JOINT OPERATING AGREEMENT

FOR

UKCS LICENCE NO. P.[ ]

BLOCK [ ]
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THIS AGREEMENT is made the day of 200[ ]

BETWEEN

1. [ ] whose registered office is at [ ] (“ ”); and

2. [ ] whose registered office is at [ ] (“ ”).

WHEREAS

(A) The Participants hereto are the present holders of the Licence;

(B) This Agreement is entered into by the Participants for the purposes of regulating operations under the Licence and of defining their respective rights, interests, duties and obligations in connection with the Licence and in connection with all Petroleum produced under the Licence; and

(C) the Secretary has given written approval dated [ ] to the terms of this Agreement with respect to the entitlement of the Participants to:

(i) the benefit of rights granted by the Licence;

(ii) any Petroleum won and saved from the Licence Area; and

(iii) any proceeds of sale of such Petroleum.

NOW IT IS HEREBY AGREED as follows:-
1. **Definitions and Interpretation**

(a) **Definitions**

In this Agreement, where the context admits:

“Acceptable Security” means any Security provided by an Assignee in any of the forms referred to in clause 24.7.5(i), (ii) or (iii).

“Accounting Procedure” means the procedure set out in Schedule A hereto.


“Advance” means each payment of cash required to be made pursuant to a Cash Call.

“AFE” means authority for expenditure.

“Affiliate” means:

(a) in the case of a Participant which is not a Shell Company:

(i) if the Participant is a subsidiary of another company the Participant’s ultimate holding company and any subsidiary (other than the Participant itself) of the Participant’s ultimate holding company; or

(ii) if the Participant is not a subsidiary of another company any subsidiary of the Participant.

The expressions “subsidiary” and “holding company” having the meanings respectively given to them by Section 736 of the Companies Act 1985, as amended;
(b) in the case of a Participant which is a Shell Company any other Shell Company.

“Shell Company” means any of the following companies:

(i) N.V. Koninklijke Nederlandsche Petroleum Maatschappij (a Dutch company); and

(ii) the “Shell” Transport and Trading Company p.l.c. (an English company);

(collectively “the Shell Parent Companies”); and

(iii) any company (wherever registered) which for the time being is directly or indirectly affiliated with either or both of the Companies mentioned in (i) and (ii) above.

For the purpose of this definition:

(i) a company is directly affiliated with another company or companies if the latter is (are) beneficial owner(s) of shares (or their equivalent) controlling more than fifty percent (50%) of votes exercisable at a general meeting (or its equivalent) of such company;

(ii) a company is indirectly affiliated with a company or companies (the “Parent(s)”) if a series of companies can be specified, beginning with the parent(s) and ending with the particular company, so related that each company of the series except the parent(s)) is directly affiliated with one or more companies in the series.

“Bank” means for the purposes of clause 24 and definitions associated with clause 24, an institution authorised under the Banking Act 1987 which is incorporated in a
member country of the Organisation for Economic Co-Operation and Development and has an office within the United Kingdom.

“Base Rate” means the Pounds Base Rate as set from time to time by the Head Office of Barclays Bank Limited or by any other Head Office of a London or Scottish Clearing Bank as nominated by the Operator.

“Budget” means any budget in respect of a Programme.

“Cash Call” means any request for payment of cash made by the Operator to the Participants in connection with the Joint Operations or, where the context so requires, to the Sole Risk Participant in connection with any Sole Risk Project.

“Consequential Loss” means any indirect or consequential loss howsoever caused or arising whether under contract, by virtue of any fiduciary duty, in tort or delict (including negligence), as a consequence of breach of any duty (statutory or otherwise) or under any other legal doctrine or principle whatsoever whether or not recoverable at common law or in equity. “Consequential Loss” shall be deemed to include, without prejudice to the foregoing generality, the following to the extent to which they might not otherwise constitute indirect or consequential loss:

(a) loss or damage arising out of any delay, postponement, interruption or loss of production, any inability to produce, deliver or process hydrocarbons or any loss of or anticipated loss of use, profit or revenue;

(b) loss or damage incurred or liquidated or pre-estimated damages of any kind whatsoever borne or payable, under any contract for the sale, exchange, transportation, processing, storage or other disposal of hydrocarbons;

(c) losses associated with business interruption including the cost of overheads incurred during business interruption;

(d) loss of bargain, contract, expectation or opportunity;
(e) any other loss or anticipated loss or damage whatsoever in the nature of or consequential upon the foregoing.

“Conversion Rate” means the mean of the spot selling and buying rates for transaction between the two currencies in question as openly quoted by National Westminster Bank Limited (53 Threadneedle Street, London, EC2 branch) at 10.30am London time on the relevant date (or, if no such rates were quoted on that date, on the next following date on which such rates were quoted).

[“Counsel’s Opinion” means in relation to a proposed guarantee of performance or bond, opinion(s) given by independent lawyers of high repute and standing, qualified in the law and practising in the jurisdiction(s) of the proposed issuer’s incorporation and principal place of business to the effect that the guarantee of performance or bond in question is a valid and legally enforceable obligation pursuant to the laws of such jurisdiction(s) and the memorandum and articles of association, statutes, by-laws or equivalent document of the proposed issuer and its performance will not contravene any existing or announced exchange control regulations in such jurisdiction(s); such opinion(s) and lawyers to be reasonably acceptable to the Joint Operating Committee and to be considered such unless, in the case of either, a submission to the contrary is supported by a vote of the Joint Operating Committee made pursuant to clause 8.8.2.]

“Crude Oil” means crude liquid petroleum which is stable or has been stabilised and, if necessary, otherwise treated to render it suitable for transportation by conventional crude oil tank ship.

“Decommissioning Budget” means a budget put forward by the Operator in accordance with clause 24 to provide for the removal and disposal of Joint Property and the provision of the necessary financial obligations and liabilities associated with facilities not wholly removed.

“Decommissioning Plan” has the meaning given thereto by clause 24.3.1.
“Decommissioning Programme” means a programme put forward by the Operator in accordance with clause 24 to provide for the removal and disposal of Joint Property and performance of the obligations and liabilities associated with facilities not wholly removed.

“Development” means all works for the exploitation of a Discovery, which are authorised by the Secretary.

“Development Plan” means the formal and informal submissions of documentation to the Secretary in order to seek development and production consent for a Discovery; for this purpose formal submission shall mean formal application for development and production consent, including submission of the documentation in its final form to the Secretary.

“Discovery” means any discovery of reserves of Petroleum.

“Dollars” or “$” means dollars of the United States of America.

“Field” has the meaning assigned to it in clause 24.3.1.

“Final Decommissioning” means operations consisting of the final decommissioning and/or demolition and/or removal of Joint Property (other than Joint Property which is otherwise disposed of to third parties) together with any necessary site reinstatement all as may be required at the time of such final decommissioning by the Joint Operating Committee, the Licence and/or any relevant regulations and requirements having the force of law (or anticipated to have the force of law at the time of such final decommissioning).

“Final Decommissioning Obligations” means those operations comprising Final Decommissioning together with resulting obligations and liabilities including, if facilities are not wholly removed, any residual liability, necessary continuing maintenance and insurance costs.
“Further Term” means any continuation or extension of the Licence beyond the Second Term granted by the Secretary pursuant to model clause 5 or 6 of the Licence.

“Initial Term” has the meaning assigned to it under the Licence.

“Invoice” means any invoice presented for payment by the Operator to a Participant in accordance with the provisions of the Accounting Procedure in connection with Joint Operations.

“Joint Account” means the account established and maintained by the Operator to record all Advances, expenditures and Receipts in the conduct of the Joint Operations.

“Joint Operations” means all operations approved, or deemed to be approved, by the Joint Operating Committee and conducted in accordance with this Agreement after the date of commencement of this Agreement as provided in clause 1 and in the case of operations under a development Programme and Budget, in respect of which all Participants are obliged to participate in carrying out such development Programme and Budget.

“Joint Operating Committee” means the committee established pursuant to clause 8.

“Joint Petroleum” means all Petroleum won and saved under the Joint Operations.

“Joint Property” means all property acquired or held for use in connection with the Joint Operations.

“LIBOR” means the London Interbank Offered Sterling Rate for one month as quoted in the London Financial Times. In the event that such rate is not published in the Financial Times, LIBOR shall mean the London Interbank Offered Sterling Rate for one month for the nearest day quoted by Lloyds TSB Bank plc.
“Licence” means the production licence number [    ] dated 1st [    ] and effective as of [    ] issued by the Secretary and shall include any other licence issued to the Participants in substitution or partial substitution therefor.

“Licence Area” means the area for the time being covered by the Licence.

“Material” means property, equipment or supplies.

“Month” means a calendar month.

“Natural Gas” means methane and any other hydrocarbons not extracted by artificial means and therefore forming part of the methane stream.

[“Net Cash Flow” means for the purposes of Final Decommissioning, the future revenues from Joint Operations net of:

(i) royalty (if any);

(ii) Corporation Tax or any tax imposed or authorised by the United Kingdom government in respect of income or profits of the Participants on account of their corporate existence;

(iii) Petroleum Revenue Tax (if any);

(iv) expenditure made in connection with Joint Operations and chargeable to the Joint Account pursuant to the provisions of this Agreement;

(v) costs to be incurred under other agreements associated with the production, processing, disposal or transportation to a point of sale of Petroleum; and

(vi) any other costs, charges or impositions of a similar or related nature to those specified in (i) to (v) inclusive;

all calculated in money of the day terms, provided that for the purposes of this definition, the taxes specified in items (ii) and (iii) shall be calculated as though the...
sole business of each of the Participants is the development and exploitation of the relevant Field.]

“NGLs” means any hydrocarbon or mixture of hydrocarbons other than Crude Oil and Natural Gas.

“Non-Operator” means a Participant other than the Operator.

“Operator” means the Participant for the time being designated as such under clause 4, acting in that capacity and not as the owner of a Percentage Interest.

[“Parent Company” means in relation to a Participant or Assignee a company or corporation that directly or indirectly controls such Participant or Assignee.]

“Participant” means a party to this Agreement and its respective successors and assigns.

“Percentage Interest” means for each of the Participants the undivided percentage interest held from time to time by it pursuant to this Agreement in the Licence or, where the context so requires, in any Sole Risk Development, and includes its entitlement for the time being to Petroleum won and saved under the Licence.

“Petroleum” has the meaning assigned to it under the Licence.

“Pounds” or “£” means Pounds of the United Kingdom.

“Programme” means any programme of operations.

[“Qualifying Surety” means:

(a) in the case of a Parent Company or Affiliate one that has either an [“AA-” rating or better awarded by Standard & Poor’s or an “Aa3”] rating or better awarded by Moody’s for its unsecured and unsubordinated senior long term debt or, in the event such rating agencies cease to publish, an equivalent
rating awarded by another rating agency approved by the Joint Operating Committee such approval not to be unreasonably withheld, provided that the award of such equivalent rating is supported by a certificate from the rating agency, in a form reasonably acceptable to the Joint Operating Committee, that the rating agency has taken into account specifically the Participant’s share of Final Decommissioning Obligations in determining such rating;

(b) in the case of a Bank, one that has either an [“AA-” rating or better awarded by Standard & Poor’s or an “Aa3”] rating or better awarded by Moody's for its unsecured and unsubordinated senior long term debt or, in the event such rating agencies cease to publish, an equivalent rating awarded by another rating agency approved by the Joint Operating Committee, such approval not to be unreasonably withheld.]

“Quarter” means a period of three Months ending on 31st March, 30th June, 30th September or 31st December in any Year.

“Receipts” includes but is not limited to, repayments of Advances, grants received from any governmental agency or body in the United Kingdom or of the European Union and monies (or the monetary value of other consideration) arising from the sale of Joint Property.

“Second Term” means the term of years specified in the Licence as being the period for which the Licence may be continued next after the “surrender date” (as defined in the Licence).

“Secretary” means the cabinet minister within Her Majesty’s government responsible for trade and industry or any other person being at the time in question responsible for carrying out the functions at present carried out by such cabinet minister.

“Security Holder” means:
(a) in relation to any Security provided or to be provided by the Operator or an Affiliate thereof, the Non-Operator not Affiliated to the Operator, which together with its Affiliates has the largest Percentage Interest; or

(b) in all other cases the Operator.

“Senior Managerial Personnel” means in relation to any Participant, any person employed by it or any of its Affiliates as a director or other corporate officer or senior manager. For the purposes of this definition, “senior manager” shall mean only:

(a) in relation to the Operator, any member of its board of directors or of the management committee comprised of senior managers which has overall responsibility for the management of the assets and interests of [ ] Limited and its Subsidiaries (at the date of this Agreement known as the “[ ] Executive Committee”) and any person employed by the Operator or its Affiliates who directly reports to any such committee or board or to any member thereof in his capacity as a member of such committee or board; and

(b) in relation to any Non-Operator, any member of any committee or board performing the same or substantially the same function as the board or management committee referred to in (a) above and any person employed by such Non-Operator or its Affiliates who directly reports to any such committee or board or to any member thereof in his capacity as a member of such committee or board.

“Sub-Area” means at any given time, any part of the Licence Area, being delimited by surface area but applying only to that interpreted closure of any geological structure or stratigraphic trap in which the reservoir or reservoirs exist, which is subject to development by less than all Participants and in which the entire Percentage Interest therein is owned by those of the Participants carrying out the development.
“Wilful Misconduct” means an intentional, conscious or reckless disregard by Senior Managerial Personnel of good and prudent oil and gas field practice or any of the terms of this Agreement in utter disregard of avoidable and harmful consequences but shall not include any act, omission, error of judgement or mistake made in the exercise in good faith of any function, authority or discretion vested in or exercisable by such Senior Managerial Personnel and which in the exercise of such good faith is justifiable by special circumstances, including but not limited to safeguarding of life, property or the environment and other emergencies.

“Working Day” means a day, other than a Saturday, on which banks in the cities of both London and Aberdeen are normally open for business.

“Year” means a calendar year.

(b) Interpretation

Reference to any statute, statutory provision or statutory instrument includes a reference to that statute, statutory provision or statutory instrument as from time to time amended, extended or re-enacted.

Reference to the singular includes the plural and vice versa.

Reference to any gender includes a reference to all other genders.

Unless the context otherwise requires, reference to any clause is to a clause of this Agreement.

The headings are used for convenience only and shall not affect the construction or validity of this Agreement.

The monetary limits set out in this Agreement shall be amended from time to time to take account of the general level of inflation and (if appropriate) the prevailing costs of relevant goods and services, by the Joint Operating Committee at the request of the
Operator or any Participant, approval of such amendment not to be unreasonably withheld.

The Contracts (Rights of Third Parties) Act 1999

No provision of this Agreement is intended by the Participants to be construed as creating any right(s) enforceable by a third party and all third party rights implied by law are, to the extent permissible by law, excluded from this Agreement.

2. **Duration**

This Agreement shall be deemed to have commenced on [ ] and shall, subject to clause 18, continue for so long as the Licence remains in force and until all Joint Property has been disposed of and final settlement has been made between the Participants in accordance with their respective rights and obligations hereunder.

3. **Scope and Understanding**

3.1 **Scope**

3.1.1 The scope of this Agreement shall extend to:

(a) the exploration for and the production of Petroleum under the Licence;

(b) without prejudice to clause 17, the consideration of the treatment, storage and transportation of the same [using Joint Property];

(c) the decommissioning or other disposal of Joint Property; and

(d) the conditions for the carrying out of Sole Risk Projects in the Licence Area.
3.1.2 Notwithstanding the foregoing, this Agreement shall not extend to any joint financing arrangements or any joint marketing or joint sales of Petroleum [or the use of Joint Property by third parties].

3.2 Understanding

This Agreement represents the entire understanding of and agreement between the Participants in relation to the matters dealt with herein, and supersedes all previous understandings and agreements, whether oral or written, relating thereto. Each Participant agrees that it has not been induced to enter into this Agreement in reliance upon any statement, representation, warranty or undertaking other than as expressly set out in this Agreement, and to the extent that any such representation, warranty or undertaken has been given, the relevant Participant unconditionally and irrevocably waives all rights and remedies which it might otherwise have had in relation thereto. Nothing in this clause shall however operate so as to exclude any right any Participant may have in respect of statements fraudulently made or fraudulent concealment.

4. Interests of the Participants

Subject as hereinafter provided, the Licence, all Joint Property, all Joint Petroleum and all costs and obligations incurred in the conduct of the Joint Operations shall be owned and borne by the Participants in proportion to their respective Percentage Interests which at the date hereof are as follows:-

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5. The Operator

5.1 Designation
[ ] is hereby designated and agrees to act as the Operator under this Agreement for the purposes of the exploration for and the production of Petroleum within the Licence Area.

5.2 **Resignation and Removal**

5.2.1 The Operator shall have the right to resign at the end of any Month by giving not less than [two hundred and seventy (270)] days notice to the Participants or such shorter period of notice as the Joint Operating Committee may agree.

5.2.2 The Operator may be removed:-

(i) at the end of any Month by the Joint Operating Committee giving not less than ninety (90) days notice to it; [provided that for so long as [ ] and [ ] are the only Participants such notice may only be given if the Operator has, in the opinion of the Non-Operator, committed any material breach of or failed to observe or perform any material obligation on its part contained in this Agreement and such breach or failure has not been remedied to the satisfaction of the Non-Operator within twenty-eight (28) days of receipt by the Operator of a notice from the Non-Operator requiring the Operator to remedy the same or within such longer period as may be specified in the said notice]; and

(ii) forthwith upon the Joint Operating Committee giving notice to it if:-

(a) a petition is presented to, and agreed to be heard by, a court having jurisdiction or an order is made or an effective resolution is passed or legislation is enacted for the dissolution, liquidation or winding up of the Operator; or

(b) the Operator becomes insolvent or makes an assignment for the benefit of creditors or is deemed for the purposes of Section 123 of the Insolvency Act, 1986 to be unable to pay its
debts as the same become due (or if it is not a company to which such Section applies would be so deemed if it were such a company); or

(c) a receiver is appointed or an encumbrancer takes possession of the whole or material part of the assets or undertaking of the Operator; or

(d) the Operator ceases or threatens to cease to carry on its business or major part thereof or a distress, execution or other process is levied or enforced or sued out upon or against any significant part of the chattels or property of the Operator and is not discharged within fourteen (14) days; or

(e) the Operator and any Affiliate hold in aggregate a Percentage Interest of less than provided always that in the event there are more than two (2) Participants (and for this purpose a Participant and its Affiliates shall be deemed to be a single Participant), the said aggregate Percentage Interest shall be; or

(f) the Secretary withdraws his approval of the Operator,

provided that in respect of any vote of the Joint Operating Committee on any such removal the votes of the Participant which is the Operator and the votes of any Participant which is an Affiliate of the Operator shall be ignored and the percentage figure set out in clause 9.8.2 shall apply to the total votes available to the remaining Participants.

5.2.3 The Operator shall have no claim against the Participants as a consequence of the resignation or removal of the Operator but such resignation or removal shall be without prejudice to any rights, obligations or liabilities which accrued during the period when the Operator acted as such. If the Operator resigns before the completion of all working obligations set out in schedule 4
to the Licence, it shall not be entitled to any costs or expenses incurred in connection with the change of operatorship but if the Operator resigns thereafter or is removed, it shall be entitled to charge to the Joint Account such costs and expenses incurred in connection with the change of operatorship as may be approved by the Joint Operating Committee (such approval not to be unreasonably withheld), provided that the Operator shall not be entitled to charge such costs to the Joint Account where it is removed pursuant to clause 5.2.2(i) following a material breach of or a failure to observe or perform any material obligation on its part contained in this Agreement.

5.3 Election of Successor

As soon as practicable after notice is duly given as to the resignation or removal of the Operator under clause 5.2, one of the Non-Operators shall, subject to its acceptance of the position under the terms of this Agreement and subject to any necessary approval of the Secretary, be selected by the Joint Operating Committee to assume the position of the Operator upon the effective date of the resignation or removal provided that, in the case of a removal of the Operator, if the Participant which is the Operator or any Participant which is an Affiliate of the Operator either fails to vote or votes for itself or any of its Affiliates as successor to the operatorship, those votes shall be ignored and the percentage figure set out in clause 9.8.2 shall apply to the total votes available to the remaining Participants. [If in the case of resignation or removal of the Operator under Clause 5.2, no such selection shall have been made, the non-operator having the largest Percentage Interest shall assume the position of Operator].

5.4 Transfer of Responsibilities

5.4.1 Upon the effective date of resignation or removal of the Operator under clause 5.2 (the “Outgoing Operator”), the Outgoing Operator shall hand or deliver to, or relinquish custody in favour of, the Non-Operator selected to succeed it as aforesaid or, if no such selection shall have been made, the Non-Operator
having the largest Percentage Interest, all funds relating to the Joint Accounts, all Joint Property, all Joint Petroleum and all books, records and inventories relating to the Joint Operations other than those books, records and inventories maintained by the Outgoing Operator as the owner of a Percentage Interest. The Outgoing Operator shall further use its best endeavours to transfer to the aforesaid Non-Operator, effective as of the effective date of such resignation or removal, its rights as the Operator under all contracts exclusively relating to the Joint Operations and the aforesaid Non-Operator shall assume all obligations of the Outgoing Operator thereunder. Pending such transfer and in relation to all other contracts relating to the Joint Operations (to the extent such so relate) the Outgoing Operator shall hold its rights and interests as the Operator from such effective date for the account and to the order of the aforesaid Non-Operator and the terms of clause 6.2.4 shall apply mutatis mutandis in favour of the Outgoing Operator from such effective date.

5.4.2 As soon as practicable after the date on which the Outgoing Operator is required to transfer its responsibilities as provided in clause 5.4.1 the Participants shall audit the Joint Account and conduct an inventory of all Joint Property and all Joint Petroleum and such inventory shall be used in the return of and the accounting for the said Joint Property and Joint Petroleum by the Outgoing Operator for the purposes of the transfer of responsibilities under this clause 5.4. All costs and expenses incurred in connection with such audit and inventory shall be for the Joint Account.

6. **Authorities and Duties of the Operator**

6.1 **Rights**

6.1.1 Subject to this Agreement, the Operator has the right and is obliged to conduct the Joint Operations by itself, its agents or its contractors under the overall supervision and control of the Joint Operating Committee.
6.1.2 If the Operator does not conduct any of the Joint Operations itself, it shall nevertheless remain responsible for such operations as the Operator as and to the extent provided under this Agreement.

6.2 Responsibility

6.2.1 Subject to the overall supervision of the Joint Operating Committee the responsibilities of the Operator shall include, but not be limited to:

(i) the preparation of Programmes, Budgets and AFEs pursuant to the provisions of this Agreement;

(ii) the implementation of such Programmes and Budgets as shall, together with the relevant AFEs, have been approved by the Joint Operating Committee;

(iii) the provision to each of the Participants of reports, data and information concerning the Joint Operations pursuant to the provisions of this Agreement;

(iv) the planning for and obtaining of all requisite services and Material;

(v) the direction and control of statistical and accounting services;

(vi) the provision of all technical and advisory services required for the efficient performance of the Joint Operations; and

(vii) the preparation of a Development Plan and its submission to the Secretary.

6.2.2 The Operator shall conduct the Joint Operations in a proper and workmanlike manner in accordance with methods and practices customarily used in good and prudent oil and gas field practice and with that degree of diligence and
prudence reasonably and ordinarily exercised by experienced operators engaged in a similar activity under similar circumstances and conditions.

The Operator shall further do or cause to be done, with due diligence, all such acts and things within its control as may be necessary to keep and maintain the Licence in force and effect and shall conduct the Joint Operations in compliance with the requirements of the Acts, the Licence and any other applicable law.

6.2.3 The Operator shall establish and maintain appropriate business standards, procedures and controls including those necessary to avoid any conflict between the interests of its employees, contractors and agents, and the interests of the Participants in the conduct of Joint Operations.

6.2.4 The Operator shall not be liable for any loss or damage which results from Joint Operations unless such loss or damage results from:

(i) Wilful Misconduct of the Operator; or

(ii) its failure to obtain or maintain any insurance which it is required to obtain and maintain under clause 8.1.1, except where the Operator has used all reasonable endeavours to obtain or maintain any such insurance but has been unable to do so and has promptly notified the Participants participating or proposing to participate therein;

provided that in neither case shall the Operator be responsible or liable for any Consequential Loss. [The Operator shall not be liable for and each Party shall, to the extent of its Percentage Interest, irrespective of negligence and/or breach of duty (whether statutory or otherwise) on the part of the Operator, defend, indemnify and hold the Operator harmless from and against any loss or damage or claim by or liability to any person, whether a Party or not, (including any award of damages and any legal or other costs and expenses incurred in respect of such claim or liability) which arises, whether directly or
indirectly, out of the performance, non-performance or misperformance by the Operator of any of its duties or obligations as Operator hereunder, except only for any loss, damage, claim or liability resulting from the Wilful Misconduct of the Operator.

The Operator shall not, even in the event of its negligence and/or breach of duty (whether statutory or otherwise) and/or Wilful Misconduct, be liable to a Party (and each Party shall defend, indemnify and hold harmless the Operator accordingly in respect of any claim by or liability to any such Party) for any Consequential Loss which such Party may suffer or incur arising, directly or indirectly, out of the performance, non-performance or misperformance by the Operator of any of its duties or obligations as Operator hereunder.]

6.3 Liens and Encumbrances

The Operator shall, in so far as it may be within its control, keep all Joint Property and all Joint Petroleum free from all liens, charges and encumbrances which might arise by reason of the conduct of the Joint Operations.

6.4 Employees

Subject to the provisions of any approved Programme and Budget, the number of employees of the Operator employed in connection with the Joint Operations shall be determined by the Operator. Subject to the provisions of clause 6.11 below, the Operator shall also determine their selection, hours of work and remuneration.

6.5 Commitments for Material and Services

Subject always to clause 6.10.2:

6.5.1 In connection with work to be carried out pursuant to an approved Programme and Budget the Operator, or any Affiliate of the Operator, may supply all necessary Material and services whether owned, leased or
otherwise, from its own resources and shall charge the costs thereof to the Joint Account in accordance with Section II of the Accounting Procedure.

In the event that the Operator, or any Affiliate of the Operator, supplies Material and/or services from its own resources which it estimates shall cost more than [ ] the Operator shall seek the approval of the Joint Operating Committee prior to supplying such Material and/or services.

To the extent that the Operator, or any Affiliate of the Operator, does not supply Material or services from its own resources, it shall let the contract for the supply thereof to third parties subject, where applicable, to the procedures hereafter set out in this clause 6.5.

6.5.2 The Operator or any of its Affiliates shall have the authority to obtain Materials and/or services for Joint Operations pursuant to contracts or orders awarded or to be awarded to a third party where the Materials and/or services thereunder will be provided to more than one field [and/or more than one operator]. For any such contract, in the event that the cost to the Joint Account will or is likely to exceed [ ] per annum or is likely to exceed [ ] over its expected duration the Operator shall obtain the approval of the Joint Operating Committee (not to be unreasonably withheld) prior to the award of any such order. The Operator shall not be obliged to divulge to the Joint Operating Committee details which it reasonably considers to be of a commercially sensitive nature (for example and without limitation, itemised rates, prices, price-structures and incentives) in relation to any such multi-field and multi-operator agreements under which it requires to enter an order and which it considers are confidential between itself and its contractors provided that such details may be audited in accordance with paragraph 7 of Section 1 of the Accounting Procedure.

6.5.3 Subject to clause 6.5.2 above, in the case of any proposed contract to be awarded to a third party where the commitment thereunder will or is likely to exceed the Operator shall:
(i) consult fully with the Non-Operators over the preparation of the tender, a list of the persons to be invited to tender and the tender evaluation criteria;

(ii) supply the Non-Operators with copies of tender documents;

(iii) obtain the approval of the Joint Operating Committee to the tender enquiry documents, the bid list and the proposed tender evaluation criteria, such approval to be given within five (5) Working Days of such documents being supplied under clause 6.5.3(ii) above;

(iv) put out such contracts to competitive tender;

(v) report details of all bids received, any rebids, amendments to bids and subsequent negotiations to the Non-Operators and make a recommendation to them;

(vi) obtain the approval of the Joint Operating Committee prior to the award of a contract; and

(vii) supply the Non-Operators (when requested) with conformed copies of the contract and of any subsequent revisions thereto.

6.5.4 In the case of any proposed contract to be awarded to a third party where the commitment thereunder will or is likely to be less than [   ], the Operator shall in good faith undertake all actions to comply with all relevant European and national procurement legislation. [Including without prejudice to the generality of the foregoing, the Utilities Contract Regulations 1996 (Statutory Instrument 1996 No. 2911) while the same is in force.]

6.5.5 If the Operator considers that any contract or order to be awarded to a third party which will, or is likely to, exceed [   ] should not be put out to competitive tender it shall obtain the approval of the Joint Operating
Committee (not to be unreasonably withheld) prior to awarding such contract or order.

With respect to any proposed contract that is expected to require expenditure under an approved Programme and Budget of more than [ ] but to which the provisions of Clause 6.5.3 do not apply, the Operator shall:

(i) advise the Parties of the list of persons to be invited to tender;

(ii) put out such contract to competitive tender; and

(iii) award the contract provided that if the contract is awarded to a person other than the lowest priced technically or operationally acceptable bidder the Operator shall obtain the prior approval of the Operating Committee before awarding the contract provided that any Party which fails to respond to the Operator’s request for such approval within fourteen (14) days shall be deemed to have given such approval.]

6.5.6 In the event that the Operator believes that any contract will or is likely to exceed its original cost at award by an amount in excess of [ten percent (10%)] of the original cost or [ ], whichever is the greater, it shall advise the Joint Operating Committee as soon as reasonably practicable of the new estimated spend and the reasons for the increase and obtain the Joint Operating Committee’s approval for such excess spend.

6.5.7 The Operator shall use its reasonable endeavours to ensure that any contract entered into by it can be freely assigned to any successor Operator in the event of the resignation or removal of the Operator under clause 5.2.

6.5.8 The Operator shall act as representative of the Participants in dealings with contractors and suppliers and, unless otherwise agreed by the Joint Operating Committee, shall use all reasonable endeavours to include in all contracts or
orders placed pursuant to this Agreement, and solely for the purposes thereof, a provision in the following or similar form [(with the relevant terms being defined in the CRINE Model)]:

“The COMPANY enters into the CONTRACT for itself and as agent for and on behalf of the other CO-VENTURERS. Notwithstanding the above:

(a) the CONTRACTOR agrees to look only to the COMPANY for the due performance of the CONTRACT and nothing contained in the CONTRACT will impose any liability upon, or entitle the CONTRACTOR to commence any proceedings against any CO-VENTURER other than the COMPANY;

(b) the COMPANY and only the COMPANY is entitled to enforce the CONTRACT on behalf of all CO-VENTURERS as well as for itself. For that purpose the COMPANY shall commence proceedings in its own name to enforce all obligations and liabilities of the CONTRACTOR and to make any claim which any CO-VENTURER may have against the CONTRACTOR.

(c) all losses, damages, costs (including legal costs) and expenses recoverable by COMPANY pursuant to the CONTRACT or otherwise shall include the losses, costs (including legal costs) and expenses of COMPANY’s CO-VENTURERS and AFFILIATES except that such losses, damages, costs (including legal costs) and expenses shall be subject to the same limitations or exclusions of liability applicable to COMPANY or CONTRACTOR under the CONTRACT.”

6.6 Representation of the Participants

6.6.1 Unless otherwise directed by the Joint Operating Committee, the Operator shall represent the Participants regarding any matters or dealings with the Secretary and other governmental authorities or third parties in so far as the
same relate to the Joint Operations, provided that there is reserved to each Participant the unfettered right to deal with the Secretary or any other governmental authorities in respect of matters relating to its own Percentage Interest.

[6.6.2 Where the Operator has been informed or has reason to believe that matters of material importance to the Participants are to be discussed at a meeting, it shall give as much advance notice as is reasonably practicable to the Participants of such meeting and consult with the Participants in relation thereto and any Participant shall be entitled to attend such meeting].

6.7 Records

The Operator shall prepare and maintain proper books, records and inventories of the Joint Operations which shall be kept in compliance with the Accounting Procedure and with due regard to the requirements of the Acts, the Licence, and all applicable legislation.

6.8 Reports

The Operator shall:-

(i) promptly provide each Participant with daily drilling reports and Monthly production reports of Joint Petroleum and such other reports as the Joint Operating Committee may decide and, at the sole cost of the Participant requesting the same, such additional reports as such Participant may reasonably request; and

(ii) timely make all reports concerning the Joint Operations to the appropriate governmental authorities as required under the Acts and the Licence after review by the Participants unless the Joint Operating Committee agrees that such review is not required and, concurrently therewith, furnish copies of all such reports to all the Participants.
6.9 **Consultation and Information**

6.9.1 The Operator shall freely consult with the Participants and keep them informed of matters concerning the Joint Operations.

6.9.2 Without prejudice to the generality of clause 6.9.1, the Operator shall:-

(i) inform each Participant of all logging, coring, testing and such other Joint Operations as the Joint Operating Committee may decide with such advance notice as is practicable in the circumstances, so that each Participant may, subject to clause 6.3, have one or more representatives present on location during the conduct of such operations; and

(ii) provide each Participant with copies of all well logs and core analyses and such engineering, geological, geophysical, technical and other data and information relating to the Joint Operations as the Joint Operating Committee may decide and, at the sole cost of the Participant requesting same, such additional data and information as such Participant may reasonably request;

(iii) consult freely with the other Participants regarding inter alia:

(a) exploration, appraisal and development strategies;
(b) front-end, engineering design of Joint Property and concept selection of the same;
(c) contract strategy;
(d) technical specification of critical production equipment; and
(e) the disposal of Joint Property and decommissioning.

6.10 **Expenditures and Actions**
6.10.1 The Operator is authorised to make such expenditures, incur such commitments for expenditures and take such actions as may be authorised by the Joint Operating Committee in accordance with clauses 10, 11, 12 and 13 provided that nothing contained in this clause 5.10.1 shall derogate from Operator’s duties under clause 6.5.

6.10.2 The Operator is also authorised to make any expenditures or incur commitments for expenditures or take actions it deems necessary in the case of the safeguarding of lives or property or the prevention of pollution. The Operator shall promptly notify all the Participants of any such circumstances and the amount of expenditures and commitments for expenditure so made and incurred and actions so taken.

[6.11 Secondment]

6.11.1 The Participants agree that in certain circumstances a collaborative effort between them may be beneficial to Joint Operations. Such collaborative effort may include the secondment by a Non-Operator of personnel to the Operator’s organisation:

(i) to work on a term assignment as a member of a project team, or

(ii) to fill organisational positions, or

(iii) to work as a member of a Joint Team (as defined below)

in respect of Joint Operations. The length of any assignment shall be agreed between the Non-Operator and the Operator or, in the event of secondment to a Joint Team, shall be as determined by the Joint Operating Committee. Notwithstanding the foregoing, the Non-Operator shall have the right on giving three (3) months notice, to withdraw its employee from any such assignment.
The Operator shall have the right to require the removal of any person seconded to its organisation for reasonable cause.

6.11.2 (i) If the Operator or a Non-Operator acting reasonably is of the opinion that it would be of material benefit to Joint Operations for any part of Joint Operations to be undertaken by a team comprising personnel from one or more Participants instead of or in addition to personnel from the Operator (a “Joint Team”), the Operator or that Non-Operator, as the case may be, shall be entitled to require the creation of such Joint Team.

(ii) Thereafter the Joint Operating Committee shall determine:

(a) the remit of any such Joint Team and its location;
(b) the number and functions of members of such Joint Team; and
(c) the extent to which the positions on the Joint Team shall be open to personnel from any one or more of the Participants.

(iii) Subject to clause 6.11.2 (ii)(c), each of the Participants shall be entitled to nominate one or more candidates for each of the positions on a Joint Team (including for any position which becomes vacant after the initial selection of candidates). Such nominations shall be made in accordance with any terms (including terms as to timeous submission of nominations), which may be agreed by the Joint Operating Committee. Selection of the successful candidate for each position shall be the decision of the Joint Operating Committee. In the event that a Participant decides not to nominate an employee for a position in a Joint Team, that Participant shall not be entitled to subsequently nominate anyone else for that position unless the position in question remains or becomes vacant.
(iv) Any employee of a Participant (other than the Operator) working as a member of a Joint Team (whether or not such Joint Team is made up of employees of only one Participant) shall be seconded to the Operator for the purpose of clause 6.11.1.

6.11.3 In respect of any person seconded to the Operator’s organisation under clause 6.11.1:

(i) such person shall remain the employee of the Participant which seconded him and, except as provided in clause 6.11.3(iii) such Participant shall remain responsible for all the legal obligations of an employer associated with such employment;

(ii) all costs associated with the employment of such person (including salary and employee benefits) and all costs associated with his secondment to the organisation of the Operator shall be chargeable to the Joint Account; and

(iii) all work undertaken by such person shall be Joint Operations and accordingly the Operator shall retain overall responsibility for such work.]

6.12 Health Safety and Environment

Not later than [30th November] each Year the Operator shall prepare and submit to the Joint Operating Committee for its approval a plan of Health, Safety and Environment (“HSE”) matters containing the policies which will govern the Joint Operations and the objectives and targets for the following Year. Such HSE plan will take into account the respective policies objectives and targets of the Participants and will include an assessment of the health, safety and environmental impact of the Joint Operations.
The Operator shall report regularly on the implementation of the HSE plan referred to above and shall promptly advise the Joint Operating Committee of any matter arising out of or in connection with Joint Operations which may affect such plan such as an occurrence that could have a negative impact on the environment or could cause any serious illness, injury or death.

The Operator shall prepare and submit to the Joint Operating Committee for its approval a programme for regular HSE audits to be performed by the Operator. Each Participant shall have the right to join such audit upon reasonable notice given to the Operator. The costs of conducting an HSE audit shall be charged to the Joint Account.

6.13 The Operator shall establish and maintain an alcohol and drugs policy and enforcement procedure, which prohibits employees and agents, contractors and subcontractors of Participants from:

(i) performing services while under the influence of alcohol or any controlled substance;

(ii) misusing legitimate drugs or possessing, using, distributing or selling illicit or unprescribed controlled substances; or

(iii) possessing, using, distributing or selling alcoholic beverages

when in the work area.

6.14 Proprietary Information

Notwithstanding the provisions of this clause 5 or any other provisions of this Agreement, the Operator shall not be obliged to disclose any of its own proprietary information or technology to any of the Non-Operators and any disclosure of such
information or technology by the Operator to any Non-Operator, if agreed, shall be subject to separate arrangements between them.

7. **Rights of the Participants**

7.1 **Reservation of Rights**

Subject as otherwise provided in this Agreement, each Participant reserves all its rights under the Licence.

7.2 **Inspection Rights**

Without prejudice to the provision of [paragraph 7 of Section I] of the Accounting Procedure, each Participant shall have the right to inspect, at all reasonable times during normal business hours, all books, records and inventories of any kind or nature maintained by or on behalf of the Operator and relating to the Joint Operations other than those books, records and inventories maintained by the Operator as the owner of a Percentage Interest, provided that such Participant gives the Operator not less than fifteen (15) Working Days prior notice of the date upon which it desires to make such inspection and identified the person or persons to conduct such inspection.

7.3 **Access Rights**

7.3.1 Each Participant shall have the right, at all reasonable times and at its sole risk and expense, of access to the Licence Area and/or the Joint Operations provided such Participant gives the Operator reasonable notice of the date such access is required and identifies the representative or representatives to whom such access is to be granted. If any Participant wishes access to be given to more than one representative at a time the Operator shall not be required to grant such access for the additional representatives if, and to the extent that, the granting of such access will interfere with the conduct of the Joint Operations.
7.3.2 In the case of offshore operations the Operator shall, at the cost of the Joint Account, provide facilities to gain such access in transportation engaged thereon and also provide accommodation offshore in so far as the provision of such facilities and accommodation shall not interfere with the conduct of the Joint Operations.

8. **Insurance and Litigation**

8.1 **Insurance**

8.1.1 The Operator shall obtain and maintain, in respect of the Joint Operations and the Joint Property, all insurance required under the Acts, the Licence or any other applicable law and such other insurance as the Joint Operating Committee may from time to time determine taking into account any request by any Participant for its Affiliate insurance company to participate as an underwriter in such insurance up to its Percentage Interest. In respect of such other insurance, any Participant may elect not to participate provided such Participant gives notice to that effect to the Operator and does nothing which may interfere with the Operator’s negotiations for such insurance for the other Participants. The cost of insurance in which all the Participants are participating shall be charged to the Participants so participating in proportion to their respective Percentage Interests. The Operator shall, in respect of all insurance obtained pursuant to this clause 8.1.1:-

(i) promptly inform the Participants participating therein when it is taken out and supply them with copies of the relevant policies when the same are issued;

(ii) arrange for the Participants participating therein, according to their respective Percentage Interests, to be named as co-insureds on the relevant policies with waivers of subrogation in favour of the Participants; and
(iii) duly file all claims and take all necessary and proper steps to collect any proceeds and, if all the Participants are participating therein, credit them to the Joint Account or, if less than all the Participants are participating therein, credit them to the participating Participants.

Subject as provided above, any of the Participants may obtain such other insurance as it deems advisable for its own account at its own expense. In the arranging of such other insurance that Participant shall ensure it does not interfere with nor prejudice the arrangement of any insurance by the Operator or any other Participant. Such insurance shall contain a waiver of subrogation by the insurer in favour of the Operator and/or the other Participants.

8.1.2 Each of the Participants electing not to participate in such insurances in respect of which non-participation is permitted pursuant to clause 8.1.1 shall, in respect of its Participating Interest share of any liability which may arise in connection with the Joint Operations and/or Joint Property, obtain and maintain such insurance (to include waivers of subrogation in favour of the other Participants) or produce other evidence of financial responsibility as may from time to time be reasonably required by the Joint Operating Committee; each of the Participants shall, as and when required by the Joint Operating Committee produce to it such evidence as it may reasonably require to establish that such insurance or other evidence of financial responsibility is being maintained. [Provided that the foregoing obligation to establish the maintenance of such insurance or other evidence of financial responsibility shall be waived for those of the Participants whose unsecured and unsubordinated senior long term debt or such other debt of such Participant’s parent company has either an [“AA-”] rating or better awarded by Standard & Poors or an [“A3”] rating or better awarded by Moody’s or in the event such rating agencies cease to publish, an equivalent rating awarded by another rating agency approved by the Joint Operating Committee save that where such a Participant’s credit rating falls below [“AA-“}] from Standard & Poors or below [“A3”] from Moody’s, the Participant shall immediately put in place suitable alternative insurance in accordance with the
provisions of this Agreement which shall take effect from and including the
dates upon which the Participant’s credit rating fell below the requisite
threshold.]

8.1.3 The Operator shall take all reasonable steps to ensure that all contractors
(including sub-contractors) performing work in respect of the Joint
Operations and the Joint Property obtain and maintain all insurance required
under the Acts, the Licence or any other applicable law and such other
insurances as the Joint Operating Committee may from time to time
determine. The Operator shall in respect of all insurance obtained by such
contractors (including sub-contractors):

(i) if requested by any Participant, supply such Participant with evidence
that it has been effected and is being maintained; and

(ii) take all reasonable steps to arrange for such contractors (including
sub-contractors) to obtain from their insurers a waiver of subrogation
in favour of the Participants.

8.2 OPOL

8.2.1 The Operator as a party to the Offshore Pollution Liability Agreement dated 4
September 1974 (as the same has been or may be amended from time to time)
(“OPOL”) and as a member of the Offshore Pollution Liability Association
Limited (“the Association”), agrees that it, as the Operator for the Joint
Operations, will be bound by and will comply with the provisions from time
to time of OPOL, the memorandum and articles of association and the rules of
the Association.

8.2.2 The Operator intends to make OPOL applicable to such Offshore Facilities
(as defined in OPOL) as are used for the purpose of the Joint Operations.

8.2.3 Subject as hereinafter provided, any payments made by the Operator under
clause IV of OPOL and/or under article 7 of the articles of association of the
Association, as well as under any other provisions of either OPOL or of the memorandum or articles of association or the rules of the Association (“OPOL payments”) which arise out of the foregoing provisions of this clause 7.2 and fall due while it remains the Operator shall be for the Joint Account provided always that no Participant shall be under any obligation to reimburse the Operator in respect of payments resulting from a Sole Risk Project in which it is not a Sole Risk Participant (as hereinafter defined).

8.2.4 The Non-Operators hereby agree to execute such forms and provide such information for establishing their obligations and financial responsibility to meet claims under OPOL as may be required by the Operator from time to time.

8.2.5 Any release obtained by the Operator from Claimants (as defined in OPOL) shall include a release of the Non-Operators as well as the Operator.

8.2.6 The Operator shall promptly give the Non-Operators notice of all proposed amendments to OPOL and the memorandum and articles of association and the rules of the Association to be considered by the Association in general meeting and, in respect of such amendments, the Operator shall cast those of its votes which are attributable solely to the Joint Operations in the manner directed by the Joint Operating Committee.

8.3 Litigation

8.3.1 Operator shall promptly notify the Participants of:

(i) any incidents, accidents or circumstances causing damage to Joint Property, the costs of which may exceed []; and

(ii) any claim, litigation, demand or judgement relating to the Joint Operations where the total amount in dispute and/or the total amount of damages together with any costs are estimated to exceed [], or such
other amount as may from time to time be determined by the Joint Operating Committee and the Operator shall have the authority to prosecute, defend or settle any claim, litigation, lien, demand or judgement relating to the Joint Operations (other than as between the Participants) provided that:-

(a) in the case of any litigation (irrespective of the estimated amount of damages and costs) to be prosecuted or defended otherwise than in any court in the United Kingdom the Operator shall have no such authority without the prior approval of all the Participants except such authority as may be necessary:-

(i) to prevent judgement being given against the Joint Account while full authority by the Participants is being sought; and

(ii) solely to enable the Operator to contest the exercise by the relevant court of jurisdiction in the matter, provided that the Operator first obtains legal advice in the relevant jurisdiction from an appropriate reputable legal practitioner that the contest itself would not constitute submission by the Operator to such jurisdiction; and

(b) where the total amount in dispute and/or the total amount of damages together with any costs are estimated to exceed [     ], or such other amount as may from time to time be determined by the Joint Operating Committee, the Operator shall have no such authority without the prior approval of (subject to sub-paragraph (a) above) the Joint Operating Committee.
8.3.2 Any Non-Operator shall promptly notify the other Participants of any claim, litigation, lien, demand or judgement relating to or which may affect the Joint Operations and in so far as such claim, litigation, lien, demand or judgement relates to or affects the Joint Operations such Non-Operator shall defend or settle the same in accordance with the directions of the Joint Operating Committee and such costs, expenses and damages as are payable pursuant to such defence or settlement so relating shall be for the Joint Account. Notwithstanding the foregoing, if such defence or settlement arises in respect of an encumbrance granted by such Participant it shall be liable for all costs, expenses and damages incurred in respect thereof.

8.3.3 Notwithstanding clause 8.3.1, each Participant shall have the right to participate in any such prosecution, defence or settlement conducted in accordance with clause 8.3.1 or clause 8.3.2 at its sole cost and expense.

9. The Joint Operating Committee

9.1 Establishment and Powers

There is hereby established a Joint Operating Committee which shall exercise overall supervision and control of all matters pertaining to the Joint Operations. Without limiting the generality of the foregoing, but subject as otherwise provided in this Agreement, the powers and duties of the Joint Operating Committee shall include:-

(i) the consideration and determination of all matters in general relating to policies, procedures and methods of operation hereunder;

(ii) the approval of any public announcement or statement regarding this Agreement or the Joint Operations;

(iii) the consideration, revision and approval or disapproval, of all proposed Programmes, Budgets and AFEs prepared and submitted to it pursuant to the provisions of this Agreement;
(iv) the determination of the timing and location of all wells drilled under the Joint Operations and any change in the use or status of a well;

(v) the determination of whether the Operator will represent the Participants regarding any matters or dealings with the Secretary, any other governmental authorities or third parties in so far as the same relate to the Joint Operations, provided that there is reserved to each Participant the unfettered right to deal with the Secretary or any other governmental authorities in respect of matters relating to its own Percentage Interest;

(vi) the consideration, revision and approval or disapproval of inter alia the following:

[(a) exploration, appraisal and development strategies;

(b) front-end engineering design of Joint Property and concept selection of the same;

(c) contract strategy;

(d) technical specification of critical production equipment;

(e) the disposal of Joint Property and decommissioning; and]

(vii) the consideration and, if so required, the determination of any other matter relating to the Joint Operations which may be referred to it by the Participants or any of them (other than any proposal to amend this Agreement) or which is otherwise designated under this Agreement for reference to it.

9.2 Representation
The Joint Operating Committee shall consist of one representative appointed by each of the Participants provided always that more than one of the Participants may appoint the same representative who shall represent them separately. Each Participant shall, as soon as possible after the date of this Agreement, give notice to all the other Participants of the name of its representative and of an alternate on the Joint Operating Committee. Such representative may be replaced from time to time, by like notice. Representatives may bring to meetings of the Joint Operating Committee such advisers as they consider necessary. The representative of a Participant or, in the absence of the representative, his alternate, shall be deemed authorised to represent and bind such Participant with respect to any matter which is within the powers of the Joint Operating Committee.

9.3 Chairman

The representative of the Participant which is the Operator shall be the chairman of the Joint Operating Committee.

9.4 Meetings

9.4.1 The Joint Operating Committee shall hold meetings every Quarter (or at such other regular intervals as may be agreed by the Joint Operating Committee) at the Operator’s designated office or at such other place as may be determined by the Joint Operating Committee. The Operator shall call such meetings and shall give at least twenty (20) days notice of the time and date of each meeting, together with an agenda and appropriate data and information relating to the matters to be considered at that meeting. By notice to all the other Participants, any Participant can advise of additional matters which such Participant desires to be considered at the meeting, and provided such notice is given at least ten (10) days before the date of the meeting, those matters will be considered.

9.4.2 The Joint Operating Committee shall hold a special meeting upon the request of any of the Participants. Such request shall be made by notice to all the
other Participants and state the matters to be considered at that meeting. Upon receiving such request, the Operator shall without delay call a special meeting for a date not less than seven (7) nor more than ten (10) days after receipt of the request.

9.4.3 For any meeting of the Joint Operating Committee, the period of notice stipulated above may be waived with the consent of all the Participants.

9.4.4 Any Participant not represented at a meeting may vote on any matter on the agenda for such meeting by either:

(i) appointing a proxy in writing; or

(ii) giving notice of such vote to the Operator prior to the submission of such matter for vote at such meeting.

9.5 Minutes

The Chairman of the Joint Operating Committee shall appoint a secretary for the Joint Operating Committee who will prepare the minutes of each meeting and provide each Participant with a copy thereof not more than fourteen (14) days after the end of the meeting. [Each Participant shall notify all the other Participants of its approval or disapproval of the minutes within seven (7) days of receipt thereof. A Participant who fails to do so will be deemed to have approved the minutes.] The approval or disapproval of the minutes as aforesaid shall not affect the validity of any action taken in good faith by the Operator prior to any such disapproval on the basis of its understanding of the decisions of the JOC.

9.6 Action without a Meeting

9.6.1 The Participants may vote on and determine by notice to the Operator any proposal which is submitted to them by the Operator by notice and which they could validly determine at a meeting of the Joint Operating Committee if duly
held for that purpose. Each Participant shall cast its vote within fourteen (14) days after the proposal is received by it except that where the Participants are requested to vote on and determine any proposal relating to the deepening, plugging back or decommissioning of a well on which drilling equipment is then located or where the matter presented for consideration by its nature requires determination in less than fourteen (14) days and such fact and lesser period are so stated in the notice submitting the proposal, the Participants shall cast their votes within such lesser period which shall not be less than forty-eight (48) hours after receipt of the proposal. Failure by a Participant to cast its vote within the relevant period shall be regarded as a vote by that Participant against the proposal.

9.6.2 The Operator will give prompt notice of the results of any such voting to the Participants and any decision so taken shall be binding on the Participants notwithstanding that any Participant may have requested a special meeting to discuss any such proposal under clause 9.4.2.

9.7 Sub-Committees

The Joint Operating Committee may establish such advisory sub-committees as it considers desirable from time to time. Each sub-committee established shall be given written terms of reference and shall be subject to such procedures as the Joint Operating Committee may determine. The meetings of sub-committees will as far as possible be arranged so that the minutes of such meetings can be presented to the Participants in sufficient time for consideration before the next following regular meeting of the Joint Operating Committee.

9.8 Voting Procedure

9.8.1 Unless otherwise provided in this Agreement each Participant shall have a voting interest equal to its Percentage Interest.
9.8.2 Unless otherwise provided in this Agreement, all decisions of the Joint Operating Committee shall be made by the affirmative vote of [[ ] or more Participants which are not Affiliates] [a Participant or Participants] having individually or in aggregate a Percentage Interest of at least [ ] percent (%).

9.8.3 All the Participants shall be bound by each decision of the Joint Operating Committee duly made in accordance with the provisions of this Agreement.

9.9 Licence Provisions

9.9.1 In respect of the working obligations set out in schedule 4 to the Licence, the Joint Operating Committee shall, unless and to the extent that relief from such obligations is sought and obtained from the Secretary, determine the location and the time at which such obligations are to be discharged provided that, if the Joint Operating Committee has not in relation to any obligation well made a decision on the location thereof by a date which is eighteen (18) Months prior to the expiration of the applicable period for the discharge of the obligation to drill such well and the obligation has not been effectively discharged by a Sole Risk Participant (as hereinafter defined), the Operator shall promptly propose to the Participants a location for the well. Unless within one (1) Month after such proposal the Joint Operating Committee agrees on another location (in which case the location so agreed shall be the location at which the well shall be drilled), the location proposed by the Operator shall be the agreed location and the well shall be drilled at such location at the time (if any) previously determined by the Joint Operating Committee or, if no time has been so determined, at a time selected by the Operator, but in any event drilling will be commenced not later than a date which will allow timely completion of such well before the expiration of the applicable period for the discharge of the obligation to drill it.

9.9.2 Not more than six (6) nor less than five (5) Months prior to the expiration of each of the Initial Term, the Second Term or any Further Term, the Operator
shall convene a special meeting of the Joint Operating Committee to decide whether to continue the Licence and what notice, if any, is to be given to the Secretary. At each such meeting:

(i) should no Participant vote to continue the Licence then the Licence shall be determined at the expiration of the applicable term;

(ii) should some but not all of the Participants vote to continue the Licence, notice to continue the Licence shall be given in accordance with this clause.

In the case of a notice to be given to the Secretary to continue the Licence after the expiry of the Initial Term pursuant to model clause 4 of the Licence, those Participants which have voted against the proposal to continue the Licence shall have no vote in the Joint Operating Committee’s decision upon the delineation of the surrendered area to be described in said notice (which surrendered area shall be determined on the basis of a simple majority greater than fifty per cent (50%) of the Percentage Interests of those entitled to vote). Any decision on the delineation of the said surrendered area shall be subject to the provisions of clause 14.2.9.

Any vote to continue the Licence shall be without prejudice to each Participant’s rights under clause 23.2 to withdraw from the Licence and this Agreement.

9.9.3 The affirmative vote of all Participants shall be required to determine the Licence or surrender any part of the Licence Area under model clause 7 of the Licence.

10. **Exploration Programmes and Budgets**

10.1 **Annual Programme and Budget**
10.1.1 [The Operator shall, in each Year, submit to the Participants not later than [1st April] a preliminary exploration Programme and summary Budget for the next Year for information purposes only, which shall to the extent practicable, incorporate the elements referred to in clause 10.1.2. The Operator shall in each Year submit to the Participants, not later than [1st August], an update identifying material changes to such preliminary exploration Programme and summary Budget.]

10.1.2 The Operator shall, in each Year, submit to the Participants not later than [1st September] a proposed exploration Programme and Budget for the next Year showing:-

(i) the projects and other work to be undertaken;

(ii) the information required under paragraph 1.1 of [Section IV] of the Accounting Procedure; and

(iii) such other information as the Joint Operating Committee may have required the Operator to provide.

10.1.3 The proposed exploration Programme and Budget shall be subject to consideration, revision and approval by the Joint Operating Committee. The Joint Operating Committee shall consider such exploration Programme and Budget and make such revision thereto as may be agreed as soon as practicable but in any event not later than [1st October]. Not later than [1st December] the Joint Operating Committee shall approve an exploration Programme and Budget and such approval shall, subject to clauses 10.2 and 10.3, authorise and oblige the Operator to proceed with it, [provided always that the Operator shall be authorised to exceed such Programme and Budget by [up to ten percent (10%)]. Notwithstanding the above, where commitments are required prior to approval of the Programme and Budget, the Joint Operating Committee will use reasonable endeavours to approve such
commitments in advance of approving the Programme and Budget and in time to allow such commitments to be made.

10.2 Authorisation for Expenditure

Except as provided in clause 6.10.2, the Operator shall, before entering into any commitment or incurring any capital expenditure and seismic expenditure under an approved exploration Programme and Budget, submit to the Participants an AFE therefor. An AFE shall include the information set out in, and be prepared in accordance with, paragraph 5.2 of Section IV of the Accounting Procedure. To the extent that the Joint Operating Committee approves an AFE, the Operator shall be authorised and obliged, subject to clause 6.5, clause 10.3 and paragraph 5.4 of Section IV of the Accounting Procedure to proceed with such commitment or expenditure. It is hereby agreed that the Operator shall prepare and submit to the Participants a separate AFE for each exploration well, notwithstanding any Programme and Budget approval that may have been received.

10.3 Review and Amendments

10.3.1 The Operator shall, as and when required by the Joint Operating Committee, review the approved exploration Programme and Budget and submit to the Participants a report thereon.

10.3.2 At any time any Participant may, by notice to all the other Participants, propose that an approved exploration Programme and Budget and/or an approved AFE be amended. The Joint Operating Committee shall consider such proposal and, if the Joint Operating Committee so requires, the Operator shall prepare and submit to the Participants a revised exploration Programme and Budget incorporating any such amendment and showing the matters listed under clause 10.1.2, and the information required under paragraph 3 of Section IV of the Accounting Procedure. To the extent that any such amendment or revised exploration Programme and Budget is approved by the Joint Operating Committee, the approved exploration Programme and Budget
and/or AFE shall be deemed amended accordingly provided always that any such amendment shall not invalidate any authorised commitment or expenditure made by the Operator prior thereto.

10.3.3 In the event that the Operator believes that an approved exploration Programme and Budget will or is likely to exceed its approved amount by ten percent (10%) or more, it shall seek the approval of the Joint Operating Committee for the excess.

10.4 **Working Obligations**

In respect of any obligation well which is to be drilled following the procedures laid down in clause 10.9.1 the Operator will include the drilling of such well in the relevant exploration Programme and Budget and, notwithstanding the foregoing provisions of this clause 10, such Programme and Budget and any AFE shall, to the extent that they relate to the drilling of such well and unless in either case the Joint Operating Committee otherwise decides within twenty-eight (28) days of their submission to the Participants, be deemed to be approved by the Joint Operating Committee.

10.5 **Initial Obligation Well**

[Notwithstanding the provisions of this clause 10, the Operator shall consult with the Participants regarding the plans for and drilling of the first obligation well under the Licence (which well is currently planned to be spudded in 200[ ] and the costs thereof but shall not be required to obtain any approval from the other Participants with respect thereto provided that if such well has not been completed by 31st January 200[ ], the Operator and the Participants shall use all reasonable endeavours to mutually agree to the Operator’s plans for and the drilling of such well and the costs thereof, but failing agreement either the Operator or the Participants have the right to drill or continue drilling such well at its sole risk in accordance with clause 14.]

11. **Appraisal Programmes and Budgets**
11.1 Joint Programme and Budget

11.1.1 [The Operator shall, in each Year, submit to the Participants not later than 1\textsuperscript{st} April a preliminary contingent appraisal Programme and summary Budget for the next Year for information purposes only, which shall to the extent practicable, incorporate the elements referred to in clause 11.1.2. The Operator shall in each Year submit to each of the Participants, not later than [1\textsuperscript{st} August], an update identifying material changes to such preliminary contingent appraisal Programme and summary Budget.]

11.1.2 The Operator shall, in each Year, submit to the Participants not later than [1\textsuperscript{st} September] a contingent appraisal Programme and summary Budget for the next Year showing:-

(i) the wells which would be drilled and other projects and work which would be undertaken in the event of a Discovery occurring in the next Year;

(ii) the information required under [paragraph 1.2 of Section IV] of the Accounting Procedure; and

(iii) such other information as the Joint Operating Committee may have required the Operator to provide.

The Operator shall not however be authorised nor obliged to proceed with any items identified in such contingent appraisal Programme and Budget.

11.1.3 In the event of a Discovery, the Operator shall, if the Joint Operating Committee so decides and as soon as practicable after such decision, submit to the Participants a proposed appraisal Programme and Budget for such Discovery showing:-
(i) the wells to be drilled and other projects and work to be undertaken;

(ii) the information required under [paragraph 1.2 of Section IV] of the Accounting Procedure; and

(iii) such other information as the Joint Operating Committee may have required the Operator to provide.

11.1.4 The proposed appraisal Programme and Budget shall be subject to consideration, revision and approval by the Joint Operating Committee. The Joint Operating Committee shall, as soon as practicable following submission of the proposed appraisal Programme and Budget pursuant to clause 11.1.3 consider such appraisal Programme and Budget and make such revisions thereto as may be agreed. Unless the Joint Operating Committee otherwise agrees, the Joint Operating Committee shall approve or reject the proposed appraisal Programme and Budget within ninety (90) days of its submission by the Operator to the Participants pursuant to clause 11.1.3. Approval of an appraisal Programme and Budget shall, subject to clauses 11.2 and 11.3, authorise and oblige the Operator to proceed with it, [provided always that the Operator shall be authorised to exceed such Programme and Budget by up to [ten percent (10%)].

11.1.5 The Operator shall, in each Year, following approval of the first appraisal Programme and Budget in accordance with clause 11.1.4 submit to the Participants not later than 1st April a preliminary, revised appraisal Programme and summary Budget for the next Year for information purposes only which shall to the extent practicable, incorporate the elements referred to in clause 11.1.3. The Operator shall in each Year submit to each of the Participants, not later than 1st August, an update identifying material changes to such preliminary revised appraisal Programme and summary Budget.

11.1.6 The Operator shall, in each Year, following approval of the first appraisal Programme and Budget in accordance with clause 11.1.4 submit to the
Participants not later than 1st September a revised appraisal Programme and Budget for the next Year. The Joint Operating Committee shall consider such appraisal Programme and Budget, and make such revisions thereto as may be agreed as soon as practicable but in any event not later than 1st October. Not later than 1st December in each such Year the Joint Operating Committee shall approve an appraisal Programme and Budget and such approval shall, subject to clauses 11.2 and 11.3 authorise and oblige the Operator to proceed with it, provided always that the Operator shall be authorised to exceed such Programme and Budget by up to ten percent (10%). Notwithstanding the above, where commitments are required prior to approval of the Programme and Budget, the Joint Operating Committee will use reasonable endeavours to approve such commitments in advance of approving the Programme and Budget and in time to allow such commitments to be made.

11.2 Authorisations for Expenditure

Except as provided in clause 6.10.2, the Operator shall, before entering into any commitment or incurring any capital expenditure [and seismic expenditure] under an approved appraisal Programme and Budget, submit to the Participants an AFE therefor. An AFE shall include the information set out in, and be prepared in accordance with paragraph 5.2 of Section IV of the Accounting Procedure. To the extent that the Joint Operating Committee approves an AFE, the Operator shall be authorised and obliged subject to clause 6.5, clause 11.3 and paragraph 5.4 of Section IV of the Accounting Procedure, to proceed with such commitment or expenditure. It is hereby agreed that the Operator shall prepare and submit to the Participants a separate AFE for each appraisal well or, if so agreed by the Joint Operating Committee, batch of appraisal wells, notwithstanding any Programme and Budget approval that may have been received.

11.3 Review and Amendment
11.3.1 The Operator shall, as and when required by the Joint Operating Committee, review the approved appraisal Programme and Budget and submit to the Participants a report thereon.

11.3.2 At any time any Participant may, by notice to the other Participants, propose that an approved appraisal Programme and Budget and/or an approved AFE be amended. The Joint Operating Committee shall consider such proposal and, if the Joint Operating Committee so requires, the Operator shall prepare and submit to the Participants a revised appraisal Programme and Budget incorporating any such amendment and showing the matters listed under clause 11.1.3, and the information required under paragraph 3 of Section IV of the Accounting Procedure. To the extent that any such amendment or revised appraisal Programme and Budget is approved by the Joint Operating Committee, the approved appraisal Programme and Budget and/or AFE shall be deemed amended accordingly provided always that any such amendment shall not invalidate any authorised commitment or expenditure made by the Operator prior thereto.

11.3.3 In the event that the Operator believes that an approved appraisal Programme and Budget for an appraisal well will or is likely to exceed its approved amount by [ten percent (10%) or more], it shall seek the approval of the Joint Operating Committee for such excess.

12. Development Programmes and Budgets

12.1 Joint Programme and Budgets

12.1.1 The Operator shall, if the Joint Operating Committee so decides and as soon as practicable after such decision, submit to the Participants a proposed development Programme and summary Budget for a Discovery showing:

(i) the projects and other work to be undertaken;
(ii) the information required under paragraph 1.3 of Section IV of the Accounting Procedure;

(iii) the manner in which the development is to be managed with details of the number of employees and contract personnel required;

(iv) an estimate of the date of commencement of production and of the annual rates of production; and

(v) such other information as the Joint Operating Committee may have required the Operator to provide.

12.1.2 The proposed development Programme and Budget shall be subject to consideration, revision and approval by the Joint Operating Committee. The Joint Operating Committee shall meet to consider such development Programme and Budget as soon as practicable and to make such revisions thereto as may be agreed. Unless the Joint Operating Committee otherwise agrees, the Joint Operating Committee shall approve or reject the development Programme and Budget within ninety (90) days of its submission by the Operator to the Participants [provided that, within the said period of ninety (90) days (or such other period as the Joint Operating Committee may have agreed), any Participant wishing to carry out further work or studies in connection with the development of the Discovery may, by notice to the other Participants, require that the said period be extended up to a maximum total period of:-

(i) in the case of the carrying out of further appraisal drilling of the Discovery, one hundred and eighty (180) days; and

(ii) in all other cases, one hundred and twenty (120) days;
and in such event the said period shall be so extended. A Participant proposing to carry out further appraisal drilling of the Discovery shall in its said notice to the other Participants inform them of its intention and:-

(a) the Operator shall carry out such drilling at the risk, cost and expense of such Participant and the provisions of clauses 14.2.4, 14.2.5, 14.2.6 (other than the first sentence) and clause 14.2.10 shall apply as if such Participant was a Sole Risk Participant and such drilling was Sole Risk Drilling under that clause;

(b) such Participant shall not be entitled to any reimbursement from the other Participants of the costs and expenses thereof, unless as a result of such drilling all the Participants decide not to proceed with development of the Discovery in which event each of the other Participants shall pay to such Participant with twenty-eight (28) days of the decision not to proceed with the development an amount equal to the amount it would have contributed to the Joint Account had such drilling been carried out as part of the Joint Operations; such amount shall be paid in cash in the currency or currencies in which the contributions for such costs and expenses would have been made to the Joint Account under paragraph 3.2 of Section I of the Accounting Procedure; and

(c) all data and information obtained from such drilling shall promptly be made available to, and be owned jointly by, all the Participants.]

12.1.3 If a development Programme and Budget is approved by the Joint Operating Committee, each of the Participants shall decide within ninety (90) days of such approval, or such longer period as the Joint Operating Committee may agree, whether to participate in respect of its Percentage Interest share in the development of the Discovery and shall inform the other Participants of its decision by notice to them. If all the Participants decide to participate in the development of the Discovery the Operator shall prepare from the said
development Programme and Budget a Programme for submission to the Secretary in accordance with model clause [17] of the Licence. Any such Programme shall require the approval of the Joint Operating Committee prior to its submission as aforesaid.

12.1.4 Upon the Secretary authorising (whether by consenting or approving or serving a Programme) under model clause [17] of the Licence, the commencement of the development, any of the Participants may, if the Programme and Budget approved by the Joint Operating Committee under clause 12.1.2, has been or is required to be amended (which shall, for the avoidance of doubt, include any change in the date of commencement of the development), by notice to the other Participants given within twenty-eight (28) days following the said authorisation elect not to proceed with the development. If no Participant is entitled to give such notice, or being entitled, no Participant gives such notice, the approved development Programme and Budget (with any amendments as aforesaid) shall be adopted for the development, the Participants shall be obliged to participate in carrying it out and the Operator shall, subject to clause 11.2 and 11.3, be authorised and obliged to proceed in accordance with it, [provided always that the Operator shall be authorised to exceed such Programme and Budget by up to ten percent (10%).]

12.2 Authorisation for Expenditure

Except as provided in clause 6.10.2, the Operator shall, before entering into any commitment or incurring any capital expenditure [and seismic expenditure] with respect to the preparation of a development Programme and Budget or under an approved development Programme and Budget, submit to the Participants an AFE therefor. An AFE shall include the information set out in, and be prepared in accordance with, paragraph 6.2 of Section IV of the Accounting Procedure. To the extent that the Joint Operating Committee approves an AFE, the Operator shall be authorised and obliged, subject to clause 6.5, clause 12.3 and paragraph 5.4 of Section IV of the Accounting Procedure, to proceed with such commitment or
expenditure. It is hereby agreed that the Operator shall prepare and submit to the Participants a separate AFE for each development well or, if so agreed by the Joint Operating Committee, batch of appraisal wells and notwithstanding any Programme and Budget approval that may have been received.

12.3 Review and Amendment

12.3.1 The Operator shall, in each Year, submit to the Participants not later than 1st April a preliminary development Programme and summary Budget for the next Year for information purposes only. The Operator shall in each Year submit to each of the Participants, not later than 1st August, an update identifying material changes to such preliminary development Programme and summary Budget.

12.3.2 The Operator shall, in each Year, review the approved development Programme and Budget and submit to the Participants not later than 1st September a report thereon together with an update of such development Programme and Budget dealing separately with the next Year and the remaining phases of the approved development Programme and showing the matters listed under clause 12.1.1 and the information required under paragraph 1.3 of Section IV of the Accounting Procedure.

12.3.3 At any time any Participant may, by notice to all the other Participants, propose that an approved development Programme and Budget and/or an approved AFE be amended. The Joint Operating Committee shall consider such proposal and, if the Joint Operating Committee so requires, the Operator shall prepare and submit to the Participants a revised development Programme and Budget incorporating any such amendment and showing the matters listed under clause 11.1.1 and the information required under paragraph 3 of Section IV of the Accounting Procedure. To the extent that any such amendment or revised development Programme and Budget is approved by the Joint Operating Committee, the approved development Programme and Budget and/or AFE shall, subject to obtaining any necessary
consent of the Secretary, be deemed amended accordingly provided always that any such amendment shall not invalidate any authorised commitments or expenditure made by the Operator prior thereto.

12.3.4 In the event that the Operator believes that an approved development Programme and Budget for a development programme will or is likely to exceed its approved amount by [ten percent (10%)] or more, it shall seek the approval of the Joint Operating Committee for such excess.

13. **Production Programmes and Budgets**

13.1 **Annual Programme and Budget**

13.1.1 [The Operator shall not later than 1st April in the Year prior to the commencement of production and each subsequent Year, submit to the Participants a preliminary production Programme and summary Budget for information purposes only, which shall to the extent practicable, incorporate the elements referred to in clause 13.1.2. The Operator shall in each Year submit to each of the Participants, not later than 1st August, an update identifying material changes to such preliminary production Programme and summary Budget. ]

13.1.2 The Operator shall not later than 1st September in the Year prior to the commencement of production and each subsequent Year, submit to the Participants a proposed production Programme and Budget for the next Year showing:-

(i) the projects and other work to be undertaken;

(ii) the information required under paragraph 1.4 of Section IV of the Accounting Procedure;
(iii) an estimate of the date of commencement of production (if appropriate) and of the monthly total production for each major production stream and injection stream and the maximum daily rate to be achieved for each such stream in each month; and

(iv) such other information as the Joint Operating Committee may have required the Operator to provide.

13.1.3 The proposed production Programme and Budget shall be subject to consideration, revision and approval by the Joint Operating Committee. The Joint Operating Committee shall consider such production Programme and Budget and make such revisions thereto as may be agreed as soon as practicable but in any event not later than 1st October. Not later than 1st December the Joint Operating Committee shall approve a production Programme and Budget and such approval shall, subject to clauses 13.2 and 13.3, authorise and oblige the Operator to proceed with it, [provided always that the Operator shall be authorised to exceed such Programme and Budget by up to ten percent (10%)]. Notwithstanding the above, where commitments are required prior to approval of the Programme and Budget, the Joint Operating Committee will use reasonable endeavours to approve such commitments in advance of approving the Programme and Budget and in time to allow such commitments to be made.

13.2 Authorisations for Expenditure

Except as provided in clause 6.10.2, the Operator shall, before entering into any commitment or incurring any capital expenditure [and seismic expenditure] under an approved production Programme and Budget, submit to the Participants an AFE therefor. An AFE shall include the information set out in and be prepared in accordance with paragraph 5.2 of Section IV of the Accounting Procedure. To the extent that the Joint Operating Committee approves an AFE, the Operator shall be authorised and obliged, subject to clause 5.5, clause 12.3 and paragraph 5.4 of Section IV of the Accounting Procedure, to proceed with such commitment or
expenditure. It is hereby agreed that the Operator shall prepare and submit to the Participants a separate AFE for each production well or, if so agreed by the Joint Operating Committee, batch of appraisal wells notwithstanding any Programme and Budget approval that may have been received.

13.3 Amendment

13.3.1 At any time any Participant may, by notice to all the other Participants, propose that an approved production Programme and Budget and/or an approved AFE be amended. To the extent that an amendment is approved by the Joint Operating Committee, the approved production Programme and Budget and/or AFE shall (subject to obtaining any necessary consent of the Secretary) be deemed amended accordingly provided always that any such amendment shall not invalidate any authorised commitment or expenditure made by the Operator prior thereto.

13.3.2 In the event that the Operator believes that an approved production Programme and Budget will or is likely to exceed its approved amount by the lesser of ten percent (10%) or [   ], it shall seek the approval of the Joint Operating Committee for such excess. The amount of over-expenditure shall be separately calculated and separately applied in respect of the capital expenditure and operating expenditure sections of such Budget.

14. Sole Risk

14.1 Preliminary

Any Participant may undertake sole risk seismic (including geochemical sampling, gravity and magnetic or other geophysical/geological surveying) (“Sole Risk Seismic”), sole risk testing and logging (“Sole Risk Testing”), sole risk drilling (“Sole Risk Drilling”) or sole risk development (“Sole Risk Development”) (all the foregoing being a “Sole Risk Project”) subject to the following provisions of this clause.
14.2 General Provisions

14.2.1 Subject to clauses 14.3.1(ii) and 14.6.1(ii), no Sole Risk Project may be carried out if it is substantially similar to or conflicts with all or part of any Programme approved by the Joint Operating Committee and current at the commencement of the Sole Risk Project.

14.2.2 The following types, and only the following types, of Sole Risk Project may be proposed:

(i) subject to clause 14.6, Sole Risk Seismic;

(ii) subject to clause 14.3, Sole Risk Drilling consisting of:

(a) the drilling of an exploratory well or the deepening or side-tracking of a suspended well neither of such wells being inside the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum of potential commercial significance has been found to be present; or

(b) the drilling of an exploratory well or the deepening or side-tracking of a suspended well inside the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum of potentially commercial significance has been found to be present and which well is drilled, deepened or side-tracked to a different stratigraphic level to that in which such Petroleum was found to be present within that interpreted closure and which is not completed in the horizon in which such Petroleum was found to be present, provided always that the approval of the Joint Operating
Committee shall be required before any such drilling, deepening or side-tracking is carried out; or

(c) the deepening or side-tracking of a well which is in the course of being drilled and which does not form part of a development Programme, provided always that, unless the Joint Operating Committee otherwise agrees, any test programmes by the Participants must have been carried out, the Participants informed of the results and a decision of the Joint Operating Committee taken to abandon the well before any such deepening or side-tracking is carried out; or

(d) the drilling of an appraisal well inside, or the carrying out of geophysical work in respect of, the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum has been found to be present;

(e) subject to clause 14.7, Sole Risk Testing consisting of (A) the testing of intervals by re-entering a suspended well, or (B) the testing of intervals in a well currently being drilled, in either case when a proposal to test such intervals has not previously been approved by the Joint Operating Committee; and

(iii) subject to clause 14.5, Sole Risk Development consisting of the development of a Discovery.

14.2.3 Any Sole Risk Project shall be carried out at the sole risk, cost and expense of the Participant proposing such project and any other Participant electing to join such project as hereinafter provided (“Sole Risk Participant”). If a Sole Risk Project is undertaken by more than one Sole Risk Participant the risk and cost thereof shall, subject in the case of Sole Risk Development to clause 14.5.8, be borne by each Sole Risk Participant in the proportion that its Percentage Interest bears to the sum of the Percentage Interests of the Sole
Risk Participants or in such other proportion as the Sole Risk Participants may agree.

14.2.4 A Sole Risk Participant shall exercise all necessary precautions to ensure that a Sole Risk Project does not jeopardise, hinder or unreasonably interfere with the Joint Operations provided that a Sole Risk Development shall have priority over Joint Operations commenced subsequent to the authorisation of such Sole Risk Development by the Secretary.

14.2.5 A Sole Risk Participant shall indemnify and hold harmless the other Participants (“Non-Sole Risk Participants”) against all actions, claims, demands and proceedings whatsoever brought by any third party (including without limitation any employee of the Sole Risk Participant) arising out of or in connection with the Sole Risk Project, shall in so far as it may be within its control keep the Licence free from all liens, charges and encumbrances which might arise by reason of the conduct of the Sole Risk Project and shall further indemnify the Non-Sole Risk Participants against all damages, costs, losses and expenses whatsoever directly or indirectly caused to or incurred by them as a result of anything done or omitted to be done in the course of carrying out such Sole Risk Project, excepting only damage inflicted to the subsurface including any reservoir. The approval of a Non-Sole Risk Participant to the conduct of a Sole Risk Project (whether or not such approval is required) shall not constitute a waiver of these provisions.

14.2.6 A Sole Risk Participant carrying out Sole Risk Drilling under clause 14.2.2(ii)(c) shall be entitled to use Joint Property for such Sole Risk Drilling unless the Joint Operating Committee otherwise decides within the period for response to the notice proposing such Sole Risk Drilling provided under clause 14.3.4. A Sole Risk Participant wishing to use Joint Property for a Sole Risk Project other than as aforesaid shall give notice to all the Participants stating the purposes for which the Joint Property is to be used. Within twenty-eight (28) days after such notice, the Joint Operating Committee shall decide whether such Sole Risk Participants shall be
authorised to so use Joint Property and, if so, the terms and conditions upon which it may be used, it being understood that the use of Joint Property shall not be unreasonably withheld and that the charges for such use shall be on a reasonable and equitable basis.

14.2.7 A Sole Risk Participant shall be entitled to use for a Sole Risk Project any data and information which it owns jointly with the Non-Sole Risk Participants. Data and information obtained in respect of Sole Risk Drilling and Sole Risk Seismic shall be made available to the Non-Sole Risk Participants but shall remain the property of the Sole Risk Participant, until and in the event that one or more of the Non-Sole Risk Participants discharges in full its liability to the Sole Risk Participant under clauses 14.4 or 14.6.5 (as the case may be) when such data and information shall become the Joint Property of the Participants discharging such liability and the Sole Risk Participant.

14.2.8 Subject to any necessary consent of the Secretary, a Sole Risk Project will be carried out by the Operator on behalf of the Sole Risk Participant under the provisions of this Agreement provided that, with the exception of any Sole Risk Project involving the use of Joint Property as provided under clause 14.2.6, if the Operator is not participating in the Sole Risk Project:-

(i) in the case of Sole Risk Drilling, the Operator may decline to carry out the Sole Risk Drilling;

(ii) in the case of Sole Risk Development, the Operator will not carry out the Sole Risk Development unless all the Participants otherwise agree;

(iii) in the case of Sole Risk Seismic, the Sole Risk Participant shall be entitled to carry out the Sole Risk Seismic itself.

In any of such events the Sole Risk Project will, subject to any necessary consent of the Secretary, be carried out by the Sole Risk Participant, or, if
more than one Participant takes part in the Sole Risk Project, the Sole Risk Participant appointed by them and, in respect of the conduct of such Sole Risk Project, such Sole Risk Participant shall, unless the context otherwise requires, be deemed to be the Operator in respect of the independent application of this Agreement as provided in clause 14.2.9.

14.2.9 Sole Risk Development will in respect of the areas comprised therein be regarded as creating a Sub-Area and this Agreement shall so far as possible apply independently in the manner of a separate contract to such Sub-Area and apply mutatis mutandis to the interests of the Participants which participate in such Sole Risk Development provided always that:-

(i) the Sole Risk Participants shall have a right of access to the Sub-Area; and

(ii) there shall be no separate right of assignment or withdrawal and accordingly clauses 21 and 22 shall not apply independently to such separate contract.

For the purposes of any application of model clause 4 of the Licence, the Participants agree that, in the event of the creation of a Sub-Area or Sub-Areas during the Initial Term, the surface area above the Sub-Area or Sub-Areas will, to the extent permitted under the Licence and subject to the surface areas above any area comprised in any development carried out under the Joint Operations and authorised by the Secretary prior to his authorisation of the Sole Risk Development having priority, be included in the part of the Licence Area to which the Licence is to continue to apply during the Second Term.

14.2.10 In connection with any Sole Risk Project:-
(i) the Sole Risk Project will be carried out under the overall supervision and control of a committee consisting of the Sole Risk Participants in lieu of the Joint Operating Committee;

(ii) the computation of costs and expenses of the Sole Risk Project incurred by the Sole Risk Participants shall be made in accordance with the principles set out in the Accounting Procedure;

(iii) the Operator or the Sole Risk Participant carrying out the Sole Risk Project shall maintain separate books, records and accounts (including bank accounts) for the Sole Risk Project which shall be subject to the same right of examination and audit by the Sole Risk Participants and, so long as they are entitled to elect to participate in the Sole Risk Project, the Non-Sole Risk Participants as those relating to the Joint Operations;

(iv) the costs and expenses of the Sole Risk Project shall not be reflected in the statements and billings rendered by the Operator for the Joint Operations; and

(v) if the Operator is carrying out a Sole Risk Project on behalf of a Sole Risk Participant, the Operator shall be entitled to make Cash Calls on the Sole Risk Participant in connection with the Sole Risk Project and shall not use Joint Account funds or be required to use its own funds for the purpose of paying the costs and expenses of the Sole Risk Project; furthermore the Operator shall not be obliged to commence or, having commenced, to continue the Sole Risk Project unless and until the relevant Advances have been received from the Sole Risk Participant.

14.3 Sole Risk Drilling
14.3.1 No Sole Risk Drilling under clause 14.2.2(ii)(a) or (b) may be proposed unless:-

(i) such drilling was proposed to the Joint Operating Committee at the time of the consideration of the current exploration Programme but was not included in such Programme; or

(ii) having been included in the current exploration Programme the Joint Operating Committee has voted against or failed to vote in favour of an AFE (or the relevant part thereof) relating to such drilling within twenty-eight (28) days of submission of such AFE to the Participants provided that a decision by the Joint Operating Committee to change the timing of such drilling within the Year to which the current exploration programme relates shall not be a vote against the AFE for the purpose of this clause 14.3.1(ii); or

(iii) such drilling was proposed to the Joint Operating Committee in reasonably sufficient detail by way of amendment to the current exploration Programme and the Joint Operating Committee has voted against or failed to vote in favour of such drilling within sixty (60) days of submission of such amendment to the Participants.

14.3.2 No Sole Risk Drilling under clause 14.2.2(ii)(d) may be proposed unless:-

(i) the Joint Operating Committee has voted against or failed to vote in favour of a proposal to instruct the Operator to prepare an appraisal Programme in respect of the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum has been found to be present or, having so instructed the Operator, has voted against or failed to vote in favour of such a Programme within sixty (60) days of its submission to the Participants; or
(ii) the Joint Operating Committee has abandoned or completed its appraisal Programme of the interpreted closure of any geological structure or stratigraphic trap on which a well has been drilled in which Petroleum has been found to be present and the Joint Operating Committee has voted against or failed to vote in favour of a proposal to instruct the Operator to prepare a development Programme in respect thereof and no Participant has given notice under clause 13.5.1 that it intends to prepare such a development Programme.

14.3.3 Subject to clauses 14.3.1 and 14.3.2 if a Participant wishes to propose Sole Risk Drilling under clause 14.2.2(ii)(a), (b) or (d) it shall give notice to the other Participants setting out:

(i) the proposed location of such drilling; and

(ii) all other relevant information including, but not limited to, the date on which it proposes that operations should be started, such date being not less than sixty (60) nor more than one hundred and eighty (180) days from the date of the notice.

Each of the Participants receiving such a notice shall respond to it, by notice to the other Participants, within twenty-eight (28) days thereof, electing whether or not to participate. Any Participant failing to respond within the said twenty-eight (28) days shall be deemed to have elected not to participate.

14.3.4 If a Participant wishes to propose Sole Risk Drilling under clause 14.2.2(ii)(c), such Participant shall give as much notice as possible to the other Participants stating whether it wishes to use Joint Property for such Sole Risk Drilling (and, if so, what items thereof) and setting out such relevant information as is necessary in order to allow the other Participants to consider the proposal and elect whether or not to participate within the period hereinafter specified. Each of the Participants receiving such a notice shall respond to it, by notice to the other Participants, within forty-eight (48) hours
thereof (or within such longer period as may be specified in the notice), electing whether or not to participate. Any Participant failing to respond within the said period shall be deemed to have elected not to participate.

14.3.5 If the Percentage Interests of the Participants electing to participate, together with the Percentage Interest of the Participant proposing the Sole Risk Drilling, are not less than the percentage provided under clause 9.8.2, the operations shall be carried out, in accordance with the said notice, by the Operator as part of the Joint Operations as if determined by the Joint Operating Committee and, if appropriate, the current relevant Programme shall be deemed amended accordingly and the Operator shall promptly notify the Participants of the consequential amendments to the current relevant Budget.

14.3.6 If the Percentage Interests of the Participants electing to participate, together with the Percentage Interests of the Participant proposing the Sole Risk Drilling, are less than the percentage provided under clause 9.8.2, such Participant together with any other Participants which have elected to participate may, subject to the provisos to clause 14.2.2(ii)(b) or (c) in the case of Sole Risk Drilling thereunder, within twenty-eight (28) days following the expiration of the said notice, require the Operator (subject to clause 14.2.8) to undertake the Sole Risk Drilling. In such event, if the same arose as a result of the Joint Operating Committee voting against or failing to vote in favour of an AFE under the current exploration Programme, such Programme shall be deemed amended accordingly and the Operator shall promptly notify the Participants of the consequential amendments to the current exploration Budget. In the case of a notice given under clause 14.3.3, the Sole Risk Drilling may not be commenced later than one hundred and eighty (180) days following such notice. In the case of a notice given under clause 14.3.4, the Sole Risk Drilling may be commenced as soon as it is possible to do so without interference to the Joint Operations on that well.

14.4 Sole Risk Payments
14.4.1 If Sole Risk Drilling carried out under clause 14.2.2(ii)(a), (b) or (c) has resulted in a particular Discovery or Sole Risk Drilling has been carried out under clause 14.2.2(ii)(d) in respect of a particular Discovery and any Participant which was a Non-Sole Risk Participant in all or part of such Sole Risk Drilling wishes to participate in appraisal drilling or a development Programme relating to that Discovery, then in respect of any such Sole Risk Drilling:

(i) in which such Participant was a Non-Sole Risk Participant; and

(ii) to the cost and expense of which such Participant has not previously contributed pursuant to the provisions of this clause 14.4;

such Participant shall pay to the respective Sole Risk Participant (if more than one Participant, [in proportion to their respective Percentage Interests in the Licence or in such other proportion as they may have agreed under clause 14.2.3] an amount equal to the amount it would have contributed to the Joint Account had such Sole Risk Drilling been carried out as part of the Joint Operations]. Such amount shall be paid, in cash in the currency or currencies in which the contributions for the costs and expenses would have been made to the Joint Account under paragraph 3.2 of Section I of the Accounting Procedure, before the commencement of the appraisal drilling or development Programme in question.

14.4.2 Upon the Secretary authorising (whether by consenting or by approving or by serving a Programme) under model clause [17] of the Licence the commencement of the development of a Discovery in respect of which Sole Risk Drilling has been carried out, then any Participant which participates in such development and was required to make one or more payments under the provisions of clause 14.4.1 to one or more Sole Risk Participants in respect of that Discovery shall in addition be liable to pay to each of such Sole Risk Participants as are also participating in the development an amount in Pounds
in respect of each Sole Risk Drilling operation in which it did not participate calculated in accordance with the following formula:-

\[ A = B \times \frac{C}{D} \]

where:-

\[ A = \text{the amount to be paid to a Sole Risk Participant in respect of a Sole Risk Drilling operation;} \]

\[ B = \text{the amount paid to that Sole Risk Participant in respect of such Sole Risk Drilling operation pursuant to clause 14.4.1 (any payment made pursuant to clause 14.4.1 in a currency other than Pounds being translated to Pounds at the Conversion Rate on the date of payment by the Non-Sole Risk Participant);} \]

\[ C = \text{the value of the Index on the date on which the Secretary authorised commencement of the development;} \]

\[ D = \text{the value of the Index on the date of termination of such Sole Risk Drilling operation;} \]

and where “the Index” means the Index Numbers of Producer Prices published by National Statistics in the Monthly Digest of Statistics in table 18.7 under the heading “output of manufactured products”, provided that:-

(i) if the factor \( \frac{C}{D} \) is less than one (1), then the figure [one (1)] shall be substituted; and

(ii) if the Index shall cease to be published, then the nearest equivalent index shall be used in lieu thereof with any adjustments thereto as may be appropriate.
14.4.3 Any liability which arises under clause 14.4.2 shall be satisfied by the Non-Sole Risk Participant paying to the Sole Risk Participant (if more than one Non-Sole Risk Participant, in proportion to the liability of each such Participant) amounts equal to the amounts of the Percentage Interest share of the Sole Risk Participant of the Invoices or Advances paid or payable under the relevant approved development Programme and Budget until the liability of the Non-Sole Risk Participant has been extinguished and such amounts shall be paid in Pounds to the Sole Risk Participant:-

(i) within thirty-five (35) days of the date of the said authorisation in the case of Invoices or Advances paid prior to such date, and for the purpose of calculating the amount payable under this sub-paragraph any Invoice or Advance paid in a currency other than Pounds shall be translated to Pounds at the Conversion Rate on the date of the said authorisation; and

(ii) not less than two (2) Working Days before the due dates for payment of the Invoices or Advances in the case of Invoices or Advances to be paid subsequent to the date of the said authorisation, and for the purpose of calculating the amounts payable under this sub-paragraph any Invoice or Advance to be paid in a currency other than Pounds shall be translated to Pounds at the Conversion Rate on the fourth (4th) Working Day before the due date for payment thereof.

14.5 Sole Risk Development

14.5.1 In the event that a proposal is made to the Joint Operating Committee that a development Programme and Budget should be prepared for a particular Discovery, pursuant to clause 12.1.1 and such proposal is rejected then, provided that any appraisal Programme approved by the Joint Operating Committee and relating to that Discovery has been completed (but excluding any appraisal work included in an appraisal programme if an AFE therefor has been submitted to the Participants under clause 11.2 and the Joint
Operating Committee has voted against or failed to vote in favour of the same within twenty-eight (28) days after submission), any Participant may give notice to the other Participants that it intends to prepare a development Programme and Budget for that Discovery. Such Participant, together with such of the other Participants as within twenty-eight (28) days of such notice give counter-notice of their wish to participate therein, shall be entitled to proceed with the preparation thereof and to submit the same for approval by the Joint Operating Committee in accordance with clause 12.1.2.

14.5.2 If a development Programme and Budget, prepared in accordance with clause 14.5.1 or a revised form thereof, is approved by the Joint Operating Committee in accordance with clause 12.1.2, then the Participant or Participants which prepared the development Programme and Budget shall be entitled to charge all reasonable costs incurred in the preparation thereof to the Joint Account together with interest calculated on a day to day basis at the rate of [   ] per cent above the Base Rate from time to time from the date on which the costs were incurred to the date of repayment.

14.5.3 In the event that, following the submission to the Joint Operating Committee for a proposed development Programme and Budget for a particular Discovery in accordance with clause 12.1.2, the Joint Operating Committee does not approve such development Programme and Budget within the period therein provided, then any Participant may serve notice on the other Participants of its intention to develop the Discovery at sole risk. Such notice shall be accompanied by details of its proposed development Programme and Budget. The other Participants may give counter-notice that they wish to participate in the development:-

(i) within twenty-eight (28) days of such notice if the proposed development Programme and Budget is the same as, or substantially similar to, that which was not approved by the Joint Operating Committee; or
(ii) within ninety (90) days of such notice if the proposed development Programme and Budget is substantially different from that which was not approved by the Joint Operating Committee.

14.5.4 If all the other Participants elect to participate under clause 14.5.3 the Participants shall proceed with the development in accordance with such development Programme and Budget and the provisions of clause 12.1.4 shall apply upon the Secretary authorising (whether by consenting or by approving or by serving a Programme) the commencement of the Development. The Participants which prepared the development Programme and Budget shall be entitled to charge all reasonable costs incurred in the preparation thereof to the Joint Account relating to that Discovery together with interest therein calculated on a day to day basis at the rate of [per cent] above the Base Rate from time to time from the date on which the costs were incurred to the date of repayment. Where less than all the Participants elect to participate under clause 14.5.3 the Participants which proposed the development Programme and Budget shall be entitled to charge all reasonable costs incurred in the preparation thereof to the Participants electing to participate together with interest at the rate specified in the previous sentence.

14.5.5 In the event that, following approval by the Joint Operating Committee of a development Programme and Budget pursuant to clause 12.1.2 or following any notice served under clause 14.5.3, less than all the Participants, or in the case of clause 14.5.3 less than all the Non-Sole Risk Participants, elect to participate in the development of a Discovery within the periods therein respectively provided, those Participants which elected to participate, or in the case of clause 14.5.3 the Sole Risk Participants and those Non-Sole Risk Participants which elected to participate, shall be entitled to proceed with the Development of the Discovery at their sole risk in accordance with the relevant development Programme and Budget provided that if, upon the Secretary authorising (whether by consenting or by approving or by serving a Programme) pursuant to model clause [17] of the Licence the commencement of the Development, such development Programme and Budget has been or is
required to be amended (which shall for the avoidance of doubt include any change in the date of commencement of the development) then the Participants participating in the Development shall as soon as practicable following such authorisation give notice to the other Participants of such amendments and within twenty-eight (28) days of such notice:-

(i) any of the Participants participating in the development of the Discovery may by notice to all the other Participants, elect not to proceed with the development; and/or

(ii) any of the Participants not participating in the development of the Discovery may, by notice to all the other Participants elect to do so.

Those Participants which, at the expiry of the said period of twenty-eight (28) days, are participating in the Development shall be obliged to carry it out.

14.5.6 In the event that, following the Secretary authorising (whether by consenting or by approving or by serving a Programme) pursuant to model clause [17] of the Licence the commencement of a Development in which all the Participants are participating, any of the Participant elects not to proceed with the Development under clause 12.1.4, the other Participants shall be entitled to proceed with the Development in accordance with the approved development Programme and Budget (as amended) and, if they do so proceed, shall be obligated to carry out the Development.

14.5.7 In the event that less than all the Participants participate in the development of a Discovery in respect of which no Sole Risk Drilling has been carried out then, unless the Participants participating in such development unanimously agree otherwise, the Percentage Interest of each Participant in such development shall be in proportion to its Percentage Interest in the Licence.

14.5.8 In the event that less than all the Participants participate in the development of a Discovery in respect of which Sole Risk Drilling has been carried out
then, unless the Participants participating in such development unanimously agree otherwise:-

(i) if the Participant which participated in the first such Sole Risk Drilling (for the purposes of this clause 14.5.8 “Original Sole Risk Participant”) or if more than one such Participant, all such Participants participate in the development, then the Percentage Interest of each Participant which was not an Original Sole Risk Participant in such development shall equal its Percentage Interest in the Licence, and the remaining Percentage Interest in the development shall be held by the Original Sole Risk Participant (if more than one, in proportion to their Percentage Interests in the Licence or in such other proportion as they may have agreed under clause 14.2.3); or

(ii) if less than all the Original Sole Risk Participants participate in the development, then the calculation under (i) above shall first be performed as though all the Original Sole Risk Participants were participating. The Percentage Interests in such development of those Original Sole Risk Participants who do not participate shall then be allocated to all the participating Participants, in proportion to the Percentage Interests obtained in such preliminary calculation. Any Participant which does not participate in the development of a Discovery shall have no further rights in such development.

14.6 Sole Risk Seismic

14.6.1 No Sole Risk Seismic may be proposed unless:-

(i) such seismic was proposed to the Joint Operating Committee at the time of consideration of the current exploration Programme and Budget but was not included in such Programme and Budget; or

(ii) having been included in the current exploration Programme and Budget the Joint Operating Committee has, where an AFE is
required, voted against or failed to vote in favour of such AFE (or the relevant part thereof) relating to such seismic within twenty-eight (28) days of submission of such AFE to the Participants provided that the decision of the Joint Operating Committee to change the timing of such seismic within the Year to which the current exploration Programme relates shall not be a vote against the AFE for the purposes of this clause 14.6.1 (ii); or

(iii) such seismic was proposed to the Joint Operating Committee in reasonably sufficient detail by way of amendment to the current exploration Programme and Budget and the Joint Operating Committee has voted against or failed to vote in favour of such seismic within sixty (60) days of submission of such amendment to the Participants.

14.6.2 Subject to clause 14.6.1, if a Participant wishes to propose Sole Risk Seismic it shall give notice to the other Participants setting out:–

(i) the proposed area of such seismic including line locations (2D); and

(ii) all other relevant information including, but not limited to, the date on which it proposes that the operations should be started, such date being not less than thirty (30) days and not more than one hundred and eighty (180) days from the date of notice.

Each of the Participants receiving such notice shall respond to it, by notice to the other Participants, within twenty-eight (28) days thereof, electing whether or not to participate. Any Participant failing to respond within the said twenty-eight (28) days shall be deemed to have elected not to participate.

14.6.3 If the Percentage Interests of the Participants electing to participate together with the Percentage Interest of the Participant proposing the Sole Risk
Seismic are not less than the Percentage Interest provided under clause 9.8.2, the operations shall be carried out, in accordance with the said notice, by the Operator as part of the Joint Operations as if determined by the Joint Operating Committee and, if appropriate, the current relevant Programme and Budget shall be deemed amended accordingly and the Operator shall promptly notify the Participants of the consequential amendments to the current relevant Programme and Budget.

14.6.4 If the Percentage Interests of the Participants electing to participate together with the Percentage Interest of the Participant proposing the Sole Risk Seismic are less than the Percentage Interest provided under clause 9.8.2, such Participant together with any other Participants which have elected to participate may within twenty-eight (28) days following the expiration of the notice given under clause 14.6.2. require the Operator to undertake the Sole Risk Seismic. The Sole Risk Seismic may not be commenced later than one hundred and eighty (180) days following such notice.

14.6.5 If any Participant which was a Non-Sole Risk Participant wishes at any time to acquire the data and information obtained from any Sole Risk Seismic, then such Non-Sole Risk Participant shall pay to the respective Sole Risk Participant (or if more than one Sole Risk Participant, in proportion to their respective Sole Risk Interests) an amount equal to five (5) times the amount it would have contributed to such Sole Risk Seismic had it originally participated in such Sole Risk Seismic together with interest on such amount calculated on a day to day basis at a rate equal to two percent (2%) above Base Rate from time to time.

14.6.6 If Sole Risk Seismic carried out under clause 14.2.2 (i) directly results in the drilling of an exploration or appraisal well, either as a part of Joint Operations or by Sole Risk Drilling, any Participant which was a Non-Sole Risk Participant in such Sole Risk Seismic and which participates in such drilling shall pay to the Sole Risk Participant (if more than one, in proportion as they may have agreed under clause 14.2.3) an amount equal to five (5)
times the amount it would have contributed to the Joint Account had such Sole Risk Seismic been carried out as part of the Joint Operations less any amount which such Participant may have paid pursuant to clause 14.6.5.

14.7 **Sole Risk Testing**

14.7.1 Sole Risk Testing under clause 14.2.2 (ii) (e) (A) may be carried out subject to the provisions of this clause 14.7, provided always that the intervals to be tested are not planned to be tested by another future well under any programme and Budget already approved by the Joint Operating Committee at the time the Sole Risk Testing is proposed. No Sole Risk Testing under clause 14.2.2 (ii) (e) (B) may be proposed unless the Joint Operating Committee has voted against or failed to vote in favour of a proposal to instruct the Operator to carry out a testing Programme in respect of the relevant intervals within the relevant well.

14.7.2 No Sole Risk Testing shall be permitted until all drilling operations (which shall include Sole Risk Drilling) shall have been completed in respect of the relevant well. In any Programme where it is proposed to test one or more intervals in the relevant well as a Sole Risk Project and one or more intervals in the same well for the Joint Account, then the deepest such interval shall be tested first and thereafter each further proposed interval rising up the well, unless the Participants otherwise agree to an alternative testing programme in respect of the relevant intervals within the relevant well.

14.7.3 Where Sole Risk Testing of one or more intervals in a well has been proposed concurrently with testing of other intervals in the same well for the Joint Account, then Sole Risk Testing shall only be permitted where flows of Petroleum, if any, from intervals tested under Sole Risk Testing can be and are measured separately from flows of Petroleum if any from intervals in the same well tested for the Joint Account.
14.7.4 If a Participant wishes to propose Sole Risk Testing under clause 14.2.2(ii)(e)(A), it shall give notice to the other Participants setting out all relevant information including the date on which it proposes that operations should be started, such date being not less than two (2) Months nor more than six (6) Months from the date of the notice. Each of the Participants receiving such a notice shall respond to it, by notice to the other Participant, within twenty-eight (28) days thereof, electing whether or not to participate. Any Participant failing to respond within the said twenty-eight (28) days shall be deemed to have elected not to participate.

14.7.5 If a Participant wishes to propose Sole Risk Testing under clause 14.2.2(ii)(e)(B), such Participant shall, upon completion of the drilling of the well and after the Joint Operating Committee has voted against testing of all or any such intervals within the said well, give notice to the other Participants setting out such relevant information as is necessary in order to allow the other Participants to consider the proposal and elect whether or not to participate. Each of the Participants receiving such notice shall respond to it, by notice to the other Participants, within forty-eight (48) hours thereof, electing whether or not to participate. Any Participant failing to respond within the said period shall be deemed to have elected not to participate.

14.7.6 If the aggregate Percentage Interests of the Participants electing to participate together with the Percentage Interest of the Participant proposing the Sole Risk Testing are not less than the percentage provided under clause 9.8.2, the proposed Sole Risk Testing shall be carried out in accordance with the said notice by the Operator as Joint Operations for the Joint Account as if determined by the Joint Operating Committee and the then current programme shall be deemed amended accordingly and the Operator shall promptly notify the Participants of the consequential amendments to the current relevant Programme and Budget.

14.7.7 If the aggregate Percentage Interests of the Participants electing to participate together with the Percentage Interest of the Participant proposing
the Sole Risk Testing are less than the percentage provided under clause 9.8.2, such Sole Risk Participants may, subject to clause 14.2.8, request the Operator to undertake the Sole Risk Testing. In the case of a notice given under clause 14.7.4 the Sole Risk Testing will be commenced on or as soon as possible after the date specified in the said notice. In the case of a notice given under clause 13.7.5 the Sole Risk Testing will be commenced as soon as it is possible to do so without interference to the Joint Operations on that well.

14.7.8 The results of and data pertaining to any Sole Risk Testing shall not be disclosed to any Non-Sole Risk Participant unless that Non-Sole Risk Participant has paid the Sole Risk Participant or Participants an amount equal to [five (5) times] the amount it would have paid had it participated in the Sole Risk Testing in the first place, whereupon the data pertaining to the Sole Risk Testing shall become the joint property of the Participants discharging such liability and the Sole Risk Participant.

14.7.9 All Participants shall have the same rights (other than in relation to the above-mentioned Sole Risk Testing data and results) that they had prior to any Sole Risk Testing taking place, regardless as to whether or not a further Discovery or a confirmation of a Discovery has been made as a result of such Sole Risk Testing.

14.8 Selection of Sole Risk Projects

14.8.1 If any Party wishes to propose the conduct of a Sole Risk Project other than Sole Risk Development and such Sole Risk Project will conflict with Sole Risk Seismic or Sole Risk Drilling or Sole Risk Testing proposed in accordance with clause 14.6 or Clause 14.3 or Clause 14.7, such Party shall have the right for a period of five (5) days (or twenty-four (24) hours if the drilling equipment is on location), from receipt of the proposal notice issued pursuant to Clause 14.6.1 or Clauses 14.3.3 and 14.3.4 or Clause 14.7 to propose, by notice to all Parties, its alternate operation. Such alternative
proposal shall contain the information specified in Clause 14.6.1 or Clause 14.3.3 or Clause 14.7.

14.8.2 Each of the Parties, other than the respective proposing Parties, shall elect by notice to the Operator whether or not to participate in any of the proposals. Failure to so respond shall be deemed an election not to participate in any proposal.

14.8.3 The proposal receiving the largest aggregate Percentage Interest vote shall have priority over any other proposal. If the vote is tied, the Operator shall select one of the proposals gaining the highest aggregate Percentage Interest vote. The Operator shall notify the result of such voting and selection, as the case may be, to all the Parties. Each Party shall, within two (2) Working Days (or twenty four (24) hours if drilling equipment is on location) notify the Operator whether or not it wishes to participate in the successful proposal. Any Party failing to respond within such period shall be deemed to have elected not to participate.

14.8.4 If the Percentage Interests of the Parties electing to participate, together with the Percentage Interest of the proposing Party, in the successful proposal are not less than the percentage provided under Clause 9.8.2, the successful proposal shall be carried out by the Operator as part of Joint Operations.

14.8.5 If the Percentage Interests of the Parties electing to participate, together with the Percentage Interest of the proposing Party, in the successful proposal are less than the percentage provided under Clause 9.8.2, the Operator shall carry out the proposed operation on behalf of the proposing Party and the Parties voting in favour thereof in accordance with the provisions of Clause 14.2.

15. Costs and Accounting

15.1 The Accounting Procedure
The Accounting Procedure is hereby made part of this Agreement. In the event of any conflict between any provision in the main body of this Agreement and any provision in the Accounting Procedure, the provision in the main body shall prevail.

16. **Default**

16.1 **Failure to Pay**

If any Participant ("Defaulting Participant") fails to pay in full its share of any Invoice or Advance by the due date in accordance with paragraph 4.7 or paragraph 4.1 of Section I of the Accounting Procedure:

(i) the Operator shall as soon as practicable notify by facsimile all the Participants of such default and the date of its commencement;

(ii) with the exception of the Defaulting Participant each Participant ("Non-Defaulting Participant") shall contribute, as hereinafter provided, a share of the amount in default in the proportion that its Percentage Interest bears to the total of the Percentage Interests of the Non-Defaulting Participants and pending receipt of such additional contributions the Operator shall make arrangements to meet any commitments falling due by borrowing the necessary finance available itself and all costs of any such finance shall be charged to the Non-Defaulting Participants; finance made available by the Operator shall bear interest calculated on a day to day basis at a rate equal to two (2) per cent above the Base Rate from time to time;

(iii) within three (3) Working Days following the notification by the Operator under (i) above, the Operator shall notify all the Participants of the liability of each of the Non-Defaulting Participants to contribute to the amount in default and shall make a further Cash Call accordingly to take effect on the expiry of the six (6) Working Days specified in (iv) below; and
(iv) if such default continues for more than six (6) Working Days after the date of notification by the Operator each of the Non-Defaulting Participants shall on the Working Day next following such sixth Working Day pay the amount notified under (iii) above, and thereafter shall continue to pay, in addition to its share of subsequent Advances, the same proportion of that part of all such subsequent Advances attributable to the Defaulting Participant until such time as the Defaulting Participant has remedied its default in full or until forfeiture, as hereinafter provided, and failure by any Participant to make such payments shall likewise and with the same results render that Participant in default.

16.2 Remedy of Default

The Defaulting Participant shall have the right to remedy the default at any time prior to forfeiture, as hereinafter provided, by payment in full to the Operator or, if the Non-Defaulting Participants have paid any amounts under clause 16.1(iv), the Non-Defaulting Participants, in proportion to the amounts so paid by them, of all amounts in respect of which the Defaulting Participant is in default, together with interest thereon calculated on a day to day basis at the rate of five (5) per cent above the Base Rate from time to time, from and including the due date for payment of such amounts until the actual date of payment.

16.3 Continuation of Default

16.3.1 If any default continues for more than six (6) Working Days after the date of notification by the Operator under clause 16.1(i) then, for so long as the default so continues, the Defaulting Participant shall not be entitled to its Percentage Interest share of Petroleum which shall instead be owned by the Non-Defaulting Participants in the proportions in which their respective Percentage Interests bear to the total of the same.

16.3.2 During the continuation of any default the Defaulting Participant shall not be entitled to be represented at meetings of the Joint Operating Committee or any sub-committee thereof nor to vote thereat (so that the voting interest of
each Participant other than the Defaulting Participant shall be in the proportion which its Percentage Interest bears to the total of the Percentage Interests of such Participants) and shall have no further access to any data and information relating to the Joint Operations. The Defaulting Participant shall be bound by decisions of the Joint Operating Committee made during the continuation of the default.

16.3.3 (i) In the event that the default continues for more than sixty (60) days then each of the Non-Defaulting Participants shall have the right to have forfeited to it and to acquire, by notice to the other Participants given within thirty (30) days after such period of sixty (60) days, the interest of the Defaulting Participant in the Licence and in and under this Agreement or, if more than one Non-Defaulting Participant exercises such right, its proportionate share of the interest of the Defaulting Participant in the Licence and in and under this Agreement, such share being the proportion in which its Percentage Interest bears to the total Percentage Interests of such Non-Defaulting Participants; or

(ii) if none of the Non-Defaulting Participants exercises such right as is mentioned in clause 16.3.3(i) then, without prejudice to any rights of the Non-Defaulting Participants, the Participants shall be deemed to have decided to abandon the Joint Operations and each Participant, including the Defaulting Participant, shall pay its Percentage Interest share of the costs of abandoning the Joint Operations.

16.3.4 With respect to clause 16.3.3, any such forfeiture and acquisition of the interest of the Defaulting Participant in the Licence and in and under this Agreement shall be:

(i) subject to any necessary consent of the Secretary;
(ii) without prejudice to any other rights of each Participant other than the Defaulting Participant;

(iii) so forfeited and acquired as beneficial owner or owners free of any charges and encumbrances (other than rent and royalty under the Licence); and

(iv) effective as of the date of default.

16.3.5 Upon forfeiture and acquisition of the interest of a Defaulting Participant under clause 16.3.3, a Defaulting Participant shall, at the option of the Non-Defaulting Participants, either

[(i) pay to each of the Non-Defaulting Participants in proportion to the proportions of the Defaulting Participant’s interest which each of them has acquired, an amount equal to the Defaulting Participant’s Percentage Interest share of the estimated cost of decommissioning less the Defaulting Participant’s interest share of any estimated salvage value. The estimated cost of decommissioning shall be determined by reference to the current approved decommissioning Programme and Budget. If there is no current approved decommissioning Programme and Budget such cost shall be estimated by the Joint Operating Committee on the basis that decommissioning of Joint Property is to take place on the effective date of forfeiture, but having due regard to the likelihood that the applicable laws, rules and regulations effective on the actual date of decommissioning may impose more onerous requirements than those applicable at the time such estimate is made, with the intent of protecting the Non-Defaulting Participants from any reasonably anticipated changes in applicable laws, rules and regulations. Thereafter the Defaulting Participant shall have no further liability for any share of decommissioning costs, or

(ii) providing security for its Percentage Interest share of the estimated cost of decommissioning in the form of a parent company or Affiliate guarantee, bank guarantee or letter of credit (or such other form of security as may be proposed by the Defaulting Participant) which is acceptable to the Non-Defaulting Participants.

and the Defaulting Participant shall promptly join in such actions as may be necessary or desirable to obtain any necessary consent of the Secretary and shall execute and deliver any and all documents necessary to effect any such forfeiture and acquisition, and all costs and expenses pertaining to any such forfeiture and acquisition (including for the avoidance of doubt any stamp duty incurred on the documents executed to effect such forfeiture and acquisition) shall be the responsibility of the Defaulting Participant.

17. **Disposal of Petroleum**

17.1 **Right and Obligation**

Subject to clauses 14 and 16 and to the provisions hereinafter contained, in respect of the development of any Discovery:-

(i) each of the Participants shall have the right to take in kind and separately dispose of its Percentage Interest share in the total quantities of Petroleum available under this Agreement, provided always that the Operator shall have the right to use in any operations relating thereto as much of such Petroleum as may be needed by it therefor and the quantities to be so used shall be excluded from the estimates to be provided by the Operator; and

(ii) each of the Participants shall have the obligation to lift and separately dispose of its Percentage Interest share in all Petroleum produced and/or stored at such times, in such quantities and in accordance with such procedures as may be agreed by all Participants which have or may have Percentage Interest in respect of such development prior to the commencement of production but so
that the rights of each of such Participants to lift Petroleum to which it is entitled shall not be prejudiced.

17.2 NGLs and Natural Gas

The Participants recognise that, in the event of the production of NGLs or Natural Gas, it may or will become desirable for them to enter into special arrangements for the disposal of the same and they agree that, in such event and upon the request of any of them, their respective representatives shall meet together as necessary to consider their entry into such arrangements and that, if and to the extent that any such arrangements are agreed, they will adopt and undertake the same.

17.3 Failure to Lift Crude Oil

In the event that any of the Parties having a Substance Entitlement in any Development shall find itself unable for reasons other than Force Majeure to lift such quantities of Crude Oil as are to be lifted by it in a given period in accordance with agreed offtake procedures and any provisions for overlift/underlift as shall be contained therein, it shall forthwith notify the other Parties having Substance Entitlements in such Development in respect of such period to that effect and such quantities of Crude Oil shall not be produced during such period to the benefit of such Party and shall remain and accrue for and to the benefit of all Parties having Substance Entitlements in such Development (including the Party unable to lift as aforesaid) according to their respective Substance Entitlements in respect of such period.

18. Confidentiality

18.1 Confidential Data and Information

All data and information acquired or received by any Participant under this Agreement shall be held confidential during the continuance of this Agreement and
for a period of five (5) years thereafter and shall not be divulged in any way to any third party, without the prior written approval of all the Participants provided that:-

(i) any Participant may, without such approval, disclose such data and information:-

[(a) to any Affiliate or bona fide intended assignee of such Participant upon obtaining a similar undertaking of confidentiality from such Affiliate or assignee; or

(b) to any outside professional consultants, upon obtaining a similar undertaking of confidentiality from such consultants; or

(c) to any bank or financial institution from whom such Participant is seeking or obtaining finance, upon obtaining a similar undertaking of confidentiality from such bank or institution; or

(d) to the extent required by the Acts, the Licence, any other applicable law or the regulations of any recognised stock exchange; or

(e) to the extent that the same has become generally available to the public; and

(ii) the Operator may disclose such data and information to such persons as may be necessary in connection with the conduct of the Joint Operations upon obtaining a similar undertaking of confidentiality from such persons.

In the event of any Participant ceasing to hold a Percentage Interest, such Participant shall nevertheless remain bound by this clause 18.1.]

18.2 Trading Rights

The Operator may, with the prior written approval of all the Participants and on such terms and conditions as they may determine, exchange any such data and information
for other similar data and information and the Operator shall promptly provide all the Participants with a conformed copy of the agreement relating to such exchange and all such other data and information provided that, notwithstanding the foregoing provisions of this clause 18, if any Participant is also the owner or part owner of such other data and information it shall not be entitled to prevent an exchange which has been approved by all the other Participants.

19. **Public Announcements**

19.1 Subject to clause 19.2, the Operator shall be responsible for the preparation and release of all public announcements and statements regarding this Agreement or the Joint Operations provided always that no such public announcement or statement shall be issued or made unless prior thereto all the Participants have been furnished with a copy thereof and the approval of the Joint Operating Committee has been obtained.

19.2 If any Participant shall itself wish to issue or make any public announcement or statement regarding this Agreement or the Joint Operations it shall not do so unless prior thereto it furnishes all the Participants with a copy of such announcement or statement and obtains the approval of the Joint Operating Committee provided that, notwithstanding any failure to obtain such approval, no Participant or any Affiliate of such Participant shall be prohibited from issuing or making any such public announcement or statement if it is necessary to do so in order to comply with any applicable law or the regulations of a recognised stock exchange.

20. **Outgoings and Grants**

20.1 **Outgoings**

The Participants shall be liable for the payment of their respective Percentage Interest shares of all sums which may be properly payable under the Acts and the Licence provided that to the extent permitted by the Acts and the Licence, the Operator shall pay all such sums excepting royalties from the Joint Account. Each Participant shall
be responsible for the settlement of its own royalties in accordance with the provisions of the Licence.

20.2 Grants

Grants received by any of the Participants from any governmental agency or body in the United Kingdom or of the European Union in respect of their respective expenditures made pursuant to this Agreement will be retained by the Participant receiving the same. The Operator shall supply to any Participant applying for a grant, at the sole cost of the Participant requiring the same, all requisite data and information which such Participant may reasonably require for the purpose.

21. Covenant, Undertaking and Relationship

21.1 Covenant and Undertaking

Without prejudice to the overriding responsibility of the Operator under clause 6.2.2, each Participant hereby covenants and undertakes with each other Participant that it will comply with all the applicable provisions and requirements of the Acts and the Licence and will do all such acts and things within its control as may be necessary to keep and maintain the Licence in force and effect.

21.2 Relationship

21.2.1 The liability of the Participants hereunder shall be several and not joint or collective and each Participant shall be responsible only for its individual obligations hereunder. It is expressly agreed that it is not the purpose or intention of this Agreement to create, nor shall the same be construed as creating, any mining partnership, commercial partnership or other partnership.
21.2.2 Subject to clause 6.2.4, each Participant agrees to indemnify and keep each other Participant indemnified, to the extent of its Percentage Interest share, for any claim by or liability to (including any costs and expenses necessarily incurred in respect of such claim or liability) any person not being a Participant hereto, arising from or in connection with the Joint Operations including (without prejudice to the generality of the foregoing) any such claim or liability resulting from the actual negligence of any Party but excluding any such Claim or liability which is caused by the Wilful Misconduct of any Party. In the case of any such Claim or liability which is caused by the Wilful Misconduct of a Party, such Party shall indemnify and defend the other Parties and hold them harmless against such Claim or liability (including any award of damages and any legal or other costs and expenses incurred in respect of such Claims or liability) but in no event or circumstance whatever (including Wilful Misconduct) shall such Party be liable for any Consequential Loss of another Party.

[21.3 Taxation]

(A) If, for United States federal income tax purposes, this Agreement and operations hereunder are regarded as a partnership (and if the parties have not agreed to form a tax partnership), each “U.S. Party” (as defined hereinafter) elects to be excluded from the application of all the provisions of Subchapter “K”, Chapter 1, Subtitle “A”, of the United States Internal Revenue Code of 1986, as amended (“the Code”), as permitted and authorised by Section 761(a) of the Code and the regulations promulgated thereunder. is authorised and directed to execute and file for each U.S. Party such evidence of this election as may be required by the Internal Revenue Service, including all returns, statements and data required by United States Treasury Regulations Sections 1.761-2 and 1.6031-1(d)(2), and shall provide a copy thereof to each U.S. Party. Should there be any requirement that any U.S. Party give further evidence of this election, each U.S. Party shall execute such documents and furnish such other evidence as may be required by the Internal Revenue Service or as may be necessary to evidence this election.
(B) No Party shall give any notice or take any other action inconsistent with the election made above in Paragraph (A) of this Article 20.3. If any income tax laws of any state or other political subdivision of the United States or any future income tax laws of the United States or any such political subdivision of the United States or any future income tax laws of the United States or any such political subdivision contain provisions similar to those in Subchapter “K”, Chapter 1, Subtitle “A”, of the Code, under which an election similar to that provided by Section 761(a) of the Code is permitted, each U.S. Party shall make such election as may be permitted or required by such laws. In making the foregoing election, each U.S. Party states that the income derived by it from operations under this Agreement can be adequately determined without the computation of partnership taxable income.

(C) For purposes of this Article 20.3, “U.S. Party” shall mean any Party which is subject to the income tax laws of the United States in respect of operations under this Agreement.

(D) No activity shall be conducted under this Agreement that would cause any Party that is not a U.S. Party to be deemed to be engaged in a trade or business within the United States under applicable tax laws and regulations.

(E) A Party which is not a U.S. Party shall not be required to do any act or execute any instrument which might subject it to the taxation jurisdiction of the United States.

22. Assignment and Encumbrance

22.1 Restriction

No transfer of any interest under the Licence or this Agreement shall be made by any Participant otherwise than in respect of an undivided interest in all or part of its interest in the Licence and in and under this Agreement (so that any such assignment
shall include all or a corresponding part of any interest of such Participant in a Sole Risk Project) in accordance with the following provisions of this clause or the provisions of clause 23.

22.2 **Right**

22.2.1 Each of the Participants may, subject to any necessary consent and approval of the Secretary and to the provisions hereinafter contained, at any time upon notice to the other Participants assign all or part of its said interest to an Affiliate of such Participant which has demonstrated to the satisfaction of the other Participants its financial capability to meet its prospective obligations hereunder.

22.2.2 No assignment, other than as provided in clause 22.2.1 shall be effective or binding upon the Participants unless:-

(i) any necessary consent and approval of the Secretary to such assignment shall have been obtained; and

(ii) the remaining, non-assigning Participants shall have consented to such assignment in writing (which consent may only be withheld on grounds of lack of financial responsibility and capability of the proposed assignee to discharge the obligations under this Agreement as they relate to the interest to be assigned).

22.3 **Effective Date**

No such assignment shall be effective or binding upon the Participants until the date upon which the assignor or assignee furnishes all the Participants with:-

(i) an executed or photostatic copy of an instrument evidencing such assignment, together with any necessary consent and approval of the Secretary; and
(ii) a written instrument (in form and content satisfactory to the Participants and duly executed by the assignee) accepting and assuming all of the obligations under this Agreement in so far as the interest assigned is concerned.

22.4 Continuing Obligations

A Participant so assigning all or part of its said interest shall remain liable to the other Participants for all obligations attaching to the interest assigned pursuant to this clause 22 which are incurred prior to the effective date of such assignment and such obligations shall in addition become the obligations of the assignee.

22.5 Consent

A Participant shall promptly join in such reasonable actions as may be necessary or desirable to obtain any consent and approval of the Secretary in connection with, and shall execute and deliver any and all documents reasonably necessary to effect, any such assignment.

22.6 Costs

All costs and expenses pertaining to any such assignment shall be the responsibility of the assignor. For the avoidance of doubt any stamp duty incurred on the documents executed to effect such assignment shall either be paid by the assignor, or the assignor shall be responsible to procure the payment of the same by the assignee.

22.7 Encumbrance

Nothing contained in this clause 22 shall prevent a Participant from mortgaging, pledging or otherwise encumbering all or part of its interest in the Licence and in and under this Agreement for the purpose of security relating to finance provided that:-
(i) such Participant shall remain liable for all obligations relating to such interest; and

(ii) the encumbrance shall be subject to any necessary approval of the Secretary and be expressly subordinated to the rights of the other Participants under this Agreement.

23. **Withdrawal**

23.1 **Restriction**

No Participant may withdraw from the Licence or this Agreement otherwise than in accordance with the following provisions of this clause.

23.2 **Right**

23.2.1 Any Participant may, subject to clauses 23.2.3 and 23.3 and always provided that all working obligations set out in schedule 4 to the Licence have been completed, at any time prior to five (5) Months before the expiration of the Initial Term, give notice to the other Participants that it wishes to withdraw from the Licence and this Agreement. Within thirty (30) days of receipt of such notice, any of the other Participants may similarly give notice that it wishes to withdraw from the Licence and this Agreement. If all the other Participants give such notice no assignment shall take place, the Participants shall be deemed to have decided to abandon the Joint Operations and the Licence shall be surrendered on the earliest possible date. If less than all the other Participants give such notice the withdrawing Participants shall withdraw from the Licence and this Agreement on the earliest possible date and shall assign their respective interests in the Licence and in and under this Agreement to the non-withdrawing Participants in accordance with clause 23.3 without any compensation whatsoever.
23.2.2 In the event that the Licence is continued for a Second Term or a Further Term any Participant may, subject to clauses 23.2.3 and 23.3, at any time thereafter give notice to the other Participants that it wishes to withdraw from the Licence and this Agreement. Within thirty (30) days of receipt of such notice, any of the other Participants may similarly give notice that it wishes to withdraw from the Licence and this Agreement. If all the other Participants give such notice no assignment shall take place, the Participants shall be deemed to have decided to abandon the Joint Operations and the Licence shall be surrendered on the earliest possible date. If less than all the other Participants give such notice the withdrawing Participants shall withdraw from the Licence and this Agreement on the earliest possible date and shall assign their respective interests in the Licence and in and under this Agreement to the non-withdrawing Participants in accordance with clause 23.3 without any compensation whatsoever.

23.2.3 No Participant participating in a development Programme which the Secretary has authorised pursuant to model clause 17 of the Licence may withdraw pursuant to this clause 23.2 from the Licence and this Agreement prior to the completion of the relevant works (as defined in that model clause) comprised in such development Programme.

23.3 Conditions

With respect to clause 23.2:-

(i) a withdrawing Participant shall assign all of its said interest to the non-withdrawing Participants, which interest shall (unless otherwise agreed by such non-withdrawing Participants) be allocated to them in the proportion in which their respective Percentage Interest prior to the effective date of withdrawal (as hereinafter defined) bears to the total of the same;

(ii) a withdrawing Participant shall promptly join in such actions as may be necessary or desirable to obtain any consent of the Secretary in connection
with, and shall execute and deliver any and all documents necessary to effect, any such assignment and a withdrawal shall not be effective and binding upon the Participants until the date upon which the same shall have been done ("the effective date of withdrawal") and all costs and expenses pertaining to any such assignment (including for the avoidance of doubt any stamp duty incurred on the documents executed to effect such assignment) shall be the responsibility of the withdrawing Participant;

(iii) a withdrawing Participant shall promptly join in all actions required by the other Participants for the maintenance of the Licence provided that its participation in such actions shall not cause it to incur after the date on which notice of withdrawal is given any financial obligations except as provided in this clause 23;

(iv) a withdrawing Participant shall pay all liens and penalties which may be prescribed by the Secretary and all costs and expenses incurred by the other Participants in connection with such withdrawal;

(v) a withdrawing Participant shall not be allowed to withdraw from the Licence and this Agreement if its said interest is subject to any liens, charges or encumbrances other than rent and royalty under the Licence, unless the other Participants are willing to accept the assignment subject to such additional liens, charges or encumbrances;

(vi) unless the Participant or Participants acquiring its said interest agree to accept the withdrawing Participant’s liabilities and obligations, a withdrawing Participant shall remain liable and obligated for its Percentage Interest share of all expenditure accruing to the Joint Account under any Programme and Budget approved by the Joint Operating Committee and authorised by AFE prior to the date on which notice of withdrawal is given even if the operations concerned are to be implemented thereafter provided always that this subparagraph (vi) shall not render a withdrawing Participant liable for any
amounts which such Participant would not have been obliged to pay had it not withdrawn; and

[(vii) a withdrawing Participant shall, at its option, either

(a) pay to each of the non-withdrawing Participants in proportion to the proportions of the withdrawing Participant’s interest which each of them have acquired, an amount equal to the withdrawing Participant’s Percentage Interest share of the estimated cost of decommissioning less the withdrawing Participant’s interest share of any estimated salvage value. The estimated cost of decommissioning shall be determined by reference to the current approved decommissioning Programme and Budget. If there is no current approved decommissioning Programme and Budget such cost shall be estimated by the Joint Operating Committee on the basis that decommissioning of Joint Property is to take place on the effective date of withdrawal, but having due regard to the likelihood that the applicable laws, rules and regulations effective on the actual date of decommissioning may impose more onerous requirements than those applicable at the time such estimate is made, with the intent of protecting the non-withdrawing Participants from any reasonably anticipated changes in applicable laws, rules and regulations. Thereafter the withdrawing Participant shall have no further liability for any share of decommissioning costs, or

(b) provide security for its Percentage Interest share of the estimated cost of decommissioning in the form of a parent company or Affiliate guarantee, bank guarantee or letter of credit (or such other form of security as may be proposed by the withdrawing Participant) which is acceptable to the non-withdrawing Participants, acting reasonably.]

24. **Force Majeure**
24.1 Each obligation of a Participant hereunder, other than the obligation to make payments of money, shall be suspended while such Participant is prevented or hindered from complying therewith by any cause beyond the reasonable control of such Participant provided that a lack of funds shall be deemed not to be a cause beyond reasonable control. In such event, such Participant shall give notice of suspension as soon as reasonably possible to the other Participants stating the date and extent of such suspension and the cause thereof. Any of the Participants whose obligations have been suspended as aforesaid shall resume the performance of such obligations as soon as reasonably possible after the removal of the cause and shall so notify all the other Participants.

In this Clause 24 “Force Majeure” means any cause beyond the reasonable control of such Party, and which such Party by the exercise of reasonable diligence is unable to prevent, avoid or remove whether similar to the causes specified herein or not, including (insofar as beyond such control but without prejudice to the generality of the foregoing expression) strikes, lock-outs, labour disputes and compliance with any law but solely restricted to such laws, orders, rules, regulations or directions of governmental agencies or bodies binding within the United Kingdom, provided that a lack of funds shall not constitute “Force Majeure”.

25. **Disposal of Joint Property and Decommissioning**

25.1 If the Operator shall consider that any item of the Joint Property is no longer needed or suitable for the Joint Operations, the Operator shall, subject to the provisions of the Licence and the Accounting Procedure, dispose of the same.

25.2 If the Participants shall decide to decommission the Joint Operations, or any part thereof, the Operator shall endeavour to recover and dispose of as much of the Joint Property as the Joint Operating Committee directs can economically and reasonably be recovered or as may be required to be recovered under the Petroleum Act 1998, the Licence or any other applicable law, and the net cost or net proceeds therefrom shall be charged or credited to the Joint Account.
25.3 Decommissioning Plan and Relevant Date

25.3.1 The Operator shall prepare a plan ("Decommissioning Plan") for the decommissioning, removal (including partial removal) and disposal of Joint Property in respect of a field in the Licence Area (in this clause 25.3 referred to as the "Field") when it calculates that fifty percent (50%) of the recoverable reserves of the Field have been produced or earlier if required by the Joint Operating Committee but in any event in sufficient time to ensure that it complies with the provisions of clause 25.3.4.

25.3.2 The Decommissioning Plan will be revised annually by the Operator to incorporate the most current information on costs and timing. The Operator shall be responsible for predicting the date of Final Decommissioning in accordance with the Licence, any applicable laws and any relevant Government guidelines (including any necessary approval of the Secretary), using good oil and gas field practice and economic assumptions approved by the Joint Operating Committee.

25.3.3 The Decommissioning Plan will cover:

(i) a geological/reservoir review of the Field;

(ii) the costs of Final Decommissioning Obligations;

(iii) an estimate of the date ("Relevant Date") on which the remaining cumulative Net Cash Flow will equal one hundred and fifty per cent of the costs of Final Decommissioning Obligations;

(iv) the salvage value of Joint Property; and

(v) all other matters relevant to the proper preparation for and management of Final Decommissioning including, but not limited to,
alternative uses for Joint Property, plugging of wells, removal of structures and pipelines, and salvage value of Joint Property.

25.3.4 The Operator shall submit its proposed initial Decommissioning Plan (together with a detailed justification for its conclusions thereunder) to the Joint Operating Committee for its consideration and review not later than sixty (60) Working Days before the Relevant Date. The Joint Operating Committee shall meet to consider a Decommissioning Plan with the object of approving the same by no later than forty (40) Working Days after receipt of the Operator's proposal in accordance herewith.

[25.4 Decommissioning Programme and Budget]

A Decommissioning Programme and Decommissioning Budget will be prepared in accordance with the Decommissioning Plan approved pursuant to clause 25.3.4.

25.4.1 At a date six (6) Months prior to the anticipated date of commencement of Final Decommissioning the then agreed Decommissioning Plan shall become the first Decommissioning Programme and Decommissioning Budget.

25.4.2 Should Final Decommissioning not commence on the anticipated date but be postponed to a later date, the Operator shall:

(i) submit to the Participants not later than 1st April in each subsequent Year a preliminary Decommissioning Programme and summary Decommissioning Budget for the next Year for information purposes only, which shall to the extent practicable, incorporate the elements to be incorporated in the proposed Decommissioning Programme and Decommissioning Budget referred to in (ii) below. The Operator shall in each Year submit to the Participants not later than 1st August, an update identifying material changes to such preliminary Decommissioning Programme and summary Decommissioning Budget;
(ii) submit to the Participants not later than 1st September in each subsequent Year, a proposed Decommissioning Programme and Decommissioning Budget for the next Year consistent with the then applicable Decommissioning Plan.

25.4.3 The proposed Decommissioning Programme and Decommissioning Budget referred to at clause 25.4.2 shall be subject to consideration, revision and approval by the Joint Operating Committee. Such consideration, revision and approval shall be made and given having regard to all relevant factors. The Joint Operating Committee shall consider such proposed Decommissioning Programme and Decommissioning Budget as soon as practicable (but in any event not later than 1st October) and make such revisions thereto as may be agreed. Not later than 1st December, the Joint Operating Committee shall meet to consider such proposed Decommissioning Programme and Decommissioning Budget and, if approval is given, such approval shall, subject to this clause 25.4, authorise and oblige the Operator to proceed with it. If such approval is not given the existing Decommissioning Programme and Decommissioning Budget shall remain in effect.

25.4.4 Approval of a Decommissioning Programme and Decommissioning Budget shall authorise and oblige the Operator to proceed with it provided that the Operator shall be authorised to exceed such approved Decommissioning Programme and Decommissioning Budget by up to ten per cent (10%).

[Note Two alternatives to this Article 25 are annexed as Schedules C and D to this Agreement]
include the information set out in and be prepared in accordance with paragraph 5.2 of Section IV of the Accounting Procedure. To the extent that the Joint Operating Committee approves an AFE, the Operator shall be authorised and obliged, in accordance with clause 5.5, clause 25.6 and paragraph 5.4 of Section IV of the Accounting Procedure, to proceed with such commitment or expenditure.

25.6 Amendment

25.6.1 At any time any Participant may, by notice to all the other Participants, propose that an approved Decommissioning Programme and Budget be amended. To the extent that an amendment is approved by the Joint Operating Committee, the approved Decommissioning Programme and Budget shall be deemed amended accordingly provided always that any such amendment shall not invalidate any authorised commitment or expenditure made by the Operator prior thereto.

25.6.2 In the event that the Operator believes that an approved Decommissioning Programme and Budget will or is likely to exceed its approved amount by ten per cent (10%) or more it shall seek the approval of the Joint Operating Committee for such excess.

25.7 Assignment and Relationship to Decommissioning

[25.7.1 In the case of a proposed assignment to a third party (“Assignee”) pursuant to clause 22.2.2, any Participant other than the assigning Participant (“Assignor”) shall be entitled by service of a notice to that effect to require that, as a condition precedent of the proposed assignment proceeding, the proposed Assignee shall with effect from the effective date of the assignment and thereafter until the completion of Final Decommissioning (or until such time as the Participants other than the Assignee unanimously agree to release such Assignee from its obligations so to provide) provide Acceptable Security in the manner aftermentioned (or by such other means as is acceptable to the
Participants other than the Assignee) in respect of the cost of Final Decommissioning attributable to the Percentage Interest to be assigned to the proposed Assignee. Where such a notice has been served on the Assignor, any such proposed assignment shall not proceed unless and until the proposed Assignee agrees to provide Acceptable Security in the manner hereinafter set out.

25.7.2 The non-assigning Participants, in conjunction with the Assignor, shall have the right (but shall not be obliged) to agree to the phased provision of Acceptable Security if they consider such phased provision to be reasonable having regard to the Operator's estimate of the cost of Final Decommissioning and the period of time between the effective date of the assignment and the estimated date of Final Decommissioning.

25.7.3 Within five (5) Working Days of receipt of a copy notice from any non-assigning Participant pursuant to clause 25.7.1 that it requires provision of Acceptable Security by the proposed Assignee, the Operator shall notify the Assignor of the Assignor's share of the costs of Final Decommissioning Obligations, such share to be calculated as follows:

\[ A = B \times C \]

where:

\[ A = \text{the Assignor's share of the costs of Final Decommissioning Obligations;} \]

\[ B = \text{the Assignor's Percentage Interest;} \]

\[ C = \text{the Operator's estimate of the cost of Final Decommissioning Obligations reflecting the costs thereof as set out in the} \]
Decommissioning Plan, or where no Decommissioning Plan exists, calculated pursuant to clause 25.7.4.

The Assignor shall then forthwith advise the proposed Assignee of the amount (being the Assignee's proposed Percentage Interest share of the estimated cost of Final Decommissioning Obligations calculated as aforesaid) which the Assignee shall be obliged to secure by way of Acceptable Security (reflecting always any phased arrangement allowed pursuant to clause 25.7.2).

25.7.4 The estimated cost of Final Decommissioning Obligations referred to at clause 25.7.3 shall in the absence of a Decommissioning Plan, be determined by the Operator having regard to the aggregate of the relevant pre-tax costs in money of the day (i.e. as at the estimated date(s) of Final Decommissioning) to the Participants of Final Decommissioning Obligations after allowing for salvage value and any other expected receipts without taking account of tax allowances available to the Participants in respect of expenditure made on Final Decommissioning Obligations.

25.7.5 For the purposes of this clause 25.7, Acceptable Security shall mean security provided with effect from the effective date of the assignment and enduring until the completion of Final Decommissioning using any of or using a combination of any of, the following ways:

(i) By irrevocable guarantee of performance or bond given by a Parent Company of the Assignee concerned (or, in the case where the Assignee is the ultimate holding company (or corporation) or the only company or corporation in its group of companies, by an irrevocable bond given by the Assignee) provided that such Parent Company (or Assignee) is a Qualifying Surety and that such guarantee or bond is substantially in the form attached hereto [as Schedule B]
Appendix 2] supported by a Counsel's Opinion. The Assignee shall notify the Joint Operating Committee and the other Participants immediately it becomes aware if there occurs any material adverse change in any material fact or matter on which a Counsel's Opinion expressly relies. The determination of the Joint Operating Committee excluding the proposed Assignee and the Assignor (and/or their Affiliates) by vote in accordance with clause 9.8.2 as to whether a guarantee or bond is substantially in the form attached hereto as Schedule B Appendix 2 shall be final.

(ii) By a bond given by the Assignee, provided that such Assignee is a Qualifying Surety and that the provisions of clause 25.7.5(i) shall apply mutatis mutandis to such bond.

(iii) By standby irrevocable letter(s) of credit substantially in the form attached hereto as Schedule B Appendix 1A or 1B issued out of a United Kingdom lending office either:

(a) by a Bank which is a Qualifying Surety; or

(b) by a consortium composed entirely of Banks which are such Qualifying Sureties;

with a maturity date of the 31st December of the Year in which the effective date of the assignment takes place or any succeeding Year. The Assignee shall notify the Joint Operating Committee immediately it becomes aware that any Bank on which it relies has ceased to be a Qualifying Surety. The determination of the Joint Operating Committee excluding the Assignee and the Assignor (and/or their Affiliates) by a vote in accordance with clause 9.8.2 as to whether a letter of credit is
substantially in the form attached hereto as Schedule B Appendix 1A or 1B shall be final.

(iv) By such other means as may be acceptable to the Participants other than the Assignee.

25.7.6 Forms of Acceptable Security shall be expressed to be in favour of the Security Holder as agent on behalf of all the Participants.

25.7.7 Originals of forms of Acceptable Security received shall be given to the Security Holder and copies thereof shall be given to the Joint Operating Committee.

25.7.8 An Assignee which has provided Acceptable Security shall, not later than thirty (30) days prior to the expiry of the same, in each Year, either renew or replace such Acceptable Security (calculated in accordance with the provisions of clause 25.7.3 and based on the current Decommissioning Plan or the Operator’s then current estimate of the cost of Final Decommissioning Obligations), or in such amount as accords with the phased security provision arrangements allowed by the Participants pursuant to clause 25.7.2 and which takes into account the current Decommissioning Plan and/or the Operator's then current estimate of the cost of Final Decommissioning Obligations.

25.7.9 If, having provided Acceptable Security:

(i) any surety should cease to carry on business or should go into liquidation or have an administrator or administrative receiver appointed or should cease to be a Qualifying Surety and in any such case the Assignee concerned fails to provide alternative Acceptable Security within thirty (30) days (or ninety (90) days in the case of the application of this paragraph (a) solely by reason of a reduction in the rating of a Bank to one no worse
than A+/A1 awarded by Standard and Poor’s or Moody’s respectively) of such event; or

(ii) in respect of any Acceptable Security given, there occurs, in the reasonable and unanimous determination of the Joint Operating Committee less the Assignee and/or its Affiliates, a material adverse change in any material fact or matter on which the Counsel’s Opinion relevant to such Acceptable Security expressly relies and the Assignee concerned fails to provide alternative Acceptable Security within thirty (30) days of advice from the Operator to that effect; or

(iii) any Assignee fails to comply with its obligations under clause 25.7.8;

such event shall be deemed to be a default (a “decommissioning default”) by such Assignee and the provisions of clause 16.3 shall apply mutatis mutandis to such decommissioning default. The defaulting Assignee shall only be entitled to remedy a decommissioning default by provision within forty (40) Working Days of alternative Acceptable Security in such amount as satisfies its obligations under this clause 25.7. For the avoidance of doubt, under no circumstances shall any Participants other than the Assignee become liable under this Agreement to make any contribution in respect of a decommissioning default and the provisions of clause 16.1 shall not apply to such decommissioning default. The Security Holder shall, as soon as it becomes aware of a decommissioning default, give notice thereof to the Joint Operating Committee.

25.7.10 Whenever receiving notification that any interest of an Assignee in and under this Agreement and a Licence has been forfeited to the relevant Non-Defaulting Participants pursuant to the provisions of clause 16.3.3 hereof, the Security Holder shall forthwith:
(i) take all reasonable steps to realise any Acceptable Security provided by such Assignee to the extent necessary; and

(ii) make payment of the receipts thereof to the relevant Non-Defaulting Participants in the proportions necessary;

to ensure that such amount of the Assignee’s Security as relates to its Percentage Interest attributable to the forfeited interest shall thereafter be available to such Non-Defaulting Participants in the same proportions as those in which such Non-Defaulting Participants have acquired the Percentage Interest attributable to the forfeited interest.

25.7.11 The Operator shall clearly identify each Cash Call made to any Participant in respect of the actual cost of Final Decommissioning Obligations. In the event any such Cash Call or part thereof is not paid directly by an Assignee then the Security Holder shall take all reasonable steps necessary to realise any Acceptable Security established by such Assignee and shall make payment of the excess of such realised Acceptable Security over the amount of such Cash Call into a separate bank account opened for such purpose.

If an Assignee pays directly a Cash Call in respect of the actual cost of Final Decommissioning Obligations then the Security Holder shall do all acts and things reasonably necessary to permit the amount of any Acceptable Security provided to be reduced by an amount equal to the amount of the aforesaid Cash Call.

Following payment of all the costs of Final Decommissioning Obligations as determined by the Joint Operating Committee the Security Holder shall do all acts and things reasonably necessary to cancel any then existing Acceptable Security provided by an Assignee.
25.7.12 Each Security Holder shall:

(i) in no circumstances other than those set out above in this clause 24.7 make a written demand for payment in respect of any Acceptable Security; and

(ii) on taking any action permitted or required by the above provisions of clause 24.7 simultaneously notify the other Participants in writing of such action.

25.7.13 The liability of a Security Holder to another Participant for loss or damage arising out of such Security Holder’s failure to comply with the provisions of clause 25.7 shall be limited as if the provisions of clause 6.2.4 hereof, mutatis mutandis, applied thereto. All costs and expenses properly incurred by a Security Holder in its performance of the provisions of this clause 25.7 or Schedule B shall be charged to the Joint Account.

25.8 In the event any Participant is required by law or by the terms of the Licence to effect the decommissioning of any offshore installations and pipeline used in connection with the Joint Operations (including without limitation the demolition and removal thereof, and any necessary site reinstatement) such Participant shall effect such decommissioning and the cost it incurs in doing so shall be charged to the Joint Account.

26. **Intellectual Property**

26.1.1 Any Intellectual Property developed specifically for Joint Operations the development of which is charged to the Parties in proportions to their Percentage Interests and which neither contains nor is developed from existing Intellectual Property of any of the Parties is termed “Joint Operations Intellectual Property” and, subject to the provisions of Clause 18, shall be part of Joint Property. Intellectual Property Rights in joint Operations Intellectual
Property ("Joint Operations Intellectual Property Rights") shall vest in the Operator on behalf of and for the benefit of the Parties.

26.1.2 Any Party and any of its Affiliates, provided such Affiliates are bound by confidentiality obligations no less stringent than those which bind the Party in question hereunder, shall have a royalty-free right to use such Joint Operations Intellectual Property Rights, for its/their own operations and in any other bona fide operations in which such Party and/or its Affiliates has/have an interest, always provided that, in the case of such bona fide operations, any other person participating in such operations gives a prior written undertaking to each of the Parties:

(i) to keep such Joint Operations Intellectual Property confidential;

(ii) not to use Joint Operations Intellectual Property for any purpose except in connection with such operations; and

(iii) to enter into such commercial arrangements with respect to such use as the Operating Committee may reasonably require.

26.2.1 In the event that the Intellectual Property of any of the Parties (other than Joint Operations Intellectual Property) is required for use in conjunction with Joint Operations Intellectual Property then the Party proposing to supply such Intellectual Property shall be entitled to require that, prior to its Intellectual Property being made available as aforesaid, the right to use its Intellectual Property, together with a licence under any relevant Intellectual Property Rights, shall be granted to the other Parties on such reasonable terms and conditions as may be agreed having due regard to the respective interests of each of the Parties. Any such rights and licence shall extend to the Affiliates of the Parties in receipt of the right and licence.

26.2.2 Any Intellectual Property developed specifically for Joint Operations, the development of which is charged to the Parties in proportion to their
Percentage Interests and which contains, or is developed from such Intellectual Property referred to at Clause 26.2.1 shall be part of Joint Operations and shall be treated in all respects as if it were Joint Operations Intellectual Property under Clause 26.1.2.

26.3 The use by the Parties of any Intellectual Property developed other than in accordance with Clauses 26.1 and 26.2 above shall be subject to such terms and conditions as may be agreed between the Parties. For the avoidance of doubt there shall be no requirement that any licence which may be agreed between the Parties regarding the use of such Intellectual Property shall extend to Affiliates thereof.
27. **Applicable Law**

This Agreement shall be governed by and construed in accordance with English law and each of the Participants hereby submits to the jurisdiction of the High Court of England.

28. **Notices**

Any notice required to be given pursuant to this Agreement shall be in writing and may be given by delivering the same by hand at, or by sending the same by prepaid first class post or facsimile to, the relevant address set out below or such other address as any Participant may notify to the other Participants from time to time. Any such notice given as aforesaid shall be deemed to have been given or received at the time of delivery (if delivered by hand), the first Working Day next following the day of sending (if sent by facsimile) and the second Working Day next following the day of sending (if sent by post). Without prejudice to the foregoing provisions of this clause, if a Participant to which a notice is given does not acknowledge the same by the end of the third Working Day next following the day of delivery or sending, the Participant giving the notice shall communicate with the Participant which has not so acknowledged and, if necessary, re-deliver or re-send the notice.

[ ]: [ ]

Attn: [ ]
Facsimile: [ ]

[ ]: [ ]

[ ]
IN WITNESS WHEREOF the Participants have caused this Agreement to be executed by their duly authorised representatives the day and year first above written.

Signed for and on behalf of
[ ] Limited

__________________________

Signed for and on behalf of
[ ] Limited

__________________________
SCHEDULE A

JOINT OPERATING AGREEMENT

UKCS LICENCE NO. P[___]

BLOCK [___]

ACCOUNTING PROCEDURE

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SECTION I

GENERAL PROVISIONS

[In the event of any conflict between any provision in the main body of the Agreement and any provision in this Accounting Procedure, the provision in the main body of the Agreement shall prevail.

1. DEFINITIONS

1.1 For the purposes of this Exhibit, and wherever used herein:

(i) “Accounting Period” means the period in respect of which invoices shall be issued by the Operator, being the period from the date upon which the accounting system of the Operator is open for recording transactions in relation to any Month and the date upon which such system is closed for recording transactions in relation to such Month (both dates inclusive);

(ii) “Accruals” means amounts which are expected to be paid or received after the end of an accounting period as a result of events and transactions prior to the end of the said accounting period;

(iii) “Accrual Basis” means the basis of accounting which records the effect of transactions on financial conditions and income when the transactions take place, not merely when they are settled in cash;

(iv) “Agreement” means the Joint Operating Agreement for Licence P.[ ], Block [ ] of which this Schedule A forms part;

(v) “Cash Basis” means the basis of accounting which records the effect of transactions only when the related cash is paid or received;

(vi) “Cost Control Report” has the meaning given to it in paragraph 6 of Section IV;

(vii) “Estimated Final Cost” has the meaning given to it in paragraph 5.2 of Section IV;

(viii) “Major Service” has the meaning given to it in paragraph 4.2 of Section III;
(ix) “Major Surplus Item” has the meaning given to it in paragraph 2.1 of Section III;

(x) “Man Hour Rate” has the meaning given to it in paragraph 2 of Section II;

(xi) “Material” means personal property, equipment or supplies;

(xii) “Receipts” include, but are not limited to, repayments of invoice payments, grants received from any governmental agency or body in the United Kingdom or of the European Union and monies (or the monetary value of other consideration) arising from the sale of Joint Property;

(xiii) “Technical Support and General Expertise” has the meaning given to it in paragraph 13 of Section II.

1.2 Words and expressions defined in the Agreement and used herein have the meanings therein ascribed to them.

1.3 Reference herein to any clause shall be a reference to a clause in the Agreement.

1.4 Reference herein to any Section shall be a reference to a section of this Schedule.

1.5 Unless the context otherwise requires, reference to the singular in this Schedule includes reference to the plural and vice versa.

1.6 Unless the context otherwise requires, reference to any paragraph is to a paragraph of the Section in which the reference is made.

1.7 Unless otherwise agreed by the Joint Operating Committee the treatment of accounting matters relative to any Decommissioning Programme or Decommissioning Budget approved pursuant to the Agreement shall be in accordance with the provisions hereunder relating to Development Programmes and Development Budgets.
2. **PURPOSE**

The purpose of the Accounting Procedure is to establish the principles of accounting which shall truly reflect the Operator's actual cost to the end that the Operator shall, subject to the provisions of the Agreement, neither gain nor lose by reason of the fact that it acts as the Operator. It is the intention of the Participants that there shall be no duplication of items charged to the Joint Account. Each of the Participants is responsible for maintaining its own accounting records to comply with all legal requirements and to support all fiscal returns or any other accounting reports required by any governmental authority in regard to Joint Operations, except those (if any) which it is the statutory obligation of the Operator to prepare and submit on behalf of itself and the Participants. The Operator will provide the other Participants with such accounting data and information as may be necessary to:

(i) fulfill any statutory obligation to which the other Participants are subjected,

(ii) permit any other Participant to claim any allowance or grant to which it may be entitled and for which an application is required by such Participant,

to the extent that such accounting data and information could reasonably be expected to be available from accounting records maintained by the Operator.

3. **ACCOUNTING RECORDS**

3.1 The Operator shall open and maintain such separately identifiable accounting records as may be necessary to record in a full and proper manner all Invoice payments received by the Operator from each Participant and all expenditure incurred and all Receipts obtained by the Operator in connection with Joint Operations.

3.2 Expenditures and Receipts funded in currencies other than Pounds shall be converted into Pounds using translation rates in accordance with the Operator's standard accounting practice. Where expenditure is incurred in any currency other than Pounds but settled in Pounds, the sum charged to the Joint Account shall be the actual cost in Pounds of the other currency purchased. Any exchange gain or loss shall be for the Joint Account.
4. BILLING INVOICES AND SCHEDULES

4.1 Unless otherwise agreed the Operator shall initially fund the costs of Joint Operations on behalf of each Participant subject to reimbursement by each Participant of such costs and payment by each Participant of the financing fee referred to at paragraph 4.6 below. Should the Operator feel that it is more appropriate to cash call each Participant to meet major payments from time to time, the Operator shall have the right to do so by giving each Participant at least fourteen (14) days notice of the required amount and the payment date. No finance fee shall apply to payments funded by cash call.

4.2 The Operator shall send a billing Invoice to each party within ten (10) days following the end of each Accounting Period for each Month on all payments made and all receipts obtained by the Operator in connection with the Operations during such Accounting Period.

4.3 The invoices referred to in paragraph 4.2 shall show the net total of all payments (i.e. less all receipts) relating to the Joint Account and the amount thereof payable by or repayable to each Participant and shall be accompanied by billing schedules which shall be schedules, dividing such payments and receipts into main classifications of expenditure indicative of the nature thereof. The billing schedules shall also show cumulative annual net totals of all payments (less all receipts) and cumulative payment totals since inception (less all receipts). The billing invoice shall also include the financing fee referred to in paragraph 4.6 below.

4.4 All billing invoices and billing schedules shall give totals in Pounds.

4.5 The Cash Basis rather than the Accrual Basis shall be used in the billing invoices and billing schedules. Nevertheless for the Non-Operators’ internal accounting purposes the Operator shall show its estimate of accrued expenditure for each AFE and main budget heading.

4.6 Each Non-Operator shall pay the Operator a financing fee to be calculated on the following basis:-

\[ F = (C \times P) \times \left( I \times \frac{P}{365} \right) \]
Where:-

F represents the financing fee payable by each Non-Operator to the Operator;

C represents the aggregate cost of the Joint Operations funded by the Operator on behalf of each Participant in terms of paragraph 4.1 above and to be invoiced by the Operator to each Participant in relation to the relevant Accounting Period;

PI represents the relevant Non-Operator’s Percentage Interest;

I represents interest at the London Interbank Offered Sterling rate for one (1) month specified in the Financial Times in respect of the Accounting Period midpoint date together with such increase or decrease to such rate as shall represent the amount of any increase or decrease in the cost of borrowing to the Operator consequent upon a variation to the credit rating of the Operator’s ultimate holding company by Standard & Poor’s Corporation Rating Agency;

P represents the number of days from the midpoint date of the relevant Accounting Period to the date when payment of the relevant invoice becomes due (both dates inclusive).

4.7 Each Participant shall pay its invoice on the due date which shall be ten (10) days after the date of issuing the invoice. At the same time as issuing the invoice a copy will also be sent to each Participant by fax. If any Participant fails to pay the invoice in full, the provisions of clause 15 shall apply.

4.8 Where a Participant has approval to perform services for the Operator under Joint Operations, the Participant shall submit an invoice promptly to the Operator following completion of the services or on a monthly basis as may be agreed by the Participant and the Operator. The Operator shall pay such invoice within ten (10) Working Days of the date of issue. If the Operator fails to pay the invoice in full within ten (10) Working Days of the date of issue, interest shall accrue on the amount of the invoice at the rate of LIBOR plus two percent (2%) from the due date to the date of payment. The terms of paragraphs 6 and 7 of this Section I shall apply mutatis mutandis to any such services and charges therefor.
5. INVENTORIES OF MATERIAL/ASSET RECORDS

5.1 Material Records

Records of any stock of material purchased by the Operator shall be kept by the Operator or its agent in accordance with the Operator's standard procedures for controlling such material.

5.2 Asset Records

The Operator shall maintain records of expenditure in relation to the acquisition of Joint Property for Joint Operations.

5.3 Periodic Inventories

5.3.1 Periodic Inventories, Notice and Representation

At reasonable intervals, and at least annually for warehouse stocks, a complete inventory shall be taken by the Operator of all controllable Material forming part of Joint Property, in accordance with the Operator's standard materials procedures in force from time to time. Notice of intention to take a complete inventory shall be given by the Operator at least thirty (30) days before any such inventory is to be taken, so that each Participant may be represented when any such inventory is taken. Alternatively, if the Operator maintains a system of checking material by taking an inventory on a continuous basis the Operator may so notify each Participant, whereupon the taking of a complete inventory shall not be required, and in such case each Participant shall have the right to attend the Operator's premises to observe any part of such continuous check upon giving at least thirty (30) days notice to the Operator. Failure by any Participant to be represented at the taking of any complete inventory or any part of an inventory taken on a continuous basis shall bind the Participant concerned to accept any such inventory taken by the Operator which shall in any event furnish each Participant with copies of inventories if so requested.
5.3.2 Reconciliation and Adjustment of Inventories

At reasonable intervals, and at least annually for warehouse stocks, a reconciliation shall be made between an inventory list and the records of stocks held on the Joint Account and a list of surpluses and shortages shall be determined by the Operator. Inventory adjustments shall be made by the Operator to the Joint Account for surpluses and shortages, with relevant explanations where available. Adjustments totalling one hundred thousand Pounds (£100,000) or more in any one Year shall require the approval of the Joint Operating Committee.

5.3.3 Special Inventories

Each Participant shall be entitled at its own expense to require the Operator to take a special inventory of the Material forming part of Joint Property at any reasonable time. A special inventory shall be taken upon any change of the Operator, the cost of which shall be charged to the Joint Account.

6. Adjustments

Payment of any invoices shall not prejudice the right of any Participant to protest or question the correctness of any amount included in a billing invoice(s) or a billing schedule. Subject to the right of audit under paragraph 7 all billing statements and billing schedules rendered to each Participant by the Operator in relation to any Year shall conclusively be presumed to be true and correct after twenty four (24) Months following the end of such Year unless within the said twenty four (24) Month period any Participant makes written exception thereto and makes claim on the Operator for adjustment. The provisions of this paragraph shall not prevent adjustments resulting from accounting adjustments, physical inventories of property as provided in paragraph 5 nor prevent the settlement of any claims involving a third party nor prevent adjustments required as a result of any statutory provisions. No interest will normally be payable on such adjustments.

7. Audits

7.1 Subject to paragraph 7.2 below, all the Participants shall have the right to audit the accounts and records of the Joint Account for each Year including the billing statements and billing schedules relating thereto and to obtain all necessary
information for such purposes, before the end of the twenty-fourth (24th) Month following the end of such Year. The other Participants shall give at least thirty (30) days notice to the Operator of their intention to conduct an audit. The right of audit includes the right of access at all reasonable times during normal business hours to all accounts and records, pertaining to the Joint Account, maintained by the Operator and its Affiliates.

7.2 Audits of accounts and records pertaining to the Joint Account which:

(i) include information generally accepted as proprietary and confidential, or

(ii) are maintained by Affiliates of the Operator, other than any Affiliate of the Operator which is conducting a substantial part of Joint Operations on behalf of the Operator, or

(iii) relate to charges made under paragraphs 2 and 13 of Section II, or

(iv) relate to multi-field or multi-operator contracts pursuant to clause 5.5.2 and contain information which the Operator considers to be commercially sensitive (for example and without limitation, itemised rates, prices, price structures and incentives),

shall, unless the Joint Operating Committee agrees otherwise, be audited as follows:

(a) for the accounts and records referred to in (i), (ii) or (iii) above, the audit shall be conducted by the Operator’s statutory auditors (provided such appointment is accepted by the statutory auditors) who shall conduct such audit in accordance with the [ ]MVAC terms of reference as the same are in force from time to time. If the Operator’s statutory auditors will not accept such appointment, such audits shall be conducted by an external auditor of international standing, to be appointed by the [ ]MVAC. The terms of reference for audits under this paragraph 7.2 shall be agreed between the Participants but will include those referred to in paragraph 7.3 below;

(b) for the accounts and records referred to in (iv) above, according to the process adopted by the [ ]MVAC (such process to be presented by the Operator to the Joint Operating Committee prior to
it having effect in relation to this Agreement, provided that the approval of the Joint Operating Committee shall not be required); or

(II) in the event that no such process is adopted by the [ ]MVAC or to the extent that the process adopted does not apply to any accounts and records referred to in (iv) above, such audits shall be conducted jointly by the Operator’s contract compliance accountants and the representatives of the Non-Operators working together.

Each Participant shall appoint one (1) representative and an alternate who shall participate in any such audits of accounts and records referred to in (iv) above and shall, as soon as possible after the date of this Agreement, give notice to all other Participants of the name of such representative and alternate and shall promptly notify the other Participants of the name of any replacement representative. Each Participant shall use reasonable endeavours to retain notified representatives and/or alternates for a period of twelve (12) Months after the date of such notification.

7.3 Subject to the prior approval of the Joint Operating Committee, the Operator will arrange for an annual audit of the accounts and records referred to in paragraph 7.2 above. The auditors will be asked to certify that:

(a) the salary costs described in paragraph 2.1 of Section II are consistent with the payroll records;

(b) the administrative overhead costs have been allocated in accordance with paragraph 2.2 of Section II and have been correctly charged to the Joint Account and in accordance with the Operator's standard accounting policies and practices;

(c) the percentage rate charged under Section II paragraph 13 is calculated on a consistent basis and has not resulted in an over-recovery of costs.

7.4 In respect of contracts entered into by the Operator on behalf of the Participants, the Operator shall use reasonable endeavours to obtain audit rights for all other
Participants in all contracts. Where the Operator obtains audit rights the other Participants may carry out audits of such contracts jointly with the Operator.

7.5 The Participants shall make every reasonable effort to conduct audits jointly in a manner which will result in a minimum of inconvenience to the Operator. The Operator shall make every reasonable effort to co-operate with the other Participants and, where appropriate, the auditors conducting an audit under paragraph 7.2 and will provide reasonable facilities and assistance.

7.6 At the conclusion of each audit, the Participants shall endeavour to settle outstanding matters and a written report will be circulated to all the Participants within three (3) Months of the conclusion of each audit. The report shall include all claims arising from such audit together with comments pertinent to the operation of the accounts and records. The Operator shall reply to the report in writing as soon as possible and in any event not later than three (3) Months following receipt of the report. Should the other Participants consider that the report or reply requires further investigation of any item therein, the other Participants shall have the right to conduct further investigation in relation to such matter notwithstanding that the said period of twenty-four (24) Months may have expired. Such further investigation shall be commenced within thirty (30) days and be concluded within sixty (60) days of the receipt of such a report or reply, unless mutually agreed by all the Participants. Such agreement is not to be unreasonably withheld.

7.7 Notwithstanding that the said period of twenty-four (24) Months may have expired, if evidence exists that the Operator has been guilty of Wilful Misconduct, the Participants (other than the Operator) shall have the right to conduct further audits in respect of any earlier periods.

7.8 All adjustments resulting from an audit agreed between the Operator and the Participants conducting the audit shall be rectified promptly in the Joint Account by the Operator and reported to the other Participants. If any dispute shall arise in connection with an audit, it shall be referred to the Joint Operating Committee for resolution by unanimous agreement. In the event that unanimous agreement is not reached, then such matter shall be referred to an expert appointed by the President of the Institute of Chartered Accountants in England and Wales. The decision of such expert shall be binding on all Participants.
7.9 Costs incurred by the Operator in connection with carrying out any audit under this paragraph 7 shall be charged to the Joint Account. Costs incurred by the Participants (other than those of the Operator) in connection with carrying out any audit under this paragraph 7 shall not be charged to the Joint Account.

8. **BUDGETING, FORECASTING AND REPORTING**

The Operator shall furnish each Participant with Budgets, forecasts and reports in accordance with the procedures described in Section IV. All Budgets shall be in Pounds.

9. **MODIFICATION AND REVISIONS**

The Accounting Procedure may be revised or amended from time to time by agreement of the Participants or, where expressly so provided, by agreement of the Joint Operating Committee.
SECTION II

CHARGEABLE EXPENDITURE

Subject to the limitations hereinafter set out and to other relevant provisions of the Agreement the Operator shall charge, with effect from the 1st March 200[ ], the Joint Account with the following items of expenditure insofar as they relate to and are necessary for the conduct of Joint Operations:-

1. PERSONNEL COSTS

The cost of salary and related benefits of all personnel who work on Joint Operations, as set out below, or on such other basis as may be proposed by the Operator from time to time and is approved by the Joint Operating Committee.

1.1 Time Sheets

1.1.1 All personnel, other than those described in paragraph 1.1.2, who work on Joint Operations under the direct control of the Operator will maintain time sheets for the purpose of charging salary and related benefits direct to the Joint Account. Time sheets will record time worked either as hours or a percentage split of the time spent for the timesheet period on Joint Operations and all other operations whether such personnel are engaged full time or part time on Joint Operations and will show the time worked on the various projects and other classifications of cost to enable costs to be allocated to AFEs and Budget classifications.

1.1.2 Notwithstanding the foregoing, time sheets may not be maintained by certain personnel:

(i) where personnel are dedicated to Joint Operations, the salary and related benefits of such personnel shall be charged to Joint Operations on the basis of actual costs as specified in paragraphs 2.1 and 2.2; or

(ii) where personnel support Joint Operations and where time sheets are not maintained owing to the impracticability of so doing, the salary
and related benefits of such personnel shall be recovered under the provisions of paragraphs 2 and 3.

1.2 Personnel Employed by the Operator or any of its Affiliates

The amount to be charged to the Joint Account for each person who is employed by the Operator or by any of its Affiliates other than personnel who:-

(i) do not maintain time sheets as referred to in paragraph 1.1.2; or

(ii) are involved in providing services under paragraph 7.2, in which case the cost of salary, related benefits and associated administrative overhead will be recovered through the rate charged thereunder; or

(iii) work in a location for which the cost of salary, related benefits and associated administrative overhead is to be charged direct under paragraph 12

and who is working on Joint Operations under the direct control of the Operator shall be determined from the hours recorded for such person to Joint Operations, as shown on the time sheets, as the product of such hours and the rates as detailed in paragraph 2 below.

The Operator shall recover non-direct time such as annual holidays, public holidays, sickness, staff training, general administration and other like items both from Joint Operations and other operations conducted each year on equitable bases.

1.3 Personnel Seconded to the Operator or any of its Affiliates from the other Participants (other than in respect of those providing services in paragraph 1.4) or Hired from Third Party Agencies

The amount to be charged to the Joint Account for each person who is working full-time or part-time on Joint Operations other than personnel who:-

(i) do not maintain time sheets as referred to in paragraph 1.1.2, or
(ii) are involved in providing services under paragraphs 7.1 and 7.2, in which case the cost of such seconded or hired personnel is through the rate charged thereunder, or

(iii) work in a location for which the cost of such seconded or hired personnel and associated administrative overhead is to be charged direct under paragraph 12

and who is either seconded to the Operator or any of its Affiliates from any other Participant, or hired from any third party agency, shall be determined from the hours time recorded for such person to Joint Operations, as shown on the time sheets, as the product of such hours and the Manhour Rates calculated in accordance with paragraph 2.1 and the Operator’s or any of its Affiliates’ administrative overhead costs under paragraph 2.2 below.

1.4 Personnel employed or hired by the Participants (other than the Operator) who provide services to the Joint Operations (other than in respect of those seconded to the Joint Operations in paragraph 1.3)

Where the Operator requests such services, the amount to be charged shall be determined as the product of hours time recorded for such person to Joint Operations, as shown on time sheets, and the Manhour Rates calculated in accordance with paragraph 2.1 and, where appropriate, the Participant’s administrative overhead in accordance with paragraph 2.2 below. Such amount to be charged to the Operator by monthly invoice.

2. MANHOUR RATES

Manhour rates shall be deemed to cover all costs of personnel directly controlled by the Operator or its Affiliates who work on Joint Operations not specifically provided as chargeable to the Joint Account elsewhere in this Section II.

The Manhour Rates shall comprise the following:-

2.1 (a) Salary & Related Benefits of Personnel Under Paragraph 1.2, 1.3 and 1.4 above

   (i) Gross salary plus related allowances and benefits payable generally
by the Operator or any of its Affiliates or a Participant from whom personnel are seconded or who provide services to the Joint Account as part of its standard terms of employment in force in the relevant period;

(ii) pension costs (assessed as a percentage of salary cost for all the Operator's or its Affiliates' employees from time to time);

(iii) National Insurance cost;

(iv) any governmental tax, duty, levy and/or impost that may be levied upon the Operator or any of its Affiliates or a Participant from whom personnel are seconded or who provide services to the Joint Account in respect of such personnel; and

(v) in the case of personnel hired from third party agencies, the cost invoiced by the third party agency.

Payments in respect of retirement, severance and other like items shall be allocated equitably to Joint Operations and other operations of the Operator and its Affiliates. Such costs in respect of personnel seconded to the Operator from another Participant or who provide services to the Joint Account shall remain a cost of that Participant.

(b) Employment Cost of Persons Under Paragraph 1.3 Above

The cost of the person as invoiced by the other Participant consistent with 2.1(a) above, or the invoice from the third party agency.

2.2 Administrative Overhead Costs

Administrative overhead costs, which shall exclude any costs and expenses of a corporate nature, comprise the items detailed below which are incurred by the Operator or any of its Affiliates or a Participant from whose offices the Operator has requested the services in paragraph 1.4. These shall be allocated in accordance with the Operator's or its Affiliates' or the Participant’s standard accounting policies
and practices in force from time to time which will be advised to the Participants and the Operator as appropriate.

(i) Salary and related benefits (as described in paragraph 2.1) of the personnel referred to in paragraph 1.1.2 who are employed on Joint Operations or who support Joint Operations. Such personnel may be employed by, seconded to or hired from any third party agency by the Operator or any of its Affiliates.

(ii) Overhead costs incurred in supporting Joint Operations such as property costs, personnel department costs, office services, routine computer applications and costs of other support departments and like items.

(iii) All other costs of the Operator and any of its Affiliates in respect of personnel supporting Joint Operations which are not specifically provided as chargeable to the Joint Account elsewhere in this Section II other than any other type of expenditure which may be specifically approved by the Joint Operating Committee under paragraph 15 as being separately chargeable.

3. METHOD OF CHARGING

The Manhour Rates for each cost area in the Operator's or the Participant’s organisation as the case may be, reflect the average salary and related benefits together with administrative overhead costs as defined in paragraph 2.2 above incurred by such cost area.

The Manhour Rates calculated for each cost area are based on the Operator's or the Participant’s annual budget as the case may be, for administrative overhead costs divided by the annual time writing hours budgeted for each cost area and are applied consistently to all operations undertaken by the Operator or the Participant.

For charging purposes during the budget year, the manhour rates for any cost area may be adjusted by the Operator or the Participant to reflect actual cost experience during the year and to reflect appropriate levels of administrative overhead for each cost area.

Following the end of each year, the Operator or the Participant shall adjust the charges to the Joint Account for each cost area to the costs actually incurred using the same allocation bases as in the Operator's or the Participant’s annual budget as
the case may be. The total adjustment to the Joint Account will be highlighted in the relevant billing if material.

4. **EXPENSES INCURRED BY PERSONNEL**

All direct expenses reasonably and necessarily incurred by personnel who work under the direct control of the Operator including personnel working in Joint Teams or any of its Affiliates on Joint Operations including:

(i) travel and relocation expenses; and

(ii) living allowance (when paid in lieu of hotel expenses for visits to site).

All expenses charged to the Joint Account under this paragraph shall be in accordance with the Operator's or the Participant’s standard terms of employment in force in the relevant period and shall include those incurred in connection with the families of personnel where appropriate. Relocation expenses at the termination of a period of work on Joint Operations will be on the basis of a return to domicile within the United Kingdom unless the personnel involved return to a location outside the United Kingdom from which they have been drawn for work on Joint Operations when the relocation expenses shall be on the basis of a return to that location. Direct expenses charged under the provisions of this paragraph will be charged on an equitable basis taking into consideration time spent by personnel on both Joint Operations and on other operations of the Operator or its Affiliates.

5. **MATERIAL**

5.1 **General**

Material purchased by the Operator from Third Parties or transferred from the Operator or any of its Affiliates for use in connection with Joint Operations, including Material purchased for or transferred from warehouse stock, at values provided in paragraphs 5.2 and 5.3 unless otherwise chargeable under this Section II. So far as is reasonably practical and consistent with efficient and economical operation and with adequate provision for emergencies, only such Material shall be purchased or transferred to Joint Property as may be required for immediate use, and the accumulation of surplus stocks of Joint Property shall be avoided.
5.2 **Material Purchased For Joint Operations**

5.2.1 Material not normally held as part of the Operator's warehouse stocks and which is purchased specifically for Joint Operations shall be charged at the cost price which shall reflect net invoice charges (after deducting all trade and cash discounts actually received which, for the avoidance of doubt, shall include all discounts obtained by the Operator (and or its Affiliates) in relation to contracts provided to more than one field and/or more than one operator), freight, inspection, forwarding and documentation fees, packing costs, duties, licence fees and other like charges.

5.2.2 Material purchased for Joint Operations which the Operator wishes to use on other operations shall only be so used following approval by the Joint Operating Committee unless the material has previously been declared surplus to the requirements of Joint Operations. The value to be charged to the Operator for material so used shall be on the basis of paragraph 5.2.1. for material not normally held as warehouse stocks or paragraph 5.3.2 in the case of materials held in stock or as otherwise agreed by the Joint Operating Committee.

5.3 **Material Transferred from the Operator's own Warehouse Stock**

5.3.1 Material transferred to Joint Operations from the Operator's warehouse and which is normally held as part of the Operator's common warehouse stocks shall be charged as provided in this paragraph 5.3.

5.3.2 The value to be charged in respect of such Material so supplied, or credited in respect of surplus Material returned in accordance with paragraph 5 of Section III, shall be either:

(a) in the event such material is not replaced in stock the lesser of:-

   (i) the price for the relevant material as recorded by the Operator's inventory accounting system, together with a financing charge determined in accordance with this paragraph 5.3.2, or

   (ii) the written down value;
or such other value as the Joint Operating Committee agrees; or

(b) in the event that such material is replaced in stock:

(i) the cost price to replace such material or

(ii) such other charge as the Joint Operating Committee agrees prior to such transfer.

The cost price referred to at (b) above shall reflect net invoice charges (after deducting all trade and cash discounts actually received which, for the avoidance of doubt, shall include all discounts obtained by the Operator (and or its Affiliates) in relation to contracts provided to more than one field and/or more than one operator) plus ancillary charges including freight, inspection, forwarding and documentation fees, packing costs, duties, licence fees and other like charges incurred prior to the initial receipt of the Material at the field bases.

If any item of Material is not exclusively transferred to Joint Operations, the Participants shall only be charged the relevant proportion of the price or value.

Chemicals and gas oil shall be excluded from the calculation and no financing charge shall be levied on issues of these items.

The said financing charge shall be applied at one and a half per cent (1.5%) above LIBOR multiplied by the average stock turnover for that stock category in months divided by twelve (12) or such other figure as may be agreed by the Joint Operating Committee from time to time to cover the cost of financing the holding of such stocks.

5.3.3 Material transferred from the Operator or any of its Affiliates for use on Joint Operations in the safeguarding of lives or property or the prevention of, or mitigation of pollution under clause 5.10.2 shall be charged in accordance with the provisions of paragraphs 5.2 or 5.3 as appropriate.
5.4 **Warranty of Material**

In the case of any Material which is defective and in respect of which there exists a manufacturer's or supplier's guarantee, express or implied, the Operator shall endeavour to recover from the manufacturer or supplier in question under such guarantee provided that a credit shall not pass to the Joint Account until an adjustment has been received by the Operator from the manufacturer or supplier.

6. **TRANSPORT**

The cost of transport to move personnel and Material necessarily incurred by the Operator or any of its Affiliates in connection with Joint Operations, unless otherwise chargeable in this Section II.

7. **SERVICES**

7.1 **Services Provided by Participants and Third Parties**

The cost of consultants and other services and facilities provided by Participants (other than the Operator) and Third Parties for Joint Operations, unless otherwise chargeable in this Section II.

7.2 **Services Provided by the Operator or by any of its Affiliates or other Participants**

The cost of any services and facilities owned, partly owned, leased or hired by the Operator or any of its Affiliates or Participants where authorised by the Operator or the Joint Operating Committee for use on Joint Operations.

The costs to be charged shall include the operating costs including normal depreciation and interest, where applicable, and all other costs normally associated with the provision of such services and facilities including, inter alia, salary and related benefits and attributable overheads of personnel involved in providing the services.

If such services are used in connection with other operations, the costs charged to the Joint Account shall be a proportion calculated on an equitable basis, in accordance with the standard accounting procedure of the Operator or the Affiliate.
or the Participant as appropriate and in force from time to time and each shall notify
the other Participants of any material change in the basis of such allocations.

Services and facilities charged on the above basis may include, inter alia, laboratory, general, engineering, computing, environmental protection services, material procurement and common operational services and facilities, provided that where a drilling rig, seismic vessel, other vessel or other major facility, which is owned, partly owned, leased or hired by the Operator or any of its Affiliates or a Participant, is used for Joint Operations, the cost to be charged shall include the operating costs including the normal depreciation and interest, where applicable, and all other costs normally associated with the provision of such services and facilities including, inter alia, mobilisation, demobilisation, repair and recertification costs. Such costs shall be comparable with prevailing market rates.

8. **DAMAGE AND LOSSES**

All costs and expenses arising out of any loss or damage to Joint Property, or otherwise sustained in connection therewith, including any necessary repair or replacement thereof due to fire, flood, storm, theft, accident or any other cause except to the extent such costs and expense arise out of the Wilful Misconduct of the Operator.

9. **LEGAL EXPENSES**

All costs and expenses of litigation and other legal services necessary or expedient in connection with Joint Operations provided however, that costs of the Operator's legal personnel shall be chargeable pursuant to the provisions of paragraph 2. The provisions of this paragraph shall not apply to any costs incurred in relation to any claim by any Participant against any other Participant.

10. **TAXES**

All taxes and other governmental levies of every kind and nature (other than those on profits or income of the Participants) assessed or levied upon or in connection with Joint Operations which have been paid by the Operator for the benefit of or on behalf of the Participants and which are not recoverable by the Operator. If the Operator demonstrates that any tax which is normally recoverable cannot be so recovered, such tax will be chargeable under this paragraph.
11. **INSURANCE AND CLAIMS**

11.1 Premiums paid for insurance carried for the benefit of all the Participants pursuant to clause 7.1 in connection with Joint Operations.

11.2 Expenditures made in settlement of any claims, damages and other such expenses, in connection with Joint Operations.

12. **FIELD EXPENSES**

The cost (including salary, related benefits and associated administration overhead of personnel employed by the Operator or by any of its Affiliates and including the cost of personnel seconded to the Operator or any of its Affiliates from a Participant (other than the Operator) or hired from any third party agency) of establishing and maintaining shore bases, warehouses, camps and other field facilities used in connection with Joint Operations. If such facilities are used in connection with other operations the cost charged to the Joint Account shall be a proportion calculated on an equitable basis, provided that in respect of the costs of initial receipt, internal handling, maintenance and storage of material held at the Operator's field bases the proportion of such costs to be charged to the Joint Account shall be in accordance with the standard accounting practice of the Operator and which shall be made on an equitable basis.

13. **TECHNICAL SUPPORT AND GENERAL EXPERTISE**

The cost of providing Technical Support and General Expertise not specifically charged elsewhere in this Agreement due to the impracticality of so doing, including but not limited to general advisory services such as health, safety and environmental advice, technical services, research and development support geological, geophysical, drilling, petroleum engineering and other support activities where it is impractical to charge on a measured usage basis.

Technical Support and General Expertise will be charged Monthly on the basis of expenditure against approved Budgets at the rate of one percent (1%) of all such...
expenditure including technical services and general expertise relating to exploration activities (pursuant to the exploration Programme and Budget).

For the purpose of this paragraph 13 such expenditure shall exclude:

(i) the charge for Technical Support and General Expertise itself;

(ii) any taxes;

(iii) any pipeline tariffs paid by the Operator to Third Parties for the transportation of hydrocarbons; and

(iv) the cost of services provided by a Participant and charged to the Joint Account.

The costs of Technical Support and General Expertise will be separately stated in the annual Budget and on the billing Invoice to the Participants.

14. LICENCE PAYMENTS

Licence rentals and fees of whatever nature paid by the Operator on behalf of the Participants in connection with the Joint Operations.

15. OTHER TYPES OF EXPENDITURE

Any type of expenditure not covered by the types of expenditure described in paragraphs 1 to 14 incurred by Operator which is necessary and proper for Joint Operations, provided it is approved by the Joint Operating Committee.
SECTION III
RECEIPTS

1. GENERAL

The Operator shall promptly credit to the Joint Account all net proceeds received in connection with Joint Operations as a result of:-

(i) sale of Material and other Joint Property as provided in paragraphs 2 and 3;

(ii) services provided to Third Parties or individual Participants by the Operator on behalf of the Participants whether using Material, other Joint Property, facilities, expertise or otherwise as provided in paragraph 4;

(iii) reimbursement by Third Parties of any sums expended by the Operator on behalf of the Participants;

(iv) insurance claims made by the Operator in respect of insurance carried for the benefit of all the Participants;

(v) claims made by the Operator on behalf of the Participants;

(vi) Material returned to the Operator or any of its Affiliates from Joint Operations as provided in paragraph 5;

(vii) Material transferred to other activities which has previously been purchased for Joint Operations;

(viii) grants or other payments from Governmental sources;

(ix) all taxes (including Value Added Tax), rentals and other fees recoverable by the Operator; and

(x) other event giving rise to a Receipt (including interest) by the Operator on behalf of the Participants.
2. **DISPOSAL OF MATERIAL PURCHASED FOR JOINT OPERATIONS**

2.1 **General**

If the Operator shall consider that any items of Material having an original unit cost to the Joint Account of more than one hundred thousand Pounds (£100,000) or aggregate or original unit costs totalling more than five hundred thousand Pounds (£500,000) ("Major Surplus Items") are no longer needed or suitable for Joint Operations it shall give notice to the other Participants accompanied by details of the Major Surplus Items and the applicable price under paragraph 2.2.3 and obtain the prior approval of the Joint Operating Committee before disposing of the same in the manner hereinafter provided.

The provisions of this paragraph 2 shall also apply to material which is normally held as part of the Operator's warehouse stocks and which has been transferred to Operations from the Operator's common warehouses if not accepted by the Operator in accordance with paragraph 5 of this Section.

2.2 **Material Purchased by the Participants**

2.2.1 The Operator shall have a prior right to purchase any surplus Material, other than Major Surplus Items, but is under no obligation to do so. In the case of Major Surplus Items, the disposal of which has been approved by the Joint Operating Committee, each of the Participants shall be entitled for a period of thirty (30) days from the date of such approval, subject to paragraph 2.2.2, to purchase such Major Surplus Items by giving notice to the Operator.

2.2.2 If more than one Participant indicates, within the said period of thirty (30) days, a wish to acquire the same Major Surplus Items, then the Operator shall promptly, in respect of each such item, give notice to the other Participants which wish to acquire that item. The Participants concerned shall be allowed fourteen (14) days from the date of such notification to agree upon a division or allocation of each such item between themselves. If the Participants concerned are unable to agree upon the division or allocation of any Major Surplus Item, the Operator shall request competitive bids from the Participants concerned in respect of that item and shall accept the highest bid. Where the Operator bids in competition with other...
Participants it shall arrange the bidding procedure to ensure that it gains no advantage from acting as the Operator.

2.2.3 Unless otherwise agreed by the Joint Operating Committee, all items of surplus Material to be sold under paragraph 2.2.1 or 2.2.2, shall be sold at prices determined by the Operator in accordance with the following bases:

(i) **New Material**

New Material (condition “A”) being new Material never used, at one hundred per cent (100%) of the cost thereof to the Joint Account;

(ii) **Good Used Material**

Good Used Material (condition “B”) being used Material in sound and serviceable condition, suitable for re-use without reconditioning, at seventy five per cent (75%) of the cost thereof to the Joint Account;

(iii) **Other Used Material**

Used Material (condition “C”) being used Material which is not in sound and serviceable condition (but suitable for re-use after reconditioning) at fifty per cent (50%) of the cost thereof to the Joint Account;

(iv) **Bad-Order Material**

Material (condition “D”) which is no longer suitable for its original purpose without excessive repair but usable for some other purpose, at an appraised value; or

(v) **Junk Material**

Junk Material (condition “E”) being obsolete and scrap Material, at prevailing prices,
with the exception that Major Surplus Items sold in consequence of competitive bids to any Participant must be sold at prices which are not less than those determined in accordance with the above.

2.3 Material Transferred to Other Operations

In the event that Material purchased and used in Joint Operations has a residual value and is transferred by the Operator for use in connection with other operations, apportionment of the original cost, together with the cost of necessary repair and refurbishment, will be determined in accordance with the Operator's standard accounting practices.

2.4 Material Purchased by Others

If no Participant has notified the Operator, in accordance with paragraph 2.2.1, of its wish to purchase any or all Major Surplus Items or if the Operator does not exercise its option to purchase any other items or surplus Material, then the Operator shall, unless the nature or value of an item makes tendering impracticable or uneconomic, prepare a list of the items for sale and competitive bids shall be requested from Third Parties. Subject to its right to refuse any offer the Operator shall customarily accept the highest offer, provided that if the highest offer is not accepted, the Operator will inform the Participants in advance of refusing such offer, giving its reason therefor.

2.5 Alternative Methods of Disposal

In the event that no such bids for items of surplus Material are received or if the nature or value of an item makes tendering impracticable or uneconomic, the Operator shall dispose of the same as it thinks fit other than to itself or its Affiliates provided that, if any Major Surplus Items are involved, the Operator shall make a recommendation to the Joint Operating Committee for an alternative method of disposal and shall obtain the approval of the Joint Operating Committee thereto prior to implementation.

2.6 All documentation relating to the disposal of surplus Materials shall be retained as part of the records available for audit.
3. DISPOSAL OF JOINT PROPERTY OTHER THAN MATERIAL

If the Operator shall consider that any item of Joint Property, other than Material, which has an aggregate cost to Joint Operations of more than one hundred thousand Pounds (£100,000), is no longer needed or suitable for Joint Operations it shall inform the Joint Operating Committee and the Joint Operating Committee shall decide whether such item shall be disposed of and, if so, the terms and conditions of disposal.

4. SERVICES PROVIDED TO THIRD PARTIES OR INDIVIDUAL PARTICIPANTS BY THE OPERATOR ON BEHALF OF THE PARTICIPANTS

4.1 General

Services using Material, other Joint Property, facilities, expertise or other resources available to Joint Operations may be rendered to Third Parties or individual Participants as provided in this paragraph 4, except that in no instance shall the provision of such services jeopardise, hinder or unreasonably interfere with Joint Operations. The provisions of this paragraph 4 shall not apply to the provision of services to a third party or individual Participants in an emergency, nor to services rendered by the Operator in accordance with paragraphs 5.3, 7.2 and 12 of Section II.

4.2 Major Service

If the Operator shall consider that the Material, other Joint Property, facilities, expertise or other resources available to Joint Operations which is required to fulfil any request for a service made by a third party or a Participant has an original cost to the Joint Account of more than two hundred and fifty thousand Pounds (£250,000) (“Major Service”), the Operator shall give notice to each Participant accompanied by details of the Major Service requested, the identity of the third party or Participant making such request and the Operator's recommendation as to the terms and conditions on which the Major Service should be provided and obtain the prior approval of the Joint Operating Committee before rendering such Major Service to such third party or Participant.
4.3 **Services other than a Major Service**

Unless otherwise agreed by the Joint Operating Committee, services other than a Major Service shall be provided at rates which are not less than those charged by third Parties for like services on comparable terms in the areas where Joint Operations are located. Where applicable the rates shall include interest and depreciation.

4.4 **Priorities**

The Joint Operating Committee shall decide any necessary order of priority when several conflicting requests for the same service are made.

5. **MATERIAL RETURNED TO THE OPERATOR'S WAREHOUSES FROM JOINT OPERATIONS**

Material which was transferred to Joint Operations from the Operator's warehouses in accordance with the provision of paragraph 5.3 of Section II shall be returned to the Operator at the price charged in accordance with paragraph 5.3.2 of Section II less the cost of any inspection and/or reconditioning. The Operator shall have the right to determine the suitability of Material to be re-warehoused and Material which is not accepted will be disposed of under paragraph 2 of this Section III.
SECTION IV
BUDGETING, FORECASTING AND REPORTING
PROCEDURE

1. BUDGET PREPARATION

1.1 Exploration Budgets

Each Exploration Budget required under clause 9 shall include:

(i) an estimate in Pounds of the total relevant programme and a sub-division of such total into each main classification and sub-classification of cost as provided in paragraph 4. The estimate for each such classification and sub-classification of cost shall be phased on an Accrual Basis and shall be shown by Quarter for the first Year and by Year for each subsequent Year of the programme;

(ii) an estimate of the amount if in excess of five million Pounds (£5,000,000) equivalent of each currency other than Pounds in which such total cost is to be paid, together with the exchange rates used. Such estimate shall be phased by Quarter for the first Year and by Year for each subsequent Year;

(iii) the amount of any escalation allowance added;

(iv) the amount of any contingency allowance added;

(v) an estimate of the timing and value of AFE's;

(vi) an estimate of the cost and the total number of man-Months budgeted; and

(vii) a statement indicating which budget items, if any, are contingent upon the outcome of other budget items such as the testing of exploration wells.

1.2 Appraisal Budgets

Each Appraisal Budget required under clause 10 shall include:
(i) an estimate in Pounds of the total relevant appraisal programme and a sub-
division of such total into each main classification and sub-classification of
cost as provided in paragraph 4. The estimate for each such classification
and sub-classification of cost shall be phased on an Accrual Basis and shall
be shown by Quarter for the first Year and by Year for each subsequent
Year of the programme;

(ii) an estimate of the amount if in excess of five million Pounds (£5,000,000)
equivalent of each currency other than Pounds in which such total cost is to
be paid, together with the exchange rates used. Such estimate shall be
phased by Quarter for the first Year and by Year for each subsequent Year;

(iii) the amount of any escalation allowance added;

(iv) the amount of any contingency allowed;

(v) an estimate of the timing and value of AFE's;

(vi) an estimate of the cost and the total number of man-Months budgeted; and

(vii) a statement indicating which budget items, if any, are contingent upon the
outcome of other budget items such as the testing of appraisal wells.

1.3 Development Budgets

Each Development Budget required under clause 11 shall include:

(i) an estimate in Pounds of the total development cost and a sub-
division of
such total into each main classification and sub-classification of cost as
provided in paragraph 4. The estimate for each such classification and sub-
classification of cost shall be phased on an Accrual Basis and shall be shown
by Quarter for the first Year and by Year for each subsequent Year of the
development;

(ii) an estimate of the amount if in excess of five million Pounds (£5,000,000)
equivalent of each currency other than Pounds in which such total cost is to
be paid, together with the exchange rates used. Such estimate shall be phased by Quarter for the first Year and by Year for each subsequent Year;

(iii) an estimate of funding currency requirements phased on a Cash Basis detailing Quarterly requirements for the first Year and annual requirements for each subsequent Year of the development;

(iv) the amount of any escalation allowance added;

(v) the amount of any contingency allowed;

(vi) an estimate of the timing and value of AFE's;

(vii) an estimate of the timing and value of commitments to be made under the Development Budget identifying the total commitments under each main classification of cost as provided in paragraph 4 in each Quarter of the first Year and in each of the subsequent Years of the development;

(viii) an estimate of the cost and the total number of man-Months budgeted; and

(ix) a statement indicating which budget items, if any, are contingent upon the outcome of other budget items such as the testing of development wells.

1.4 Production Budgets

Each Production Budget required under clause 12 shall be divided into the following sections:-

(a) Capital Expenditure.

(b) Operating Expenditure.

Each Production Budget shall include:-

(i) an estimate in Pounds of the total cost and a sub-division of such total into each main classification and sub-classification of cost as provided in paragraph 4. The estimates for each such classification and sub-classification shall be phased on an Accrual Basis for each of the Quarters of the Year;
(ii) an estimate of the cost and the total number of man-Months budgeted;

(iii) an estimate of payments under any major rental contracts and, where relevant, the production profile upon which these payments have been determined;

(iv) an estimate of any contingency allowance included; and

(v) a statement indicating which budget items, if any, are contingent upon the outcome of other budget items such as the testing of production wells.

Budget section (a) shall include an estimate of the capital cost to complete activities brought forward commencing in the respective budget Year.

2. **BUDGET APPROVAL**

The procedure for approval of exploration Budget, appraisal Budget, development Budget, production Budget and Decommissioning Budget is provided in clauses 9, 10, 11, 12 and 24 respectively.

Approval of any Budget provides the Operator with general approval of the proposals and subject to the provisions of the JOA shall permit the Operator to enter into commitments or incur any expenditures included in the said Budgets approved by the Joint Operating Committee as provided in the appropriate clause or deemed to be amended under that appropriate clause.

3. **BUDGET REVIEW AND AMENDMENT**

Each review of or amendment to an exploration Budget, appraisal Budget, development Budget, production Budget, or Decommissioning Budget as provided in clauses 9, 10, 11, 12 and 24 respectively shall include:-

(i) actual cash payments, net of Receipts and Accruals to date;

(ii) actual commitments to date; and
(iii) revised estimates of all items detailed in paragraphs 1.1, 1.2, 1.3 and 1.4 as appropriate.

4. SUB-DIVISION OF BUDGETS FOR APPROVAL BY AFE AND FOR CONTROL

4.1 Exploration Budgets, appraisal Budgets, development Budgets, production Budgets, and Decommissioning Budgets shall be divided into separately numbered classifications and sub-classifications of cost to provide a breakdown of the workscope into work elements in sufficient detail to allow adequate cost allocation and control. AFEs required under paragraph 5 below will be established for each such classification or sub-classification as appropriate. Where individual items of expenditure are attributable to more than one such classification or sub-classification such items shall be apportioned on an equitable basis.

4.2 Notwithstanding the above, AFEs for expenditure on wells included in any Budget which constitutes Capital Expenditure shall be issued separately on a dry hole and tested basis.

4.3 The Operator may, with the prior approval of the Joint Operating Committee, transfer sums between Budget sub-classifications after Budgets have been approved.

5. AUTHORISATION FOR EXPENDITURE

5.1 The Operator shall request approval of an AFE at a time when the main details of the relevant commitment can be ascertained and the AFE shall be approved by the Participants in accordance with paragraph 5.3 below.

5.2 The AFE will describe the scope of work, give the estimate of the items of expenditure necessary to complete such work, give the estimated timings of such expenditure and show separately the base cost (being the Operator's estimate of the most likely cost at the time of preparation of the AFE), escalation (being the Operator's estimate of increases in unit cost of labour, Materials or services, if any, for the period of the AFE), and any contingency (being the Operator's estimate of contingent occurrences). The total of the base cost, contingency and escalation shall be the “Estimated Final Cost”. Necessary further details to support the Estimated Final Cost of activities will be included as attachments to the extent
reasonably required by the Joint Operating Committee in order to approve such AFEs.

5.3 A Participant voting in favour of an AFE shall confirm its approval of such AFE by signing an AFE form and returning the same to the Operator within thirty (30) days of receipt. Any Participant not approving such AFE shall confirm their non-approval as soon as possible and, in any event, not later than thirty (30) days from receipt, giving the reason for such non-approval. All such notification of approval or non-approval of AFEs to the Operator shall be notified by the voting Participant to all other Participants.

After approval of an AFE by the Joint Operating Committee the Operator shall promptly notify all the Participants indicating the identity of those Participants whose authorisations have formed part of such approval.

In circumstances where the Operator reasonably believes it necessary, it may request the Joint Operating Committee to reduce the normal notice periods for approval of an AFE.

5.4 If at any time in relation to an approved AFE, it becomes apparent that current and/or future commitments will or are likely to cause the Estimated Final Cost to be exceeded by 10% or more, the Operator shall immediately notify the Participants and shall without delay prepare a revised AFE giving the reasons for the increased cost, and shall request approval of the revised AFE and shall not enter into any new commitment in relation to such AFE until the revised AFE has been approved by the Joint Operating Committee.

6. COST CONTROL REPORTS

The Operator will closely control all costs and will furnish the Participants on or before the 10th working day following each quarter with a Cost Control Report unless the aggregate annual capital expenditure in such Year exceeds ten million pounds (£10,000,000) in which case a Cost Control Report shall be furnished on a monthly basis by the 10th working day following the end of such month.

The Cost Control Report shall be a comparison of the latest estimated final cost for each AFE or grouping of AFEs with the approved Budget cost for such AFE or
grouping of AFEs together with a comparison of inception to date actual costs for each AFE or grouping of AFEs against the approved AFE values.

Where any major contract (being a contract of three million Pounds (£3,000,000) or more or such other amount as may be determined by the Joint Operating Committee) is forecast to exceed its approved level by an amount in excess of 10% or seven hundred and fifty thousand pounds (£750,000) whichever is the greater as referred to in clause 5.5.6 of the JOA it shall be added as a memorandum item on such Cost Control Report with the latest estimated final cost for such contract.
### SECTION V

#### SUMMARY OF REPORTS

<table>
<thead>
<tr>
<th>Title</th>
<th>Frequency of Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. AFE</td>
<td>As required</td>
</tr>
<tr>
<td>2. Cost Control Report</td>
<td>Monthly or Quarterly as appropriate</td>
</tr>
<tr>
<td>3. Billing Invoice</td>
<td>Monthly</td>
</tr>
<tr>
<td>4. Billing Schedule</td>
<td>Monthly</td>
</tr>
</tbody>
</table>
SCHEDULE B

JOINT OPERATING AGREEMENT

UKCS LICENCE NO. P[___]

BLOCK [___]

ABANDONMENT SECURITY DOCUMENTS
SCHEDULE B: APPENDIX 1A
FORM OF ABANDONMENT LETTER OF CREDIT

I SINGLE ISSUING BANK

STANDBY IRREVOCABLE LETTER OF CREDIT NO. [___]
ISSUED ON BEHALF OF [___]

TO: Security Holder ("the Security Holder" which term shall include any transferee from the Security Holder of its rights under this Credit) as agent for itself and the other Parties.

[ ] ("the Bank"), hereby issues this Standby Irrevocable Letter of Credit ("the Credit") in favour of the Security Holder upon the following terms and conditions:

1. In this Credit the following terms shall (subject as herein provided) have the following meanings:

"Bank's Office": [address and telex number to which Demand Notice to be sent].

"Agreement": an agreement dated [___] as amended and novated from time to time and known as Joint Operating Agreement for UKCS Licence P.1023.

"Business Day": a day upon which banks are open for domestic and foreign exchange business in London.

"Demand Notice": a written, dated notice from the Security Holder to the Bank in the form attached hereto.

"Parties": those companies defined as Participants in the Agreement.

2. Demand hereunder may only be made upon the Bank at the Bank's Office.

3. The Bank, subject as herein set forth, agrees to pay to the account specified in the Demand Notice during business hours in London the total amount demanded in any Demand Notice.
on or before the fifth Business Day following the Bank's receipt of such Demand Notice at
the Bank's Office.

4. Pounds sterling shall be the currency of the payment made under this Credit.

5. Only one demand may be made under this Credit, which must be made by a Demand
Notice received by the Bank on or before 31st December [ ] on which date this Credit
shall expire.

6. The maximum amount for which the Bank shall (subject to clause 5 above) be liable in
respect of the demand hereunder shall not exceed [ ].

7. This Credit is issued subject to (except so far as otherwise expressly stated) Uniform
Customs and Practice for Documentary Credits, [ ] revision, ICC Publication No. [ ],
and is governed by English law. This Credit is transferable by the Security Holder.

8. The Bank shall not be obliged to deal in any way in relation to this Credit with any person
other than the Security Holder or, in relation to payment, the payee under clause 3
notwithstanding whether the Security Holder is acting as the agent of or trustee for itself
and/or the other Parties. Accordingly, without prejudice to the foregoing, only the Security
Holder may make a demand hereunder.

9. This Credit is issued to replace Credit No. [ ] ("the Existing Credit") issued by the Bank in
favour of the Security Holder and accordingly, until the date after which no demand may
be made under the Existing Credit as specified therein, this Credit shall be of no effect and
no demand may be made hereunder.

Signed..................................................
authorised signatory of

[ ]

Date:....................................................
SCHEDULE B  APPENDIX 1A
FORM OF DEMAND NOTICE

TO: [Bank]

(Address of [registered] [notified] office)

JOINT OPERATING AGREEMENT RELATING TO UKCS LICENCE P[   ]
DEMAND NOTICE

Dear Sirs,

We refer to the Standby Irrevocable Letter of Credit No. [   ] issued by you on the       day of                 in favour of the Security Holder, as therein defined. In accordance with clause [5] thereof, we hereby state that [   ], the Security Holder is entitled pursuant to the terms of the Agreement to make a demand under the Credit and accordingly we hereby demand payment of £ without deduction or set off be made to (details of trustee's bank account: name, number, bank details) by (manner of transfer) on or before the fifth London business day following your receipt of this demand.

Yours faithfully,

Security Holder
SCHEDULE B  APPENDIX 1B
FORM OF ABANDONMENT LETTER OF CREDIT

II  AGENT BANK ISSUING FOR CONSORTIUM

STANDBY IRREVOCABLE LETTER OF CREDIT NO. [_______]
ISSUED ON BEHALF OF [_________________]

TO: Security Holder ("the Security Holder" which term shall include any transferee from the Security Holder of its rights under this Credit) as agent for itself and the other Parties.

The banks and financial institutions listed in the Schedule hereto hereby issue, through [_______] ("the Agent"), this Standby Irrevocable Letter of Credit ("the Credit") in favour of the Security Holder upon the following terms and conditions:

1. In this Credit the following terms shall (subject as herein provided) have the following meanings:

"Agent's Office": [address and telex number to which Demand Notice to be sent].

"Agreement": an agreement dated [_______] as amended and novated from time to time and known as the Joint Operating Agreement relating to UKCS Licence P[_______].

"Bank": any bank or financial institution participating in this Letter of Credit and specified in the Schedule hereto.

"Business Day": a day upon which banks are open for domestic and foreign exchange business in London.

"Demand Notice": a written, dated notice from the Security Holder to the Agent in the form attached hereto.

"Parties": those companies defined as Participants in the Agreement.

2. This Credit is signed by the Agent solely as agent for each of the Banks [other than itself]. Demand hereunder may only be made upon the Agent at the Agent's Office. The Agent
shall have no liability in relation to any demand hereunder (except to the extent that it is also a Bank) and no responsibility if this Credit is or becomes void, voidable or unenforceable in any respect.

3. The liability of each Bank under this Credit is several and, in relation to the amount demanded under this Credit shall be in the proportion represented by the [fraction/%] set opposite its name in the Schedule hereto. No Bank shall be liable to pay any amount remaining unpaid by any other Bank under this Credit.

4. The Banks, subject as herein set forth, agree to pay to the account specified in the Demand Notice during business hours in London the total amount demanded in any Demand Notice on or before the fifth Business Day following the Agent's receipt of such Demand Notice at the Agent's Office.

5. Pounds sterling shall be the currency of the payment made under this Credit.

6. Only one demand may be made under this Credit which must be made by a Demand Notice received by the Agent on or before 31st December [] on which date this Credit shall expire.

7. The maximum amount for which the Banks shall (subject to clauses 3 and 6 above) be liable in respect of the demand hereunder shall not exceed [].

8. This Credit is issued subject to (except so far as otherwise expressly stated) Uniform Customs and Practice for Documentary Credits, [ ] revision, ICC Publication No. [ ], and is governed by English law. This Credit is transferable by the Security Holder in whole only with the prior consent of the Agent, such consent not to be unreasonably withheld or delayed.

9. Neither the Agent nor any of the Banks shall be obliged to deal in any way in relation to this Credit with any person other than the Security Holder or, in relation to payment, the payee under clause 4, notwithstanding whether the Security Holder is acting as the agent of or trustee for itself and/or the other Parties. Accordingly, without prejudice to the foregoing, only the Security Holder may make a demand hereunder.
10. This Credit is issued to replace Credit No. [ ] ("the Existing Credit") issued by the Agent in favour of the Security Holder on behalf of the Banks specified in the Schedule hereto and accordingly, until the date after which no demand may be made under the Existing Credit as specified therein, this Credit shall be of no effect and no demand may be made hereunder.

**The Schedule above referred to**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Fraction/%</th>
</tr>
</thead>
</table>

Signed ......................................................

authorised signatory of

[ ]

acting as agent for all the Banks listed above

Date:...........................................................
SCHEDULE B  APPENDIX 1B
FORM OF DEMAND NOTICE

TO: [Agent]

:(Address of [registered] [notified] office)

JOINT OPERATING AGREEMENT
RELATING TO UKCS LICENCE P[   ]
DEMAND NOTICE

Dear Sirs,

We refer to the Standby Irrevocable Letter of Credit No. [ ] issued by you on the day of 20 in favour of the Security Holder, as therein defined. In accordance with clause [ ] thereof, we hereby state that [ ], the Security Holder is entitled pursuant to the terms of the Agreement to make a demand under the Credit and accordingly we hereby demand payment of £ without deduction or set off be made to (details of trustee's bank account: name, number, bank details) by (manner of transfer) on or before the fifth (5th) London business day following your receipt of this demand.

Yours faithfully,

Security Holder
SCHEDULE B APPENDIX 2
JOINT OPERATING AGREEMENT
RELATING TO UKCS LICENCE P[ ]

BOND

THIS DEED is made the day of 200[ ] .

BY:

[ ] a company incorporated in [ ] whose [registered] office is at [ ] (hereinafter called "the Issuer");

IN FAVOUR OF Security Holder as agent for itself and the other Parties.

WHEREAS the Parties are party to the Joint Operating Agreement relating to UKCS Licence P.1023 dated [ ] as amended and novated from time to time (the "Agreement").

WHEREAS the Parties have agreed, pursuant to the provisions of the Agreement, to defer [the Party's] obligations to make payments pursuant to the provisions of clause 24.7.3 thereof in consideration of the Issuer providing a Bond in the form hereinafter appearing.

NOW THIS DEED WITNESSETH THAT the Issuer undertakes to and in favour of Security Holder as agent for itself and the other Parties as follows:

1. In this Bond, the following terms shall have the following meanings:

   “Business Day” means a day upon which banks are open for domestic and foreign exchange business in London.

   “Party” means “Participant” as defined in the Agreement.

   Except as aforesaid, terms defined in the Agreement shall have the same meanings herein.

2. The Issuer hereby unconditionally and irrevocably undertakes to pay or procure payment ON DEMAND of the sum which shall prior to the Maturity Date referred to in clause 5 be demanded by Security Holder or its successor, as notified in writing to the Issuer, in the
form attached hereto as Schedule 1, subject to the maximum amount stated in clause 3 of this Bond. Only one demand may be made under this Bond.

A demand shall be validly made if served upon the Issuer at its aforesaid [registered] office marked , referencing this Bond.

3. The Issuer's liability hereunder shall not exceed £ , or such lesser sum as may from time to time be certified by the Security Holder.

4. The Issuer shall pay or procure payment (by the Party or otherwise) during business hours in London of the total amount demanded in any demand pursuant to clause 2 hereof on or before the fifth London Business Day following the Issuer's receipt of such demand without deduction or set off. Payment shall be made to (details of trustee's bank account: name, number, bank details) by (manner of transfer).

5. This Bond shall expire on 31st December [ ] (the "Maturity Date") without prejudice to any accrued rights and obligations arising from prior service of a demand pursuant to clause 2. For the avoidance of doubt and without prejudice to the generality of the foregoing in the event that demand has been made on the Issuer prior to the Maturity Date, the Issuer's obligation to pay hereunder shall be deemed accrued notwithstanding that the due date for payment may fall after the Maturity Date.

6. This Bond shall be governed by and construed in accordance with English law and the Issuer hereby irrevocably submits to the non exclusive jurisdiction of the English Courts.

7. This Bond is issued to replace [the Issuer's Bond dated the day of 20 ] [Credit No. ( ) issued by ( )] (the "Existing Security") and accordingly, until the Maturity Date under the Existing Security, this Bond shall be of no effect and no demand may be made hereunder.

IN WITNESS whereof this Deed has been duly executed by the Issuer the day and year first above written.

THE [COMMON] SEAL OF 
(the Issuer) was hereunto affixed in the presence of )
To: (Issuer)

:(Address of [registered] [notified] office)

JOINT OPERATING AGREEMENT (UKCS LICENCE P[ ]BOND

Dear Sirs,

We refer to the Deed made by you the day of 20 in favour of the Parties, as therein defined. In accordance with clause 2 thereof, we hereby demand payment of £

without deduction or set off be made to (details of trustee's bank account: name, number, bank details) by (manner of transfer) on or before the fifth London business day following your receipt of this demand.

Yours faithfully,

Security Holder
"Acceptable Financial Standards" means having a sound financial reputation and a history of providing quality service and meeting the minimum financial criterion of a long-term debt rating of at least "AA-" by Standard and Poor's or at least "Aa3" by Moody's Investors Service;

"Discounted Net Decommissioning Cost" means the estimated pre tax cost for the Party in question of ceasing Joint Operations in accordance with applicable laws and regulations which remains after deduction of estimated salvage value. This amount shall be calculated using the Operator’s latest forecasts of costs of cessation of Joint Operations and salvage values and reflect the anticipated time of cessation of Joint Operations as determined by the Operator. All values shall be discounted at the LIBOR to December 31 of the Year in which the calculation is being made;

"Discounted Net Value" means the pre tax value of estimated Substance Entitlement for the Party in question which remains after payment of estimated liabilities and expenses (of whatever nature) required to win, save and transport production (each according to the Operator’s latest forecasts) to the appropriate delivery point after deduction of estimated applicable taxes, royalties, imposts and levies each being applied at the prevailing rate on such production. The value of such Substance Entitlement shall be calculated using the Operator’s forecasts of Crude Oil, NGL and Natural Gas production rates, Wood Mackenzie’s (or their successor in title’s) forecasts of market prices for Crude Oil and NGLs (each for the load port in question) and Natural Gas (at the NBP), and include taxes on income levied at the prevailing rate. All values shall be discounted at the LIBOR to December 31 of the Year in which the calculation is being made. No account shall be taken of tax allowances expected to be available in respect of the costs of ceasing operations. Neither shall any account be taken of receipts that the Party in question may receive from the transportation and/or processing of Substance Entitlements of any of the Parties;

"Relevant Date" means the date determined by the Operating Committee, based on the current Forward Production Program, when the Discounted Net Value equals one hundred and fifty percent (150%) of the discounted Net Decommissioning Cost;

25.1 Decommissioning of Wells Drilled as Joint Operations
(A) With respect to the decommissioning of any well drilled as a Joint Operation and in which no Sole Risk Operation has been conducted pursuant to Article XXX, the following shall apply:

(1) A decision to plug and decommission any well that has been drilled as a Joint Operation shall require the approval of the Operating Committee.

(2) Should any Party fail to reply within the period prescribed in Article XXX is applicable, after delivery of Notice of the Operator's proposal to plug and decommission such well, such Party shall be deemed to have agreed to the proposed decommissioning. If decommissioning is approved pursuant to this Article 25.1, such well shall be plugged and decommissioned in accordance with applicable regulations and the cost of decommissioning shall be charged to the Joint Account.

(B) With respect to the decommissioning of any Exploration Well or Appraisal Well drilled as a Joint Operation and in which one or more Sole Risk Operations have been conducted pursuant to Article XXX, the following shall apply:

(1) No such well shall be plugged and decommissioned without the agreement of all Parties except as otherwise provided in this Article 25.1(B).

(2) Should any Party fail to reply within the period prescribed in Article XXX after delivery of Notice of the Operator's proposal to plug and decommission such well, such Party shall be deemed to have agreed to the proposed decommissioning. If all Parties agree to decommissioning, such well shall be plugged and decommissioned in accordance with applicable regulations and at the sole cost, risk, and expense of the Parties who participated in the cost of drilling such well. Each Party's proportionate share of cost, risk, and expense shall be equal to a decimal fraction the numerator of which shall be such Party's contribution to the expenditure incurred in drilling such well and the denominator of which shall be the total expenditure incurred in drilling such well.

(3) If less than all Parties agree to the decommissioning of such well and those Parties not agreeing do not include any of the Parties which participated in the Sole Risk Operation conducted in such well, then such well shall be decommissioned provided that such decommissioning is approved by a Pass Mark Vote.
(4) If less than all Parties agree to the decommissioning of such well and those not agreeing include one or more Parties participating in a Sole Risk Operation conducted in such well then the well shall not be decommissioned provided that one or more of those Parties so participating are willing to assume financial responsibility for the well and be deemed Consenting Parties conducting a Sole Risk Operation pursuant to Article XXX. If none of such Parties is willing to assume such responsibility then the well shall be decommissioned provided that such decommissioning is approved by a Pass Mark Vote.

(5) Consenting Parties taking over a well as provided above shall tender to each of the Non-Consenting Parties such Non-Consenting Parties' Participating Interest share of the value of the well's salvable material and equipment, determined in accordance with the Accounting Procedure, less the estimated cost of salvaging and the estimated costs of plugging and decommissioning as of the date the Consenting Parties assumed responsibility for the well; provided, however, that in the event the sum of such estimated plugging and decommissioning costs and such estimated salvaging cost is higher than the value of the well's salvable material and equipment, each Non-Consenting Party shall pursuant to Article XXX immediately pay to the Consenting Parties such Non-Consenting Party's respective Participating Interest share(s) of the estimated excess cost.

(6) Each Non-Consenting Party shall be deemed to have relinquished to the Consenting Parties in proportion to their Participating Interests all of its Interest in the wellbore of the well and related equipment in accordance with Article XXX. The Consenting Parties shall thereafter bear all cost and liability of plugging and decommissioning such well in accordance with applicable regulations, to the extent the Parties are or become obligated to contribute to such costs and liabilities, and shall indemnify the Non-Consenting Parties against all such costs and liabilities.

(7) Subject to Article XXX, the Operator shall continue to operate the well for the account of the Consenting Parties.

25.2 Decommissioning of Sole Risk Operations

This Article 25 shall apply mutatis mutandis to the decommissioning of Sole Risk Operations.

25.3 Decommissioning of Joint Operations
The Operating Committee shall, as part of approving the first Development Plan, approve plans related to decommissioning requirements and procedures, and methods to be used to provide for funding of the decommissioning, if required pursuant to the Contract, together with the strategy/plans for communicating those decommissioning related items to the Government.

In the event a Party seeks to assign its Participating Interest, the assignee must assume the assigning Party's future decommissioning obligations to the satisfaction of the other Parties.

25.4 Secretary Mandated Decommissioning Program

If the Secretary requests Unit Operator or any Party to submit an decommissioning program, Unit Operator will first propose such a program to the Owners Committee for their approval (unless such a program, with a current approval of the Owners Committee, already exists) before submitting an agreed decommissioning program to the Secretary. The person so requested by the Secretary shall promptly inform, or shall cause to be informed all Owners of such request. Unit Operator shall promptly call a meeting of the Owners Committee to review the Unit Operator’s proposal for the decommissioning program (unless a currently approved program exists, as aforesaid). The foregoing provisions of this Article 25 shall be without prejudice to the right of any Non-Operator which received such notice to submit an decommissioning program if Unit Operator does not submit an decommissioning program within twenty-eight (28) days or such lesser period as the Secretary shall have stipulated; provided that any program so submitted by a Non-Operator shall adopt the Decommissioning Plan, and incorporate the procedures required by the Unit Operator, to the maximum possible extent.

25.5 Evidence of Financial Responsibility

If the Secretary in pursuance of his powers under the Petroleum Act 1987 requires of Unit Operator evidence of financial responsibility in respect of Decommissioning, the Owners shall promptly provide to Unit Operator, or directly to the Secretary, such evidence of financial responsibility as may be necessary in this respect. To the extent of their individual Unit Interests.

25.6 Decommissioning Security

(A) Each Owner shall provide its Security, being its Unit Interest share of the Aggregate Security (as provided in Article 25.6E), to the other Parties in respect of a failure to
comply with obligations in relation to such Owner’s then current total Unit Interest share of all obligations that in any way relate to Decommissioning, by the date falling thirty (30) days prior to the Relevant Date and thirty (30) days prior to each anniversary of the Relevant Date; and each Owner shall maintain its Security at all times after the Relevant Date.

(B) The Unit Operator shall propose the Relevant Date above not less than six (6) months prior to its estimate of such date, and if within three (3) months after such proposal is made the Non-Operators have not unanimously approved such proposal or some other date, then the Unit Operator’s proposal shall be deemed to have been approved.

(C) If any Owner fails to comply with any of its obligations under this Article 25.6, such failure shall be deemed to be a Default under Article XXX.

(D) Each Owner’s Security shall have a term not less than one year less a day, unless unanimously agreed by the Parties and shall be comprised of:

(1) An irrevocable guarantee of performance or bond given by a Party's parent company or wholly owned affiliate of the Party provided that such parent company or affiliate meets Acceptable Financial Standards;

(2) A standby irrevocable letter of credit or commercial bank guarantee obtained by a Party from financial institutions meeting Acceptable Financial Standards;

(3) Cash payments into alienated trust fund;

(4) Any other form of security unanimously acceptable to the Parties acting reasonably; or

(5) Any combination of the above.

(E) "Aggregate Security" is the amount by which one hundred and fifty percent (150%) of the Discounted Net Abandonment Cost exceeds the Discounted Net Value. The Unit Operator shall make the above calculation not less than three (3) months prior to the Relevant Date and each anniversary thereof.

(F) Within thirty (30) days of making the calculation detailed in Article 25.6E, the Unit Operator shall notify each Owner of the amount of the Security required from such
Owner together with the details of the calculation of the Aggregate Security. The Calculation above and the amounts so notified shall be reviewed by the Owners Committee and unless the Non-Operators shall have unanimously agreed an alternative amount of Aggregate Security calculated in accordance with Article 25.6E by thirty (30) days after the date on which such amounts have been so notified, the Aggregate Security calculated by the Unit Operator shall be deemed to have been agreed.

(G) The Security Holder shall in the case of Owners other than the Unit Operator and any Affiliate thereof, be the Unit Operator, and in the case of the Unit Operator and any Affiliate thereof, be the Owner from time to time with the largest Unit Interest (other than the Unit Operator and any Affiliate thereof). If any Owner fails to comply with any of its obligations under this Article 25.6, such failure shall be deemed to be a Default under Article XXX. If any Owner should default in providing the required Security by the due date, or defaults in paying a Cash Call relating to Decommissioning, the Security Holder shall within seven (7) days of the date of such default demand payment under Guarantee previously provided by such defaulting Owner. Such payment shall be placed in a Trust Fund by the Security Holder save for any sums required to meet any Cash Call then outstanding against such defaulting Owner, which sums shall be promptly paid over by the Security Holder, out of the monies received from the relevant Guarantor, to the Unit Operator and shall be promptly applied to such Cash Call (in satisfaction of such Default provided that if the Unit Operator is the Owner who has defaulted in providing its Security by the due date or the Unit Operator is the Owner who defaults in accordance in paying a Cash Call relating to Decommissioning, such aforesaid sums shall only be paid to the Unit Operator when he has remedied his Default, or shall be paid over to a new Unit Operator appointed under Clause XXX. In the exercise of its rights and obligations hereunder a Security Holder shall have no liability towards the other Parties other than such liability as the Unit Operator would have if it were acting as the Security Holder in such circumstances, and the actions of a Security Holder were Unit Operations. Each Security Holder shall

(1) promptly notify all Owners of (a) all sums demanded from and/or paid by any Owner (or its guarantor, whether a bank, financial institution or parent company) in respect of whom the Security Holder is acting as Security Holder, and (b) all payments made to or by the trustee of each Trust Fund established by or on behalf of any such Owner, and (c) all valuations provided by any such trustee in respect of the relevant Trust Fund (together with a copy of the valuation document); and
(2) give the necessary notices to the trustee under the relevant Trust Deed, and ensure that funds are paid out of the Trust Fund, to meet any Cash Call (not directly paid by the relevant Owner) relating to Abandonment.

(H) If any bank or financial institution or Affiliate or parent company, issuing a Guarantee or participating in the issue of such Guarantee should cease to meet Acceptable Financial Standards, the Owner which provided such Security shall within the period of thirty (30) days following such loss of credit rating provide a substitute Guarantee of an equivalent amount (subject to the provisions of this Article 25) in lieu of such issuing or participating bank’s or financial institution’s or parent company’s or affiliated company's Guarantee, for the remainder of the period of such Guarantee, or pay the amount covered by such Guarantee into a Trust Fund. In addition to the above, if such Guarantee was provided by the parent company or affiliated company of an Owner, that Owner shall be obligated to notify promptly the Security Holder of such change in rating and of the measures being taken to comply with the requirements of this Article 25.6H. If such Owner fails to comply with any obligation under this Article 25.6H such failure will be deemed a Default under Article XXX. The relevant Security Holder shall, promptly following the provision of a substitute Guarantee, procure the release of the replaced Guarantee.

(I) “Trust Fund” shall mean a trust fund set up by or on behalf of an Owner in respect of such Owner’s obligations hereunder relating to decommissioning, in accordance with the provisions of the form of Trust Deed set out in Exhibit H (subject to sub-clauses (1) and/or (2) below), the trustee being (a) Law Debenture Corporation or some other trustee corporation incorporated in England approved by the Owners (such approval not to be unreasonably withheld) and of equivalent standing to Law Debenture Corporation, or (b) Lloyds, Midland, Barclays or National Westminster bank (all of the foregoing being hereinafter referred to as “permitted trustees”). Without prejudice to the right of any Owner to choose any of the permitted trustees, the Unit Operator shall, if requested in writing by any Owner(s), circulate the form of Trust Deed in Exhibit H to the permitted trustees named above, requesting sealed bids to serve as trustee under the said form of Trust Deed, not less than six (6) nor more than twelve (12) months prior to the Relevant Date, and provide each Owner with a copy of each bid.

(1) the Owners Committee shall review the bids and select the successful bidder(s) and provide the Unit Operator with terms of reference for negotiating the final form of Trust Deed with such successful bidder(s). The final form of Trust Deed
and the chosen permitted trustee, as approved by the Owners, may be used for any Trust Fund set up by any Owner or Security Holder.

(2) In addition to the option to use a Trust Fund set up pursuant to sub-clause (i) above, any Owner may individually choose any of the permitted trustees for the establishment of a Trust Fund upon the terms set out in Exhibit H. If such Owner is unable to obtain the agreement of any of the permitted trustees to act as trustee upon the terms of the aforesaid Trust Deed, then such Owner or Security Holder shall seek the consent of all other Owners to such amendments as such Owner or Security Holder’s preferred candidate as trustee may individually require, and such consent shall not be unreasonably withheld; provided that (without prejudice to the generality of the foregoing) it shall not be unreasonable for any Owner to withhold such consent if the requested amendments (taken as a whole) would have an adverse effect upon the value and/or enforceability of the relevant Security; and this proviso shall apply, mutatis mutandis, to any amendments requested by any trustee of an existing Trust Fund pursuant to the provision of the relevant Trust Deed equivalent to Exhibit A (not attached).

(3) A certified copy of each executed Trust Deed shall be provided by the relevant Owner or Security Holder to each other Owner within seven (7) days of its date of execution.

(4) All costs of circulating the form of Trust Deed and the procedures referred to in sub-clause (1) above shall be shared equally between the Owner(s) electing to proceed under the second sentence of sub-clause (1) above. Any Owner electing to proceed under sub-clause (2) shall pay its own costs of so proceeding.

(J) If a Trust Fund is set up by or on behalf of an owner, valuations of such Trust Fund must be provided every three (3) months and the Security Holder shall promptly copy such valuation to all Owners. If any such valuation indicates that the relevant Owner’s Security has fallen below the relevant amount calculated under Article 25.5H, such Owner shall within fourteen (14) Working Days of its receipt of such valuation provide additional Security by way of an additional payment in to its Trust Fund to bring its Security up to the said amount.

(K) An Owner shall be entitled to reduce its Security
(1) to the extent such Owner has met Cash Calls in respect of Decommissioning Costs; and

(2) the relevant Security Holder shall co-operate fully with such Owner in releasing and/or replacing such Security (including, where applicable, giving directions to the trustee of the relevant Trust Fund) upon such Owner becoming so entitled.

(L) After an owner’s obligations in respect of Decommissioning Costs have been discharged in full and the Secretary has confirmed in writing that all obligations in respect of Decommissioning have been met, the Security Holder shall be obliged to direct the trustee of the relevant Trust Fund to release any remaining balance therein to such Owner and any existing Guarantee in respect of such Owner’s liability shall likewise be released.
SCHEDULE D

ALTERNATIVE

ARTICLE 25

SECURITY FOR DECOMMISSIONING JOINT FACILITIES

1. If the Joint Operator shall consider that any item of the Joint Facilities is no longer needed or suitable for the Joint Operations, the Joint Operator shall, subject to the approval of the Joint Operating Committee and the provisions of the Accounting Procedure, dispose of the same.

2. If the Parties shall decide to decommission the Joint Facilities, or any part thereof, the Joint Operator shall endeavour to recover and dispose of as much of the Joint Facilities as the Joint Operating Committee directs can economically and reasonably be recovered or as may be required to be recovered under the Acts, the Licence or any other applicable Laws, and the net cost or net proceeds therefrom shall be charged or credited to the Joint Account.

3. The Joint Operator shall, as and when requested by the Joint Operating Committee, prepare and present to the Joint Operating Committee to review and approve estimates of:

   (a) the cost of decommissioning any offshore installations and pipelines used in connection with the Joint Operations (including without limitation the demolition and removal thereof, and any necessary site reinstatements); and

   (b) the proceeds from the sale of the remaining economically recoverable reserves from the Joint Reservoir.

4. Any Party may request the Joint Operator to prepare such further reports and studies in relation to the estimates the Joint Operator prepares under Clause 11.3 whereupon the Joint Operator shall, at the sole cost and expense of the Party making such request (unless the Joint Operating Committee shall otherwise decide)
prepare such further reports and studies for review by the Party making such request.

5 Within two years of the commencement of production, or such later time as the Joint Operating Committee shall unanimously decide, the Parties shall enter into a decommissioning agreement which shall comply with any relevant provisions of the Petroleum Act 1987 and any regulations issued pursuant thereto. The decommissioning agreement shall also incorporate the following principles:

(a) The object of the agreement will be to make provision for the cost of decommissioning liabilities.

(b) Unless otherwise unanimously agreed decommissioning liabilities shall be shared in Joint Equity Shares.

(c) Security shall be provided by each Party for each Year commencing with the Year in which the Discounted Net Value equals one hundred and fifty percent (150%) of the Discounted Net Abandonment Cost.

(d) The amount of security required to be provided by each such Party in any Year (including security previously provided which will still be current throughout such Year) shall be equal to the amount by which one hundred and fifty percent (150%) of the Discounted Net Abandonment Cost exceeds the Discounted Net Value or such lower amount as may be unanimously agreed by the Parties.

(e) The security to be provided by the Parties shall be either:

(i) An irrevocable guarantee of performance or bond given by a Party provided that an Affiliate of such Party meets Acceptable Financial Standards;
(ii) A standby irrevocable letter of credit or commercial bank guarantee obtained by a Party from financial institutions meeting Acceptable Financial Standards;

(iii) Cash payments into alienated trust fund;

(iv) Any other form of security unanimously acceptable to the Parties acting reasonably; or

(v) Any combination of the above.

6 In the event of a Party defaulting in the provision of security under the decommissioning agreement, then the Party in question shall be in default under this Agreement and shall be deemed to be a Defaulting Party under Clause 9 hereof.

7 In the event any Party is required by Law or the terms of the Licence to effect the decommissioning of any Joint Facilities (including without limitation the demolition and removal thereof, and any necessary site reinstatement) such Party shall effect such decommissioning and the cost it incurs in doing so shall be charged to the Joint Account.