
33 Drilling operation shall bear the Costs (including plugging back Costs)

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

10 **13.4 Recompletions and Workovers**

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

23 **13.5 Permanent Plugging and Abandonment and Cost Allocation**

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

- 25 (a) is to be plugged due to mechanical difficulties or impenetrable conditions  
26 before the well has been drilled to its Objective Depth under Article 13.1.4  
27 (b),
- 28 (b) is to be plugged under Article 13.2 (*Development Operations at Objective*  
29 *Depth*), or
- 30 (c) has been previously temporarily abandoned under Article 13.2  
31 (*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  
6 Well 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  
14 is proposed (and subsequently approved) for the well by a Party entitled to make  
15 a 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  
22 give 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  
26 approved under Article 13.2 (*Development Operations at Objective Depth*) or  
27 Article 6.2.2 (*Supplemental AFEs*). The Participating Parties in that Non-  
28 Consent Operation are responsible for the increased plugging and abandoning  
29 Costs attributable to that Non-Consent Operation.

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

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

The Development Plan shall provide for the installation of all Facilities necessary to handle or service Hydrocarbons produced pursuant to that Development Plan. If the approved Development Plan provides that Hydrocarbon production can most efficiently be processed and handled by Offsite Host Facilities, the Development Plan shall provide for a Development System designed to use Offsite Host Facilities.

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

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

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

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

1 **14.4 Processing Priorities**

2 The Participating Parties in a Development System jointly own all processing  
3 and handling capacity associated with that Development System. The use of  
4 excess processing or handling capacity in that Development System is subject to  
5 the following priority of usage:

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

28 Any hydrocarbon production processing and handling capacity offered to parties  
29 under (d), (e), (f), and (g) of this Article 14.4 shall be processed and handled  
30 under a "Facilities Use and Production Handling Agreement" unanimously

1 agreed to by the Participating Parties in the Execution AFE for that Development  
2 System and, if applicable, the Participating Parties in any additional Facilities  
3 which are to be used for the processing or handling of those hydrocarbons.

4 **14.5 Approval of Additional Facilities**

5 This Article 14.5 shall only apply to Facilities that were not included in an  
6 approved Development Plan and are to be utilized for Hydrocarbon production.  
7 Any Participating Party in an Execution AFE for a Development System may  
8 propose the installation of additional Facilities beyond those specified in the  
9 Development Plan associated with that Development System by giving notice to  
10 the other Participating Parties (along with an associated AFE), together with  
11 information adequate to describe the proposed Facilities. Except as provided in  
12 Article 15.2 (*Facilities to Take In Kind*), the installation of additional Facilities  
13 beyond the scope of a Development Plan requires the approval by Vote of the  
14 Participating Parties in the Execution AFE (and all supplemental AFEs) for the  
15 Development System that is to receive the additional Facilities. Upon approval  
16 of such a proposal, the Operator shall proceed to install the additional Facilities,  
17 provided that, in the judgment of the Operator, the additional Facilities do not  
18 interfere with continuing operations on the Contract Area and there is sufficient  
19 deck space and buoyancy available to support the proposed additional  
20 Facilities. A Non-Participating Party in a proposal for additional Facilities shall  
21 be subject to Article 16.5.5 (*Non-Consent Subsequent Production System and*  
22 *Additional Facilities*). If the Facilities proposal is for a disposal well, that Facilities  
23 proposal shall contain the same information provided in a Development Well  
24 proposal.

25 **14.6 Expansion or Modification of Existing Production System**

26 This Article 14.6 shall only apply to expansions or modifications of a Production  
27 System that are to be utilized for activities or operations on the Contract Area.  
28 After installation of a Production System described and approved in a  
29 Development Plan, any Participating Party in that Production System may  
30 propose the expansion or modification of that Production System by written  
31 notice (along with its associated AFE) to the other Participating Parties in that  
32 Production System. That proposal requires the approval by Vote of the  
33 Participating Parties in that Production System. If approved, that proposal will  
34 be binding on all Participating Parties in that Production System, and the

1 Operator shall commence that expansion or modification at the sole Cost and  
2 risk of all of the Participating Parties in that Production System unless otherwise  
3 agreed.

4 **14.7 Additions, Expansion, or Modification of Production System or Facilities**  
5 **for Health, Safety, or Environmental Reasons**

6 If a proposal for additional Facilities or a proposal for the expansion or  
7 modification of a Production System does not receive approval by Vote of the  
8 Participating Parties in the Execution AFE (and all supplemental AFEs) for the  
9 Development System that is to receive additional Facilities or have its  
10 Production System expanded or modified, whichever is applicable, and that  
11 proposal is necessary for health, safety, or environmental reasons and has been  
12 mandated by governmental authority or judicial process, the Operator may, at its  
13 discretion, install those additional Facilities or make those expansions or  
14 modifications to the Production System. If the Operator elects to exercise its  
15 discretionary right to make those installations, modifications, or expansions, the  
16 Operator shall provide written notice of its decision to each Participating Party in  
17 the Execution AFE (and all supplemental AFEs) for the Development System  
18 that is to receive additional Facilities or have its Production System expanded or  
19 modified, whichever applies.

20 **ARTICLE 15 – DISPOSITION OF HYDROCARBON PRODUCTION**

21 **15.1 Duty to Take in Kind**

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

27 **15.2 Facilities to Take in Kind**

28 Each Participating Party in the Execution AFE for a Development System has  
29 the right, at its sole cost and risk, to construct and install facilities on and  
30 connect pipelines to the Development System for purposes of taking its share of  
31 Hydrocarbon production in kind, provided that, in the judgment of the Operator,  
32 the installation and operation of those facilities and pipelines will not



1 unreasonably interfere with continuing operations on the Development System  
2 or the Contract Area.

3 **15.3 Failure to Take Oil or Condensate in Kind**

4 If a Party fails to take in kind or dispose of its share of the oil or condensate  
5 produced from the Contract Area, the Operator may, but is not obligated to,  
6 purchase for its own account, sell to others, or otherwise dispose of all or part of  
7 that oil or condensate at the same price at which the Operator calculates and  
8 pays lessor's royalty on its oil or condensate, or if lessor takes its royalty in kind,  
9 sell that oil or condensate to others at the price prevailing in the area for oil or  
10 condensate of the same kind, gravity, and quality reasonably obtainable by the  
11 Operator under the circumstances, subject to revocation by the non-taking Party  
12 upon \_\_\_\_\_ ( ) days written notice to the Operator but shall not take effect  
13 until the Operator's sales contract with a third party terminates. The Operator is  
14 not obligated to obtain a price equal to the price at which its oil or condensate is  
15 sold. The Operator's right to take in kind or dispose of a non-taking Party's  
16 share of the oil or condensate is subject to the non-taking Party's right, at any  
17 time and from time to time, to take in kind or dispose of its share of the oil or  
18 condensate. All contracts of sale by the Operator for another Party's oil or  
19 condensate shall be only for such reasonable periods not to exceed one year.  
20 Proceeds of all sales by the Operator under this Article 15.3 shall be paid by  
21 \_\_\_\_\_ so that the Parties entitled to those proceeds will be able to make  
22 timely payments, without penalty, of lessor's royalty on the oil or condensate,  
23 which generated the proceeds.

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

26 **15.4 Gas Balancing Provision**

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

30 **15.5 Expenses of Delivery in Kind**

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

1 **ARTICLE 16 – NON-CONSENT OPERATIONS**

2 **16.1 Conduct of Non-Consent Operations**

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

10 **16.1.1 Costs**

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

1 the volumes of Hydrocarbons sold or used off the premises and the  
2 prices received for those Hydrocarbons so that the Operator may  
3 calculate the balance of any Hydrocarbon Recoupment amounts.

4 The calculation of the balance of Hydrocarbon Recoupment shall be  
5 accomplished as follows:

6 *[Select one of the following.]*

7  The Operator shall prepare the monthly statement of the quantities  
8 of oil and gas produced and the amounts of the proceeds from the sale  
9 of all Non-Participating Parties' relinquished production based on the  
10 proceeds received for the Operator's share of production. When  
11 Operator's payout calculation indicates that payout has occurred, the  
12 Operator shall promptly notify all Parties. The Participating Parties  
13 shall then provide the Operator all information pertaining to the  
14 cumulative proceeds received from the sale of the Non-Participating  
15 Parties' relinquished production. The Operator shall revise the payout  
16 date using the actual proceeds from the sale of the Non-Participating  
17 Party's relinquished production and administer subsequent adjustments  
18 between the Parties.

19  Each Party who bears a portion of the Non-Participating Interest  
20 Share shall maintain the balance of the Hydrocarbon Recoupment  
21 attributable to the Non-Participating Interest Share borne by that Party  
22 and shall advise the Operator and Non-Participating Parties when  
23 Complete Recoupment has been reached.

24 **16.1.2 Multiple Completions**

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

- 27 (a) each of the multiple completions are owned by the same Parties  
28 in the same proportion;

- 1 (b) none of the previous well completions are capable of producing in  
2 paying quantities; or
- 3 (c) the Participating Parties in the well containing the multiple  
4 completions unanimously agree to those Non-Consent  
5 Operations.

6 For the purposes of this Article 16, each completion is a separate well.

7 *[Select one of two versions of Article 16.2. The first version provides for acreage forfeiture for a non-consent first Exploratory*  
8 *Well, as well as for a non-consent Execution AFE. The second provides for forfeiture for a non-consent Execution AFE only.*  
9 *Hydrocarbon Recoupment would apply to a non-consent first Exploratory Well.]*

10  *[Check here for the first Exploratory Well and Execution AFE forfeiture version.]*

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 \_\_\_\_\_ percent (\_\_\_ %) or more of the  
24 total 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 \_\_\_\_\_ percent (\_\_\_ %) or more of the AFE for that  
29 Exploratory Well, but the Participating Parties timely commence  
30 the drilling of a substitute well, and the cumulative Costs of that  
31 Exploratory Well and its substitute well equal or exceed

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\_\_\_\_\_ percent ( \_\_ %) of the total amount of the AFE for the original first Exploratory Well;

then within thirty (30) days after notice of the occurrence of an event described in clause (a), (b), or (c), a Non-Participating Party in the first Exploratory Well or its substitute well, as applicable, shall execute and deliver an assignment of all of its right, title, and interest in the Contract Area, free of all Lease Burdens as defined in Article 19.1 (*Burdens on Hydrocarbon Production*), effective on the date actual drilling operations for the well are commenced, to the Participating Parties in the first Exploratory Well or its substitute well, as applicable, with no reimbursement by and at no Cost to those Participating Parties. If an assignment is made under this Article 16.2.1, 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 or Vote not to participate in the first Exploratory Well shall be deemed a withdrawal under Article 17 (*Withdrawal From Agreement*), and the Parties shall be subject to Article 17 (*Withdrawal From Agreement*). After the satisfaction of Article 16.2.1(a), (b), or (c), a Non-Consent Operation performed in the first Exploratory Well's well bore or its substitute's well bore, as applicable, shall not be subject to this Article 16.2.1 but shall be subject to the Hydrocarbon Recoupment premium provided in Article 16.5.1.1 (*Non-Consent Exploratory Operations at Objective Depth*), except as provided in Article 16.4 (*Non-Consent Operations to Maintain Contract Area*).

**16.2.2 Execution AFE**

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

1 commenced, with no reimbursement by and at no Cost to those  
2 Participating Parties. If an assignment is made under this Article  
3 16.2.2, then each Participating Party shall accept its Participating  
4 Interest Share, as determined under Article 8.4 (*Participation by Fewer  
5 Than All Parties*), of the Non-Participating Party's assigned interest.  
6 The Non-Participating Party's Election not to participate in the  
7 Execution AFE for the initial Development System shall be deemed a  
8 withdrawal under Article 17 (*Withdrawal From Agreement*), and the  
9 Parties shall be subject to Article 17 (*Withdrawal From Agreement*).

10  [Check here for the Execution AFE forfeiture version.]

### 11 **16.2 Acreage Forfeiture Provisions**

12 In view of the significantly greater risks associated with the Execution AFE for  
13 the initial Development System, the Participating Parties in that Execution AFE  
14 are entitled to an assignment of all of the right, title, and interest (including  
15 operating rights) in the Contract Area of the Non-Participating Parties in that  
16 Execution AFE. Within thirty (30) days of notice of the timely commencement of  
17 the activities or operations associated with that Execution AFE, a Non-  
18 Participating Party in that Execution AFE shall execute and deliver an  
19 assignment of all of its right, title, and interest in the Contract Area to the  
20 Participating Parties in that Execution AFE, effective on the date the construction  
21 or acquisition of the initial Development System is commenced, with no  
22 reimbursement by and at no Cost to those Participating Parties. If an  
23 assignment is made under this Article 16.2, then each Participating Party shall  
24 accept its Participating Interest Share, as determined under Article 8.4  
25 (*Participation by Fewer Than All Parties*), of the Non-Participating Party's  
26 assigned interest. The Non-Participating Party's Election not to participate in the  
27 Execution AFE for the initial Development System shall be deemed a withdrawal  
28 under Article 17 (*Withdrawal From Agreement*), and the Parties shall be subject  
29 to Article 17 (*Withdrawal From Agreement*).

### 30 **16.3 Costs and Liabilities of Prior Operations**

31 Subject to Article 6.2.2 (*Supplemental AFEs*), a Non-Participating Party subject  
32 to a non-consent provision remains liable for its share of previously incurred  
33 Costs and liabilities for activities and operations in which it was a Participating  
34 Party, and there shall be no re-allocation of Costs for activities and operations in

1 which it was a Participating Party, except as provided in Article 13.3.1 (*Multiple*  
2 *Completion Alternatives Above and Below the Deepest Producing Reservoir*).

3 **16.4 Non-Consent Operations to Maintain Contract Area**

4 If a proposal is made for

5 (a) an activity or operation required under a governmental agency order,  
6 notice, regulation, or Lease to maintain all or part of the Contract Area; or

7 (b) an activity or operation

8 (i) within the final \_\_\_\_\_ (\_\_\_\_) days of the primary term of a  
9 Lease, and if the Lease is not held by any means and will expire  
10 under its own terms, or

11 (ii) within \_\_\_\_\_ (\_\_\_\_) days prior to the deadline for an  
12 activity or operation required under an SOO or SOP activity  
13 schedule or a unit plan of operation,

14 and the proposal requires approval by Vote or Election or unanimous agreement  
15 and that approval or agreement is not obtained within the applicable response  
16 period, then, notwithstanding any contrary provision of Article 8 (*Approvals and*  
17 *Notices*), the proposed activity or operation shall be deemed to have been  
18 approved, and all Parties that Voted or Elected or agreed by written statement to  
19 participate in the proposed activity or operation may proceed with the proposed  
20 activity or operation at their sole Cost and risk. However, before those Parties  
21 commence that activity or operation, they shall give written notice to the other  
22 Parties of their intention to commence that activity or operation. The other  
23 Parties shall have a second opportunity to participate in that activity or  
24 operation, under Article 8.3 (*Second Opportunity to Participate*), except that the  
25 response period for that second opportunity to participate shall be \_\_\_\_\_  
26 (\_\_\_\_) days after receipt of that notice.

27 **16.4.1 Acreage Forfeiture in the Entire Contract Area**

28 If it is necessary to conduct an activity or operation referred to in Article  
29 16.4 (*Non-Consent Operations to Maintain Contract Area*) in order to  
30 maintain the entire Contract Area, then each Non-Participating Party in  
31 that activity or operation shall relinquish and permanently assign,

1 effective on the date the operation is commenced, to the Participating  
2 Parties one hundred percent (100%) of the Non-Participating Party's  
3 Working Interest in the entire Contract Area, including property and  
4 equipment acquired under this Agreement, within thirty (30) days of the  
5 commencement of that activity or operation. Failure to participate in  
6 that activity or operation is deemed a withdrawal, and the Parties will  
7 be subject to Article 17 (*Withdrawal From Agreement*).

8 **16.4.2 Acreage Forfeiture in a Portion of a Contract Area**

9 If it is necessary to conduct an activity or operation referred to in Article  
10 16.4 (*Non-Consent Operations to Maintain Contract Area*) in order to  
11 maintain a portion of the Contract Area, then each Non-Participating  
12 Party in that activity or operation shall relinquish and permanently  
13 assign, effective on the date the operation is commenced, to the  
14 Participating Parties one hundred percent (100%) of the Non-  
15 Participating Party's Working Interest in the affected portion of the  
16 Contract Area, including property and equipment acquired under this  
17 Agreement, within thirty (30) days of the commencement of that activity  
18 or operation. That assignment shall be conveyed to the Participating  
19 Parties in proportion to their Participating Interest Share in that activity  
20 or operation. The Non-Participating Party shall bear all expenses  
21 associated with that assignment and shall be subject to Article 17.3.1  
22 (*Prior Expenses*), Article 17.3.2 (*Confidentiality*) and Article 17.3.3  
23 (*Emergencies and Force Majeure*) with respect to the assigned  
24 acreage. If a Development System does not exist at the time of the  
25 forfeiture assignment or if the Non-Participating Party, who forfeited its  
26 interest under this Article 16.4, was a Non-Participating Party in the  
27 Development System which is located in the non-forfeited portion of the  
28 Contract Area, upon BOEM approval of that assignment, the assigned  
29 acreage shall be expunged from Exhibit "A," and it shall no longer be  
30 included in the Contract Area. If that assignment is to two or more  
31 Participating Parties in that activity or operation, then (a) the assigned  
32 acreage shall be deemed to be governed by an operating agreement  
33 incorporating identical provisions as the provisions in this Agreement,  
34 except to the extent they are clearly inappropriate, (b) the execution of  
35 the operating agreement by those Participating Parties shall be



1 considered a mere formality only, (c) the Operator of the assigned  
2 acreage shall promptly prepare that operating agreement, and (d) the  
3 Participating Parties shall promptly execute it. If a Development  
4 System is located on the non-forfeited portion of the Contract Area and  
5 if the Participating Parties in the operation or activity, which were  
6 conducted in order to save the forfeited portion of the Contract Area, are  
7 Participating Parties in that Development System, the Parties shall amend  
8 this Agreement to provide for a separate operational area for the forfeited  
9 portion of the Contract Area and a separate operational area for the non-  
10 forfeited portion of the Contract Area, and this Agreement shall apply  
11 separately to each operational area; provided however, the Participating  
12 Parties in the Development System located on the non-forfeited portion  
13 of the Contract Area, who participated in the operation or activity, which  
14 were conducted in order to save the forfeited portion of the Contract Area,  
15 shall have the same priority of access to that Development System as the  
16 Parties in the separate operational area for the non-forfeited portion of the  
17 Contract Area.

18 **16.4.3 Limitations on Acreage Forfeiture**

19 Notwithstanding the foregoing, if more than one activity or operation is  
20 conducted under Article 16.4 (*Non-Consent Operations to Maintain*  
21 *Contract Area*), any one of which would maintain the entire Contract  
22 Area or the affected portion of the Contract Area, a Participating Party  
23 in any one of those activities or operations shall not be required to  
24 make an assignment under Article 16.4 (*Non-Consent Operations to*  
25 *Maintain Contract Area*). In addition, no Party is required to relinquish  
26 or assign all or any portion of its Working Interest in the Contract Area  
27 if a governmental agency order, notice, regulation, Lease provision,  
28 SOO or SOP activity schedule, or unit plan of operation requiring the  
29 activity or operation is appealed and successfully overturned.

30 **16.5 Percentage Hydrocarbon Recoupment for Non-Consent Operations**

31 Except as provided in Articles 16.2 (*Acreage Forfeiture Provisions*) and 16.4  
32 (*Non-Consent Operations to Maintain Contract Area*), upon the timely  
33 commencement of a Non-Consent Operation, each Non-Participating Party's  
34 Working Interest and leasehold operating rights in the Non-Consent Operation

1 along with its title to that portion of future Hydrocarbon production provided in  
2 this Article 16.5, if any, shall be owned by and vested in each Participating Party  
3 in accordance with its Participating Party Interest Share in the Non-Consent  
4 Operation under Article 8.4 (*Participation by Fewer Than All Parties*). A third-  
5 party cash contribution made for Confidential Data from a Non-Consent  
6 Operation shall be deducted from the Non-Participating Interest Share of the  
7 Costs of the well operation or of drilling and completing the well, as applicable,  
8 prior to computation of the Hydrocarbon Recoupment amount.

9  [Check here if this is the first Exploratory Well forfeiture version.]

10 **16.5.1 Non-Consent Exploratory Operations down to Objective Depth in**  
11 **the First Exploratory Well**

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

19  [Check here if this is the first Exploratory Well Hydrocarbon Recoupment version.]

20 **16.5.1 Non-Consent Exploratory Operations down to Objective Depth in**  
21 **the First Exploratory Well**

22 The Hydrocarbon Recoupment amount for all Exploratory Operations  
23 conducted as Non-Consent Operations, down to the Objective Depth of  
24 the first Exploratory Well is the Non-Participating Interest Share of the  
25 Costs of the Exploratory Operation multiplied by \_\_\_\_\_ percent  
26 (\_\_\_\_%).

27 **16.5.1.1 Non-Consent Exploratory Operations at Objective Depth**

28 The Hydrocarbon Recoupment amount for all non-consent  
29 Exploratory Operations conducted after the first Exploratory  
30 Well has reached its Objective Depth, be they non-consent  
31 Exploratory Wells other than the first Exploratory Well or  
32 operations conducted subsequent to an Exploratory Well,  
33 including the first Exploratory Well, reaching its Objective

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Depth, is the Non-Participating Interest Share of the Costs of that Non-consent Operation multiplied by \_\_\_\_\_ percent (\_\_\_%).

**16.5.2 Non-Consent Appraisal Operations**

The Hydrocarbon Recoupment amount for all Appraisal Operations conducted as Non-Consent Operations is the Non-Participating Interest Share of the Costs of the Appraisal Operation multiplied by \_\_\_\_\_ percent (\_\_\_%).

**16.5.3 Non-Consent Proprietary Geophysical Operations (if checked below and Exhibit "L" is attached to this Agreement), Feasibility AFEs, Selection AFEs, Define AFEs, Long Lead Development System AFEs, Post-Production Project Team AFEs, or Enhanced Recovery Project Team AFEs**

If a Non-Participating Party in a

*[Optional provision; check if to be applicable.]*

Proprietary Geophysical Operation,

Feasibility AFE, Define AFE, Long Lead Development System AFE, Post-Production Project Team AFE, or Enhanced Recovery Project Team AFE takes, or is deemed to have taken, the steps set forth in Article 16.9 (*Settlement of Underinvestments*), that Party is an Underinvested Party in an amount equal to \_\_\_\_\_ percent (\_\_\_%) of the amount it would have paid had it participated in that activity, operation, or AFE until the Underinvestment is eliminated under Article 16.9 (*Settlement of Underinvestments*). If a Non-Participating Party in a Selection AFE takes, or is deemed to have taken, the steps set forth in Article 16.9 (*Settlement of Underinvestments*), that Party is an Underinvested Party in an amount equal to \_\_\_\_\_ percent (\_\_\_%) of the amount that the it would have paid had it participated in that AFE until the Underinvestment is eliminated under Article 16.9 (*Settlement of Underinvestments*).

1           **16.5.4    Non-Consent Development Operations**

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

6           **16.5.5    Non-Consent Subsequent Development System and Additional  
7           Facilities**

8           The Hydrocarbon Recoupment amount for a non-consent Execution  
9           AFE for a subsequent Development System or additional Facilities not  
10          included in an Execution AFE is the Non-Participating Interest Share of  
11          the Cost incurred with respect to that Execution AFE or those  
12          additional Facilities not included in an Execution AFE multiplied by  
13          \_\_\_\_\_ percent (\_\_\_%).

14          **16.5.6    Additional Hydrocarbon Recoupment**

15          In addition to the percentage Hydrocarbon Recoupment for the various  
16          Non-Consent Operations set forth above, the Participating Parties are  
17          entitled to recoup:

18               (a) \_\_\_\_\_ percent (\_\_\_%) of the Non-Participating Interest Share  
19               of the Cost of using an existing Development System that is  
20               needed to serve a Production System or Facilities installed as a  
21               Non-Consent Operation, in which the Non-Participating Party has  
22               a Participating Interest; plus

23               (b) \_\_\_\_\_ percent (\_\_\_%) of the Non-Participating Interest Share  
24               of the Cost of operating expenses, maintenance Costs, royalties,  
25               and severance, gathering, and production taxes and other  
26               governmental fees based on production.

27          **16.5.7    Hydrocarbon Recoupment From Production**

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

30               **16.5.7.1   Non-Consent Exploratory Operations, Non-Consent  
31               Appraisal Operations, and Non-Consent Development**

1                     Operations That Discover or Extend a Producidle  
2                     Reservoir

3                     For

- 4                     (a) an Exploratory Operation,  
5                     (b) an Appraisal Operation, or  
6                     (c) a Development Operation,

7                     that is conducted as a Non-Consent Operation and discovers  
8                     a new Producidle Reservoir or extends an existing Producidle  
9                     Reservoir (as the Producidle Reservoirs existed at the time  
10                    the Development Operation was proposed), each Non-  
11                    Participating Party shall satisfy Hydrocarbon Recoupment  
12                    from

- 13                    (i) one hundred percent (100%) of its Non-Participating  
14                    Interest Share of all Hydrocarbons produced and saved  
15                    from the Non-Consent Operation, if the Non-Consent  
16                    Operation results in Hydrocarbon production, and  
  
17                    (ii) fifty percent (50%) of its Participating Interest Share of  
18                    all Hydrocarbons produced and saved from operations  
19                    conducted after the Non-Consent Operation that result  
20                    in Hydrocarbon production from the same Producidle  
21                    Reservoir discovered or extended by the Non-Consent  
22                    Operation.

23                    **16.5.7.2 Non-Consent Development Operations in an Existing**  
24                    **Producidle Reservoir**

25                    If a Development Operation is conducted as a Non-Consent  
26                    Operation and does not discover a new Producidle Reservoir  
27                    and also does not extend an existing Producidle Reservoir  
28                    (as the Producidle Reservoirs existed at the time the  
29                    Development Operation was proposed), each Non-  
30                    Participating Party shall satisfy Hydrocarbon Recoupment  
31                    from one hundred percent (100%) of its Non-Participating

1 Interest Share of Hydrocarbons produced and saved from the  
2 Non-Consent Operation, if the Non-Consent Operation results  
3 in Hydrocarbon production.

4 **16.5.7.3 Non-Consent Subsequent Development Systems**

5 If the construction and installation of a subsequent  
6 Development System is conducted as a Non-Consent  
7 Operation, each Non-Participating Party shall satisfy  
8 Hydrocarbon Recoupment from:

9 (a) one hundred percent (100%) of its Non-Participating  
10 Interest Share or its Participating Interest Share  
11 (whichever applies) of Hydrocarbons produced and  
12 saved from all Development Operations that are  
13 conducted from that subsequent Development System,  
14 and

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

21 **16.6 Restoration of Interests to Non-Participating Party**

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

27 (a) the well bore of the Non-Consent Operation is not a Producing Well on the  
28 date the permanent plugging and abandonment of the well concludes;

29 (b) Hydrocarbon production recouped under Article 16.5.7 (*Hydrocarbon*  
30 *Recoupment From Production*) as result of a Non-Consent Operation  
31 ceases prior to Complete Recoupment;

1 (c) the Participating Parties Sidetrack or Deepen an Exploratory Well,  
2 Appraisal Well, or Development Well and that well does not qualify as a  
3 Producing Well; or

4 (d) upon Complete Recoupment.

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

7 **16.6.1 Dry Hole Reversion**

8 If a Non-Consent Operation, other than a Non-Consent Operation  
9 under Articles 16.2 (*Acreage Forfeiture Provisions*) and 16.4 (*Non-*  
10 *Consent Operations to Maintain Contract Area*), results in an event  
11 provided in Article 16.6 (a) or (b) and a Non-Participating Party's  
12 Working Interest and leasehold operating rights revert back to the Non-  
13 Participating Party, all well equipment in place as a result of that Non-  
14 Consent Operation and all Development Systems fabricated and  
15 installed as a result of that Non-Consent Operation and rights to future  
16 Hydrocarbon production from a Producing Reservoir discovered or  
17 extended by that Non-Consent Operation as described in Article 16.5.7  
18 (*Hydrocarbon Recoupment From Production*) remain vested in the  
19 Participating Parties. Any salvage value in excess of Complete  
20 Recoupment will be credited to all Parties according to their Working  
21 Interest and without regard to their participation status.

22 **16.6.2 Sidetracking or Deepening a Non-Consent Well**

23 If a Non-Participating Party participates in a Sidetracking or Deepening  
24 as provided in Article 10.2.5 (*Participation in Sidetrack or Deepening by*  
25 *a Non-Participating Party in an Exploratory Well at Initial Objective*  
26 *Depth*), Article 11.2.5 (*Participation in Sidetrack or Deepening by a*  
27 *Non-Participating Party in an Appraisal Well at Initial Objective Depth*),  
28 or Article 13.2.5 (*Participation in Sidetrack or Deepening by a Non-*  
29 *Participating Party in a Development Well at Initial Objective Depth*),  
30 and if the Participating Parties have recouped the Cost of the original  
31 well down to its Objective Depth at the time the Sidetrack or Deepening  
32 is approved by Election, then the Non-Participating Party shall not be  
33 an Underinvested Party in the Sidetracking or Deepening of that well,

1 and the Participating Parties in the original well shall achieve Complete  
2 Recoupment under Article 16.5.7.1 (*Non-Consent Exploratory*  
3 *Operations, Non-Consent Appraisal Operations, and Non-Consent*  
4 *Development Operations That Discover or Extend a Producidle*  
5 *Reservoir*) or Article 16.5.7.2 (*Non-Consent Development Operations in*  
6 *an Existing Producidle Reservoir*), whichever applies.

7 **16.7 Operations From a Subsequent Non-Consent Development System**

8 A Party who Elected not to participate in a subsequent Development System  
9 may participate in Development Operations from that subsequent Development  
10 System. If that Non-Participating Party participates in such a Development  
11 Operation, then the Non-Participating Party shall make to the Operator a lump  
12 sum payment of any remaining Hydrocarbon Recoupment and Underinvestment  
13 under Article 16 (*Non-Consent Operations*) for which it is still liable. The  
14 Operator shall then distribute to the Participating Parties in the subsequent  
15 Development System their Participating Interest Share of the payment. Upon  
16 that payment, the Non-Participating Party will become an owner and a  
17 Participating Party in the subsequent Development System.

18 **16.8 Allocation of Development System Costs to Non-Consent Operations**

19 In the event a well is drilled from or produced through a Production System or is  
20 produced through Facilities whose Participating Parties are different from the  
21 Participating Parties in that well or if the Participating Parties' Participating  
22 Interest Shares in that Production System or Facilities are different from their  
23 Participating Interest Shares in that well, the rights of the Participating Parties in  
24 that well and the Costs to use the Production System or Facilities for that well  
25 shall be determined as follows:

26 **16.8.1 Investment Charges**

27 (a) The Participating Parties in that well shall pay to the Operator a  
28 one-time slot usage fee for the use of a slot on the Production  
29 System equal to \_\_ percent (\_\_%) of the Cost of the Production  
30 System; provided, however, each Non-Participating Party's share  
31 of the slot usage fee shall be included in the calculation of any  
32 Hydrocarbon recoupment to which it is subject as a result of the  
33 Non-Consent Operation's utilizing that slot. Within fifteen (15)  
34 days of its receipt of that fee, the Operator shall distribute to the



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Participating Parties in the Production System their Participating Interest Share of that payment. For purposes of calculating the slot usage fee, the total Cost of the Production System shall be reduced by \_\_\_\_\_ percent (\_\_\_%) per month, commencing on the date the Production System was installed and continuing every month thereafter until the month actual drilling operations on that well is commenced; however, the total Cost of the Production System shall not be reduced by more than \_\_\_\_\_ percent (\_\_\_%) of the total Production System's costs. The Cost of additions to the Production System shall be reduced in the same manner commencing the first month after the addition is installed.

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

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

- (b) The Participating Parties in that well shall pay to the owners of the Facilities a sum equal to that portion of the total Cost of those Facilities that the throughput volume of the Non-Consent Operation bears to the total design throughput volume of the Facilities. Throughput volume shall be estimated by the Operator in barrels produced per day (5.8 mcf of gas determined at a pressure of 14.73 pounds per square inch atmospheric and a temperature of sixty (60) degrees Fahrenheit equaling one barrel of oil and one barrel of water equaling one barrel of oil), using an average daily volume of the first three months of Hydrocarbon and water production from the Non-Consent Operation. For

1 purposes of calculating the Facilities usage fee, the total Cost of  
2 the Facilities shall be reduced by \_\_\_\_\_ percent (\_\_\_%) per  
3 month, commencing from the date when the Facilities were  
4 installed and continuing every month thereafter until the first  
5 month during which production from the Non-Consent Operation  
6 commences, but the total Cost of the Facilities shall not be  
7 reduced more than \_\_\_\_\_ percent (\_\_\_%) of the total Facilities'  
8 Cost. If a modification, expansion, or addition to the Facilities is  
9 made after commencing first production and before connection of  
10 the Non-Consent Operation to the Facilities, the Facilities  
11 investment shall be reduced in the same manner described  
12 above, from the month in which the Facilities modification,  
13 expansion, or addition is completed until the first month during  
14 which production from the Non-Consent Operation is commenced.

#### 15 **16.8.2 Payments**

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

#### 21 **16.8.3 Operating and Maintenance Charges**

22 The Participating Parties in a well drilled as a Non-Consent Operation  
23 shall pay all Costs necessary to connect the well to the Production  
24 System. The Costs of operating and maintaining the Facilities and the  
25 Production System shall be allocated equally among all active  
26 completions served. Subsea Production System operating and  
27 maintenance Costs shall be allocated equally among all subsea well  
28 completions served by the Subsea Production system. Operating and  
29 maintenance Costs for the Facilities shall be allocated to each well  
30 served in the proportion that the volume throughput of the well bears to  
31 the total volume throughput of all wells handled by the Facilities.

#### 32 **16.9 Settlement of Underinvestments**

33 A Non-Participating Party shall become an Underinvested Party and become  
34 liable for settling an Underinvestment if it (a) makes a revised Election or Vote to

1 become a Participating Party in an AFE, activity, or operation in which it  
2 originally Elected or Voted not to participate, (b) Elects to participate (i) in the  
3 Sidetracking or Deepening of a wellbore in which it did not participate to  
4 Objective Depth or (ii) in a Sidetracking or Deepening thereafter, (c) Elects to  
5 participate in a Development Plan after a Major Modification of that plan has  
6 been approved, or (d) Elects to participate in Development Operations from a  
7 subsequent Development System in which it did not participate. A Non-  
8 Participating Party in a Selection AFE, who elects to participate in the Define  
9 AFE, which follows it, shall automatically be deemed to have submitted to the  
10 Operator a written statement memorializing its subsequent Election to (a)  
11 participate in that Selection AFE, in which it originally Elected not to participate,  
12 and (b) become an Underinvested Party in regard to that AFE. A Non-  
13 Participating Party in a Define AFE, who elects to participate in the Execution  
14 AFE, which follows it, shall automatically be deemed to have submitted to the  
15 Operator a written statement memorializing its subsequent Election to (a)  
16 participate in the Define AFE in which it originally Elected not to participate and  
17 (b) become an Underinvested Party in regard to that AFE. A Non-Participating  
18 Party in a Long Lead Development System AFE, who elects to participate in the  
19 activity or operation for which the long lead item in the Long Lead Development  
20 System AFE was procured, shall automatically be deemed to have submitted to  
21 the Operator a written statement memorializing its subsequent Election to (a)  
22 participate in that Long Lead Development System AFE, in which it originally  
23 Elected not to participate, and (b) become an Underinvested Party in regard to  
24 that AFE. Except as provided in Article 16.9.1 (*Cash Settlement of*  
25 *Underinvestment*), an Underinvested Party shall settle its Underinvestment  
26 through Disproportionate Spending. The Underinvested Party shall be  
27 responsible for and pay one hundred percent (100%) of the Overinvested  
28 Parties' share of the Costs (or if there are two or more Underinvested Parties, a  
29 proportion of those Costs based on each Party's Underinvestment) in  
30 subsequent activities or operations or AFEs under this Agreement in which that  
31 Underinvested Party and one or more Overinvested Parties participate until the  
32 amount of the Underinvestment is eliminated, except under Article 13.3.1  
33 (*Multiple Completion Alternatives Above and Below the Deepest Producing*  
34 *Reservoir*) the Underinvested Party shall be responsible for and pay one  
35 hundred percent (100%) of the Overinvested Parties' share of the Costs (or if  
36 there are two or more Underinvested Parties, a proportion of those Costs based

1 on each Party's Underinvestment) in subsequent activities or operations or AFEs  
2 within the Contract Area in which one or more Overinvested Parties participate  
3 until the amount of the Underinvestment is eliminated.

4 **16.9.1 Cash Settlement of Underinvestment**

5 If the Parties do not plan or propose further activities or operations  
6 under this Agreement (for which Costs would be allocated to the  
7 elimination of an Underinvestment), the Underinvested Party shall pay  
8 the Overinvested Parties the remaining Underinvestment amount in  
9 cash under Exhibit "C." If Disproportionate Spending in the Contract  
10 Area does not eliminate an Underinvestment within two (2) years after  
11 the date the Underinvestment is incurred, or upon final accounting and  
12 settlement under this Agreement, or before the Underinvested Party  
13 withdraws from the Contract Area under Article 17 (*Withdrawal From*  
14 *Agreement*), whichever comes first, the Underinvested Party shall pay  
15 the Overinvested Parties the remaining Underinvestment in cash under  
16 Article 17 (*Withdrawal From Agreement*) and Exhibit "C."

17 **ARTICLE 17 – WITHDRAWAL FROM AGREEMENT**

18 **17.1 Right to Withdraw**

19 Subject to this Article 17.1, any Party may withdraw from this Agreement (the  
20 "Withdrawing Party") by giving prior written notice to all other Parties stating its  
21 decision to withdraw ("the withdrawal notice"). The withdrawal notice shall  
22 specify an effective date of withdrawal that is at least \_\_\_\_\_ ( )  
23 days, but not more than \_\_\_\_\_ ( ) days, after the date of the  
24 withdrawal notice. Within thirty (30) days of receipt of the withdrawal notice, the  
25 other Parties may join in the withdrawal by giving written notice of that fact to the  
26 Operator ("written notice to join in the withdrawal") and upon giving written notice  
27 to join in the withdrawal are "Other Withdrawing Parties." The withdrawal notice  
28 and the written notice to join in the withdrawal are unconditional and irrevocable  
29 offers by the Withdrawing Party and the Other Withdrawing Parties to convey to  
30 the Parties who do not join in the withdrawal ("the Remaining Parties") the  
31 Withdrawing Party's and the Other Withdrawing Parties' entire Working Interest

1 in all of the Leases, Hydrocarbon production, and other property and equipment  
2 owned under this Agreement.

3 **17.2 Response to Withdrawal Notice**

4 Failure to respond to a withdrawal notice is deemed a decision not to join in the  
5 withdrawal.

6 **17.2.1 Unanimous Withdrawal**

7 If all the other Parties join in the withdrawal,

- 8 (a) no assignment of Working Interests shall take place;
- 9 (b) subject to Article 18.4 (*Abandonment Operations Required by*  
10 *Governmental Authority*), no further operations may be conducted  
11 under this Agreement unless agreed to by all Parties;
- 12 (c) the Parties shall abandon all activities and operations within the  
13 Contract Area and relinquish all of their Working Interests to the  
14 BOEM within \_\_\_\_\_ ( ) days of the conclusion of the thirty (30)  
15 day joining period; and
- 16 (d) notwithstanding anything to the contrary in Article 18  
17 (*Abandonment and Salvage*), the Operator shall:
- 18 (i) furnish all Parties a detailed abandonment plan, if  
19 applicable, and a detailed cost estimate for the  
20 abandonment within \_\_\_\_\_ ( ) days after the  
21 conclusion of the thirty (30) day joining period; and
- 22 (ii) cease operations and begin to permanently plug and  
23 abandon all wells and remove all Production Systems and  
24 Facilities in accordance with the abandonment plan.

25 **17.2.2 No Additional Withdrawing Parties**

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

1           **17.2.3    Acceptance of the Withdrawing Parties' Interests**

2           If one or more but not all of the other Parties join in the withdrawal and  
3           become Other Withdrawing Parties, then within forty-eight (48) hours  
4           (exclusive of Saturdays, Sundays, and federal holidays) of the  
5           conclusion of the thirty (30) day joining period, each of the Remaining  
6           Parties shall submit to the Operator a written rejection or acceptance of  
7           its Participating Interest Share of the Withdrawing Party's and Other  
8           Withdrawing Parties' Working Interest. Failure to make that written  
9           rejection or acceptance shall be deemed a written acceptance. If the  
10          Remaining Parties are unable to select a successor Operator, if  
11          applicable, or if a Remaining Party submits a written rejection and the  
12          other Remaining Parties do not agree to accept one hundred percent  
13          (100%) of the Withdrawing Party's and Other Withdrawing Parties'  
14          Working Interest within \_\_\_\_ ( ) days of the conclusion of the forty-  
15          eight (48) hour period to submit a written rejection or acceptance, the  
16          Remaining Parties will be deemed to have joined in the withdrawal, and  
17          Article 17.2.1 (*Unanimous Withdrawal*) will apply.

18          **17.2.4    Effects of Withdrawal**

19          Except as otherwise provided in this Agreement, after giving a  
20          withdrawal notice or a written notice to join in the withdrawal, the  
21          Withdrawing Party and Other Withdrawing Parties are not entitled to  
22          approve or participate in any activity or operation in the Contract Area,  
23          other than those activities or operations for which they retain a financial  
24          responsibility. The Withdrawing Party and Other Withdrawing Parties  
25          shall take all necessary steps to accomplish their withdrawal by the  
26          effective date referred to in Article 17.1 (*Right to Withdraw*) and shall  
27          execute and deliver to the Remaining Parties all necessary instruments  
28          to assign their Working Interest to the Remaining Parties. A  
29          Withdrawing Party and Other Withdrawing Parties shall bear all  
30          expenses associated with their withdrawal and the transfer of their  
31          Working Interest.

1 **17.3 Limitation Upon and Conditions of Withdrawal**

2 **17.3.1 Prior Expenses**

3 The Withdrawing Party and Other Withdrawing Parties remain liable for  
4 their remaining Underinvestments and their Participating Interest Share  
5 of the Costs of activities, operations, rentals, royalties, taxes, damages,  
6 Hydrocarbon imbalances, or other liability or expense accruing or  
7 relating to (i) obligations existing as of the effective date of the  
8 withdrawal, (ii) activities or operations conducted before the effective  
9 date of the withdrawal, (iii) activities or operations approved by the  
10 Withdrawing Party and Other Withdrawing Parties before the effective  
11 date of the withdrawal, or (iv) activities or operations commenced by  
12 the Operator under one of its discretionary powers under this  
13 Agreement before the effective date of the withdrawal. Before the  
14 effective date of the withdrawal, the Operator shall render a statement  
15 to the Withdrawing Party and Other Withdrawing Parties for (1) their  
16 respective shares of all identifiable Costs under this Article 17.3.1 and  
17 (2) their respective Participating Interest Shares of the estimated  
18 current Costs of plugging and abandoning all wells and removing all  
19 Production Systems, Facilities, and other materiel and equipment  
20 serving the Contract Area, less their respective Participating Interest  
21 Shares of the estimated salvage value of the assets at the time of  
22 abandonment, as approved by Vote. This statement of expenses,  
23 Costs, and salvage value shall be prepared by the Operator under  
24 Exhibit "C." Before withdrawing, the Withdrawing Party and Other  
25 Withdrawing Parties shall either pay the Operator, for the benefit of the  
26 Remaining Parties, the amounts allocated to them in the statement or  
27 provide security satisfactory to the Remaining Parties for all obligations  
28 and liabilities they have incurred and all obligations and liabilities  
29 attributable to them before the effective date of the withdrawal. All  
30 liens, charges, and other encumbrances, including but not limited to  
31 overriding royalties, net profits interest, and production payments,  
32 which the Withdrawing Party and Other Withdrawing Parties placed (or  
33 caused to be placed) on their Working Interest shall be fully satisfied or  
34 released prior to the effective date of its withdrawal (unless the

1 Remaining Parties are willing to accept the Working Interest subject to  
2 those liens, charges, and other encumbrances).

3 **17.3.2 Confidentiality**

4 The Withdrawing Party and Other Withdrawing Parties will continue to  
5 be bound by the confidentiality provisions of Article 7 (*Confidentiality of*  
6 *Data*) after the effective date of the withdrawal but will have no further  
7 access to technical information relating to activities or operations under  
8 this Agreement. The Withdrawing Party and Other Withdrawing  
9 Parties are not required to return to the Remaining Parties Confidential  
10 Data acquired prior to the effective date of the withdrawal.

11 **17.3.3 Emergencies and Force Majeure**

12 No Party may withdraw during a Force Majeure or emergency that  
13 poses a threat to life, safety, property, or the environment but may  
14 withdraw from this Agreement after termination of the Force Majeure or  
15 emergency. The Withdrawing Party and Other Withdrawing Parties  
16 remain liable for their share of all Costs and liabilities arising from the  
17 Force Majeure or emergency, including but not limited to the drilling of  
18 relief wells, containment and cleanup of oil spills and pollution, and all  
19 Costs of debris removal made necessary by the Force Majeure or  
20 emergency.

21 **ARTICLE 18 – ABANDONMENT AND SALVAGE**

22 **18.1 Abandonment of Wells**

23 Any Participating Party may propose the permanent plugging and abandonment  
24 of a well that has produced Hydrocarbons (other than as a result of Production  
25 Testing) by notifying the other Participating Parties. Any Participating Party that  
26 fails to respond within the applicable response period shall be deemed to have  
27 approved the permanent plugging and abandonment of the well. If the  
28 permanent plugging and abandonment proposal is unanimously agreed to by the  
29 Participating Parties in that well, the well shall be permanently plugged and  
30 abandoned under the applicable regulations at the Cost and risk of the  
31 Participating Parties. If the Participating Parties do not unanimously agree to  
32 permanently plug and abandon the well, the Operator shall prepare an estimate



1 of the Costs of the permanent plugging and abandonment of the well less the  
2 estimated salvage value of the well, as determined under Exhibit "C," and the  
3 Participating Party desiring to permanently plug and abandon the well shall pay  
4 the Operator, for the benefit of the non-abandoning Participating Parties, its  
5 share of that estimate within thirty (30) days of its receipt of the estimate. If an  
6 abandoning Participating Party's respective share of the estimated salvage  
7 value is greater than its share of the estimated Costs of the permanent plugging  
8 and abandonment, the Operator, on behalf of the non-abandoning Participating  
9 Parties, shall pay to the abandoning Participating Party a sum equal to the  
10 deficiency within thirty (30) days of the abandoning Participating Party's receipt  
11 of the estimate. Each Participating Party desiring to abandon a well shall assign  
12 to each non-abandoning Participating Party in that well a portion of its Working  
13 Interest in that well and the equipment therein and the Hydrocarbon production  
14 therefrom equal to the non-abandoning Party's Participating Interests in that well  
15 divided by the entire Participating Interests of the non-abandoning Parties in that  
16 well. That assignment shall be effective as of the date of the abandoning Party's  
17 response to the well abandonment proposal. The abandoning Party shall  
18 assume and be liable for all obligations pertaining to that well, except liability for  
19 payments under this Article 18.1, prior to the effective date of its assignment to  
20 the non-abandoning Parties. The abandoning Party shall not assume and be  
21 liable for any obligations pertaining to that well, except liability for payments under  
22 this Article 18.1, as of the effective date of its assignment to the non-abandoning  
23 Parties.

24 **18.2 Abandonment of Equipment**

25 Any Participating Party in a Production System or Facilities or an enhanced  
26 recovery and/or pressure maintenance program described in Article 12.11  
27 (*Enhanced Recovery and/or Pressure Maintenance Program Proposals*) (the  
28 "Equipment") may propose the abandonment and disposition of that Equipment.  
29 If that proposal is unanimously agreed to by the Participating Parties, the  
30 Operator shall abandon and dispose of that Equipment at the Cost and risk of  
31 the Participating Parties. If a Participating Party fails to respond within the  
32 applicable response period, that Participating Party shall be deemed to have  
33 approved the abandonment and disposal of the Equipment. If all Participating  
34 Parties do not approve abandoning and disposing of the Equipment, the  
35 Operator shall prepare an estimate of the Costs of abandonment, removal, site

1 clearance, and disposition of the Equipment, less the estimated salvage value of  
2 the Equipment, as determined under Exhibit "C," and the Participating Party  
3 desiring to abandon and dispose of the Equipment shall pay the Operator, for  
4 the benefit of the non-abandoning Participating Parties, its share of that estimate  
5 within thirty (30) days of its receipt of the estimate. If an abandoning  
6 Participating Party's respective share of the estimated salvage value is greater  
7 than its share of the estimated costs, the Operator, on behalf of the non-  
8 abandoning Participating Parties, shall pay to the abandoning Participating Party  
9 a sum equal to the surplus within thirty (30) days of the abandoning Participating  
10 Party's receipt of the estimate. Each Participating Party desiring to abandon the  
11 Equipment shall assign to each non-abandoning Participating Party in the  
12 Equipment a portion of its Working Interest in the Equipment equal to the non-  
13 abandoning Party's Participating Interests in the Equipment divided by the entire  
14 Participating Interests of the non-abandoning Parties in the Equipment. That  
15 assignment shall be effective as of the date of the abandoning Party's response  
16 to the Equipment abandonment proposal. The abandoning Party shall assume  
17 and be liable for all obligations pertaining to the Equipment, except liability for  
18 payments under this Article 18.2, prior to the effective date of its assignment to  
19 the non-abandoning Parties. The abandoning Party shall not assume and be  
20 liable for any obligations pertaining to the Equipment, except liability for payments  
21 under this Article 18.2, as of the effective date of its assignment to the non-  
22 abandoning Parties.

### 23 **18.3 Disposal of Surplus Materiel**

24 The Operator may classify materiel acquired under this Agreement as surplus  
25 when the Operator deems it is no longer needed in present or foreseeable  
26 activities or operations. The Operator shall determine the value and Cost of  
27 disposing of the materiel under Exhibit "C." If the materiel is classified as junk or  
28 if the value, less the Cost of disposal, is less than or equal to  
29 \_\_\_\_\_ dollars (\$\_\_\_\_\_), the Operator may  
30 dispose of the surplus materiel in a manner it deems appropriate. If the value,  
31 less the Cost of disposal of the surplus materiel, is greater than  
32 \_\_\_\_\_ dollars (\$\_\_\_\_\_), the Operator shall give  
33 written notice thereof to the Parties owning the materiel, and the surplus materiel  
34 shall be disposed of in accordance with the method of disposal approved by the  
35 Parties owning the materiel. Proceeds from the sale or transfer of surplus

1           materiel shall be promptly credited to each Party in proportion to its ownership of  
2           the materiel at the time of the retirement or disposition of the materiel.

3       **18.4 Abandonment Operations Required by Governmental Authority**

4           The Operator shall conduct the abandonment and removal of any Equipment [as  
5           defined in Article 18.2 (*Abandonment of Equipment*)] required by a governmental  
6           authority, and the Costs, risks, and net proceeds of that abandonment and  
7           removal will be shared by the Participating Parties in that Equipment [as defined  
8           in Article 18.2 (*Abandonment of Equipment*)] according to their Participating  
9           Interest Share.

10       **ARTICLE 19 – RENTALS, ROYALTIES, AND MINIMUM ROYALTIES**

11       **19.1 Burdens on Hydrocarbon Production**

12           If a Party has previously created or hereafter creates an overriding royalty,  
13           production payment, carried or reversionary working interest, net profits interest,  
14           mortgage, lien, security interest, or other type of burden on Hydrocarbon  
15           production, including, but not limited to, agreements affecting the marketing,  
16           processing, or transportation of Hydrocarbon Production, other than the lessor's  
17           royalty stipulated in a Lease (a "Lease Burden"), the Party creating the Lease  
18           Burden shall assume and bear all liabilities and obligations of the Lease Burden  
19           regardless of that Party's participation status and notwithstanding an assignment  
20           under this Agreement of all or part of that Party's Working Interest to another  
21           party. The Party creating the Lease Burden shall indemnify, release, defend,  
22           and hold all other Parties harmless from all claims and demands for payment  
23           asserted by the owners of the Lease Burden.

24       **19.1.1 Subsequently Created Lease Burdens**

25           Notwithstanding any contrary provision of this Agreement, if a Party,  
26           after executing this Agreement, creates a Lease Burden, that Lease  
27           Burden shall be made specifically subject to this Agreement. If the  
28           Party owning the Working Interest from which a Lease Burden is  
29           created (a) fails to pay when due its share of Costs, (b) withdraws from  
30           this Agreement, or (c) Elects to abandon a well under Article 18.1  
31           (*Abandonment of Wells*), then the beneficiary of the Lease Burden will  
32           be chargeable with Costs equal to its fractional interest in gross

1 production and the security rights created in Exhibit "F" will be  
2 applicable against that Lease Burden. The Operator has the right to  
3 enforce the security rights (and all other rights granted under this  
4 Agreement) against the beneficiary of a Lease Burden for the purpose  
5 of collecting Costs chargeable to the Lease Burden. The rights of the  
6 beneficiary of a Lease Burden are subordinate to the rights of the  
7 Parties granted by Exhibit "F."

8 **19.2 Payment of Rentals and Royalties**

9 The Operator shall make all rental payments for the Leases on behalf of the  
10 Parties. The Operator shall use reasonable care to make proper and timely  
11 payment of the rental payments, all minimum royalties, and all other similar  
12 payments accruing under the Leases. Upon receipt of proper evidence of those  
13 payments and the Operator's invoice for its proportionate share of those  
14 payments, each Non-Operating Party shall reimburse the Operator for the  
15 Non-Operating Party's Working Interest share of those payments. In the event  
16 the Operator fails to make proper payment of a rental, minimum royalty, or other  
17 similar payment accruing under a Lease through mistake or oversight where that  
18 payment is required to continue that Lease in force and effect, the Operator will  
19 not be liable to the other Parties for any resulting damages or any loss that  
20 results from the non-payment, unless that non-payment is due to the gross  
21 negligence or willful misconduct of the Operator. The loss of a Lease or interest  
22 therein that results from the Operator's failure to pay, or the Operator's  
23 erroneous payment of, a rental, minimum royalty, or other similar payments is a  
24 joint loss, and there will be no readjustment of Working Interests as a  
25 consequence thereof. For production delivered in-kind by the Operator to a  
26 Non-Operating Party or to a third party for the account of a Non-Operating Party,  
27 the Non-Operating Party shall provide the Operator with information about the  
28 proceeds or value of the production in order for the Operator to make payments  
29 of all minimum royalties due.

30 **19.2.1 Non-Participation in Payments**

31 If a Party notifies the other Parties, in writing at least sixty (60) days  
32 before the date the payment is due of its intention not to pay its share  
33 of a rental, minimum royalty, or other similar payment, that Party shall  
34 be deemed to have given a withdrawal notice under Article 17

1 (Withdrawal From Agreement), and must withdraw from the entire  
2 Contract Area, not just the Lease on which the payment is due. Upon  
3 this occurrence, the Operator shall make the payment solely for the  
4 benefit of the Remaining Parties, as defined in Article 17 (Withdrawal  
5 From Agreement), and the Remaining Parties shall reimburse the  
6 Operator for their respective shares of the payment, based on the  
7 procedures in Article 17.2 (Response to Withdrawal Notice).

8 **19.2.2 Royalty Payments**

9 Each Party shall pay or cause to be paid all royalty and other amounts  
10 payable, which are based on its share of Hydrocarbon production.  
11 Adjustments to those payments shall be made among the Parties in  
12 accordance with Exhibit "D" (Gas Balancing Agreement). When the  
13 Participating Parties are recouping their Costs from a Non-Consent  
14 Operation and an applicable premium under Article 16.5 (Percentage  
15 Hydrocarbon Recoupment for Non-Consent Operations), each of the  
16 Participating Parties shall pay or cause to be paid the Lease royalty on  
17 the portion of the Hydrocarbon Recoupment to which it is entitled.

18 **ARTICLE 20 – TAXES**

19 [Select one of two versions of Article 20.1. The first version is an election not to be taxed as a tax partnership. The second is  
20 an election to be taxed as a tax partnership.]

21  [Check here for the version whereby an election not to be taxed as a tax partnership is made.]

22 **20.1 Internal Revenue Provision**

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

1  [Check here for the version whereby an election to be taxed as a tax partnership is made.]

2 **20.1 Internal Revenue Provision**

3 Notwithstanding any provision in this Agreement to the effect that the rights and  
4 liabilities of the Parties are several, not joint or collective, and that this  
5 Agreement and the activities and operations under this Agreement do not  
6 constitute a partnership under state law, each Party elects not to be excluded  
7 from the application of Subchapter K, Chapter 1, Subtitle A, Internal Revenue  
8 Code of 1986, as amended, and similar provisions of applicable state laws. The  
9 tax partnership shall be governed by Exhibit "J."

10 **20.2 Other Taxes and Assessments**

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

23 **20.2.1 Property Taxes**

24 The Operator shall render for ad valorem property tax purposes all  
25 personal property and/or real property covered by this Agreement as  
26 may be subject to that taxation and shall pay those property taxes for  
27 the benefit of each Party. The Operator shall timely and diligently  
28 protest a valuation of the Leases for tax purposes it deems  
29 unreasonable. Pending final determination of the valuation of the  
30 Leases for tax purposes, unless unanimously agreed to by the Parties  
31 to the contrary under Article 20.2 (*Other Taxes and Assessments*), the  
32 Operator shall, on or before the due date, pay under protest taxes on  
33 the Leases at the assessed value of the Leases. If upon final  
34 determination, additional taxes are due or if interest or a penalty has

1 accrued as a result of the protest, the Operator shall pay the taxes,  
2 interest, and penalty and shall charge each Party its Working Interest  
3 share of the taxes, interest, and penalty under Exhibit "C."

4 **20.2.2 Production and Severance Taxes**

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

9 **ARTICLE 21 – INSURANCE AND BONDS**

10 **21.1 Insurance**

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

15 **21.2 Bonds**

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

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

24 **22.1 Individual Obligations**

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

1 are not fiduciaries, but rather are free to act at arm's length in accordance with  
2 their own respective interests.

3 **22.2 Notice of Claim or Lawsuit**

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

11 **22.3 Settlements**

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

19 **22.4 Defense of Claims and Lawsuits**

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



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

6 **22.5 Liability for Damages**

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

19 **22.6 Indemnification for Non-Consent Operations**

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

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

14  [Optional provision; check if Article 22.9 (Dispute Resolution Procedure) is to be applicable.]

15 **22.9 Dispute Resolution Procedure**

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

20 **ARTICLE 23 – CONTRIBUTIONS**

21 **23.1 Contributions from Third Parties**

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

- 26 (a) Trades of Confidential Data for other similar geophysical, geological,  
27 geochemical, drilling, or engineering data from third parties. Those trades  
28 of Confidential Data are subject to Article 7.2.1 (*Trades of Confidential*  
29 *Data*);

- 1 (b) Contributions received as consideration for entering into a contract for the  
2 sale of Hydrocarbon production, as proceeds of loans, or as proceeds of  
3 other financial arrangements:
- 4 (c) A farmout of all or a portion of a Party's Working Interest, which is subject  
5 to Article 24 (*Transfer of Interest and Preferential Right to Purchase*).

6 **23.2 Methods of Obtaining Contributions**

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

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

17 **23.3 Counteroffers**

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

22 **23.4 Approval of Contributions**

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

1 **23.5 Cash Contributions**

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

6 **23.6 Acreage Contributions**

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

12 **23.6.1 Two or More Parties Own One Hundred Percent of the Acreage**  
13 **Contribution**

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

27 **23.6.2 Two or More Parties Own Less Than One Hundred Percent of the**  
28 **Acreage Contribution**

29 If two or more Parties participate in the acreage Contribution and the  
30 conveyances to effectuate it, and if, after the conveyances are  
31 approved by the BOEM, those Parties own less than one hundred  
32 percent (100%) of the ownership interest in the contributed acreage,  
33 then those Parties shall use reasonable efforts to negotiate and  
34 execute with the other Working Interest owners in the contributed

1            acreage an operating agreement covering the contributed acreage,  
2            which is as close in form to this Agreement as possible.

3            **ARTICLE 24 – TRANSFER OF INTEREST AND**  
4            **PREFERENTIAL RIGHT TO PURCHASE**

5            **24.1 Transfer of Interest**

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

21           **24.1.1 Exceptions to Transfer Notice**

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

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**24.1.2 Effective Date of Transfer of Interest**

The effective date of a Transfer of Interest shall be at least sixty (60) days, but not more than one hundred eighty (180) days, after the date 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 BOEM 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 BOEM. 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 \_\_\_\_\_ percent (\_\_\_%) 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 \_\_\_\_ percent (\_\_\_%), 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.

1           **24.1.5    Warranty**

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

5            *[Optional provision; check if Article 24.2 (Preferential Right to Purchase) is to be applicable.]*

6           **24.2    Preferential Right to Purchase**

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

8           **24.2.1   Notice of Proposed Transfer of Interest**

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

15           *[Optional provision; check if the following to be applicable.]*

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

24          **24.2.2   Exercise of Preferential Right to Purchase**

25          Within \_\_\_\_\_ ( ) days from receipt of the transfer notice,  
26          each non-assigning Party may exercise its preferential right to  
27          purchase its Participating Interest Share of the Working Interest offered  
28          (on the same terms and conditions, or on equivalent terms for a non-  
29          cash transaction as stated in the notice) without reservations or  
30          conditions by written notice of that fact to all of the Parties. If a non-  
31          assigning Party does not exercise its preferential right to purchase its  
32          Participating Interest Share of the Working Interest offered and the



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non-assigning Parties, who wish to exercise their preferential right to purchase, do not agree to pay the full consideration for the Transfer of Interest and accept all of the other terms of the third party offer within \_\_\_\_\_ ( ) days of the \_\_\_\_ ( ) day period in which the non-assigning Parties may exercise their preferential right to purchase, the assigning Party shall be free to complete the proposed conveyance on the terms disclosed in the notice. If the other non-assigning Parties agree to pay the full consideration for the Transfer of Interest and accept all of the other terms of the third party offer, the assigning Party shall transfer the Working Interest to the non-assigning Parties who exercised their preferential right to purchase under this Article 24 (*Transfer of Interest and Preferential Right to Purchase*). The Transfer of Interest shall be concluded within a reasonable time, but no later \_\_\_\_\_ ( ) days after the applicable period in which the non-assigning Parties may exercise their preferential right to purchase.

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

Article 24.2 (*Preferential Right to Purchase*) shall not apply when a Party proposes to:

- (a) mortgage, pledge, hypothecate, or grant a security interest in all or a portion of its Working Interest (including assignments of Hydrocarbon production executed as further security for the debt secured by that security device), or
- (b) grant an overriding royalty, a net profits interest, or a production payment, or
- (c) dispose of its Working Interest by:

*[Items (i), (ii), and (iii) are optional; check if they are to be applicable.]*

- (i) a package sale of oil and gas interests that includes all or part of the assigning Party's Working Interest;

- 1                     (ii) a simultaneous like-kind exchange under Section 1031 of
- 2                                    the Internal Revenue Code of 1986, as amended
- 3                                    ("Code");
- 4                     (iii) a property exchange transaction other than a non-
- 5                                    simultaneous like-kind exchange under Section 1031 of
- 6                                    the Code;
- 7                    (iv) merger, reorganization, or consolidation;
- 8                    (v) a Transfer of Interest of substantially all of a Party's
- 9                                    exploration and production properties in the Gulf of
- 10                                    Mexico;
- 11                    (vi) a Transfer of Interest to an Affiliate, provided that there is
- 12                                    included in the Transfer of Interest a provision that if for
- 13                                    any reason the assignee ceases to be an Affiliate of the
- 14                                    Transferring Party within \_\_\_\_\_ ( ) years after Transfer
- 15                                    of Interest, those rights shall be immediately reassigned to
- 16                                    the original Party before the assignee ceases to be an
- 17                                    Affiliate, and that all rights of the assignee in the Contract
- 18                                    Area shall terminate if the re-assignment does not take
- 19                                    place; or
- 20                    (vii) a Transfer of Interest pursuant to Articles 16 (*Non-Consent*
- 21                                    *Operations*), 17 (*Withdrawal From Agreement*), and/or 18
- 22                                    (*abandonment and Salvage*).

23                    **24.2.4 Completion of Transfer of Interest**

24                    If the proposed Transfer of Interest is not executed and filed of record

25                    with the BOEM within \_\_\_\_\_ ( ) days after receipt of the transfer

26                    notice by the non-assigning Parties, or if the terms of the proposed

27                    Transfer of Interest conveyance are materially altered, the proposed

28                    Transfer of Interest shall be deemed withdrawn, and the Working

29                    Interest included in the proposed Transfer of Interest shall again be

30                    governed by this Article 24.2 (*Preferential Right to Purchase*).

1 **ARTICLE 25 – FORCE MAJEURE**

2 **25.1 Force Majeure**

3 If a Party is unable, wholly or in part because of a Force Majeure, to carry out its  
4 obligations under this Agreement, other than the obligation to make money  
5 payments, that Party shall give the other Parties prompt written notice of the  
6 Force Majeure with full particulars about it. Effective upon the date notice is  
7 given, the obligations of the Party, so far as they are affected by the Force  
8 Majeure, shall be suspended during, but no longer than, the continuance of the  
9 Force Majeure. Time is of the essence in the performance of this Agreement,  
10 and every reasonable effort will be made by the Party to avoid delay or  
11 suspension of any work or acts to be performed under this Agreement. The  
12 requirement that the Force Majeure be remedied with all reasonable dispatch  
13 shall not require a Party to settle strikes or other labor difficulties.

14 **ARTICLE 26 – ADMINISTRATIVE PROVISIONS**

15 **26.1 Term**

16 This Agreement shall remain in effect so long as a Lease remains in effect and  
17 thereafter until (a) all wells have been abandoned and plugged or turned over to  
18 the Parties owning an interest in the Lease on which the wells are located; (b) all  
19 Production Systems, Facilities, and equipment have been disposed by the  
20 Operator in accordance Article 18 (*Abandonment and Salvage*); (c) all Claims as  
21 defined in Article 22 (*Liability, Claims, and Lawsuits*) have been settled or  
22 otherwise disposed of; and (d) there has been a final accounting and settlement.  
23 In accordance with Article 4.5 (*Selection of Successor Operator*), this Agreement  
24 will also terminate if no Party is willing to become Operator, effective after all  
25 conditions in clauses (a) through (d) above have been completed. Termination  
26 of this Agreement shall not relieve a Party of a liability or obligation accrued or  
27 incurred before termination and is without prejudice to all continuing  
28 confidentiality obligations or other obligations in this Agreement.

29 **26.2 Waiver**

30 A term, provision, covenant, representation, warranty, or condition of this  
31 Agreement may be waived only by written instrument executed by the Party

1       waiving compliance. The failure or delay of a Party in the enforcement or  
2       exercise of the rights granted under this Agreement shall not constitute a waiver  
3       of said rights nor shall it be considered as a basis for estoppel. Time is of the  
4       essence in the performance of this Agreement, and all time limits shall be strictly  
5       construed and enforced.

6       **26.3 Waiver of Right to Partition**

7       Each Party waives the right to bring an action for partition of its interest in the  
8       Contract Area, Production System, Facilities, and equipment held under this  
9       Agreement, and covenants that during the existence of this Agreement it shall  
10      not resort at any time to an action at law or in equity to partition any or all of the  
11      Leases and lands or personal property subject to this Agreement.

12      **26.4 Compliance With Laws and Regulations**

13      This Agreement, and all activities or operations conducted by the Parties under  
14      this Agreement, are expressly subject to, and shall comply with, all laws, orders,  
15      rules, and regulations of all federal, state, and local governmental authorities  
16      having jurisdiction over the Contract Area. No Party shall suffer a forfeiture or  
17      be liable in damages for failure to comply with any of the provisions of this  
18      Agreement if such compliance is prevented by or if such failure results from  
19      compliance with any applicable law, order, rule, or regulation.

20      **26.4.1 Applicable Law**

21               **THIS AGREEMENT AND THE RELATIONSHIP OF THE PARTIES**  
22               **UNDER THIS AGREEMENT SHALL BE GOVERNED BY AND**  
23               **INTERPRETED UNDER FEDERAL LAWS AND LAWS OF THE**  
24               **STATE OF \_\_\_\_\_, WITHOUT REGARD TO PRINCIPLES OF**  
25               **CONFLICTS OF LAWS THAT WOULD OTHERWISE REFER THE**  
26               **MATTER TO THE LAWS OF ANOTHER JURISDICTION.**

27      **26.4.2 Severance of Invalid Provisions**

28      If, for any reason and for so long as, a clause or provision of this  
29      Agreement is held by a court of competent jurisdiction to be illegal,  
30      invalid, unenforceable, or unconscionable under a present or future law  
31      (or interpretation thereof), the remainder of this Agreement will not be  
32      affected by that illegality or invalidity. An illegal or invalid provision will  
33      be deemed severed from this Agreement, as if this Agreement had

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been executed without the illegal or invalid provision. The surviving provisions of this Agreement will remain in full force and effect unless the removal of the illegal or invalid provision destroys the legitimate purposes of this Agreement, in which event this Agreement shall be null and void.

**26.4.3 Fair and Equal Employment**

Each of the Parties is an Equal Opportunity Employer, and the equal opportunity provisions of 30 CFR 270 and 41 CFR 60-1 are incorporated in this Agreement by reference. The affirmative action clauses concerning disabled veterans and veterans of the Vietnam era (41 CFR 60-250) and the affirmative action clauses concerning employment of the handicapped (41 CFR 60-741) are also incorporated in this Agreement by reference. In performing work under this Agreement, the Parties shall comply with (and the Operator shall require each independent contractor to comply with) the governmental requirements in Exhibit "E" that pertain to non-segregated facilities.

**26.5 Construction and Interpretation of this Agreement**

**26.5.1 Headings for Convenience**

Except for the definition headings in Article 2 (*Definitions*), all the table of contents, captions, numbering sequences, and paragraph headings in this Agreement are inserted for convenience only and do not define, expand, or limit the scope, meaning, or intent of this Agreement.

**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.

1           **26.5.4    Joint Preparation**

2           This Agreement shall be deemed for all purposes to have been  
3           prepared through the joint efforts of the Parties and shall not be  
4           construed for or against one Party or the other as a result of the  
5           preparation, submittal, drafting, execution, or other event of negotiation  
6           hereof.

7           **26.5.5    Integrated Agreement**

8           This Agreement contains the final and entire agreement of the Parties  
9           for the matters covered by this Agreement and, as such, supersedes all  
10          prior written or oral communications and agreements, less and except  
11          the following: \_\_\_\_\_ If  
12          there is a conflict between this Agreement and the listed exceptions,  
13          \_\_\_\_\_ will prevail. This Agreement may not be modified  
14          or changed except by written amendment signed by the Parties.

15          **26.5.6    Binding Effect**

16          To the extent it is assignable, this Agreement shall bind and inure to  
17          the benefit of the Parties and their respective successors and assigns,  
18          and shall constitute a covenant running with the land comprising the  
19          Contract Area. This Agreement does not benefit or create any rights in  
20          a person or entity that is not a Party to this Agreement.

21          **26.5.7    Further Assurances**

22          Each Party will take all actions necessary and will sign all documents  
23          necessary to implement this Agreement. Except as otherwise provided  
24          in this Agreement, within (30) days after their receipt of a valid written  
25          request for those documents from a Party, all other Parties shall  
26          prepare and execute the documents.

27          **26.5.8    Counterpart Execution**

28          This Agreement may be executed by signing the original or a  
29          counterpart. If this Agreement is executed in counterparts, all  
30          counterparts taken together shall have the same effect as if all Parties  
31          had signed the same agreement. No Party shall be bound to this  
32          Agreement until all Parties have executed a counterpart or the original  
33          of this Agreement. This Agreement may also be ratified by a separate

1 instrument that refers to this Agreement and adopts by reference all  
2 provisions of this Agreement. A ratification shall have the same effect  
3 as an execution of this Agreement.

4 **26.5.9 Currency**

5 Any amounts due or payable under this Agreement shall be paid in  
6 United States currency.

7 **26.5.10 Future References**

8 A reference to a Party includes such Party's successors and assigns  
9 and, in the case of governmental bodies, persons succeeding to their  
10 respective functions and capacities.

11 **26.6 Restricted Bidding**

12 If more than one Party is ever on the list of restricted joint bidders for OCS lease  
13 sales, as issued by the BOEM under 30 CFR 256.44, as amended, the Parties  
14 shall comply with all statutes and regulations regarding restricted joint bidders  
15 on the OCS.  
16

1           **IN WITNESS WHEREOF**, each Party, through its duly authorized agent or  
2 representative, has executed this Agreement as of the Effective Date.

3  
4 **WITNESSES:**

**Company Name**

5 \_\_\_\_\_

By: \_\_\_\_\_

6 \_\_\_\_\_

Title: \_\_\_\_\_

7

8 **WITNESSES:**

**Company Name**

9 \_\_\_\_\_

By: \_\_\_\_\_

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Title: \_\_\_\_\_

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12 **WITNESSES:**

**Company Name**

13 \_\_\_\_\_

By: \_\_\_\_\_

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Title: \_\_\_\_\_