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

AAPL-810 (2007)

TABLE OF CONTENTS
Operating Agreement
Outer Continental Shelf – Gulf of Mexico

ARTICLE 1 – CONTRACT APPLICATION.....	1
1.1 Application in General	1
1.2 Application to the Contract Area	1
ARTICLE 2 – DEFINITIONS	2
2.1 Additional Testing, Logging, or Sidewall Coring	2
2.2 Affiliate	2
2.3 Agreement	2
2.4 Annual Operating Plan.....	2
2.5 Appraisal Operation	2
2.6 Appraisal Well	3
2.7 Authorization for Expenditure (AFE).....	3
2.8 Complete Recoupment	3
2.9 Confidential Data	3
2.10 Contract Area	3
2.11 Costs	4
2.12 Deepen or Deepening	4
2.13 Deeper Drilling	4
2.14 Deepest Producing Reservoir.....	4
2.15 Define AFE.....	4
2.16 Define Stage.....	4
2.17 Development Operation.....	4
2.18 Development Phase	5
2.19 Development Plan	5
2.20 Development System.....	5
2.21 Development Well	5
2.22 Disproportionate Spending.....	5
2.23 Election, Elect, Elects, Elected, Electing.....	5
2.24 Enhanced Recovery Project Team AFE	5
2.25 Execution AFE	5
2.26 Execution Stage	6
2.27 Exploratory Operation	6
2.28 Exploratory Well	6
2.29 Export Pipelines	6
2.30 Facilities	6
2.31 Feasibility AFE.....	6
2.32 Feasibility Stage	7
2.33 Feasibility Team	7
2.34 Force Majeure	7
2.35 HSE.....	7

2.36	Hydrocarbon Recoupment.....	7
2.37	Hydrocarbons	7
2.38	Joint Account.....	8
2.39	Lease.....	8
2.40	BOEM	Error! Bookmark not defined.1
2.41	BSEE	1
2.42	News Release	8
2.43	Non-Consent Operation.....	8
2.44	Non-Operating Party	8
2.45	Non-Participating Party	9
2.46	Non-Participating Interest Share.....	9
2.47	Objective Depth	9
2.48	OCS	9
2.49	Offsite Host Facilities	9
2.50	Operator.....	9
2.51	Overinvested Party	9
2.52	Participating Interest Share	10
2.53	Participating Party.....	10
2.54	Post-Production Project Team AFE	10
2.55	Producible Reservoir	10
2.56	Producible Well.....	10
2.57	Production System.....	11
2.58	Production Testing.....	11
2.59	Project Team.....	11
2.60	Recompletion.....	12
2.61	Selection AFE.....	12
2.62	Selection Stage.....	12
2.63	Sidetracking	12
2.64	Transfer of Interest	12
2.65	Underinvested Party	12
2.66	Underinvestment.....	13
2.67	Vote	13
2.68	Well Plan.....	13
2.69	Working Interest	13
2.70	Workover	14
ARTICLE 3 – EXHIBITS		14
3.1	Exhibits.....	14
ARTICLE 4 – SELECTION OF OPERATOR.....		15
4.1	Designation of the Operator	15
4.2	Substitute Operator.....	15
4.2.1	Substitute Operator if Operator is a Non-Participating Party	15
4.2.2	Substitute Operator if Operator Fails to Commence Drilling Operations	16
4.2.3	Circumstances Under Which the Operator Must Conduct a Non- Consent Operation	17

4.2.4	Operator's Conduct of a Non-Consent Operation in Which it is a Non-Participating Party	17
4.2.5	Appointment of a Substitute Operator	17
4.2.6	Redesignation of Operator	18
4.3	Resignation of Operator	18
4.4	Removal of Operator.....	18
4.4.1	Removal Upon Assignment	18
4.4.2	Removal for Cause by Vote	18
4.4.3	Timing of Vote to Remove Operator	19
4.5	Selection of Successor Operator	19
4.6	Effective Date of Resignation or Removal	20
4.7	Delivery of Property	20
ARTICLE 5 – RIGHTS AND DUTIES OF OPERATOR		21
5.1	Exclusive Right to Operate	21
5.2	Workmanlike Conduct	22
5.3	Drilling Operations	22
5.4	Liens and Encumbrances	22
5.5	Records	23
5.6	Reports to Government Agencies.....	23
5.7	Information to Participating Parties	23
5.8	Completed Well Information	25
5.9	Information to Non-Participating Parties	25
5.10	Health, Safety, and Environment:	26
ARTICLE 6 – EXPENDITURES AND ANNUAL OPERATING PLAN.....		26
6.1	Basis of Charges to the Parties.....	26
6.2	AFEs.....	27
6.2.1	AFE Overrun Notice	27
6.2.2	Supplemental AFEs.....	27
6.2.2.1	Permitted Over-expenditures on Well Operations	28
6.2.2.2	Permitted Over-expenditures on the Feasibility AFE, a Post-Production Project Team AFE, or an Enhanced Recovery Project Team AFE	29
6.2.2.3	Permitted Over-expenditures on a Selection AFE or Define AFE.....	29
6.2.2.4	Permitted Over-expenditures on an Execution AFE	29
6.2.2.5	Permitted Over-expenditures on All Other AFEs	29
6.2.3	Further Operations During a Force Majeure	30
6.2.4	Long Lead Well Operation AFEs	30
6.2.4.1	Approval of a Long Lead Well Operation AFE.....	30
6.2.4.2	Non-Participating Parties in the Operations Associated with the Long Lead Well Operation AFE.....	31
6.2.4.3	Reimbursement for Items Associated with a Long Lead Well Operation AFE, which Are Not Used.....	31
6.3	Security Rights	32
6.4	Annual Operating Plan.....	32

6.4.1	Effect and Content of Annual Operating Plan	32
6.4.1.1	Capital Budget.....	33
6.4.1.2	Expense Budget.....	33
6.4.1.3	Operator Forecasts and Informational Items.....	34
6.4.2	Submission of Draft Annual Operating Plan.....	34
6.4.3	Review of Draft Annual Operating Plan.....	34
ARTICLE 7 – CONFIDENTIALITY OF DATA.....		35
7.1 Confidentiality Obligation.....		35
7.1.1	Exceptions to Confidentiality	35
7.1.2	Permitted Disclosures	35
7.1.2.1	Operator’s Permitted Disclosures.....	35
7.1.2.2	All Parties’ Permitted Disclosures.....	36
7.1.3	Limited Releases to Offshore Scout Association	37
7.1.4	Continuing Confidentiality Obligation.....	38
7.2 Ownership of Confidential Data		38
7.2.1	Trades of Confidential Data	38
7.2.2	Ownership of Non-Consent Data.....	38
7.3 Access to the Lease and Rig		39
7.4 Development of Proprietary Information and/or Technology.....		39
ARTICLE 8 – APPROVALS AND NOTICES		39
8.1 Classes of Matters		39
8.1.1	Voting and Electing Interest.....	39
8.2 Voting and Election Procedures.....		40
8.2.1	Approval by Vote.....	40
8.2.2	Approval by Election.....	41
8.3 Second Opportunity to Participate		41
8.4 Participation by Fewer Than All Parties		41
8.5 Approval by Unanimous Agreement.....		42
8.6 Response Time for Notices		42
8.6.1	Well Proposals, Recompletions, and Workovers.....	43
8.6.2	Execution AFE.....	43
8.6.3	Other AFE Related Operations	43
8.6.4	Other Proposals	44
8.6.5	Failure to Vote or Make an Election.....	44
8.6.6	Suspensions of Operations and Suspensions of Production.....	44
8.6.7	Standby Charges.....	44
8.7 Giving and Receiving Notices and Responses		45
8.8 Content of Notices		45
8.9 Designation of Representatives		46
8.10 Meetings		46
8.11 Obligations of Well Participation.....		46
ARTICLE 9 – NEWS RELEASES		46
9.1 Proposal of News Releases		46
9.1.1	Operator’s News Release	47

9.1.2	Non-Operating Party's News Release	48
9.2	Emergency New Releases	48
9.3	Mandatory News Releases	48
ARTICLE 10 – EXPLORATORY OPERATIONS		49
10.1	Proposal of Exploratory Wells.....	49
10.1.1	Revision of Well Plan	49
10.1.2	Automatic Revision of the Well Plan.....	50
10.1.3	Timely Operations	50
10.1.4	AFE Overruns and Substitute Well.....	52
10.2	Exploratory Operations at Objective Depth.....	53
10.2.1	Response to Operator's Proposal	55
10.2.2	Response to Highest Priority Proposal.....	56
10.2.3	Response on Next Highest Priority Proposal	56
10.2.4	Non-Participating Parties in Exploratory Operations at Objective Depth	57
10.2.5	Participation in a Sidetrack or Deepening by a Non-Participating Party in an Exploratory Well at Initial Objective Depth.....	57
10.3	Permanent Plugging and Abandonment and Cost Allocation.....	58
10.4	Conclusion of Exploratory Operations.....	59
ARTICLE 11 – APPRAISAL OPERATIONS		59
11.1	Proposal of Appraisal Wells.....	59
11.1.1	Revision of Well Plan	60
11.1.2	Automatic Revision of the Well Plan.....	60
11.1.3	Timely Operations	60
11.1.4	AFE Overruns and Substitute Well.....	62
11.2	Appraisal Operations at Objective Depth.....	63
11.2.1	Response to Operator's Proposal	64
11.2.2	Response to Highest Priority Proposal.....	65
11.2.3	Response on Next Highest Priority Proposal	66
11.2.4	Non-Participating Parties in Appraisal Operations at Objective Depth.....	66
11.2.5	Participation in a Sidetrack or Deepening by a Non-Participating Party in an Appraisal Well at Initial Objective Depth	66
11.3	Appraisal Well Proposals That Include Drilling Below the Deepest Producible Reservoir	67
11.4	Permanent Plugging and Abandonment and Cost Allocation.....	67
11.5	Conclusion of Appraisal Operations.....	69
11.6	Operations Before the Approval of the Development Plan.....	69
ARTICLE 12 – DEVELOPMENT PHASES		70
12.1	Phased Development.....	70
12.2	Feasibility Team Proposal.....	70
12.2.1	Feasibility AFE Approval	72
12.2.2	Feasibility Team and Feasibility Stage Conclusion	72
12.3	Commencement of the Selection Stage.....	73
12.3.1	Proposal of a Project Team.....	73

12.3.2	Selection AFE Approval	75
12.4	Proposal of a Development Plan	75
12.4.1	Content of the Development Plan.....	75
12.5	Development Plan Approval	79
12.5.1	Approval of Operator's Development Plan Submitted During its Exclusive Period.....	79
12.5.2	Approval of a Development Plan After the Conclusion of the Operator's Exclusive Period.....	79
12.5.3	Approval of a Development Plan if One is Not Approved by Vote	80
12.5.4	Approved Development Plan.....	81
12.6	Long Lead Development System AFEs	82
12.7	Define Stage and Execution Stage.....	82
12.7.1	Execution AFE.....	82
12.7.2	Approval of an Execution AFE and Commencement of the Execution Stage	83
12.7.3	Minor Modifications to Development Plans	83
12.7.4	Major Modifications to Development Plans	84
12.7.5	Major Modifications to Development Plans Prior to the Approval of the Execution AFE.....	86
12.7.6	Major Modifications to Development Plans After the Approval of the Execution AFE.....	86
12.7.7	Approval of Major Modifications.....	87
12.7.8	Termination of a Development Plan	88
	12.7.8.1 Termination Prior to Execution AFE Approval.....	88
	12.7.8.2 Termination After Execution AFE Approval.....	88
12.7.9	Timely Operations for Development Systems	88
12.8	Post-Production Project Team AFEs	89
12.9	Subsequent Development Phases.....	90
12.9.1	Proposal of a Subsequent Development Phase	90
12.9.2	Execution AFE in a Subsequent Development Phase.....	90
12.10	Access to Existing Facilities.....	91
12.11	Enhanced Recovery and/or Pressure Maintenance Program Proposals	91
ARTICLE 13 – DEVELOPMENT OPERATIONS		92
13.1	Proposal of Development Wells and Development Operations.....	92
13.1.1	Proposal of Development Wells Included in a Development Plan	93
	13.1.1.1 Revision of Well Plan.....	93
	13.1.1.2 Automatic Revision of the Well Plan	93
13.1.2	Proposal of Development Operations Not Included in a Development Plan.....	93
13.1.3	Timely Operations	94
13.1.4	AFE Overruns and Substitute Well.....	96
13.2	Development Operations at Objective Depth	97
13.2.1	Response to Operator's Proposal	98
13.2.2	Response to Highest Priority Proposal.....	99
13.2.3	Response on Next Highest Priority Proposal	100
13.2.4	Non-Participating Parties in Development Operations at Objective Depth	100

13.2.5	Participation in a Sidetrack or Deepening by a Non-Participating Party in a Development Well at Initial Objective Depth.....	100
13.3	Development Well Proposals That Include Drilling Below the Deepest Producing Reservoir	101
13.3.1	Multiple Completion Alternatives Above and Below the Deepest Producing Reservoir.....	101
13.3.2	Completion Attempts At or Above the Deepest Producing Reservoir.....	103
13.4	Recompletions and Workovers	104
13.5	Permanent Plugging and Abandonment and Cost Allocation.....	104
ARTICLE 14 – FACILITIES AND GATHERING SYSTEMS		106
14.1	Facilities as a Part of Development Plan	106
14.2	Use of Offsite Host Facilities	106
14.3	Use of Development Systems	106
14.4	Processing Priorities	107
14.5	Approval of Additional Facilities	108
14.6	Expansion or Modification of Existing Production System.....	108
14.7	Additions, Expansion, or Modification of Production System or Facilities for Health, Safety, or Environmental Reasons	109
ARTICLE 15 – DISPOSITION OF HYDROCARBON PRODUCTION		109
15.1	Duty to Take in Kind.....	109
15.2	Facilities to Take in Kind.....	109
15.3	Failure to Take Oil or Condensate in Kind	110
15.4	Gas Balancing Provision.....	110
15.5	Expenses of Delivery in Kind.....	110
ARTICLE 16 – NON-CONSENT OPERATIONS.....		111
16.1	Conduct of Non-Consent Operations	111
16.1.1	Costs.....	111
16.1.2	Multiple Completions	112
16.2	Acreage Forfeiture Provisions.....	113
16.2.1	First Exploratory Well	113
16.2.2	Execution AFE.....	114
16.3	Costs and Liabilities of Prior Operations	115
16.4	Non-Consent Operations to Maintain Contract Area.....	116
16.4.1	Acreage Forfeiture in the Entire Contract Area	116
16.4.2	Acreage Forfeiture in a Portion of a Contract Area	117
16.4.3	Limitations on Acreage Forfeiture	118
16.5	Percentage Hydrocarbon Recoupment for Non-Consent Operations	118
16.5.1	Non-Consent Exploratory Operations down to Objective Depth in the First Exploratory Well	119
16.5.1.1	Non-Consent Exploratory Operations at Objective Depth..	119
16.5.2	Non-Consent Appraisal Operations	120
16.5.3	Non-Consent Proprietary Geophysical Operations (<i>if checked below and Exhibit "L" is attached to this Agreement</i>), Feasibility AFEs, Selection AFEs, Define AFEs, Long Lead Development System AFEs, Post-	

	Production Project Team AFEs, or Enhanced Recovery Project Team AFEs.....	120
16.5.4	Non-Consent Development Operations	121
16.5.5	Non-Consent Subsequent Development System and Additional Facilities	121
16.5.6	Additional Hydrocarbon Recoupment.....	121
16.5.7	Hydrocarbon Recoupment From Production.....	121
	16.5.7.1 Non-Consent Exploratory Operations, Non-Consent Appraisal Operations, and Non-Consent Development Operations That Discover or Extend a Producible Reservoir	121
	16.5.7.2 Non-Consent Development Operations in an Existing Producible Reservoir.....	122
	16.5.7.3 Non-Consent Subsequent Development Systems	123
16.6	Restoration of Interests to Non-Participating Party	123
16.6.1	Dry Hole Reversion	124
16.6.2	Sidetracking or Deepening a Non-Consent Well	124
16.7	Operations From a Subsequent Non-Consent Development System.....	125
16.8	Allocation of Development System Costs to Non-Consent Operations	125
16.8.1	Investment Charges	125
16.8.2	Payments.....	127
16.8.3	Operating and Maintenance Charges	127
16.9	Settlement of Underinvestments	127
16.9.1	Cash Settlement of Underinvestment.....	129
ARTICLE 17 – WITHDRAWAL FROM AGREEMENT.....		129
17.1	Right to Withdraw.....	129
17.2	Response to Withdrawal Notice	130
	17.2.1 Unanimous Withdrawal	130
	17.2.2 No Additional Withdrawing Parties	130
	17.2.3 Acceptance of the Withdrawing Parties’ Interests.....	131
	17.2.4 Effects of Withdrawal.....	131
17.3	Limitation Upon and Conditions of Withdrawal	132
	17.3.1 Prior Expenses	132
	17.3.2 Confidentiality	133
	17.3.3 Emergencies and Force Majeure.....	133
ARTICLE 18 – ABANDONMENT AND SALVAGE.....		133
18.1	Abandonment of Wells	133
18.2	Abandonment of Equipment	134
18.3	Disposal of Surplus Materiel.....	135
18.4	Abandonment Operations Required by Governmental Authority.....	136
ARTICLE 19 – RENTALS, ROYALTIES, AND MINIMUM ROYALTIES.....		136
19.1	Burdens on Hydrocarbon Production	136
	19.1.1 Subsequently Created Lease Burdens.....	136
19.2	Payment of Rentals and Royalties.....	137

19.2.1	Non-Participation in Payments.....	137
19.2.2	Royalty Payments.....	138
ARTICLE 20	– TAXES.....	138
20.1	Internal Revenue Provision.....	138
20.2	Other Taxes and Assessments	139
20.2.1	Property Taxes	139
20.2.2	Production and Severance Taxes	140
ARTICLE 21	– INSURANCE AND BONDS	140
21.1	Insurance.....	140
21.2	Bonds.....	140
ARTICLE 22	– LIABILITY, CLAIMS, AND LAWSUITS.....	140
22.1	Individual Obligations.....	140
22.2	Notice of Claim or Lawsuit.....	141
22.3	Settlements	141
22.4	Defense of Claims and Lawsuits.....	141
22.5	Liability for Damages.....	142
22.6	Indemnification for Non-Consent Operations	142
22.7	Damage to Reservoir and Loss of Reserves.....	143
22.8	Non-Essential Personnel.....	143
22.9	Dispute Resolution Procedure	144
ARTICLE 23	– CONTRIBUTIONS.....	144
23.1	Contributions from Third Parties	144
23.2	Methods of Obtaining Contributions	145
23.3	Counteroffers.....	145
23.4	Approval of Contributions.....	145
23.5	Cash Contributions.....	146
23.6	Acreage Contributions.....	146
23.6.1	Two or More Parties Own One Hundred Percent of the Acreage Contribution	146
23.6.2	Two or More Parties Own Less Than One Hundred Percent of the Acreage Contribution	146
ARTICLE 24	– TRANSFER OF INTEREST AND PREFERENTIAL RIGHT TO PURCHASE	147
24.1	Transfer of Interest	147
24.1.1	Exceptions to Transfer Notice	147
24.1.2	Effective Date of Transfer of Interest.....	148
24.1.3	Minimum Transfer of Interest	148
24.1.4	Form of Transfer of Interest	148
24.1.5	Warranty.....	149
24.2	Preferential Right to Purchase	149
24.2.1	Notice of Proposed Transfer of Interest.....	149
24.2.2	Exercise of Preferential Right to Purchase.....	149

24.2.3	Transfer of Interest Not Affected by the Preferential Right to Purchase	150
24.2.4	Completion of Transfer of Interest	151
ARTICLE 25 – FORCE MAJEURE.....		152
25.1	Force Majeure	152
ARTICLE 26 – ADMINISTRATIVE PROVISIONS.....		152
26.1	Term	152
26.2	Waiver	152
26.3	Waiver of Right to Partition.....	153
26.4	Compliance With Laws and Regulations	153
26.4.1	Applicable Law	153
26.4.2	Severance of Invalid Provisions.....	153
26.4.3	Fair and Equal Employment.....	154
26.5	Construction and Interpretation of this Agreement.....	154
26.5.1	Headings for Convenience	154
26.5.2	Article References	154
26.5.3	Gender and Number	154
26.5.4	Joint Preparation	155
26.5.5	Integrated Agreement	155
26.5.6	Binding Effect	155
26.5.7	Further Assurances.....	155
26.5.8	Counterpart Execution	155
26.5.9	Currency	156
26.5.10	Future References	156
26.6	Restricted Bidding	156

1 **OPERATING AGREEMENT**
2 **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 Producible Reservoir is abandoned in order to attempt a completion in a different
4 Producible 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-

1 Consent Operation, and (c) with the same authority, rights, obligations,
2 and duties as the Operator, subject to the limitations in (a) and (b). If a
3 Non-Operating Party is the only Participating Party in a Non-Consent
4 Operation, then the Non-Operating Party shall be designated as the
5 substitute Operator for that Non-Consent Operation, with no Vote
6 required, unless the Non-Operating Party elects not to accept the
7 designation. A Non-Operating Party, who is a Participating Party, shall
8 not be designated as a substitute Operator against its will. If a
9 substitute Operator is not designated under the foregoing procedures,
10 the Operator shall, upon the unanimous agreement of the Participating
11 Parties, conduct the Non-Consent Operation on behalf of the
12 Participating Parties and at the Participating Parties' sole Cost and risk
13 under Article 16 (*Non-Consent Operations*). If the Participating Parties
14 do not approve by Vote a substitute Operator to conduct the Non-
15 Consent Operation or do not unanimously agree that the Operator shall
16 conduct the Non-Consent Operation on behalf of the Participating
17 Parties, then the proposal of the Non-Consent Operation shall be
18 deemed withdrawn, with the effect as if the proposal for the Non-
19 Consent Operation had never been proposed and approved.

20 **4.2.2 Substitute Operator if Operator Fails to Commence Drilling** 21 **Operations**

22 If the Operator fails to timely commence an Exploratory Well in
23 accordance with Article 10.1.3 (*Timely Operations*), an Appraisal Well
24 in accordance with Article 11.1.3 (*Timely Operations*) or a Development
25 Well in accordance with Article 13.1.3 (*Timely Operations*), the non-
26 operating Participating Parties may select a substitute Operator in the
27 same manner as the selection of a successor Operator under Article
28 4.5 (*Selection of Successor Operator*), and the substitute Operator
29 shall serve as the Operator only (a) for the drilling of that well through
30 the release of the drilling rig for that well, (b) of the Lease on which the
31 well is drilled, and (c) with the same authority, rights, obligations, and
32 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

1 supplemental AFE to the Participating Parties. A supplemental AFE
2 shall include the dollar amount of the permitted over-expenditure from
3 the previously approved AFE as part of the dollar amount of that
4 supplemental AFE. Subject to Article 8.6.1 (*Well Proposals,*
5 *Recompletions, and Workovers*), after receipt of the supplemental AFE
6 each Participating Party has the right to make an Election as to its
7 further participation in the approved activity or operation. If a proposed
8 supplemental AFE is approved by Election, the Operator shall continue
9 to conduct the approved activity or operation associated with the
10 supplemental AFE at the sole Cost and risk of the Participating Parties
11 in the supplemental AFE. Any Participating Party making an Election
12 not to participate in an approved supplemental AFE becomes a Non-
13 Participating Party in the activity or operation associated with the
14 original AFE once the actual Costs expended on the activity or
15 operation exceed the permitted over-expenditure amount of the last
16 AFE in which the Non-Participating Party Elected to participate, without
17 regard to whether all the activities or operations (including plugging
18 and abandonment) in the original AFE have been conducted at the
19 time of its Election not to participate. A Non-Participating Party in a
20 supplemental AFE is subject to the same Hydrocarbon Recoupment
21 premium, Underinvestment, or acreage forfeiture provision in Article 16
22 (*Non-Consent Operations*) that would apply to a Party Electing or
23 Voting not to participate in the originally approved activity or operation,
24 except a Hydrocarbon Recoupment premium or an Underinvestment
25 shall apply only to the Costs of the approved activity or operation not
26 borne by the Non-Participating Party. If a supplemental AFE is not
27 approved by Election, the Operator shall conclude the activity or
28 operation as soon as practical, and each Participating Party will be
29 responsible for its Participating Interest Share of the Costs of the
30 activity or operation, including Costs in excess of the permitted over-
31 expenditure amount.

32 **6.2.2.1 Permitted Over-expenditures on Well Operations**

33 The permitted over-expenditure for an Exploratory Operation,
34 an Appraisal Operation, or a Development Operation is an
35 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**

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

14 **6.2.4.3 Disposition of Items Associated with the Long Lead Well**
15 **Operation AFE**

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

25 **6.3 Security Rights**

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

28 **6.4 Annual Operating Plan**

29 **6.4.1 Effect and Content of Annual Operating Plan**

30 The Annual Operating Plan is for informational and planning purposes
31 and does not obligate any Party to any course of action or
32 expenditures or constitute a Vote, Election, or unanimous agreement to
33 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.

1 **6.4.1.3 Operator Forecasts and Informational Items**

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

12 **6.4.2 Submission of Draft Annual Operating Plan**

13 Beginning in the year in which a Development Plan is approved, and in

14 each subsequent year, the Operator shall develop and submit to the

15 Non-Operating Parties, by _____, a draft Annual

16 Operating Plan for the next calendar year. The Annual Operating Plan

17 process will be used (a) as a reporting mechanism by which the

18 Operator will inform the Non-Operating Parties of results of the

19 previous year's activities and operations, (b) to review ongoing

20 activities and operations, and (c) for the remainder of the current year

21 and the next succeeding calendar year, to forecast and plan activities

22 and operations and to forecast anticipated Hydrocarbon production

23 volumes, operating expenses, and capital expenditures.

24 **6.4.3 Review of Draft Annual Operating Plan**

25 The Non-Operating Parties may provide suggested changes, additions,

26 or deletions to the Annual Operating Plan to the Operator and all other

27 Parties in writing before _____ of each year. The Operator will

28 then make changes that it deems necessary (if any) and submit the

29 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 (*AFE*s), 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 *AFEs*),
- 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 *AFEs*);
- 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 Producible 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

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

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

7 *[Select one of the following.]*

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

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

13
14 a) Digital Business

15 b) Accounting

16 c) Building Services and Building and Grounds Maintenance

17 d) Human Resources

18 e) Procurement

19 f) Government and Public Affairs

20 g) Health, Safety, and Environment

21 h) Security

22 i) Audit

23 j) Tax

24 k) Crisis Management

1 l) 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

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

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

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

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

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

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

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

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

23 (B) reservoir rock and fluid characteristics;

24 (C) depletion mechanism;

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

27 (E) reservoir surveillance programs (for example, cased-
28 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:

- 1 (a) the Operator fails within the _____ (__) day period in Article
2 12.5.1 (*Approval of Operator's Development Plan Submitted*
3 *During its Exclusive Period*) to gain the unanimous agreement of
4 the Parties on its Development Plan or Latest Amended Version
5 of the Plan, whichever is applicable, or
- 6 (b) the Operator fails to submit a Development Plan during its
7 exclusive period,

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

16 **12.5.3 Approval of a Development Plan if One is Not Approved by Vote**

17 If no Development Plan or Latest Amended Version of the Plan is
18 approved by Vote during the ___ (__) day period in Article 12.5.2
19 (*Approval of a Development Plan After the Conclusion of the Operator's*
20 *Exclusive Period*), and if there is only one Development Plan or Latest
21 Amended Version of the Plan, whichever is applicable, submitted and
22 that Development Plan or the Latest Amended Version of the Plan,
23 whichever is applicable, receives an affirmative Vote of at least
24 _____ percent (____%) of the Voting interest, that Development
25 Plan or the Latest Amended Version of the Plan, whichever is
26 applicable, shall be deemed approved by the Parties. If there are two
27 (2) or more Development Plans or Latest Amended Version of the
28 Plans, whichever is applicable, submitted and one Development Plan or
29 the Latest Amended Version of the Plan, whichever is applicable,
30 receives an affirmative Vote of at least _____ percent (____%) of the
31 Voting interest and the other Development Plan or Latest Amended
32 Version of the Plan, whichever is applicable, receives an affirmative
33 Vote of less than _____ percent (____%) of the Voting interest, then the
34 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 (*Acreage 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

1 Development Plan associated with that Execution AFE by giving notice
2 of the proposal (along with the associated AFE and Well Plan) to the
3 other Parties. The proposal shall specify that the well was not included
4 in the Development Plan. Each proposed Development Well that was
5 not included in the Development Plan requires approval by:

6 *[Select one of the following.]*

- 7 Vote.
8 Election.
9 unanimous agreement.

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

13 **13.1.3 Timely Operations**

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

22 If a Party submits an identical Development Well proposal (except for
23 any necessary modifications resulting from a change in the drilling rig
24 to be utilized by the Operator) within _____ (__) days after the
25 deemed withdrawal of the approved original Development Well
26 proposal and if that identical Development Well proposal is approved
27 and if the Operator is a Participating Party in the identical Development
28 Well proposal, the Operator shall commence drilling operations on that
29 well within _____ (__) days after the end of the response period
30 for that proposal. If the Operator, except for an occurrence of Force
31 Majeure (excluding the inability to secure materials or a drilling rig),
32 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 Producing 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 Producing 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 Producing 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 Producing Reservoir (including abandonment), and it shall be a Non-
29 Participating Party for the Deeper Drilling and shall be subject to Article 16.5.4
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 Producing 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.

ARTICLE 16 – NON-CONSENT OPERATIONS

16.1 Conduct of Non-Consent Operations

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

16.1.1 Costs

The Costs of a Non-Consent Operation shall be borne by the Participating Parties in accordance with their Participating Interest Share in the Non-Consent Operation (unless otherwise agreed by the Participating Parties). Within _____ (_____) days after a Non-Consent Operation has been conducted, the Operator shall furnish all other Parties with either (a) an itemized statement of the Cost of the Non-Consent Operation and an inventory of the pertinent equipment or (b) a detailed statement of monthly billings. The Operator shall furnish to the Parties a monthly statement showing operating, maintenance, and other expenses attributable to the Non-Consent Operation together with a statement of the quantity of Hydrocarbons produced, and the revenues from the sale of Hydrocarbon production for the preceding month from operations subject to Hydrocarbon Recoupment under this Article 16. In accounting for the revenues from Non-Consent Operations, Hydrocarbon production need not be separately metered, but may be determined upon the basis of monthly well tests, or as otherwise permitted in the BOEM and/or BSEE Surface or Subsurface Commingling Approval. Operating expenses shall be allocated under Article 16.8.3 (*Operating and Maintenance Charges*). If a Party takes its share of production in kind under Article 15 (*Disposition of Hydrocarbon Production*), that Party shall advise the Operator (in writing on or before the tenth day of the month following the month in 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

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

1 Depth, is the Non-Participating Interest Share of the Costs of
2 that Non-consent Operation multiplied by _____
3 percent (____%).

4 **16.5.2 Non-Consent Appraisal Operations**

5 The Hydrocarbon Recoupment amount for all Appraisal Operations
6 conducted as Non-Consent Operations is the Non-Participating Interest
7 Share of the Costs of the Appraisal Operation multiplied by
8 _____ percent (____%).

9 **16.5.3 Non-Consent Proprietary Geophysical Operations *(if checked below and*
10 *Exhibit "L" is attached to this Agreement), Feasibility AFEs, Selection AFEs,*
11 **Define AFEs, Long Lead Development System AFEs, Post-**
12 **Production Project Team AFEs, or Enhanced Recovery Project**
13 **Team AFEs****

14 If a Non-Participating Party in a

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

16 Proprietary Geophysical Operation,

17 Feasibility AFE, Define AFE, Long Lead Development System AFE,
18 Post-Production Project Team AFE, or Enhanced Recovery Project
19 Team AFE takes, or is deemed to have taken, the steps set forth in
20 Article 16.9 (*Settlement of Underinvestments*), that Party is an
21 Underinvested Party in an amount equal to _____ percent (____%) of
22 the amount it would have paid had it participated in that activity,
23 operation, or AFE until the Underinvestment is eliminated under Article
24 16.9 (*Settlement of Underinvestments*). If a Non-Participating Party in
25 a Selection AFE takes, or is deemed to have taken, the steps set forth
26 in Article 16.9 (*Settlement of Underinvestments*), that Party is an
27 Underinvested Party in an amount equal to _____ percent (____%) of
28 the amount that the it would have paid had it participated in that AFE
29 until the Underinvestment is eliminated under Article 16.9 (*Settlement*
30 *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 Producible**
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 Producible Reservoir or extends an existing Producible
9 Reservoir (as the Producible 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 Producible
21 Reservoir discovered or extended by the Non-Consent
22 Operation.

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

25 If a Development Operation is conducted as a Non-Consent
26 Operation and does not discover a new Producible Reservoir
27 and also does not extend an existing Producible Reservoir
28 (as the Producible 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 Producible 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 Producible 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 Producing*
5 *Reservoir*) or Article 16.5.7.2 (*Non-Consent Development Operations in*
6 *an Existing Producing 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

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

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

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

24 (b) The Participating Parties in that well shall pay to the owners of
25 the Facilities a sum equal to that portion of the total Cost of those
26 Facilities that the throughput volume of the Non-Consent
27 Operation bears to the total design throughput volume of the
28 Facilities. Throughput volume shall be estimated by the Operator
29 in barrels produced per day (5.8 mcf of gas determined at a
30 pressure of 14.73 pounds per square inch atmospheric and a
31 temperature of sixty (60) degrees Fahrenheit equaling one barrel
32 of oil and one barrel of water equaling one barrel of oil), using an
33 average daily volume of the first three months of Hydrocarbon
34 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 [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.

1 **24.1.2 Effective Date of Transfer of Interest**

2 The effective date of a Transfer of Interest shall be at least sixty (60)
3 days, but not more than one hundred eighty (180) days, after the date
4 of the receipt of the transfer notice. A Transfer of Interest, other than
5 those provided in Article 17.1 (*Right to Withdrawal*) and Article 24.1.1
6 (*Exceptions to Transfer Notice*), is effective and shall be binding upon
7 the Parties at the latest date of occurrence of all of the following: (i)
8 the transferor or transferee provides all remaining Parties with a
9 photocopy of a fully executed Transfer of Interest and an executed
10 BOEM Form 1123, "Designation of Operator," and an "Application for
11 Certification of Oil Spill Responsibility" form and (ii) evidence of receipt
12 of all necessary approvals by the BOEM . The Parties shall promptly
13 undertake all reasonable actions necessary to secure those approvals
14 and shall execute and deliver all documents necessary to effectuate
15 that Transfer of Interest. All costs attributable to a Transfer of Interest
16 are the sole obligation of the assigning Party.

17 **24.1.3 Minimum Transfer of Interest**

18 Except as otherwise provided in this Agreement, a Transfer of Interest
19 shall cover an undivided Working Interest in the entire Contract Area.
20 Prior to the approval of the Execution AFE for the initial Development
21 System, no Transfer of Interest shall be made that is not at least an
22 undivided _____ percent (___%) Working Interest, unless the Parties
23 unanimously agree to a different minimum Transfer of Interest. After
24 the Execution AFE Election on the initial Development System, a
25 Transfer of Interest to a third party shall be limited to a minimum
26 Working Interest of ____ percent (___%), unless the Parties
27 unanimously agree to a different minimum Transfer of Interest.

28 **24.1.4 Form of Transfer of Interest**

29 Any Transfer of Interest shall incorporate provisions that the Transfer
30 of Interest is subordinate to and made expressly subject to this
31 Agreement and provide for the assumption by the assignee of the
32 performance of all of the assigning Party's obligations under this
33 Agreement. Any Transfer of Interest not in compliance with this
34 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

1 non-assigning Parties, who wish to exercise their preferential right to
2 purchase, do not agree to pay the full consideration for the Transfer of
3 Interest and accept all of the other terms of the third party offer within
4 _____ (___) days of the _____ (___) day period in which the
5 non-assigning Parties may exercise their preferential right to purchase,
6 the assigning Party shall be free to complete the proposed conveyance
7 on the terms disclosed in the notice. If the other non-assigning Parties
8 agree to pay the full consideration for the Transfer of Interest and
9 accept all of the other terms of the third party offer, the assigning Party
10 shall transfer the Working Interest to the non-assigning Parties who
11 exercised their preferential right to purchase under this Article 24
12 (*Transfer of Interest and Preferential Right to Purchase*). The Transfer
13 of Interest shall be concluded within a reasonable time, but no later
14 _____ (___) days after the applicable period in which the
15 non-assigning Parties may exercise their preferential right to purchase.

16 **24.2.3 Transfer of Interest Not Affected by the Preferential Right to**
17 **Purchase**

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

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

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

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

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- (ii) a simultaneous like-kind exchange under Section 1031 of the Internal Revenue Code of 1986, as amended (“Code”);

- (iii) a property exchange transaction other than a non-simultaneous like-kind exchange under Section 1031 of the Code;

- (iv) merger, reorganization, or consolidation;

- (v) a Transfer of Interest of substantially all of a Party’s exploration and production properties in the Gulf of Mexico;

- (vi) a Transfer of Interest to an Affiliate, provided that there is included in the Transfer of Interest a provision that if for any reason the assignee ceases to be an Affiliate of the Transferring Party within _____ (___) years after Transfer of Interest, those rights shall be immediately reassigned to the original Party before the assignee ceases to be an Affiliate, and that all rights of the assignee in the Contract Area shall terminate if the re-assignment does not take place; or

- (vii) a Transfer of Interest pursuant to Articles 16 (*Non-Consent Operations*), 17 (*Withdrawal From Agreement*), and/or 18 (*abandonment and Salvage*).

24.2.4 Completion of Transfer of Interest

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If the proposed Transfer of Interest is not executed and filed of record with the BOEM within _____ (___) days after receipt of the transfer notice by the non-assigning Parties, or if the terms of the proposed Transfer of Interest conveyance are materially altered, the proposed Transfer of Interest shall be deemed withdrawn, and the Working Interest included in the proposed Transfer of Interest shall again be governed by this Article 24.2 (*Preferential Right to Purchase*).

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

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

6 **26.4.3 Fair and Equal Employment**

7 Each of the Parties is an Equal Opportunity Employer, and the equal
8 opportunity provisions of 30 CFR 270 and 41 CFR 60-1 are
9 incorporated in this Agreement by reference. The affirmative action
10 clauses concerning disabled veterans and veterans of the Vietnam era
11 (41 CFR 60-250) and the affirmative action clauses concerning
12 employment of the handicapped (41 CFR 60-741) are also
13 incorporated in this Agreement by reference. In performing work under
14 this Agreement, the Parties shall comply with (and the Operator shall
15 require each independent contractor to comply with) the governmental
16 requirements in Exhibit "E" that pertain to non-segregated facilities.

17 **26.5 Construction and Interpretation of this Agreement**

18 **26.5.1 Headings for Convenience**

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

23 **26.5.2 Article References**

24 Except as otherwise provided in this Agreement, each reference to an
25 article of this Agreement includes all of the referenced article and its
26 sub-articles.

27 **26.5.3 Gender and Number**

28 The use of pronouns in whatever gender or number is a proper
29 reference to the Parties to this Agreement though the Parties may be
30 individuals, business entities, or groups thereof. Reference in this
31 Agreement to the singular of a noun or pronoun includes the plural and
32 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.

