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Due to the unique nature of deepwater operations and how the industry tends to account for such, this Model Form contains provisions not found in other COPAS Model Form Accounting Procedures. COPAS strongly recommends users purchase 2012 Deepwater Accounting Procedure Model Form Interpretation 53 (MFI-53) at www.COPAS.org to gain a full understanding of the Model Form provisions and how all of the provisions interrelate and complement each other; this will help avoid misunderstandings and creation of unintended conflicts between provisions should users modify the Model Form.

COPAS 2012 DEEPWATER ACCOUNTING PROCEDURE

INSTRUCTIONS FOR COMPLETING

THIS MODEL FORM MAY NOT CONTAIN ALL PROVISIONS REQUIRED BY PARTIES ENGAGED IN OFFSHORE JOINT OPERATIONS. IN ADDITION, THE MODEL FORM CONTAINS PROVISIONS THAT THE PARTIES MUST COMPLETE BY INSERTING DOLLAR AMOUNTS OR PERCENTAGES AND EACH PARTY MUST DETERMINE APPROPRIATE INSERTS FOR ITS PARTICULAR SITUATION OR APPLICATION. USERS OF THIS MODEL FORM OR PORTIONS OR VARIATIONS THEREOF SHOULD SEEK THE ADVICE OF LEGAL, ACCOUNTING, TAX AND OTHER EXPERTS TO ENSURE THAT THE AGREEMENT REFLECTS THE ACTUAL INTENT OF THE PARTIES AND IS PROPER UNDER THE APPLICABLE BUSINESS CIRCUMSTANCES. USE OF THE FORM OR A PORTION OR VARIATION THEREOF SHALL BE AT THE SOLE DISCRETION, RISK, AND LIABILITY OF THE USERS. THE COUNCIL OF PETROLEUM ACCOUNTANTS SOCIETIES, INC. (“COPAS”) DISCLAIMS ANY AND ALL INTERESTS OR LIABILITY WHATSOEVER FOR DAMAGES OR LOSSES THAT MAY RESULT FROM USE OF THE FORM OR PORTIONS OR VARIATIONS THEREOF.

General – This Accounting Procedure refers to certain provisions of the AAPL 810-2007 Joint Operating Agreement (JOA). As of this writing, the AAPL 810-2007 JOA is available for viewing and/or downloading at <http://ocsadvisoryboard.org/>. **If using this Accounting Procedure with a JOA other than the AAPL 810-2007 JOA, or if using an altered 810-2007 JOA, make sure the references are appropriate.** This Accounting Procedure contains a number of general references to the Agreement, including references to the Operator’s expenditure limit, which is found in Section 6.2 of the AAPL Form 810-2007 JOA. In addition, there are specific references to the JOA. The Project Team definition refers to Articles 12.8 and 12.11, Section I.6 refers to Exhibit “F,” and Section II.9 refers to Exhibit “F” and Exhibit “H.” Articles II.7 A&B, III.1 and IV.3 refer to an Operator’s expenditure limit. This is the dollar threshold in line 2 of Article 6.2 of the AAPL Form 810-2007 JOA.

Title – Fill in the pertinent information (i.e., the name/type of agreement to which this Accounting Procedure is attached, the date and the Parties). The date on the heading should be consistent with the date on the Agreement to which it is an exhibit; however, if this Accounting Procedure is an amendment to an existing agreement, use the effective date of the amendment. One factor to consider in selecting the effective date is when activities or operations under the agreement will commence and when the Operator will start incurring expenditures.

Section I.1 – The Affiliate definition refers to an attached Appendix A listing the Parties’ Affiliates that will be used in Joint Operations.

Section I.1 – This Accounting Procedure is designed to be utilized with the AAPL 810-2007 JOA. The following terms are defined in both this Accounting Procedure and the AAPL 810-2007 JOA, so any changes to them could create a conflict with the JOA:

- Affiliate
- Agreement
- Feasibility Team
- Joint Account
- Operator
- Project Team

Note: The definition of “Joint Account” in the AAPL 810-2007 JOA is somewhat different from the definition in this Accounting Procedure, and the JOA term will prevail. The JOA term is somewhat

ambiguous in that it could be interpreted to include accounts pertaining to Hydrocarbons and proceeds. Users should work with their legal and land representatives to evaluate how the term is used and make any adjustments to ensure the desired outcome.

This Accounting Procedure contains other capitalized terms that are defined only in the AAPL 810-2007 JOA. Revisions to the following definitions in the JOA could have an impact on the Accounting Procedure and should be carefully reviewed to ensure any such revisions do not negatively impact the Accounting Procedure:

- AFE
- Claims
- Development Plan
- Development System
- HSE
- Hydrocarbons
- Offsite Host Facilities
- Participating Interest Share
- Participating Party
- Parties
- Production System
- Transfer of Interest
- Working Interest

If using this Accounting Procedure with a JOA other than the AAPL 810-2007 JOA, take extra precautions to identify and reconcile differences in defined terms.

Section I.3.B – The Accounting Procedure allows for short pay of the joint interest billing under narrow and specific circumstances. Exhibit “F” of the AAPL 810-2007 JOA does not allow short pay of billings (refer to paragraph 6.3 (b)). At the same time, Article 3 of the JOA does not state which exhibit prevails if Exhibits “C” and “F” conflict. Users might want to reconcile this difference.

Section II.6.A – Insert the interest rate on the un-depreciated facility investment amount.

Section II.7.B – Insert the dollar thresholds for the level of authority required to charge Affiliate goods and services.

Section III.1.A – Insert the Project and Operating overhead percentage rates. Insert, in the penultimate sentence in the Project Rate paragraph, a dollar threshold that will determine if the project rate applies when the Accounting Procedure is used with an agreement without an expenditure limit. Alternatively, that sentence can be deleted if the Agreement contains an expenditure limit.

Section III.1.B – This section contains a list of costs that are exempt from the overhead rates. Strike any items that the Parties desire to be subject to the overhead assessment.

Section IV.3 – The AAPL form 810-2007 JOA addresses disposal of materials, and will prevail over this provision to the extent they conflict. If users want the disposal provision in the Accounting Procedure to prevail, modify Articles 6.2.4.3 and 18.3 of the JOA so they refer to or otherwise incorporate the disposal provisions in Section IV.3 of the Accounting Procedure.

Other – Section 4.0 of the AAPL’s model form Project Team Exhibit (Exhibit “G”) addresses Project Team Costs. At the same time, Article 3 of the JOA states Exhibit “G” will prevail over the JOA and the

Accounting Procedure if there is a conflict. Users are advised to review Exhibit “G” and reconcile it with Exhibit “C,” to give effect to the Parties’ intent. Likewise, the second alternative in Section 12.3.1 of the JOA might be in conflict with the Accounting Procedure and users are advised to review it in light of the Accounting Procedure and make any needed modifications to either the JOA or the Accounting Procedure to give effect to the Parties’ intent.

1 “**Critical Spare**” means Material (i) owned by the Joint Account and held in inventory for emergency
2 requirements because the lack of availability would have a major impact on operations under the
3 Agreement and would create significant financial, safety or environmental issues, and (ii) so
4 designated by the Parties, pursuant to the Agreement.

5
6 “**Feasibility Team**” means a group of employees, contractors, and/or consultants of the Participating
7 Parties or their respective Affiliates that assists the Operator during the Feasibility Stage.

8
9 “**First Level Supervision**” means those employees, regardless of location, whose primary function in
10 Joint Operations is the direct oversight of the Operator’s employees and/or contract labor directly
11 employed On-site in a field operating capacity. First Level Supervision functions may include, but are
12 not limited to:

- 13
- 14 • Responsibility for field employees and contract labor engaged in activities that can include field
 - 15 operations, maintenance, construction, well remedial work, equipment movement and drilling
 - 16 • Responsibility for day-to-day direct oversight of rig operations
 - 17 • Responsibility for day-to-day direct oversight of construction operations
 - 18 • Coordination of job priorities and approval of work procedures
 - 19 • Responsibility for optimal resource utilization (equipment, Material, personnel)
 - 20 • Responsibility for meeting production and field operating expense targets
 - 21 • Representation of the Parties in local matters involving community, vendors, and regulatory
 - 22 agencies, as an incidental part of the supervisor’s operating responsibilities
 - 23 • Responsibility for all emergency responses with field staff
 - 24 • Responsibility for implementing safety and environmental practices
 - 25 • Responsibility for field adherence to company policy
 - 26 • Responsibility for employment decisions and performance appraisals for field personnel
 - 27 • Oversight of sub-groups for field functions such as electrical, safety, environmental,
 - 28 telecommunications, which may have group or team leaders
 - 29 • Responsibility for warehousing operations for Material owned by the Joint Account.

30
31 “**Joint Account**” means the account showing the charges paid and credits received in the conduct of the
32 Joint Operations that are to be shared by the Parties, but does not include accounts pertaining to
33 volumes or proceeds attributable to Hydrocarbons and by-products produced under the Agreement.

34
35 “**Joint Operations**” means all operations necessary or proper for the exploration, appraisal,
36 development, production, protection, maintenance, repair, abandonment, and restoration of the Joint
37 Property.

38
39 “**Joint Property**” means the real and personal property owned by the Parties under the Agreement.

40
41 “**Laws**” means any laws, rules, regulations, decrees, and orders of the United States of America or any
42 state thereof and all other governmental bodies, agencies, and other authorities having jurisdiction over
43 or affecting the provisions contained in or the transactions contemplated by the Agreement or the Parties
44 and their activities and operations, whether such laws now exist or are hereafter amended, enacted,
45 promulgated or issued.

46
47 “**Material**” means personal property, equipment, supplies, or consumables acquired or held for use by
48 the Joint Property.

49
50 “**Non-Operator**” means a Party to the Agreement other than the Operator.

1
2 **“Offshore Facilities”** means platforms, surface and subsea Development Systems and Production
3 Systems, and other support systems such as oil and gas handling facilities, living quarters, offices,
4 shops, cranes, electrical supply equipment and systems, fuel and water storage and piping, heliport,
5 marine docking installations, communication facilities, navigation aids, and other similar facilities
6 necessary in the conduct of offshore operations, all of which are located offshore. “Offshore Facilities”
7 includes Offsite Host Facilities.

8
9 **“Off-site”** means any location that is not On-site.

10
11 **“On-site”** means a location on the Joint Property. The term “On-site” also includes, but is not limited to
12 the Offshore Facilities, Shore Base Facilities, fabrication and vendor yards, warehouses, staging areas
13 and Remote Technology Centers from which Joint Operations are conducted.

14
15 **“Operations Office”** means a building or portion thereof, whether a temporary or permanent
16 installation, which is the primary work location of directly chargeable personnel.

17
18 **“Operator”** means the Party designated pursuant to the Agreement to conduct the Joint Operations,
19 including a successor or substitute Operator.

20
21 **“Personal Expenses”** means costs for travel, transportation, meals, accommodations, temporary living,
22 relocation, and other expenses reimbursed under the usual practice of the Operator, Non-Operator, or
23 Affiliate, as applicable.

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

30
31 **“Remote Technology Center”** means a facility, regardless of location, having dedicated technical
32 and/or operations staffing, that directly monitors and/or controls Joint Operations on a real-time basis.

33
34 **“Rig-Related Costs”** means:

- 35 i. drillship or rig modification, commissioning, mobilization, repair, and demobilization costs
36 paid to or on behalf of the ship builder or drilling contractor, as applicable, by the Party
37 providing the drillship or rig, and
38 ii. On-site and Off-site labor costs incurred by the Party providing the drillship or rig to oversee
39 the construction, modification, commissioning, mobilization, repair, or demobilization of a
40 drillship or rig, but excluding costs that are classified as overhead under Section III
41 (*Overhead*).

42
43 **“Shore Base Facilities”** means onshore support facilities that provide such services to the Joint
44 Property as a receiving and transshipment point for Material; debarkation point for drilling and
45 production personnel and services; communication, scheduling and dispatching center; and other
46 associated functions serving Joint Operations.

47
48 **“Technical Services”** means engineering, geosciences, or other professional services, such as those
49 performed by engineers, geologists, geophysicists, environmentalists, technicians and drafters. This
50 term applies to persons performing the aforementioned services, regardless of whether they have
51 attained the specialization at an accredited college or university, or acquired it through a combination

1 of work experiences and continuing education, and regardless of whether provided by the Operator,
2 Non-Operator, Affiliate, or third parties. Technical Services shall not include those functions
3 specifically identified as overhead under Section III (*Overhead*).
4

5 **2. STATEMENTS AND BILLINGS**

6

7 A. The Operator shall bill each Non-Operator on or before the last day of the month for its
8 proportionate share of the Joint Account for the preceding month. Such bills shall be
9 accompanied by statements that identify the AFE, lease or facility, and all charges and credits
10 summarized by appropriate categories of investment and expense. Controllable Material shall be
11 separately identified and fully described in detail, or at the Operator's option, Controllable
12 Material may be summarized by major Material classifications. Intangible drilling costs, audit
13 adjustments, and unusual charges and credits shall be separately and clearly identified.
14

15 B. Each Non-Operator shall bill the Operator on or before the last day of the month for the costs
16 incurred in the prior month, in accordance with the provisions contained herein, for the goods and
17 services supplied by the Non-Operator, including salaries, wages, payroll burden, benefits, and
18 Personal Expenses, if any, of its employees, Affiliate employees, or contractors to the extent such
19 personnel are chargeable under Section II (*Direct Charges*) or the charges have been approved by
20 the Parties pursuant to Section I.6 (*Approval by Parties*).
21

22 C. The Operator shall reimburse the Non-Operators in accordance with Section 1.3 (*Advances and*
23 *Payments*) for costs billed under Section I.2.B.
24

25 D. The Non-Operator costs billed under Section I.2.B shall be considered Joint Account costs, and
26 the provisions of this Accounting Procedure shall apply to such expenditures, including
27 provisions dealing with payments, adjustments, and audits, under Paragraphs 3, 4 and 5 of this
28 Section I; provided, however, the Non-Operator shall not be entitled to assess overhead, under
29 Section III.1 (*Overhead – Project and Operating*), for costs billed by it under Section I.2.B.
30

31 E. Any statements and bills required under Section I.2 (*Statements and Billings*) and/or Section I.3
32 (*Advances and Payments*) may be sent by email, electronic data interchange, internet websites or
33 other equivalent electronic media in lieu of paper copies. The Party issuing the electronic
34 statement shall provide the recipient with instructions and any necessary information to access
35 and receive the statements and bills within the time frames specified herein. A statement or bill
36 sent pursuant to this Section I.2.E shall be deemed to be delivered twenty-four (24) hours
37 (exclusive of weekends and federal holidays) after the sender notifies the recipient that the
38 statement or bill is available on the website and/or was sent via email, electronic data interchange
39 transmission, or other equivalent electronic media.
40

41 **3. ADVANCES AND PAYMENTS**

42

43 A. The Operator may require the Non-Operators to advance their share of the estimated cash outlay,
44 subject to the exclusions specified in Section I.3.B, for the next succeeding month's activities and
45 operations. Unless otherwise provided in the Agreement, any bill for such advance shall be
46 payable within fifteen (15) days after receipt of the advance request or by the first day of the
47 month for which the advance is required, whichever is later. If the due date of such advance falls
48 on a weekend or a federal holiday, the payment will be due on the following business day. The
49 Operator shall adjust each monthly bill to reflect advances received from the Non-Operators for
50 such month. If a refund is due, the Operator shall apply the amount to be refunded to the
51 subsequent month's bills or advances, unless the Non-Operator sends the Operator a written

1 request for a cash refund. If a refund is specifically requested, the Operator shall remit the refund
2 to the Non-Operator within fifteen (15) days of receipt of such written request.
3

- 4 B. Except as provided below, each Party shall pay its proportionate share of each bill within fifteen
5 (15) days after it receives the bill. If the payment due date for a bill falls on a weekend or on a
6 federal holiday, the payment will be due on the following business day. If payment is not made
7 within such time, the Party owed payment of its bill has the right to charge interest on the unpaid
8 balance at the Agreed Interest Rate. In addition, the delinquent Party shall bear attorney's fees,
9 court costs, and other costs in connection with the collection of unpaid amounts. Payment shall
10 not be reduced or delayed as a result of inquiries or anticipated credits unless the billing Party
11 agrees otherwise in writing. Notwithstanding the foregoing, if a Party receiving a bill believes
12 that the statement of charges is incorrect, it may reduce payment pending resolution of the issue,
13 provided it furnishes documentation and explanation to the billing Party by the payment due date,
14 to the extent such reduction is caused by being billed:
15

- 16 (1) for a Working Interest or Participating Interest Share that is higher than such Non-
17 Operator's actual Working Interest or Participating Interest Share, as applicable; or
18 (2) for an activity or operation requiring approval of the Parties under the Agreement that the
19 Party has not approved or is not otherwise obligated to pay under the Agreement; or
20 (3) after the Party receiving the bill has made a Transfer of Interest, provided the transferring
21 Party has furnished the other Parties a copy of the Transfer of Interest instrument along
22 with evidence of approval from the regulatory agency responsible for such approval.
23 Notwithstanding the foregoing, the transferring Party shall remain responsible for paying
24 bills attributable to the interest sold or transferred, which are rendered during the thirty (30)
25 day period following the other Parties' receipt of documentation evidencing such Transfer
26 of Interest; or
27 (4) for charges outside the adjustment period as provided in Section I.4 (Adjustments).
28

29 Should any amount withheld pursuant to items 1 through 4 above be determined to be due and
30 payable, and is paid after the due date, such delinquent amount may be subject to the Agreed
31 Interest Rate, at the discretion of the Party owed payment.
32

- 33 C. Each Party shall pay its respective cash advances, bills, and refunds by electronic funds transfer.
34

35 4. ADJUSTMENTS

36

- 37 A. Payment of a bill shall not prejudice the right of any Party to protest or question the correctness
38 thereof; however, subject to Section I.3.B (*Advances and Payments*), all bills and statements,
39 including payout statements, rendered during any calendar year shall conclusively be presumed to
40 be true and correct, with respect only to expenditures, after twenty-four (24) months following the
41 end of any such calendar year, unless within said period a Party takes specific detailed written
42 exception thereto making a claim for adjustment.
43

- 44 B. All adjustments initiated by the billing Parties, except those described in (1) through (4) of this
45 Section I.4.B, must be made no later than the twenty-four (24) month period following the end of
46 the calendar year in which the original charge appeared or should have appeared on the billing
47 Party's Joint Account statement or payout statement. Adjustments made after the twenty-four
48 (24) month period are limited to those resulting from:
49

- 50 (1) a physical inventory of Controllable Material as provided for in Section V; or
51

- 1 (2) an offsetting entry, whether in whole or in part, that is the direct result of a specific joint
- 2 interest audit exception granted by the Party relating to another property; or
- 3 (3) an audit by a government entity having jurisdiction; or
- 4 (4) changes in Working Interest ownership or Participating Interest Share.

5. EXPENDITURE AUDITS

- 7
- 8 A. Subject to Section I.5.F, a Non-Operator, upon written notice to the Operator and all other Non-
- 9 Operators, has the right to audit the accounts and records relating to the Joint Account no later than
- 10 twenty-four (24) months following the end of the calendar year in which the bill was rendered;
- 11 however, conducting an audit shall not extend the time provided for taking written exceptions and
- 12 making adjustments under Section I.4 (*Adjustments*). Any Party that is subject to payout accounting
- 13 under the Agreement has the right to audit the accounts and records of the Party responsible for
- 14 preparing the payout statements, or of the Party furnishing information to the Party responsible for
- 15 preparing payout statements. Audits of payout accounts may include accounts of the volumes and
- 16 proceeds of Hydrocarbons produced and saved insofar as they pertain to payout accounting required
- 17 under the Agreement. Audits of a payout account shall be conducted prior to expiration of the
- 18 twenty-four (24) month period following the end of the calendar year in which the Operator, or
- 19 other Party, if applicable, rendered the payout statement.

20

21 Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort

22 to conduct a joint audit in a manner that will result in a minimum of inconvenience to the Operator.

23 The Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph

24 unless agreed to by the Operator. The audits shall not be conducted more than once each year

25 without prior approval of the Operator, except upon the resignation or removal of the Operator, and

26 shall be made at the expense of those Non-Operators approving such audit.

27

28 The Non-Operator leading the audit (hereinafter "lead audit company") shall make good faith

29 efforts to issue the audit report within ninety (90) days after completion of the audit testing and

30 analysis; however, the ninety (90) day time period shall not extend the deadline for taking specific

31 detailed written exception as required in Section I.4.A (*Adjustments*). All claims shall be supported

32 with sufficient documentation.

33

34 A timely filed written exception or audit report containing written exceptions (hereinafter

35 "Written Exceptions"), with respect to the claims made therein, precludes the Operator from

36 asserting a statute of limitations defense against such claims, and the Operator hereby waives its

37 right to assert any statute of limitations defense against such claims for so long as any Non-

38 Operator continues to comply with the deadlines for resolving Written Exceptions, as provided in

39 this Accounting Procedure. If the Non-Operators fail to comply with the additional deadlines in

40 Section I.5.C, the Operator's waiver of its rights to assert a statute of limitations defense against

41 the claims brought by the Non-Operators shall lapse, and such claims shall then be subject to the

42 applicable statute of limitations; provided that such waiver shall not lapse in the event that the

43 Operator has failed to comply with the deadlines in Section I.5.B or I.5.C.

- 44
- 45 B. The Operator shall provide a written response to all Written Exceptions within one hundred eighty
- 46 (180) days after Operator receives such Written Exceptions. Denied Written Exceptions should be
- 47 accompanied by a substantive response, which contains factual data and/or contract references to
- 48 support the Operator's position.

- 49
- 50 C. The lead audit company shall reply to the Operator's response to a Written Exception within ninety
- 51 (90) days of receipt, and the Operator shall reply to the lead audit company's follow-up response

1 within ninety (90) days of receipt; provided, however, each Non-Operator has the right to represent
2 itself if it disagrees with the lead audit company's position or believes the lead audit company is not
3 adequately fulfilling its duties.
4

- 5 D. If any Party fails to meet the deadlines in Sections I.5.B or I.5.C or if any Written Exceptions are
6 not resolved within fifteen (15) months after Operator receives them, the Operator or any Non-
7 Operator participating in the audit has the right to call a resolution meeting, as set forth in this
8 Section I.5.D, or it may invoke the dispute resolution procedures included in the Agreement, if
9 applicable. The Party calling the resolution meeting must give at least one month's written notice to
10 the Operator and all Non-Operators participating in the audit. The meeting shall be held at the
11 Operator's office or mutually agreed location, and shall be attended by representatives of the Parties
12 who have authority to resolve such outstanding issues. Any Party who fails to attend the resolution
13 meeting shall be bound by any resolution reached at the meeting. The lead audit company will
14 make good faith efforts to coordinate the response and positions of the Non-Operator participants
15 throughout the resolution process; however, each Non-Operator has the right to represent itself.
16 Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required
17 to present substantive information supporting its position. A resolution meeting may be held as
18 often as agreed to by the Parties. Issues unresolved at one meeting may be discussed at subsequent
19 meetings until each such issue is resolved.
20

21 If the Agreement contains no dispute resolution procedures or the applicable Parties do not utilize
22 the dispute resolution procedures of the Agreement to settle the audit issues and they cannot resolve
23 the audit issues by negotiation, the issues in dispute shall be submitted to mediation. In such event,
24 promptly following one Party's written request for mediation, the Parties to the dispute shall choose
25 a mutually acceptable mediator and share the costs of the mediation equally. The Parties shall each
26 have present at the mediation at least one individual who has the authority to settle the dispute. The
27 Parties shall make reasonable efforts to ensure that the mediation commences within sixty (60) days
28 of the date of the mediation request. Notwithstanding the above, any Party may file a lawsuit or
29 complaint regarding the audit issues (1) if the Parties are unable after reasonable efforts, to
30 commence mediation within sixty (60) days of the date of the mediation request, (2) if the statute of
31 limitations will run if there is no such filing, or (3) if in its sole judgment an injunction or other
32 provisional judicial relief is necessary to avoid irreparable damage or to preserve the status quo.
33 Despite such action, the Parties shall continue to try to resolve the dispute by mediation.
34

- 35 E. The Agreement and this Accounting Procedure contemplate the Non-Operators' incurring
36 expenditures to be billed to the Operator pursuant to Section I.2.B (*Statements and Billings*) and
37 charged to the Joint Account. Accordingly, such Non-Operators shall maintain records supporting
38 such charges and make them available for audit pursuant to this Section I.5. Regarding such
39 charges, the Operator and other Non-Operators are hereby provided the same rights and obligations
40 as set forth in Sections I.5.A through I.5.D as pertain to the Non-Operators in an audit of the Joint
41 Account. The Non-Operator whose records are being audited is hereby provided the same rights
42 and obligations as set forth in Sections I.5.A through I.5D for the Operator.
43

- 44 F. Each Party will make a good faith effort to obtain sufficient documentation to support charges from
45 its Affiliate, including invoices from the Affiliate's third-party vendors, and shall maintain auditable
46 records to support all Affiliate charges to the Joint Account.
47

48 In lieu of allowing the other Parties to audit an Affiliate's records, the Party providing an Affiliate
49 shall provide an annual report from an independent public accounting firm attesting that (i) the
50 charges billed from such Affiliate represent a complete and accurate allocation of its costs, do not
51 contain a profit component, and exclude any duplication of costs, and (ii) the Affiliate's

1 allocations are consistently applied, are aligned with standard industry practices, and are accurate
2 and based on third-party invoices and/or any other supporting documentation.
3

4 If Affiliate charges are based on rates negotiated by the Parties, rather than the Cost Basis, the
5 audit of such Affiliate charges shall be limited to verification that the rates charged were as
6 agreed to by the Parties, and that the units or basis to which the rates were applied are correct.
7

8 **6. APPROVAL BY PARTIES**

9

10 When a Party makes a proposal which requires the approval of the Non-Operators or the Parties
11 under this Accounting Procedure (a "Proposal"), the proposing Party shall submit the Proposal to
12 the Parties entitled to vote on the Proposal. A Proposal receiving approval of a majority of the
13 Working Interest of the Parties entitled to vote shall be controlling on all Parties. The Parties
14 entitled to vote shall include all Parties other than:
15

- 16 (i) the Party seeking approval to charge or credit, or otherwise make an exception to this
17 Accounting Procedure,
- 18 (ii) an Affiliate of the Party seeking such approval, and
- 19 (iii) a Party subject to the default provisions under Exhibit "F" of the Agreement.
20

21 The deadline to respond and deemed vote if a Party fails to respond shall be as set forth in the
22 Agreement. This Section I.6 does not apply to amendments to this Accounting Procedure.
23
24

25 **II. DIRECT CHARGES**

26
27 The Operator shall charge the Joint Account with the following items:
28

29 **1. RENTALS AND ROYALTIES**

30
31 Lease rentals, royalties, rights of use and easements paid by the Operator, on behalf of Joint
32 Operations.
33

34 **2. LABOR**

35
36 A. Salaries and wages, including incentive compensation programs, for:
37

38 (1) Feasibility Team and Project Team

39
40 Employees of the Operator and Non-Operator, including secondees, assigned to a Feasibility
41 Team or Project Team on a full-time or part-time basis shall be charged directly to the Joint
42 Account. Personnel assigned to a Feasibility Team or Project Team on a part-time basis shall
43 be charged to the Joint Account based on actual time worked. Employees not assigned to a
44 Feasibility Team or Project Team but providing Technical Services and working under the
45 direction of a Feasibility Team or Project Team shall be charged to the Joint Account based
46 on actual time worked. Charges for contractor and Affiliate personnel assigned to or working
47 at the direction of a Feasibility Team or Project Team are governed by Section II.5 (*Services*)
48 or Section II.7 (*Affiliate Services*), as applicable.
49

50 (2) Operations Other than Feasibility Team or Project Team

51

1 For the following individuals engaged in activities and operations other than those of a
2 Feasibility Team or Project Team, Operator shall charge:
3 (i) field employees directly employed in the conduct of Joint Operations,
4 (ii) employees providing First Level Supervision,
5 (iii) employees providing Technical Services in the conduct of Joint Operations, and
6 (iv) other employees directly employed On-site in the conduct of Joint Operations if such
7 costs are not included in rates charged under Section II.6 (*Equipment and Facilities*
8 *Furnished by Parties, Affiliates*) and are not a function covered under Section III
9 (*Overhead*).

10
11 For clarification, if the Parties do not form a Project Team and the Operator or another Party
12 prepares a Development Plan that receives approval under the Agreement, the labor costs
13 directly chargeable to the Joint Account to generate and submit the approved Development Plan
14 shall be limited to Technical Services.

15
16 Charges for the employees identified in Section II.2.A shall be based on the employee's actual
17 salaries and wages, or in lieu thereof, a day rate representing the employer's average salaries
18 and wages of the employee's specific job category.

19
20 B. Operator's, or Non-Operator's, as applicable, cost of holiday, vacation, sickness, and disability
21 benefits, and other customary allowances paid to employees whose salaries and wages are
22 chargeable to the Joint Account under Section II.2.A, excluding severance payments or other
23 termination allowances. Such costs may be charged on a "when and as-paid basis" or by
24 "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account
25 under Section II.2.A. If percentage assessment is used, the rate shall be based on the Operator's,
26 or Non-Operator's, as applicable, cost experience.

27
28 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority
29 that are applicable to costs chargeable to the Joint Account under Sections II.2.A and B.

30
31 D. Personal Expenses of personnel whose salaries and wages are chargeable to the Joint Account
32 under Section II.2.A when the expenses are incurred in connection with directly chargeable
33 activities; provided, however, relocation costs that (i) result from reorganization or merger of a
34 Party, or that are for the primary benefit of the Operator, or Non-Operator, as applicable, or (ii)
35 are for personnel assigned to Joint Operations for less than twelve (12) consecutive months, shall
36 not be chargeable unless agreed to by the Parties pursuant to Section I.6 (*Approval by Parties*).

37
38 E. The cost of operational, technical, HSE or government-mandated training for personnel whose
39 salaries and wages are chargeable under Section II.2.A. This training charge shall include the
40 wages, salaries, payroll burden and benefits, training course cost, and Personal Expenses incurred
41 during the training. Such training cost shall be charged on a pro-rata basis to all properties
42 directly benefiting from the training. The cost of the training course shall not exceed prevailing
43 commercial rates, when such rates are available.

44
45 F. Operator's, or Non-Operator's, as applicable, current cost of established plans for employee
46 benefits, including, but not limited to, group life insurance, medical and dental insurance,
47 retirement plan/401K contributions, stock purchase, savings plans, and bonuses, applicable to the
48 Operator's, or Non-Operator's, as applicable, labor costs chargeable to the Joint Account under
49 Sections II.2.A and B. Charges under this Section II.2.F shall be based on the employer's actual
50 cost, not to exceed the employee benefits limitation percentage most recently recommended by
51 COPAS.

1
2 G. Cost of awards to employees, whose salaries and wages are chargeable under Section II.2.A, to
3 the extent such awards pertain to services provided for activities or operations conducted under
4 the Agreement.

5
6 **3. MATERIAL**

7
8 Material purchased or furnished by the Operator for Joint Operations, as provided under Section IV
9 (*Material Purchases, Transfers, and Dispositions*).

10
11 **4. TRANSPORTATION**

12
13 The cost of transporting a Party's employees, Affiliate's employees, contractor's personnel, and
14 Material necessary for Joint Operations, subject to Section IV (*Material Purchases, Transfers and*
15 *Dispositions*).

16
17 **5. SERVICES**

18
19 The cost of services provided by third parties, including Technical Services provided in the conduct
20 of Joint Operations, but excluding services covered by Section II.7 (*Affiliate Services*), Section II.9
21 (*Legal Expense*), or Section III (*Overhead*). The cost of awards to third parties shall be chargeable to
22 the Joint Account (i) if such third parties are chargeable under this Section II.5, and (ii) to the extent
23 such awards pertain to services provided for activities or operations conducted under the Agreement.
24 The cost of operational, technical, HSE or government-mandated training shall be chargeable to the
25 Joint Account, for third parties who are chargeable under this Section II.5.

26
27 **6. EQUIPMENT AND FACILITIES FURNISHED BY PARTIES, AFFILIATES**

28
29 Operator shall charge the Joint Account for use of equipment and facilities which are owned in whole
30 or in part by a Party or its Affiliates, and used to conduct Joint Operations, including, but not limited
31 to, Shore Base Facilities, Offshore Facilities, Remote Technology Centers, warehouses used to store
32 Joint Property, Operations Offices and other facilities used to conduct Joint Operations; provided,
33 however, the cost of Operations Offices shall be chargeable only to the extent the Operations Offices
34 provide direct service to personnel who are chargeable pursuant to Sections II.2.A (*Labor*), Section
35 II.5 (*Services*) or Section II.7 (*Affiliate Services*), as applicable.

36
37 The costs of purchasing, installing, operating, repairing, maintaining, dismantling, and abandoning
38 communication facilities or systems, including satellite, radio and microwave facilities, and fiber
39 optics cable systems, directly supporting Joint Operations shall be charged under this Section II.6,
40 regardless of whether wholly or partially owned by a Party or its Affiliate.

41
42 The costs of purchasing, installing, operating, repairing, maintaining, dismantling, and abandoning
43 computer systems, including hardware, software and data storage directly supporting Joint Operations
44 shall be charged under this Section II.6, regardless of whether wholly or partially owned by a Party or
45 its Affiliate.

46
47 In the absence of a separately negotiated agreement, equipment and facilities furnished by a Party or
48 its Affiliate will be charged as follows:

49
50 A. Charges for use of such equipment and facilities shall be made at rates commensurate with the
51 cost of ownership and operation. Such rates may include labor, maintenance, repairs, other

1 operating expense, insurance, taxes, and depreciation using the straight line depreciation method,
2 and interest on gross investment less accumulated depreciation, not to exceed _____
3 percent (___%) per annum; provided, however, depreciation shall not be charged when the
4 equipment and facilities investment has been fully depreciated. The rate may include an element
5 of the estimated cost for abandonment, reclamation, and dismantlement. Such rates shall not
6 exceed the commercial rates currently prevailing for deepwater Gulf of Mexico operations.
7

8 B. In lieu of charges in Section II.6.A, the Operator may elect to use average commercial rates
9 prevailing for deepwater Gulf of Mexico operations. If equipment and facilities are charged
10 under this Section II.6.B, the Operator shall adequately document and support commercial rates
11 and shall periodically review and update the rate and the supporting documentation. For
12 automotive equipment, the Operator may elect to use rates published by the Petroleum Motor
13 Transport Association (PMTA) or such other organization recognized by COPAS as an
14 acceptable source of rates.
15

16 C. Operator may charge the Joint Account an allocated portion of Rig-Related Costs for drillships or
17 rigs used in Joint Operations provided such costs are not included in the drillship or rig rate
18 charged by the drilling contractor.
19

20 7. AFFILIATE SERVICES

21
22 Affiliate services provided for the Joint Operations shall be charged to the Joint Account under this
23 Section II.7.
24

25 A. Affiliate Costs Associated with a Project

26
27 This Section II.7.A applies to charges for services of any Affiliate employees:
28

- 29 i. assigned to a Feasibility Team or Project Team on a full-time or part-time basis; or
- 30 ii. not assigned to a Feasibility Team or Project Team but providing Technical Services and
31 working under the direction of the Feasibility Team or Project Team; or
- 32 iii. engaged in an activity or operation costing in excess of the Operator's expenditure limit in the
33 Agreement, and requiring approval under the Agreement, or an activity or operation that costs
34 in excess of such expenditure limit and would require approval were it not for the
35 discretionary authority granted the Operator under the Agreement, provided the Affiliate
36 employee is not performing functions covered by Section III (*Overhead*).
37
38
39

40 A Party wanting to provide Affiliate services for Joint Operations shall notify the other Parties,
41 prior to using its Affiliate, of (i) the name of the Affiliate and services to be provided by it, and
42 (ii) the costs, rates or basis for charges by such Affiliate; provided, however, prior notification
43 shall not be required to use Affiliate services in emergency situations that pose an imminent
44 threat to life, safety, property or the environment. Subject to Section II.7.C, Affiliate services
45 shall be charged using either of the following methods:
46

47 1. Cost Basis

48
49 Affiliate services shall be charged to the Joint Account as charged by the Affiliate to the Party
50 providing such Affiliate services ("Cost Basis"), subject to Section II.7.D (*Affiliate Cost*)

1 *Limitations*). Cost Basis rates may include, but are not limited to, the Affiliate employee's
2 salaries and wages, payroll burden and benefits, office, computer, and other support costs.

3
4 2. Negotiated Rate Basis

5
6 Affiliate services shall be charged to the Joint Account at rates approved by the Parties pursuant
7 to Section I.6 (*Approval by Parties*). If the Parties are unable to agree upon a rate, the Parties
8 shall use the Cost Basis. As part of the approval under Section I.6, the Parties shall determine the
9 period such Affiliate rates shall remain in effect and the method and frequency of any rate
10 adjustments, if applicable. If the Parties agree on a rate, but are unable to agree upon a method
11 for adjusting the rate, such rate shall be adjusted annually, on the first day of April each year
12 following the effective date of such rates. The adjusted rate shall be the rate originally agreed to
13 by the Parties, increased or decreased, cumulatively, by the overhead adjustment factors
14 published by COPAS for each year following the effective date of the rate.

15
16 If the rates are determined to be insufficient or excessive, any Party may request adjustments to
17 an Affiliate's rates at any time it deems appropriate, but the rates shall not be adjusted more than
18 once per year for a given Affiliate. The Parties shall respond to proposals to revise the Affiliate
19 rates within the time prescribed in the Agreement for general voting matters. Approval of a
20 proposed Affiliate's rates and any requested adjustments shall be determined in accordance with
21 the provisions of Section I.6 (*Approval by Parties*) and shall not be unreasonably withheld by the
22 Parties.

23
24 B. Affiliate Costs not Associated with a Project

25
26 Charges for Affiliate services not associated with a project under Section II.7.A, and not a
27 function covered by Section III (*Overhead*), may be made without the approval of the Parties,
28 provided that the total charges for such Affiliate's services do not exceed _____
29 dollars (\$ _____) per annum. Charges exceeding this threshold shall require approval
30 of the Parties pursuant to Section I.6.A (*General Matters*). In the case of Affiliate services that
31 are below the threshold in this Section II.7.B, the basis of the charges shall be on the Cost Basis,
32 unless otherwise agreed to by the Parties. If the Parties fail to designate an amount in this Section
33 II.7.B, the amount deemed adopted by the Parties as a result of such omission shall be the amount
34 established as the Operator's expenditure limit in the Agreement.

35
36 C. Affiliate Charges – Other Provisions

37
38 Affiliate employee charges related to Personal Expenses, training, and awards shall be made in
39 the same manner as provided for employees in Sections II.2.D, II.2.E, and II.2.G.

40
41 If an Affiliate acquires Material for activities or operations conducted under the Agreement,
42 charges for such Material shall be made in accordance with Section IV (*Material Purchases,*
43 *Transfers and Dispositions*), and shall not include any mark-up or purchasing fee for the Affiliate
44 unless approved by the other Parties pursuant to Section I.6 (*Approval by Parties*).

45
46 Third-party contract services provided by an Affiliate shall be charged pursuant to Section II.5
47 (*Services*), and shall not include any mark-up or purchasing fee for the Affiliate unless approved
48 by the other Parties pursuant to Section I.6 (*Approval by Parties*).

49
50 An Affiliate's services to handle an emergency shall be charged at the same rate agreed to by the
51 Parties for such Affiliate immediately prior to the occurrence of the emergency. If the Parties did

1 not establish a rate for the Affiliate prior to the emergency, such Affiliate's services shall be
2 charged using the Cost Basis, pursuant to Section II.7.A.

3
4 D. Affiliate Cost Limitations

5
6 Charges for an Affiliate's services under the Cost Basis shall be consistent with those currently
7 prevailing in competitive contracts for deepwater Gulf of Mexico activities or operations, when
8 such rates are available, unless the Party seeking to provide Affiliate services obtains approval
9 pursuant to Section I.6 (*Approval by Parties*).

10
11 **8. DAMAGES AND LOSSES TO JOINT PROPERTY**

12
13 Costs or expenses necessary to repair, replace or abandon the Joint Property resulting from damages
14 or losses incurred, to the extent such costs are not considered overhead under Section III (*Overhead*),
15 and subject to the liability and indemnity provisions of the Agreement.

16
17 **9. LEGAL EXPENSE**

18
19 A. Recording fees, fines, penalties, settlements, court costs, and direct expenses other than a Party's
20 or Affiliate's legal staff or third-party legal fees, for handling, settling, or otherwise discharging
21 litigation, claims, and liens incurred in or resulting from activities or operations under the
22 Agreement, or necessary to protect or recover the Joint Property, to the extent permitted under the
23 Agreement.

24
25 B. Attorney's fees, court costs and other legal costs incurred to collect amounts in default shall be
26 charged in accordance with Exhibit "F" of the Agreement and Section 1.3.B (*Advances and*
27 *Payments*).

28
29 Attorney fees, court costs and other legal costs incurred in connection with indemnities shall be
30 borne by the indemnifying Party pursuant to the Agreement.

31
32 Legal costs incurred by each Party in connection with dispute resolution shall be borne in
33 accordance with Exhibit "H" of the Agreement.

34
35 Each Party will bear its own legal costs in matters involving negotiations among or between the
36 Parties.

37
38 For all other matters, there shall be no charge for legal staff of the Parties or Affiliates. Third-
39 party legal fees are chargeable to the Joint Account only if (i) approved pursuant to the
40 Agreement in the case of Claims, or (ii) approved by the Parties pursuant to Section I.6 (*Approval*
41 *by Parties*) for matters other than Claims.

42
43 **10. TAXES AND PERMITS**

44
45 All taxes, import duties, licenses, bonds, and permitting fees of every kind and nature, assessed or
46 levied upon or in connection with Joint Operations or Joint Property and which have been paid by the
47 Operator for the benefit of the Parties, including penalties and interest, subject to the liability and
48 indemnity provisions of the Agreement.

1 If ad valorem taxes paid by the Operator are based in whole or in part upon separate valuations of
2 each Party's Working Interest, then notwithstanding anything to the contrary herein, the charges to
3 the Parties will be made in accordance with the tax value generated by each Party's Working Interest.
4

5 Costs of tax consultants or advisors, the Operator's employees, or Operator's Affiliate employees in
6 matters regarding ad valorem or other tax matters, are not permitted as direct charges unless approved
7 by the Parties pursuant to Section I.6 (*Approval by Parties*).
8

9 Charges to the Joint Account resulting from sales/use tax audits, including extrapolated amounts and
10 penalties and interest, are permitted, provided the Non-Operator shall be allowed to review the
11 invoices and other underlying source documents which served as the basis for tax charges and to
12 determine that the correct amount of taxes was charged to the Joint Account. If the Non-Operator is
13 not permitted to review such documentation, the sales/use tax amount shall not be directly charged
14 unless the Operator can conclusively document the amount owed by the Joint Account.
15

16 **11. INSURANCE**

17
18 Net premiums paid for insurance required to be carried for Joint Operations for the protection of the
19 Parties. If Joint Operations are conducted at locations where the Operator acts as self-insurer in regard
20 to its workers' compensation and employer's liability insurance obligation, the Operator shall charge the
21 Joint Account manual rates for the risk assumed in its self-insurance program as regulated by the
22 jurisdiction governing the Joint Property. In the case of offshore operations in federal waters, the
23 manual rates of the adjacent state shall be used for personnel performing work On-site, and such rates
24 shall be adjusted for offshore operations by the U.S. Longshoreman and Harbor Workers (USL&H) or
25 Jones Act surcharge, as appropriate.
26

27 Settlements received from insurance carried for the benefit of Joint Operations shall be credited to the
28 Joint Account. Each Party shall be credited with a share of the settlement based on its Participating
29 Interest Share of the operation giving rise to the settlement; provided, however, if such settlement is
30 derived from insurance purchased by the Operator for fewer than all Parties, such settlement shall be
31 credited to those Parties for whom the insurance was purchased, in the proportion of their respective
32 contributions toward the insurance coverage.
33

34 **12. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY**

35
36 Costs incurred to comply with ecological, environmental and safety Laws or standards issued by
37 regulatory authorities having jurisdiction, provided such costs are not considered overhead under
38 Section III (*Overhead*). All labor costs incurred for ecological, environmental and safety matters,
39 including management, administration, and permitting, shall be governed by Sections II.2 (*Labor*), II.5
40 (*Services*), II.7 (*Affiliate Services*), or Section III (*Overhead*), as applicable.
41

42 Costs to provide or have available well containment, pollution containment and removal equipment
43 plus actual costs of control and cleanup and resulting responsibilities of oil and other spills as well as
44 discharges from permitted outfalls as required by applicable Laws, or other well containment,
45 pollution containment and removal equipment deemed appropriate by the Operator for prudent
46 operations, are directly chargeable, subject to the liability and indemnity provisions of the Agreement.
47

48 **13. OTHER EXPENDITURES**

49
50 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct*
51 *Charges*), or in Section III (*Overhead*) and which is of direct benefit to the Joint Property and is

1 incurred by the Operator in the necessary and proper conduct of the Joint Operations. Charges made
2 under this Section II.13 shall require approval of the Parties, pursuant to Section I.6 (*Approval by*
3 *Parties*).

6 III. OVERHEAD

8 As compensation for costs not specifically identified as chargeable to the Joint Account pursuant to Section
9 II (*Direct Charges*), the Operator shall charge the Joint Account in accordance with this Section III. The
10 Parties specifically recognize that functions described in this Section III shall be directly chargeable when
11 performed by personnel assigned to a Feasibility Team or Project Team and within the scope of work, as
12 approved by the Parties under the Agreement. Functions compensated by the overhead rates regardless of
13 whether they are performed by the Operator, Operator's Affiliates, or third parties and regardless of
14 location, include, but are not limited to, the following:

- 16 • physical inventories not chargeable under Section V (*Inventories of Controllable Material*)
- 17 • procurement
- 18 • administration
- 19 • accounting and auditing
- 20 • pipeline nominations and scheduling
- 21 • human resources
- 22 • management
- 23 • supervision not directly charged under Section II.2 (*Labor*)
- 24 • legal services not directly chargeable under Section II.9 (*Legal Expense*)
- 25 • handling taxation matters, other than those costs permitted under Section II.10 (*Taxes and Permits*)
- 26 • permitting and regulatory work, to the extent not requiring Technical Services, including:
27 preparation and monitoring of permits and certifications; preparing regulatory reports; reviewing,
28 interpreting, or submitting comments on Laws or proposed laws; Off-site appearances before, or
29 meetings with, governmental agencies or other authorities having jurisdiction over the Joint
30 Property or Joint Operations
- 31 • land and division order services.

33 Overhead charges are compensation for all costs and expenses associated with such functions, including
34 the salaries or wages plus applicable payroll burdens, benefits, and Personal Expenses of personnel
35 performing such functions, as well as their office and other support costs.

37 1. OVERHEAD – PROJECT AND OPERATING

39 A. As compensation for costs incurred but not chargeable under Section II (*Direct Charges*), the
40 Operator shall charge the Joint Account at the following rates:

41
42 **Project Rate** _____ percent (____%) of the directly chargeable costs associated with a
43 single activity or operation costing in excess of the Operator's expenditure limit in the Agreement
44 and requiring approval under the Agreement. The project rate shall also apply to an activity or
45 operation that costs in excess of such expenditure limit and would require approval were it not for
46 the discretionary authority granted to the Operator under the Agreement. If the Agreement does
47 not contain an expenditure limit, overhead shall be assessed at the Project Rate for any single
48 activity or operation costing in excess of _____ dollars (\$_____). For the
49 purpose of this paragraph, the component parts of a single activity or operation shall not be
50 treated separately.

1
2 **Operating Rate** _____ percent (____%) of the directly chargeable costs incurred in
3 activities and operations under the Agreement, except those subject to the Project Rate.
4

5 B. Expenditures to which the project overhead and operating overhead do not apply are:
6

- 7 • Material salvage credits
- 8 • insurance recoveries
- 9 • costs covered by Section II.1 (*Rentals and Royalties*)
- 10 • costs covered by Section II.9 (*Legal Expenses*)
- 11 • the value of substances purchased for enhanced recovery
- 12 • payments to third parties in settlement of claims
- 13 • property taxes, ad valorem taxes and other tax and assessments levied, assessed, and paid
14 upon the mineral interest in and to the Joint Property
- 15 • production handling fees, infrastructure access fees, and/or operating and maintenance
16 expenses fees paid to owners or operators of Offsite Host Facilities
- 17 • deferred production payments paid by Operator on behalf of the Parties
- 18 • quality bank adjustments paid by the Operator on behalf of the Parties
- 19 • insurance acquired for the Joint Account other than workers' compensation and employer's
20 liability insurance.

21 22 **2. AMENDMENT OF OVERHEAD RATES** 23

24 The overhead rates provided for in this Section III may be amended from time to time only by mutual
25 agreement of the Parties if, in practice, the rates are found to be insufficient or excessive.
26
27

28 **IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS** 29

30 The Operator is responsible for Joint Account Material and shall make proper and timely charges and credits
31 for direct purchases, transfers, and dispositions of Material. The Operator shall provide all Material for use
32 in Joint Operations; however, at Operator's option, Non-Operators may supply such Material. A Party
33 furnishing Material makes no express or implied warranties to the other Parties as to Material's quality or
34 fitness for use, or any other warranty of a similar nature.
35

36 **1. DIRECT PURCHASES** 37

38 Direct purchases shall be charged to the Joint Account at the price paid by the Operator after
39 deduction of all discounts taken. The Operator shall make good faith efforts to take discounts offered
40 by suppliers but shall not be liable for failure to take discounts except to the extent of the Operator's
41 liability under the Agreement. A direct purchase shall be deemed to occur when an agreement is
42 made between the Operator and a third party for the acquisition of Material for Joint Operations.
43 Material provided by the Operator under "vendor stocking programs," when the initial use is for the
44 Joint Operations and title of the Material does not pass from the manufacturer, distributor, or agent
45 until usage of the Material takes place, is considered a direct purchase. Actual freight associated with
46 direct purchases is chargeable to the Joint Account.
47

48 Long lead items authorized under the Agreement shall be charged as a direct purchase and any
49 reimbursements shall be in accordance with the provisions of the Agreement.
50

1 If Material is found to be defective or is returned to the manufacturer, distributor, or agent for any
2 other reason, credit, less any restocking charges, shall be passed to the Joint Account once the
3 Operator has received adjustment from the manufacturer, distributor, or agent.
4

5 **2. TRANSFERS**

6
7 A transfer to the Joint Account is determined to occur when the Operator (i) furnishes Material from
8 warehouse stock not owned by the Joint Account or from another operated property, (ii) has assumed
9 liability in whole or in part for the storage costs and changes in value, and (iii) has previously secured
10 and held title to the transferred Material. The (i) furnishing of jointly owned Material from the Joint
11 Property to another property, or to warehouse stock not owned by the Parties under the Agreement,
12 and/or (ii) furnishing of jointly owned Material to a third party or to one or more Parties who acquire
13 it for activities or operations not conducted under the Agreement, is considered a transfer; provided,
14 however, Material that is moved to a storage location for safe-keeping pending disposition may
15 remain charged to the Joint Account and is not considered a transfer. Material shall be disposed of in
16 accordance with Section IV.3 (*Disposition of Surplus*) and the Agreement.
17

18 **A. PRICING**

19
20 The value of Material transferred to/from the Joint Property should reflect the market value on the
21 date of transfer of ownership. Regardless of the pricing method used, the Operator shall make
22 available to the Non-Operators sufficient documentation to verify the Material valuation. When
23 higher than specification grade or sized tubulars are used in the conduct of Joint Operations, the
24 Operator shall charge the Joint Account at the equivalent price for well design specification
25 tubulars, unless such higher specification grade or sized tubulars are approved by the Parties
26 pursuant to Section I.6 (*Approval by Parties*). Transfers of new Material will be priced using one
27 of the following pricing methods; provided, however, the Operator shall not alternate between
28 methods for the purpose of choosing the method most favorable to the Operator for a specific
29 transfer:
30

- 31 (1) Prices provided by the COPAS Computerized Equipment Pricing System (CEPS).
- 32
- 33 (2) Prices based on a price quotation from a vendor that reflects market value on the date of
34 transfer.
- 35
- 36 (3) Prices based on the amount paid by or average costs to the Operator provided it reflects the
37 market value at the date of transfer.
- 38
- 39 (4) For specialized or custom Material for which current market value is not available, the
40 amount paid by the Operator for such Material, including the storage, preservation and
41 preparation costs.
- 42
- 43 (5) Prices agreed to by the Participating Parties for Material being transferred to the Joint
44 Property, or by the Parties owning the Material for Material being transferred from the Joint
45 Property.
- 46

47 **B. FREIGHT**

48
49 The Operator shall charge the Joint Account for freight costs as follows:
50

- 1 (1) for oil country tubulars and line pipe, (i) freight rates provided by CEPS, which includes
2 loading and unloading costs, for moving the tubulars or line pipe, as applicable, from the
3 manufacturer to the stocking point nearest the shore base, warehouse or fabrication yard, or
4 (ii) actual freight costs paid to a third party in moving the tubulars or line pipe from the
5 manufacturer to the applicable delivery location, or (iii) freight costs determined under
6 paragraph (3) of this Section IV.2.B, if applicable;
7
- 8 (2) for Material provided by third parties, other than oil country tubulars and line pipe, actual
9 freight costs incurred by the Operator; or
10
- 11 (3) for freight provided by a Party or an Affiliate, the freight costs arrived at in accordance with
12 Section II.6 (*Equipment and Facilities Furnished by Parties, Affiliates*) and/or Section II.7
13 (*Affiliate Services*), as applicable.
14

15 Transportation of Material between the Joint Property and another property, or from the
16 Operator's warehouse or other storage point to the Joint Property, shall be charged to the
17 receiving property. Transportation of Material from the Joint Property to a warehouse or other
18 storage point shall be charged to the Joint Account.
19

20 Notwithstanding the foregoing, freight charges associated with redeployment of Operator's
21 surplus from another property or warehouse to the Joint Property shall not exceed the cost of
22 moving such surplus from the nearest stocking point to the applicable delivery location.
23

24 C. TAXES

25
26 Sales and use taxes shall be added to the Material transfer price using either the method contained
27 in CEPS or the applicable tax rate in effect for the Joint Property at the time and place of transfer.
28 In either case, the Joint Account shall be charged or credited at the rate that would have applied
29 had the Material been a direct purchase.
30

31 D. CONDITION

- 32
33 (1) Condition A – New and unused Material in sound and serviceable condition shall be charged
34 or credited, as applicable, at 100% of the new price as determined in Section IV.2.A
35 (*Pricing*).
36
- 37 (2) Condition B – Used Material in sound and serviceable condition and suitable for reuse
38 without reconditioning shall be charged or credited at (i) a price derived by multiplying the
39 new price determined in Section IV.2.A (*Pricing*) by 75%, or (ii) a price quotation from a
40 vendor that reflects market value on the date of transfer for such Condition B Material.
41

42 Except as provided in Section IV.2.D (3), all reconditioning costs required to return the
43 Material to Condition B will be borne by the divesting property's account.
44

- 45 (3) Condition C – Material that is not in sound and serviceable condition and not suitable for its
46 original function, but can be made suitable for use after reconditioning, shall be charged or
47 credited at (i) a price derived by multiplying the new price determined in Section IV.2.A
48 (*Pricing*) by 50%, or (ii) a price quotation from a vendor that reflects market value on the
49 date of transfer for such Condition C Material.
50

1 The cost of reconditioning shall be charged to the receiving property's account to the extent
2 Condition C value, plus cost of reconditioning, does not exceed Condition B value.

3
4 (4) Condition D – Material that is obsolete or no longer suitable for its original purpose but
5 useable for some other purpose shall be charged or credited at a price commensurate with its
6 intended use.

7
8 (5) Condition E – Junk shall be charged or credited at prevailing scrap value prices.

9
10 **E. OTHER PRICING PROVISIONS**

11
12 (1) Preparation Costs

13
14 Costs to prepare Material for use, including, but not limited to, inspection, third-party
15 surveillance, sandblasting, stenciling, perforating and coating will be charged to the Joint
16 Account at prices which reflect the actual costs of the services, in accordance with Section II
17 (*Direct Charges*). Preparation costs incurred will not be credited for new unused Material
18 transferred from the Joint Account unless these services permanently alter Material and
19 provide full value to any future receiving property.

20
21 (2) Maintenance and Preservation Costs

22
23 Costs to maintain and preserve Material shall be charged to the Joint Account at actual cost,
24 in accordance with Section II (*Direct Charges*).

25
26 **3. DISPOSITION OF SURPLUS**

27
28 Surplus Material is that Material which the Operator deems is no longer needed in present or
29 foreseeable Joint Operations. The Operator may purchase, but shall be under no obligation to
30 purchase, the interest of the Non-Operators in surplus Material.

31
32 For the purpose of this Accounting Procedure, dispositions occur when the Joint Account relinquishes
33 title to the Material from the Joint Property to either a third party, or to one or more Parties who
34 acquire it for use other than for activities or operations conducted under the Agreement. To avoid the
35 accumulation of surplus Material, the Operator should make good faith efforts to dispose of surplus
36 within twenty four (24) months through means such as a return to the original supplier at full or
37 partial value; a buy/sale agreement; a trade; a sale to a third party via a bid sale; an electronic auction
38 or a direct sale; a division in-kind; a disposal as scrap, or another type of disposition as agreed to by
39 the Parties owning the Material.

40
41 Disposal of surplus Material shall be made in accordance with the terms of the Agreement. If the
42 Agreement contains no provisions governing disposal of surplus Material, the following terms apply
43 to disposal of all Material other than a Critical Spare:

44
45 i. The Operator may, through a sale to an unrelated third party, dispose of surplus Material
46 having a gross sale value, less the cost of disposal, that is less than or equal to the Operator's
47 expenditure limit in the Agreement, without the prior approval of a majority in interest of the
48 Parties owning such Material.

49

- 1 ii. Except as provided in paragraphs iii, iv, and v of this Section IV.3, if the gross sale value, less
2 the cost of disposal, exceeds the Operator's expenditure limit in the Agreement, the disposal
3 must be agreed to by a majority in interest of the Parties owning such Material.
4
5 iii. Operator may purchase surplus Condition A or B Material without approval of the Parties
6 owning such Material, based on the pricing methods set forth in Section IV.2 (*Transfers*).
7
8 iv. Operator may purchase Condition C Material without prior approval of the Parties owning
9 such Material if the value of the Material, based on the pricing methods set forth in Section
10 IV.2 (*Transfers*), is less than or equal to the Operator's expenditure limit in the Agreement.
11 If the value of Condition C Material, based on the pricing methods set forth in Section IV.2
12 (*Transfers*), exceeds the Operator's expenditure limit in the Agreement, the Operator must
13 obtain approval of a majority in interest of the Parties owning such Material. The Operator
14 shall provide documentation supporting the classification of the Material as Condition C.
15
16 v. The Operator may dispose of Condition D and E Material under procedures normally utilized
17 by the Operator without prior approval of the Parties owning such Material.
18

19 If the Agreement does not contain an Operator's expenditure limit, the threshold in i, ii, and iv, above
20 shall be the dollar threshold specified in Section III.1.A (*Overhead – Project and Operating*). Prior to
21 disposing or redeploying a Critical Spare that has been maintained for the Joint Property, Operator
22 shall obtain unanimous approval of the Parties owning such Critical Spare.
23

24 **4. SPECIAL PRICING PROVISIONS – SHOP-MADE ITEMS**

25
26 Items fabricated by the Operator shall be priced based on the value of the Material used to construct
27 the item plus the actual costs, determined in accordance with Section II (*Direct Charges*), to fabricate
28 the item. If the Material is from the Operator's scrap or junk account, the Material shall be priced at
29 either twenty-five percent (25%) of the current price as determined in Section IV.2.A (*Pricing*) or
30 scrap value, whichever is higher. In no event shall the amount charged exceed the value of the item
31 commensurate with its use.
32
33

34 **V. INVENTORIES OF CONTROLLABLE MATERIAL**

35
36 The Operator shall maintain records of Controllable Material charged to the Joint Account, with sufficient
37 detail to perform the physical inventories.
38

39 Adjustments to the Joint Account by the Operator resulting from a physical inventory of Controllable
40 Material shall be made within twelve (12) months following (a) the taking of the inventory in the case of
41 Operator-conducted inventories, or (b) the Operator's receipt of a Non-Operator's inventory report if the
42 inventory was conducted by a Non-Operator. Charges and credits for overages and shortages will be
43 valued for the Joint Account in accordance with Section IV.2 (*Transfers*) and shall be based on the
44 Condition B prices in effect on the date of physical inventory unless a Party can provide sufficient
45 evidence another Material condition applies.
46

47 **1. DIRECTED INVENTORIES**

48
49 Physical inventories shall be performed by the Operator upon written request of a majority in
50 Working Interest of the Non-Operators (hereinafter, "directed inventory"); provided, however, the
51 Operator shall not be required to perform directed inventories more frequently than once every five

1 (5) years. Directed inventories shall be commenced within one hundred eighty (180) days after the
2 Operator receives written notice that a majority in interest of the Non-Operators has requested the
3 inventory. All Parties shall be governed by the results of any directed inventory.
4

5 Expenses of directed inventories will be borne by the Joint Account; provided, however, costs
6 associated with any post-report follow-up work in settling the inventory will be absorbed by the Party
7 incurring such costs. Expenses of directed inventories may include the following:
8

9 A. A per diem rate for each person conducting the inventory, consisting of that person's actual salary
10 or wages, payroll burdens and benefits unless another rate is approved by the Parties pursuant to
11 Section I.6 (*Approval by Parties*). The per diem rate also applies to a reasonable number of days
12 for pre-inventory work and report preparation.
13

14 B. Actual transportation costs and Personal Expenses for the inventory team.
15

16 C. Reasonable charges for preparing the report and distributing it to the Non-Operators.
17

18 **2. NON-DIRECTED INVENTORIES**

19 A. OPERATOR INVENTORIES

20 Physical inventories that are not requested by the Non-Operator may be performed by the
21 Operator at the Operator's discretion. The expenses of conducting Operator-initiated inventories
22 shall not be charged to the Joint Account, unless approved by the Parties pursuant to Section I.6
23 (*Approval by Parties*).
24
25
26

27 B. NON-OPERATOR INVENTORIES

28 Subject to the terms of the Agreement, any Non-Operator may conduct a physical inventory at
29 reasonable times at its sole cost and risk after giving the Operator at least ninety (90) days prior
30 written notice.
31
32

33 C. SPECIAL INVENTORIES

34 The expense of conducting inventories other than those described in Sections V.1 (*Directed*
35 *Inventories*), V.2.A (*Operator Inventories*), or V.2.B (*Non-Operator Inventories*), shall be
36 charged to the Party requesting such inventory; provided, however, inventories required due to a
37 change of Operator shall be charged to the Joint Account in the same manner as described in
38 Section V.1 (*Directed Inventories*).
39