O5 - Norwegian Oil and Gas Recommended Model Agreement for decommissioning security for removal obligations

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Preface

This model agreement is recommended by Norwegian Oil and Gas' Legal committee, and are approved by Norwegian Oil and Gas' director general.

The work group was composed of the following members:

Karl Myhre, Norske Shell
Sverre Bjelland, Statoil
Sindre Aase, Talisman
Sidsel Margrethe Asheim, TOTAL
Olav Boye Sivertsen, Petoro
Ole Henrik Brown, Centrica
Tore Ulleberg, ConocoPhillips
Jan Samuelsen, Chevron
Christen I. Minos, BP

Karl Myhre has chaired the work group, with Oluf Bjørndal as the representative from administration.

Responsible manager in Norwegian Oil and Gas is Oluf Bjørndal, ob@norog.no and +47 51 84 65 37.

This Norwegian Oil and Gas model agreement has been prepared with broad-based participation by interested parties in the Norwegian petroleum industry and they are owned by the Norwegian petroleum industry, represented by Norwegian Oil and Gas. Norwegian Oil and Gas is responsible for administration.

Norwegian Oil and Gas Association
Vassbotnen 1, Sandnes
P.O. Box 8065
4068 Stavanger
Phone: +47 51 84 65 00
Fax: +47 51 84 65 01
Website: www.norskoljeoggass.no
Email: firmapost@norog.no

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Norwegian Oil and Gas work group guarantee – report

1. Introduction

In a meeting on 29 January 2010, the legal committee decided to appoint a work group to review the practical consequences of the amendment to Section 5-3, third subsection of the Petroleum Act relating to a guarantee for removal obligations

In addition to considering the practical consequences of the amendment, the work group was asked to produce proposals for necessary clarification in statutes and regulations, agreements and licensing policies, as well as producing any standard model clauses inter partes.

The work group has been composed of:

Karl Myhre, Norske Shell
Sverre Bjelland, Statoil
Sindre Aase, Talisman
Sidsel Margrethe Asheim, TOTAL
Olav Boye Sivertsen, Petoro
Ole Henrik Brown, Centrica
Tore Ulleberg, ConocoPhillips
Jan Samuelsen, Chevron
Christen I. Minos, BP

Karl Myhre has chaired the work group, with Oluf Bjørndal as the representative from administration.

The work group has held four meetings.

The report has the following structure:

1. Introduction
2 Summary - recommendations
3. Facilities that ”existed at the time of transfer”
4. The flow of information – seller’s access
5. When does the alternative liability arise?
6. Tax and fiscal aspects
7. Decommissioning security agreement for issues – use of model clauses

2. Summary - recommendations

With the Act of 19 June 2010, Section 5-3 of the Petroleum Act was amended by adding a new third subsection:

> **”If a licence or participating interest in a licence has been transferred pursuant to Section 10-12 first paragraph, the assignor shall be alternatively liable for financial obligations toward the remaining licensees for the cost of carrying out the decision relating to disposal.**

> **The assignor shall also be alternatively liable towards the State if costs related to the Ministry's decision regarding measures pursuant to paragraph six are not covered by the licensee or another responsible party. The financial obligation stipulated according to the first and second sentences shall be calculated on the basis of the size of the participating interest assigned and shall be claimed from the assignor after deduction of the assessed value of the costs incurred by implementation of the decision regarding disposal. The assignor's obligations will exist through subsequent transfers of the licence or a participating interest in the licence, but to the effect that claims shall initially be directed to the company being the previous assignor of the participating interest. The financial obligation shall be limited to costs related to facilities, including wells, which existed at the time of the transfer. ”**

The need for such alternative liability was not particularly present until after the year 2000, as the licensee situation on the Norwegian shelf gradually changed from a majority of oil and gas companies with solid technical and financial strength, to a diverse selection of well-established and newly established companies with various backgrounds and objectives, and with varying technical and financial strengths.

You could say that the changed player field gave rise to the above-mentioned legal provision, which has the objective of ensuring that there is money available to cover all removal obligations. At the same time, the alternative liability is restricted in two ways: For the seller's share of costs related to facilities that existed at the time of transfer.

In short, the work group will provide the following recommendations:

2.1. Facilities that ”existed at the time of transfer”

According to the new legal provision, the seller has an alternative liability for removal of ”facilities … that existed at the time of transfer”. The work group is of the opinion that this does not provide a clear solution as regards which facilities are included in the seller's alternative liability. This applies both to when "the time of transfer" is, and what is meant by the facility "existed".

It is the opinion of the work group that a regulatory stipulation with a more precise description of these items would be appropriate.

Every transfer must be recorded in the Petroleum Register, cf. Section 6-1 of the Petroleum Act. The work group has, after assessing various alternatives, come to the conclusion that notoriety considerations state that "the time of transfer" should be the day the transfer is registered in the Petroleum Register.

Following an overall assessment, the work group further believes that the seller's liability should include facilities and wells existing *on the field* at the time of transfer.

Therefore, it is suggested that the following provision be included in the Petroleum Regulations:

> ***”Under Section 5-3, third subsection of the Act, wells and facilities existing at the time of transfer means wells and facilities that are located at the destination, and pipelines on the pipeline's route, the day the transfer is recorded pursuant to the provisions in Section 4-2, second subsection, in the Regulations of 19 June 1997 no. 618 relating to the Petroleum Register. The liability in Section 5-3, third subsection of the Act, also includes spudded wells and facilities that are located within the safety zone.”***

2.2. The flow of information - seller’s access

The work group is of the opinion that the seller has a legitimate need for information from the relevant production licence to continuously evaluate the scope of its alternative liability, as well as the removal schedule (to the extent such a plan is available). The seller should therefore ensure the transfer agreement allows the buyer to give him access to relevant information related to the activity which the alternative responsibility originates from.

However, this is confidential information in the production licence, cf. Article 27 of the joint operating agreement. In order to allow the buyer to share this information, the joint operating agreement should include a clause whereby the buyer is entitled to release such information, and the operator of the relevant production licence is required to give the seller access to the same information on removal obligations that the operator gives to the licensees.

Based on this, the work group believes that the final sentence in Article 27.2 of the joint operating agreement should have the following wording (proposed amendment in italics):

> ***"***This does not apply to information to the Parties' affiliated companies ***or information as mentioned in the second subsection of this article to companies that have an alternative liability for financial obligations according to Section 5-3, third subsection of the Petroleum Act, for a proportional share of the activities according to this Agreement."***

Furthermore, the work group believes that a new second subsection in Article 27.2 can define the information the seller needs to evaluate its alternative removal obligations, as well as require the operator to give the previous licensee the same information on alternative removal obligations as the operator gives to the licensees, thus:

> ***"Upon written request from companies that have an alternative liability for financial obligations according to Section 5-3, third subsection of the Petroleum Act, for a proportional share of the activities under this Agreement, the Operator will give such companies the same information on estimated and actual removal costs which the Parties receive from the Operator."***

An equivalent provision is proposed for inclusion in unitization agreements and participant agreements which relate to pipelines.

2.3 When does the alternative liability arise?

The work group has assessed whether there is a need for clarification related to how far existing licensees (that have not defaulted on payments) are required to go with regard to recovering the claim vis-a-vis the existing licensee (that is defaulting on payment) before claims can be directed towards previous licensee(s). In other words, when does the previous licensee's alternative liability for financial obligations arise. The group has looked further into questions related to transfers in several stages.

The work group proposes the inclusion of the following provision in the Petroleum Regulations:

> ***"Under Section 5-3, third subsection of the Act, alternative liability for financial obligations means a liability that arises when a licensee, after receiving a written demand for payment, has defaulted on payment obligations according to the agreement relating to petroleum activities (the joint operating agreement) and the opportunities found in Article 9 of the joint operating agreement have been exhausted by the other licensees, or it must be clearly evident that the opportunities provided under Article 9 of the joint operating agreement, will not be able to give the other licensees full or partial coverage of the claim. When Section 5-3, third subsection, fourth sentence stipulates that requirements should first be directed at the company that last transferred the ownership interest, it should be understood such that, if an ownership interest in a licence has been transferred several times, the other licensees should always submit a written demand for payment to the assignors in successive order, so that claims are first directed to the company which last transferred the ownership interest, and then to the next company when the previous company has defaulted on its payment obligation. The previous licensee is considered to have defaulted on its obligation if the obligations have not been covered within three months after the aforementioned written demand for payment is received.***
>
> ***In the recourse settlement, the defaulting licensee is the first liable party, followed by the licensee that last transferred the ownership interest and so on, in successive order for the entire defaulted obligation, if multiple previous licensees default on their obligations. "***

2.4. Tax and fiscal aspects

The work group would like to point out three items requiring clarification:

1. Ensure neutrality in connection with the post- tax settlement from guarantor
2. Tax-related treatment of guarantee costs - financial cost (28%) or operating cost (78%)
3. Timeframe for deductions for the licensees that must cover a defaulting buyer's ownership interest

2.5. Decommissioning security agreement for issues – use of model clauses

The new provisions in Section 5-3, third subsection of the Petroleum Act entail that the seller of (all or parts of) a production licence has an alternative liability vis-a-vis the other licensees for the buyer's costs related to removal of the facilities that existed at the time of transfer.

In the report, the work group points out several considerations that can be emphasised in such an assessment. Furthermore, the work group discusses certain agreement mechanisms that can be used to avoid such liability. However, the conditions may vary considerably from sale to sale, and it is therefore not possible to prepare a "standard" agreement which is recommended for use with sales of production licences.

The work group recommends that these model clauses are made available to the industry by publishing them - along with the report - on Norwegian Oil and Gas' website.

3. Section 5-3, third subsection of the Petroleum Act - facilities that ”existed at the time of transfer”

The assignor's alternative liability for removal pursuant to Section 5-3, third subsection of the Petroleum Act applies to wells and facilities ”that existed at the time of transfer”. The provision is new and the legal sources are limited to the preparatory work and comment edition of the Petroleum Act (Hammer et al.) which was recently published.

Item 6.5 on page 12 of Odelsting proposition no. 48 (2209- 2009) states that

> *”As regards the final sentence, the alternative liability is limited to costs related to facilities and wells that existed at the time of transfer. If the transfer takes place before facilities or wells exist in the licence, a licensee that has transferred its ownership interest will not be liable for a potential future removal obligation in the licence.*
>
> *The alternative liability for facilities that existed at the time of transfer is connected to the facilities as such, independent of any future development of these. It is assumed that several costs related to the later development of a facility will have little or no significance for the subsequent removal costs. There also is not necessarily a correlation between investing in new equipment and increased removal costs. Such investments can both increase and reduce the removal costs. The predictability consideration however, indicates that the alternative liability should not increase after the time of transfer due to subsequent development in the licence, which the liable party has no influence over. The alternative liability related to facilities that existed at the time of transfer will thus be limited up to what the liable company’s share of the cost would have been at the final removal date for removal of the facility as it was at the time of transfer.”*

3.1 Cut-off point for alternative liability

Neither the preparatory work nor the wording in the provision are clear as regards when the "time of transfer" is. At the beginning of subsection 3, the provision refers to Section 10-12 of the Petroleum Act related to approval of transfer. Hammer et al. states that it is the date of this approval that is "referred to" without any further reasoning for this. When the provision references Section 10-12, the intention must be understood such that the latter provision ensures that the Ministry retains complete control as regards who has permission to recover petroleum at any given time.

The reference to Section 10-12 does not provide any further clarity as regards the point in time that shall constitute the basis as regards the understanding of "existed at the time of transfer." Firstly, the time can be interpreted to be the date of the Ministry's approval decision. This creates notoriety. Secondly, the "time of transfer" could be when both the Section 10-12 consent has been granted, and each party has jointly accepted the decision, and then carry out the transfer. The time of transfer can thus be the date information on the transfer is submitted to the management committee, cf. Appendix A, Article 23.4 of the joint operating agreement. This is also a point in time that that creates notoriety.

The parties often agree that financial effect should be from ”Effective Date”. This could be a date which is typically 1 January in a given year, even though the agreement was entered into before this date. In other the end lies ”Completion Date”; this is an agreed point in time after all conditions in the agreement have been met.

It could be appropriate to use the time as a basis for when the transfer becomes effective - ”Effective Date” - which will be agreed between buyer and seller in the transfer agreement. This agreed cut-off point will apply for all parts of the transfer and the parties are in full control of when this will be.

The consideration as to the actual time of public record could indicate that the time which forms the basis for the transfer date for the other parties in the joint venture should be deemed to be the cut-off point according to the provision in Section 5-3, i.e. when a new party acts as a party, exercises the right to vote and is responsible for charges. This point in time is known by the other parties in the joint venture through notifications about the transfer, etc. The consideration for predictability is therefore safeguarded.

The agreed time of transfer for financial effect between the parties can be a point in time both before and after the time of the approval according to Section 10-12 of the Petroleum Act. Even though the approval will be a condition for carrying out the transfer, it is difficult to see that the time of the approval will lead to a different cut-off point for the alternative removal obligation than for all other parts of the transfer. In addition, it is difficult to see any basis for the approval of the agreement leading to deviation from/change of the agreement as regards the point in time when the alternative liability arises.

A main consideration regarding the reference in the third subsection of Section 10-12 of the Act, must be assumed to be the issue of notoriety, and that the transfer has been finalised, i.e. all reservations are removed and that the cut-off point is related to a point in time which creates significant notoriety. The objective of the third subsection is to protect participants in the licence who are not parties to the transfer, and that a clear cut-off point can be established.

It must be concluded that Section 5-3 does not provide a clear solution as regards the cut-off point.

It is the opinion of the work group that a regulatory stipulation with a more precise description of the cut-off point would be appropriate. When the transfer is completed the seller will issue a ”deed” for the ownership interest registered in the Petroleum Register, cf. Section 2-3, Item f of the Petroleum Register Regulations). The seller is required to immediately register an approved transfer pursuant to Section 10-12 of the Petroleum Act.

Pursuant to Section 4-2 of the Petroleum Register Regulations, documents that are submitted to the Petroleum Register before 12:00 will be registered the same day. Documents received after 12:00 will be registered on the next business day. The registration provides a certain cut-off point.

The work group recommends that regulatory stipulations be put in place to link the cut-off point to the registration date in the Petroleum Register, cf. Item 3.3.

3.2. Facilities that ”existed”

What is meant by "existed" has also not been clarified in the preparatory work. This states that the alternative liability "is connected to the facilities as such, independent of later development of these". However, the consideration for predictability indicates that "the alternative liability should not increase after the time of transfer" due to "subsequent development in the licence". It is therefore concluded that the liability applies to "the facility as it was at the time of transfer". This statement, in context with the term "existed" clearly points in the direction that the liability includes what existed purely physically at the time of transfer. What existed during the transfer is an open question which can be very complicated, depending on which phase the activity is in and whether it applies to facilities or wells.

Exploration and outstep wells that have been spudded at the time of transfer and that are not converted into production wells, will after a while be plugged and abandoned, and will most likely not constitute a practical problem, while the situation is different for production wells already being drilled. Here you could discuss how far along the drilling must be before it becomes necessary (at a specific time) to plug the well; from when it is started or from when it reaches oil-bearing layers, etc. This

seems a bit cumbersome and the best point of departure should be that all spudded/completed wells are included in the alternative liability.

Accordingly, facilities installed on the field will be included in the liability. If the facility has been replaced in its entirety or partially without the removal obligation increasing, cf. the preparatory work, the alternative liability will still include the facility.

In all likelihood, facilities under construction and ongoing modifications will result in the largest challenges in clarifying what existed at the time of transfer. The narrowest interpretation of "existed" will only include facilities or parts of facilities actually installed on the field; for example, an installed jacket will be included, but not the platform deck that is ready to be lifted into place. This seems hypothetical and not very practical. The broadest interpretation will be that the liability includes all facilities that have been approved for procurement at the time of transfer, as Hammer et al. indicates. In principal, this is well-founded, in that the buyer, seller and the other parties in the joint venture will be aware of these decisions and you will avoid a number of delimitation issues.

Unfortunately, it is difficult to join this interpretation with the wording in the act and the prepatory work, also pointed out by Hammer et al. As regards modules, Hammer et al. indicates that the cut-off point must be when the joint venture took over the module. However, the provision makes no reference to takeover, nor does the preparatory work. Such a limited interpretation is therefore difficult to justify, even though the takeover, in terms of documentation, carries more weight as Hammer et al. claims. In addition, the right of ownership of the individual deliveries will usually be transferred continuously during construction. A criterion stipulating takeover could therefore deviate from Article 24.3 in the joint operating agreement relating to a guarantee for removal of "facilities which belong to the joint venture" at withdrawal.

Usually, agreements do not have any value as sources with regard to statutory interpretation, but since the joint operating agreement is established by the Ministry, one could argue that statutes and licensing policies must be viewed in context. Another criterion can therefore be that the joint venture must be the owner of the facilities, what exists will then depend on the agreements between the joint venture and the individual supplier. In the extension of this, the question of when something exists also arises. Is the purchase and delivery of steel sufficient to determine that facilities exist, or must construction have begun, in which case, how far must it have progressed, etc.

With such an interpretation, the answer to the existence question will be determined based on ownership transfer and the progress of the construction, in which case this must be clarified in practice.

Since the criterion is stated in law, the parties can not define the scope of the alternative liability between themselves. This means that the parties in a transfer agreement must ensure that they have mutual access to demand recourse for a potential alternative liability - and under this precondition the broadest interpretation should be used as a basis, i.e. which facilities have been approved for construction at the time of transfer. Seller (S) will then always be able to demand recourse from Buyer (B) (or its bankrupt estate) for the liability, similarly, in the event of resale, the buyer (B) will be able to file claims both against the first seller (S) and against its buyer (B2) in the chain.

This can develop to where all sellers should consider that they could be held alternatively liable for removal costs for all facilities that have been approved for construction at the time of the sale, all the way back to the "first seller" after the decision was made.

The work group notes that, again, there is not a clear solution for this item in Section 5-3 of the Act.

The work group believes that after an overall assessment, an addition to the Act or a more precise definition in the regulations related to facilities and wells that existed on *the field* at the time of transfer will provide clarity. A proposal for a regulatory stipulation is included in Item 3.3.

Such a solution is manageable, particularly when considering that decades can pass between the transfer and when the liability arises.

The proposal involves including completed or spudded wells on the field, as well as modules or platforms that are placed or being placed on the actual field, but not installations being towed or under development. If we are to be very precise we could add "on the field within the safety zone".

3.3 Proposed amendment to the regulations

A proposal is made to include the following in the Petroleum Regulations:

> ***"Wells and facilities existing at the time of transfer, mean under Section 5-3, third subsection of the Act, such wells and facilities that are located at the destination, and pipelines on the pipeline's route, on the date the transfer is recorded in accordance with the provisions in Section 4-2, second subsection in the Regulations of 19 June 1997 no. 618 relating to the Petroleum Register. The liability under Section 5-3 of the Act also includes spudded wells and facilities that are located within the safety zone."***

4. The flow of information - seller's access to the activity in the production licence the alternative liability originates from.

As mentioned earlier, the seller's alternative liability is restricted in two ways: to the seller's share of costs related to facilities that existed at the time of transfer. Consequently, the seller has a need for information from the relevant production licence to be able to regularly assess the scope of the alternative liability.

As a further basis, it could be appropriate to briefly cite certain statements in the consultation round regarding Section 5-3 of the Petroleum Act, as well as statements in the new comment edition of the Petroleum Act.

4.1. Viewpoints in the consultation round regarding Section 5-3 of the Petroleum Act

4.1.1 Norwegian Oil and Gas' view

The need for information was emphasised by Norwegian Oil and Gas in the consultation round regarding Section 5-3 of the Petroleum Act, and is re-stated as follows under Item 3.5 on page 9 of Odelsting proposition no. 48 (2008-2009):

> *"Furthermore Norwegian Oil and Gas believes that in many cases it will be necessary for the seller to conduct assessments that require access to the activity in the production licence the liability originates from, and that necessary access must be ensured for the seller."*

4.1.2 The Ministry's view

The Ministry's response (also page 9 in the same Odelsting proposition):

> *"The Ministry sees that a party with alternative liability could have a need for information on the activity in the production licence the liability originates from e.g. in connection with assessment of the liability related to accounting. Access to such information must be safeguarded in the transfer agreement and will be contingent on consent from the other licensees cf. Article 27.2, first subsection of the joint operating agreement. As both the remaining licensees and the alternatively liable party will have interest in a correct basis for the continuous assessment of the scope of the alternative liability, the Ministry assumes that such consent will be granted. That is dependent on the licensees determining an appropriate method for how and what information to be given and what restrictions should apply for the use of such information."*

4.2. The Petroleum Act's comments (2009 - Hammer et al.)

The comment edition discusses the information access issues on page 445:

> *"It is our opinion that the parties may not necessarily agree on which information is necessary, including how such information is to be communicated. The question is therefore if the Ministry should make a more detailed stipulation of this topic in regulations. One alternative is that the industry agrees to amend Article 27.2 of the joint operating agreement with a clarification of what information can be released without the other parties' consent, and how such communication will take place."*

4.3. Seller's need for information from the production licence

4.3.1 Basis

The obvious basis is that the seller has a legitimate need for information from the relevant production licence to be able to continuously assess the scope of its alternative liability, as well as the schedule for removal (to the extent such a plan is available).

The information need calls for an assessment of whether the joint operating agreement, transfer agreement, other agreements and/or legislation should include a requirement for the buyer and/or operator of the relevant production licence to give the seller access to relevant information on the activity which the alternative liability originates from.

For the sake of cohesiveness, a similar issue is mentioned, which is outside the work group's mandate: For the seller it is equally important to have a continuous overview of the buyer's financial situation to assess their credit risk. In other words, how likely is it that the alternative liability will arise? If it is more likely than not that the liability will arise, when this is assessed at a given point in time, the accounting rules state that the seller must allocate and record funds to cover the liability.

4.3.2 Relevant information

When questions are raised as regards what is ”relevant information” in this connection, the clear basis is that the seller should secure access to the same information on removal and disposal costs that the licensees in the relevant production licence receive from the operator.

The information should enable the seller to have a good overview of removal costs on the same line as the licensees.

Primarily, the seller and buyer should regulate the access to information in the transfer agreement, so that the buyer is required to give the seller such relevant information. In the absence of special legal authority, this approach assumes that the buyer receives consent from the other licensees to release such confidential information in the production licence to the seller. If the buyer resells its ownership interest (or a part thereof) the buyer must also ensure that a corresponding liability is included in the new transfer agreement. It is probably also practical for the above-mentioned information to be provided by the operator, following a written request from the seller. To limit the strain on the operator, this requirement should be limited to information that has already been prepared and given to existing licensees.

The channelling of ”relevant information” is primarily a practical question, where one should strive for the easiest, most efficient and non-bureaucratic routines possible.

4.3.3 Regulation of access to information

Even though the seller and buyer can easily *inter partes* regulate the access to information in the transfer agreement, the access will only be real if the other licensees consent to such access, cf. Article 27.2 first subsection of the joint operating agreement.

In this connection, it is pointed out that a company listed on the stock exchange is obliged to treat players in the market equally - for example through equal access to information published at the same time. In theory, giving a single company (seller) access to confidential information in the production licence can represent an illegal discrimination, but it is assumed that the information discussed here is of no competitive significance. In addition, the seller does have a legitimate need for the information. Both the lack of competitive significance and the seller's legitimate need, indicate that such ”exclusive” access to information will not clash with the stock exchange rules.

The joint operating agreement also does not contain any requirement or right for the operator to *ex officio* or following request from seller or buyer - give information to a third party (seller).

Access to information in the relevant case is also not regulated.

A requirement for submitting relevant information to the seller is thus unregulated. In Odelsting Proposition No. 48 (2008-2009) the Ministry assumes that the licensees will give consent pursuant to Article 27.2 first subsection of the joint operating agreement, and thereby (as a precondition for consent) will arrive at a suitable scheme for how information will be given, which information will be given, and which restrictions that will apply to the seller's use of such information.

According to the Ministry's scheme, the seller is at the mercy of the licensees' consent, and in each individual case there could be time and cost-intensive negotiations between the seller and licensees to arrive at a ”suitable scheme”, as the Ministry assumes. Even though one can normally expect consent to be granted, one cannot rule out that some players, for different reasons, and perhaps even based on irrelevant and/or strategic company reasons, will refuse to grant such consent.

More importantly, however, is the fact that the seller's legitimate need for information *in and of itself*, which is solely based on the State making alternative liability a regulatory requirement for the seller, should be sufficient reason for the seller receiving an unconditional *right* to such information without having to obtain consent from anyone, or being forced to negotiate on what and how information will be given.

Overall, it seems most appropriate to regulate the access to information through the agreement.

4.4. Proposed regulation

The seller's alternative liability is, as mentioned, limited to the percentage ownership interest in the transferred production licence, and is further limited to facilities existing at the time of transfer.

Even though, as pointed out in Item 3 above, there should be a further clarification as regards what is meant by ”existing” and ”the time of transfer", and even though disagreements can arise with regard to restrictions of the scope as regards platform equipment, and so forth, it can be asserted that the seller at the time of transfer (regardless of how this is defined) largely has a good overview of the scope of (the size of) its alternative liability - and the time aspect.

There will still be a need for continuous calibration of this liability through regular information on estimated removal costs (which can change considerably over time).

A possibility for ensuring that the seller receives information on the scope of the alternative liability could be to expand the final clause in Article 27.2 of the joint operating agreement to (proposed amendment in italics):

> ***”***This does not apply to information to the Parties' affiliated companies ***or information as mentioned in the second subsection of this article to companies that have an alternative financial liability according to Section 5-3, third subsection of the Petroleum Act for a proportional share of the activity according to this Agreement.”***

A new second subsection in Article 27.2 can define the information that the seller needs to evaluate its alternative liability. A new second subsection could for example be worded as follows:

> ***”Following a written request from companies that have an alternative financial liability according to Section 5-3, third subsection of the Petroleum Act for a proportional share of the activity under this Agreement, the Operator will give such companies the same information on estimated and actual disposal costs that the Parties receive from the Operator.”***

A similar provision is proposed for inclusion in unitization agreements and participant agreements which relate to pipelines.

Such an amendment of these agreements requires consent from all the licensees on the Norwegian shelf.

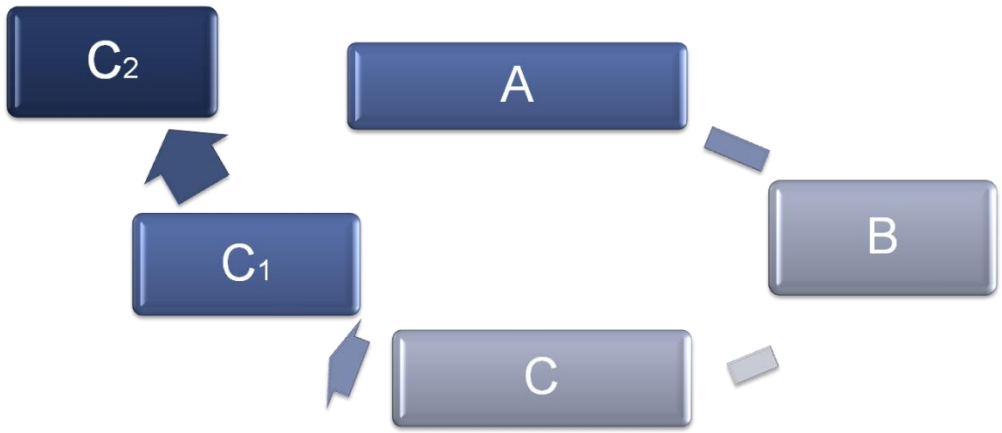
The work group is of the opinion that access to information for sellers should preferably be regulated in the joint operating agreement.

5. Joint and several liability for removal obligations pursuant to Section 3-3, third subsection – when does the liability arise?

The issue assessed by the group is whether there is a need for clarification related to how far existing licensees (who are not in payment default) are required to go with regard to enforcing the claim against the existing licensee (who is in payment default) before claims can be directed towards previous licensee(s). In other words, when does the previous licensee's alternative liability for financial obligation arise. The group has also looked further into issues related to transfers in multiple stages.

In the example below, the licensee group consists of A and B (who are not in payment default), and C_2 (who is in payment default). Previous licensee C has sold to previous licensee C_1 who in turn has sold to existing licensee C_2.

5.1. Multiple transfers – when can the licensees look to C and C_1?



This is contingent upon the licensee group (A, B and C_2) having incurred removal obligations, and that existing licensee C_2 (principal debtor) has not paid and is in payment default according to the joint operating agreement's rules (Articles 7 and 8).

The Act's wording stipulates that a previous licensee is ”alternatively liable for financial obligations”, cf. Section 5-3, third subsection. It is, however, not clear whether this ”alternative” liability is contingent upon the principal debtor not being able to cover any part of the debt, in other words, such that the creditor must first clarify whether C_2’s estate in bankruptcy will give dividends (corresponding to ”deficiency guarantee”) or whether the liability arises as soon as the principal debtor defaults on its payment obligations (corresponding to ”surety”).

According to the preparatory work, the claim under the alternative liability arises when existing licensees have exhausted ”.. the opportunities that the joint operating agreement gives for call-up of funds”.

It seems as if this reference in the preparatory work to the joint operating agreement's rules, establishes a basis for a ”modified” version of the surety, so that remaining licensees in addition to establishing that C_2 defaults on its payment obligations, must exhaust the "opportunities provided under the joint operating agreement for call-up of funds”, but that nothing more is required before the claim against the previous licensee (C_1) arises.

The reference to the joint operating agreement's rules for call-up of funds is interpreted by the group as a reference to Article 9 of the agreement, which includes rules whereby licensees can take over produced petroleum or the actual ownership interest of a defaulting licensee. This right to call up funds according to the joint operating agreement's rules will only have value for creditors where there actually are assets left in the production licence.

In practice, this is only assumed to be relevant where this concerns removal of facilities on fields that will continue to produce after removal, in other words, in the event of partial removal or removal of some, but not all facilities. If production is ceased, or is finally terminated in connection with the relevant removal, there will usually not be any income to cover the creditor's claim. In instances where it is reasonably clear that there will not be income to cover the creditor's claim because the production is terminated, the best reasons therefore indicate that the claim against previous licensees will arise (C_1) when the existing licensee (C_2) defaults on its payment obligations according to the joint operating agreement (that is, corresponding to a surety). In such instances it could be argued that there are no realistic opportunities in the joint operating agreement for recovering payment, and that it will thus only be an administrative obligation to potentially require that remaining licensees first take over the ownership interest. The solution according to the statutes is considered to be somewhat unclear. Accordingly, it could be appropriate if the above is clarified, for example with a regulatory stipulation.

As regards the above, there has been a discussion of what kind of access existing licensees (A and B) have to make claims against the immediate previous licensee (C_1). In the case of transfers involving several steps, questions arise as regards access to make claims against previous licensees, as in this example against C (or C's previous title holder). This is regulated in Section 5-3, third subsection, fourth sentence: "The transferring licensee's obligations remain in connection with subsequent transfers of the share or parts thereof, so that claims will first be made against the company that last transferred the share."

The law states that the creditor's claims should first be ”directed to" the company that ”last” transferred the share. The first question the group evaluated is whether one faces a a liability here that arises on demand, i.e. equivalent to a surety, or whether this requires that the previous parties subject to joint and several liability are not able to cover any part of the debt, in other words equivalent to a deficiency guarantee.

The wording in the Act clearly indicates that issuing a a notice demanding payment is sufficient ("directed to"), i.e. equivalent to a surety. The assessment made in the preparatory work, however, expresses that it is crucial whether the licensee who last transferred the share "can fulfil", which is more along the lines of a deficiency guarantee. It can thus be argued that there is a certain ambiguity as regards which solution is chosen. The group’s opinion is that, with a background in the wording of the Act and the consideration for having a practicable rule, along with the consideration for safeguarding the remaining licensees' interests, seem to be the best reasons to assume that issuing a notice requiring payment is sufficient. It could also be appropriate for this issue to be clarified, for example with a regulatory stipulation.

If the share has been transferred more than twice and there are one or more titleholders before C that are jointly and severally liable, questions can be raised as regards if the existing licensees must always make claims against the immediate last licensee in a successive order, or if claims can be made against all the others than the "company that last transferred the share" (in our case C_1) in parallel. The latter solution (all others together) comes from a seemingly strict interpretation of the Act's wording. The group finds that the solution to this question is somewhat dubious, as there can be reasons to not adopt a completely literal interpretation of the Act here, but so that you must always make claims in a successive order. However, this issue has limited practical significance if one assumes that issuing a notice demanding payment is sufficient (only a question of the time it takes to send several notices), but may have great practical significance if one assumes that this relates to a principle of a deficiency guarantee in these instances.

Accordingly, it would also be practical to clarify this.

5.2. Other issues

The work group also sees that other issues may arise related to several transfers at different times to the same buyer, with potential subsequent sales of all or parts of the buyer’s ownership interest in a production licence. This may result in relatively complicated issues as regards the liability channelling pursuant to Section 5-3, third subsection of the Petroleum Act.

The work group considers these situations to be less practical. To avoid exceeding the frame of this report, both as regards content and time, the group has chosen not to discuss these questions as this point in time.

5.3. Proposed regulation

The work group suggests the inclusion of the following provision in the Petroleum Regulations:

> ***“ Alternative financial liability under Section 5-3, third subsection of the Act means a liability that arises when a licensee, after receiving notice demanding payment, has defaulted on its payment obligations under the agreement regarding petroleum activities (the joint operating agreement) and the opportunities found in Article 9 of the joint operating agreement are exhausted by the other licensees or it must be clear that the opportunities provided under Article 9 of the joint operating agreement will not suffice to give the other licensees full or partial coverage of the claim. When Section 5-3, third subsection, fourth sentence of the Act stipulates that claims must first be***

directed at the company that last transferred the share, this should be understood such that if a share in a licence has been transferred several times, the other licensees should always direct notice demanding payment to the transferring companies in successive order so that claims are directed first at the company which last transferred the share, and then to the next company when the previous has defaulted on its payment obligation. The previous licensee is considered to have defaulted on its obligation if it has not covered its liability within three months after the mentioned notice requiring payment is received.

In the recourse settlement, the defaulting licensee is responsible, then the final assignor in successive order for the entire defaulted obligation, if more than one previous licensees default on obligations. "

6. Tax and fiscal aspects

Pursuant to Section 5-3, third subsection of the Petroleum Act, the alternative liability will be limited to the relevant removal costs after tax deduction, i.e. that the alternative liability will be limited to 22% in the event of a (defaulted) share of removal costs of 100%, given the current tax rate. The remaining 78% will then be covered through the tax regime for the licensee group that carries out the removal, and must cover the defaulting licensee's share in the first round.

Such a restriction will contribute to moderating the cost level of expected guarantees, to the benefit of both the State and the companies - in accordance with the Ministry of Petroleum and Energy's intentions, cf. Odelsting Proposition no. 48 (2008-2009).

A post-tax limitation of the liability under the Petroleum Act, however, requires a coordination with the tax legislations, and the Ministry of Finance followed up with an amendment to Section 3 of the Petroleum Tax Act § 3 (j).
However, there are several unclear terms as regards the relevant provision in the Petroleum Tax Act, which entails that the provision will not function as intended.

The work group would like to point out three items requiring clarification:

- Ensure neutrality after tax settlement from guarantor
- Tax-related treatment of guarantee costs - financial cost (28%) or operating cost (78%)
- Timeframe for deductions for the licensees that must cover a defaulting buyer's ownership interest

These items are described in detail in the attached letter to the Ministry of Finance, and in the opinion of the work group, it is important to have a speedy clarification of the questions raised from Norwegian Oil and Gas' side.

The most important item which requires a speedy clarification will, according to the work group's opinion, be that there could be reason to assume that a settlement from a guarantor may fall outside the tax exemption in Section 3 of the Petroleum Tax Act (j) as it currently reads.

The recipient of such a settlement will then risk being liable to pay (special) tax for the settlement that should have been a tax-free ("post-tax") amount.

The neutrality in the system then disappears, and the post- tax concept will not function as intended in Odelsting proposition no. 48 (2008-2009). To compensate for a potential special tax liability, the seller may have to demand a guarantee equivalent to a pre- tax cost. Some companies have already indicated that as sellers, they will assume such a "pre-tax" (78%) liability to avoid ending up in a situation where they are left with a cost that should have been fully covered by the guarantee.

7. Decommissioning security agreement for removal obligations - use of model clauses

The new provisions in Section 5-3, third subsection of the Petroleum Act entail that the seller of (all or parts of) a production license has an alternative liability vis-a-vis the other licensees for the buyer's share of costs related to removal of the facilities that existed at the time of transfer.

Unless the sold share is connected to a production license in the exploration phase, without any wells or facilities, the seller will therefore normally have to evaluate the risk for which it will be held responsible as regards the alternative liability. Furthermore, it must evaluate whether to take any measures to safeguard against such liability, and in that case, which measures to take.

In the report, the work group points out several considerations that can be emphasised in such an assessment. Furthermore, the work group would like to account for some agreement mechanisms that can be used to avoid such liability. However, the conditions may vary considerably from sale to sale, and it is therefore not possible to prepare a "standard" set of agreements that is recommended for use with sale of production licences.

However, two sets of model clauses are attached, which can be used as a basis for one's own preparation of such agreements.

7.1. Possible measures to safeguard against liability

The alternative liability will, as mentioned above, be connected to removal of the facilities that existed at the time of transfer.

Generally, it is easy for the seller to obtain an overview of which facilities this applies to. There will be greater uncertainty as regards other elements of significance for the liability, such as time of final removal, which removal measures will be required and how much these measures will cost at the time of removal. Nevertheless, in connection with the sale, the seller must still form an opinion as regards the size of removal costs, based on available information and plans at the time of sale. The estimate will be updated regularly, based on new available information, cf. Item 4 above.

Furthermore, the seller must form an understanding of the likelihood that the liability will be exercised. The basis, according to the Petroleum Act and sales agreement, will normally be that the buyer assumes all rights and obligations related to the licence and that the buyer will therefore also cover the removal costs. There will, however, always be a possibility that the buyer will default on its liabilities on this item and that the seller's alternative liability will arise. There are several factors in play when the seller evaluates the likelihood that this will occur. The seller can not simply consider the buyer's current financial strength, but must also evaluate whether it is possible/probable that this will change in the time up to when the removal obligations arise.

This will be e.g. dependent on the length of time until removal and the seller's view of the development in the petroleum industry in general, and in Norway.

After the seller has estimated the size of removal costs and assessed how likely it is that this will be made applicable to it, it must take a position on whether or not, and if so, how, it will protect itself against such a potential liability.

It is not a given that the most profitable solution for the seller will be to require that the buyer issues a guarantee for such liability. Such a guarantee can be very expensive. This particularly applies if bank guarantees are required, but parent company guarantees also have a cost. One should therefore be able to rely on achieving a better price for the production licence if the guarantee requirement is waived and it can thus be beneficial for the seller to take such a calculated risk.

Alternatively, the seller can seek other commercial arrangements that will reduce its exposure, while also reducing the financial strain on the buyer. For example, the seller can require that the buyer pays a "removal contribution" along with the purchase amount. At the time of removal, this contribution is reimbursed according to an agreed formula, e.g. adjusted with interest for the time the seller has had the amount.

Another possibility is that the seller reserves the right to repurchase the share in the production licence based on agreed conditions, if the buyer experiences financial difficulties. This will give the seller the opportunity to exploit a potential residual value in the production licence to cover the removal obligation, or at least reduce it.

If the seller comes to the conclusion that it still wants buyer to furnish a guarantee, provisions regarding this can be included in the sales agreement. According to the work group's opinion, it is more practical to draw up a separate agreement regarding such a potential guarantee.

According to its nature, the sales agreement has a relatively short "life" from signature until the final sign-over takes place. Some provisions, typically guarantee provisions and provisions on pro and con settlements, will still be applicable after this, but after a maximum of a couple of years, all provisions in the agreement will be fulfilled and the agreement will no longer have any practical significance. Provisions in the agreement regarding security for removal costs will, however, usually have a much longer lifetime, 30 - 40 years may pass before removal takes place, and these should therefore be included in an independent agreement which can continue to exist after the sales agreement has been fulfilled in its entirety.

Such agreements regarding security for removal costs could be called "Decommissioning Security Agreements" (abbreviated DSA) according to similar model agreements under British law. A Norwegian translation of this term could be "Finansiell sikkerhetsavtale for fjerningsforpliktelser".

7.2 Decommissioning Security Agreements

Even though it is somewhat based on the standard Decommissioning Security Agreement used in the UK, this will have to be modified according to use on the Norwegian shelf. The reason for this is that the agreement in the UK usually governs the relationship between all existing licensees in a production license. A seller will thus be protected primarily by buyer committing to guarantee for the other licensees in the form of an existing DSA which the buyer joins. The rules relating to liability for removal obligations and the provisions regarding guarantees, etc. are also different in Norway and the UK.

Attached there are two collections of DSA model clauses prepared by two international operators for use in connection with transfers on the Norwegian shelf.

Agreement A is contingent upon the buyer procuring a Letter of Credit (LoC) at the time of completion of the sales agreement. The Letter of Credit will cover the current value of the future estimated removal costs that seller can be alternatively liable for. Generally, the removal costs are required to be calculated as a before-tax amount, but this will be reduced to the after-tax value when and if the tax legislation is harmonized with the provisions in Section 5-3, third subsection of the Petroleum Act, so that disbursements under Letters of Credit in such instances are not considered taxable income for the seller. The Letter of Credit must be renewed annually based on a re-calculated present value of estimated future removal costs. A number of circumstances, including e.g. the buyer not fulfilling its liability to annually renew the Letter of Credit or that the bank's rating falls below a given level, will give seller the right to draw on the Letter of Credit and put the guarantee amount in the bank as security for future possible liability for removal obligations.

Agreement B is more comprehensive, in that the buyer is given the opportunity to furnish a parent company guarantee for potential future removal costs. This presupposes, however, that the buyer's parent company has a sufficiently high credit rating. If the parent company has a lower credit rating when the sales agreement is carried out, or if the credit rating falls below the limit at a later point in time, the buyer must procure a Letter of Credit. As long as the present value of the production licence is higher than the present value of removal costs, it is sufficient that the Letter of Credit covers the after-tax present value of the removal costs. After this time, however, the required coverage must be calculated on the basis of a before-tax present value. The provisions regarding renewal of the Letter of Credit and the right to draw on this, are very similar in the two agreements.

Any and all sales of production licenses that are currently producing will have special circumstances and a potential DSA must therefore be specially adapted to the situation, both as regards what is being sold and who the buyer is. The attached model clauses must therefore not be used to the letter and uncritically, but can serve as an inspiration for writing a draft of your own DSA.

Appendix 1 – Agreement A

DECOMISSIONING SECURITY AGREEMENT[1]

This decommissioning security agreement (the "DSA") is entered into on this ……. day of ……. by and between:

(I) …… (the "Assignor")
……
…… ; and

(II) …….. (the "Assignee")
……,
……

Assignor and Assignee individually referred to as "Party" and collectively to as "Parties".

Wheras:

(A) The Parties on the ... day of ... 20.. entered into the "Agreement relating to the sale and purchase of participating interests in PL ……" (hereinafter the "Agreement"); and

(B) The Parties now hereunder wish to provide for Assignee's security for Assignor's potential future abandonment liabilities according to clause …… of the Agreement.

Now therefore, the Parties have agreed as follows:

INTERPRETATION

Any word and expression hereunder in this DSA shall have the same meaning as defined to it under the Agreement, unless otherwise defined below.

"Abandonment Cost"[2]**:** means the annually estimated cost of final accomplishment of any decision of disposal, related to the facilities of PL ….. (including wells) existing on the [3]

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1 Summary: This DSA represents a security for buyer's obligation to indemnify seller for any alternative liability for the cost related to the abandonment of the assigned interest in the facilities in place at "overdragelsestidspunktet". According to this DSA buyer is obliged to issue at completion a Letter of Credit amounting to the discounted value of the future estimated Abandonment Cost relating to the assigned interest (the Annual C). The Annual C shall amount to the pre-tax value of the abandonment cost, but will be changed to a post-tax amount (if and) once the tax regulations are being harmonized with Article 5-3 of the Petroleum Act. The Letter of Credit will last for one year at a time and shall each year be replaced by a new Letter of Credit amounting to an annually recalculated Annual C (so that the letter of credit always reflects the real estimated future abandonment cost). If buyer does not fulfil its obligations to annually issue a new letter of credit, seller is entitled to draw upon the letter of credit and bank the amount as a security for the future potential alternative abandonment obligations.

2 This is the definition of the overall estimated license abandonment cost related to the facilities existing on "overdragelsestidspunktet", cf the Petroleum Act Article 5-3.

3 Insert the date corresponding to "overdragelsestidspunktet" cf Petroleum Act Article 5-3

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……. and as set out in Appendix B hereto[4], according to Section 5-3 of the Norwegian Petroleum Act, as at the date hereof, as calculated by the Assignor;

"Acceptable Bank": means a bank, with a lending office in Norway, with a minimum Long-Term Deposit and Senior unsecured rating of ……. by Moody's Investor Services Inc ("Moody's") or …… by Standard and Poor's Corporation ("S&P"), a division of McGraw-Hill Companies, Inc. (or such other comparable credit rating agency as may be approved by the Assignor) or better on their senior, unsubordinated, unsecured long term debt, or any other bank approved in writing by the Assignor;

"Annual C"[5]: means the annual approximation (to be calculated as from ……) of the present value in Norwegian Kroner of that part of the Abandonment Cost referable to the Interest as at end of January of the calendar year in which the calculation is made, calculated as per the following formula:

- [Annual C]= [Interest] * [Abandonment Cost] * 1,5 (50% contingency[6]) * [Inflation] / [Discount]
- Whereas:
  - [Inflation] = (1+2%)^[Duration]
  - [Discount] = (1+[Fund Rate]%)^[Duration]
  - [Duration] = Year of cease of production + 1 - 2009 (Decommissioning is assumed 1 year after cease of production as defined in the annual RNB Report)

"Fund Rate": shall have the following meaning: Every 1st Business Day of the calendar year an extract of the Norwegian bonds rates and maturity dates will be printed by the Assignor from the Norges bank website (an example is provided on Appendix D hereto). From this printed extract, the Fund Rate shall be defined as per the bond rate that has the closest maturity date to the 1st of January of the year of commencement of abandonment, plus 100 basis points if the estimated time to commencement of abandonment is within 15 years, otherwise 150 basis points; If several bonds meet the maturity date requirement, then the fund rate will be defined as an average of their rates, plus 100 basis points if the estimated time to commencement of abandonment is within 15 years, otherwise 150 basis points;

"LC Deposit Account": has the meaning given to it in Paragraph 11;

"Letter of Credit": means the irrevocable unconditional standby letter(s) of credit denominated in NOK in favour of the Assignor issued by one or more Acceptable Banks in substantially the form set out in Appendix A to this DSA and any replacement or renewal thereof or addition thereto in an amount equal to Annual C approved or determined in accordance with Paragraph 2;

"Ministry": means the Norwegian Ministry of Petroleum and Energy and/or Ministry of Finance, as case may be;

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4 In order to create notoriety, this DSA presupposes a listing of the facilities in place at "overdragelsestidspunktet" for which abandonment obligations seller is alternative liable for, taking into consideration that abandonment may take place many years after entering into a SPA/SSA/DSA.

5 This is the definition of the discounted value of the future estimated Abandonment Cost relating to the assigned interest.

6 Determination of the contingency factor is likely to be an important and difficult negotiation issue.

Appendix 1 – Agreement A

"Petroleum Act 1996": means the Act no. 72 of 29 November 1996 regarding petroleum activity (as amended, modified or re-enacted from time to time) or any successor legislation, and any reference to a section of the Petroleum Act 1996 shall also be a reference to the corresponding section of any such amended, modified, re-enacted or successor legislation;

"PL ….. ": means Production License No. …….. on the Norwegian Continental Shelf.

"RNB Report" means the report submitted each year by the licensees in PL ……. to the Ministry pursuant to the Petroleum Act 1996 for Norwegian Revised National Budget reporting purposes.

1. As set out in Clause …….. of the Agreement Assignee shall indemnify Assignor for any Abandonment Cost related to the Interest, and as security for such indemnity Assignee shall prior to Completion issue the Letter of Credit as set out in Appendix A amounting to NOK ……. (Norwegian kroner …….) and for the subsequent years amounting to the Annual C, on the terms and conditions as set out herein. [7][8]

2. Determination of Annual C and the substituted Annual C

   2.1 The Annual C shall be calculated by Assignor and provided to the Assignee in writing, together with reasonable supporting calculations and documentation, immediately following the annual accomplishment of such calculations. The Assignee shall give notice to the Assignor within thirty (30) days of receipt of the Annual C stating whether it approves or disapproves the calculation of the Annual C. Subject to approval by the Assignee, the Annual C as calculated by the Assignor shall determine the aggregate amount of the Letter of Credit (if any) to be provided for in accordance with Paragraph 4 or 5.

   Assignee shall, and shall procure that any subsequent assignee of any part of the Interest shall, upon Assignor's request at any times following Completion provide to the Assignor in a timely manner data and information relating to PL ….. necessary in order for Assignor to recalculate the value of the Annual C.

   2.2 If the Assignee disapproves the calculation of the Annual C, an independent expert shall be appointed by no later than 14 days after receipt by the Assignor of the Assignee's notice of disapproval, to determine the value of Annual C which shall include, without limitation, estimates of all engineering projections and other abandonment costs. The independent expert shall be selected by the mutual agreement of the Parties and in default of such agreement shall be appointed on the application of any Party to the President for the time being of the Norwegian Institute of Public Accountants. The independent expert shall be a firm of

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7 This DSA presupposes that the SPA/SSA contains an indemnity (from buyer) for seller's future potential alternative liability for buyers abandonment obligations, and hence this DSA represents a security for such indemnification liability.

8 This DSA represents a security in place at completion of the transaction, and hence represents a high degree of security for buyers' indemnification obligations. However, it is easy to combine this DSA with other security rights, e.g. a PCG, and to postpone the issuance of the DSA to the extent a satisfactory PCG is in place at completion of the transaction. The wording in Article 1 may then be substituted with the following "As set out in Clause … of the SPA/SSA Buyer shall indemnify Seller for any Abandonment Cost related to the Interest, and as security for such indemnity Buyer shall, as from such time as set out in Paragraph …. hereto, issue the Letter of Credit as set out in Appendix A to this Schedule Nine, amounting to the Annual C, on the terms and conditions as set out herein." . The PCG issued at completion should then at least include an obligation for the parent company to fulfil buyer's obligation to issue the LoC at the agreed time, and also to provide for issuance of the LoC in case the credit rating of the parent company falls below certain limits, and, if no such LoC is provided within a specific time, to pay to seller the Annual C as defined in the DSA. This model represents a slightly increased risk compared to the main current model, taking into consideration a sudden bankruptcy of the parent company.

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accountants or engineers skilled by reason of its qualification, experience and expertise in the estimation of abandonment costs for offshore oil and gas facilities. The independent expert shall act as an expert and not as an arbitrator and its decision shall, in the absence of fraud or manifest error, be final and binding on the Parties. The costs of the independent expert shall be borne as to fifty per cent (50%) by the Assignor and fifty per cent (50%) by the Assignee.

2.3 Subject to Paragraph 2.2, the Assignor shall procure that the independent expert undertakes a review of the calculation of the Annual C. The Assignor shall use its reasonable endeavours to provide such data as the independent expert may reasonably require for the purpose of its determination. The Assignor shall use its reasonable endeavours to procure that the independent expert will notify the Assignor and the Assignee in writing by no later than the date falling one month after the date of its appointment either of its approval of the calculation of the Annual C or (where it does not approve such calculation) of its own determination of the Annual C. The Annual C as determined by the independent expert in accordance with this Paragraph 2.3 shall determine the aggregate amount of the Letter of Credit to be provided for in accordance with Paragraph 4 or 5.

2.4 The Annual C shall on Completion, and shall for any subsequent years, amount to the pre-tax Annual C. [9]

However, if subsequently Assignor's potential receivables under the Letter of Credit is to be treated as a post-tax amount for Assignor according to Norwegian tax legislation, then the Annual C shall be an amount equal to the post-tax Annual C. As from the point in time when such new tax legislation has come into force, and it is evident for Assignor that any receivables according to the Letter of Credit will be treated as a post-tax amount for Assignor, then Assignee may deliver to Assignor a Letter of Credit in an amount which equals the value of the Annual C reflecting the post-tax Annual C, and the Assignor shall promptly return to the Assignee for surrender, upon the receipt of the replacement Letter of Credit, the Letter of Credit which has been replaced.

2.5 In the event that the aggregate undrawn amount of the outstanding Letter of Credit issued pursuant to Paragraph 4 or 5:

is less than the value of the Annual C calculated in accordance with Paragraph 2.1 or 2.3 as appropriate, the Assignee shall, within 10 Business Days after the final calculation of the Annual C, deliver to the Assignor a further Letter of Credit in an amount which equals the value of the Annual C; or

is more than the value of the Annual C, the Assignee may deliver to the Assignor a Letter of Credit in an amount which equals the value of the Annual C and the Assignor shall promptly return to the Assignee for surrender, upon the receipt of the replacement Letter of Credit, the Letter of Credit which has been replaced.

3. N/A

4. First Letter of Credit

[9] This Clause 2.4 should be inserted until the such time (if and) when sellers receivables under the LoC is not regarded as taxable income for seller under the applicable tax legislation.

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The Assignee shall on Completion deliver to the Assignor a Letter of Credit taking effect from Completion and amounting to NOK ……. (Norwegian kroner twenty million).[10]

5. Assignee's obligation to produce Letter of Credit before expiry of then current Letter of Credit

The Assignee shall no later than thirty (30) days before the expiry date of any Letter of Credit and/or before such date as set out in Paragraph 2.5 (a) or (b) deliver to the Assignor a replacement Letter of Credit (to take effect on expiry of the then current letter of credit) in the amount of the expiring Letter of Credit (unless a different amount is otherwise provided hereunder pursuant to this DSA) and the Assignor shall promptly return to the Assignee for surrender the Letter of Credit which has been replaced once it has expired.

6. Reduction of undrawn amount under the Letter of Credit

The Letter of Credit provided to the Assignor pursuant to this DSA which relates to the Interest may for the relevant calendar year either be substituted with, or the aggregate undrawn amount required to be outstanding at any time under such Letter of Credit shall be reduced by the amount of:

6.1 any abandonment security agreement, security or trust fund or other equivalent cover (provided such security or equivalent cover being acceptable to the Assignor) in respect of Abandonment Cost provided by the Assignee or any of its Affiliates for the same calendar year in accordance with the provisions of the License Documents or Ministry order or regulation which relates to the Interest; and

6.2 the aggregate balance standing for the credit of any such trust fund as referred to under 6.1 above established by the Assignee or any of its Affiliates in accordance with the provisions of the License Documents or Ministry order or regulation which relates to the Interest.

7. Events giving rise to demands under Letter of Credit

The Assignor shall be entitled to make a demand and draw on the then current Letter of Credit if any of the following circumstances occur:

7.1 the Assignee has not delivered a replacement Letter of Credit in breach of Paragraphs 2.5, 3.2 and/or 5 in which case the Assignor shall be entitled to draw down:

(a) if no replacement Letter of Credit is provided, the whole of any Letter of Credit which the Assignee was obliged to replace pursuant to Paragraphs 2.5, 3.2 and/or 5; or

(b) if one or more replacement Letters of Credit are provided, the amount equal to the shortfall in the amount of the replaced Letters of Credit (as compared with the amount which the Assignee was obliged to provide pursuant to Paragraphs 2.5, 3.2 and/or 5);

7.2 if the Assignor or any of its Affiliates receives a claim according to Section 5-3 third paragraph of the Petroleum Act 1996, as of the date hereof, from the Ministry and/or any of the licensees of PL ……. or otherwise, to pay all or part of the

[10] Ref footnote no 8

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Abandonment Cost, in which case the Assignor shall be entitled to draw down an amount equal to the pre tax amount the Assignor (or any of its Affiliates) are obligated to pay;

7.3 if the bank which has issued the Letter of Credit ceases to be an Acceptable Bank and the Assignee fails to provide a replacement Letter of Credit issued by an Acceptable Bank within twenty (20) Business Days of the Assignee's notifying the Assignor in accordance with Paragraph 8 (or in the event that the Assignor first become aware that the issuing bank is no longer an Acceptable Bank, within twenty (20) Business Days of the Assignor notifying the Assignee of that fact) in which case the Assignor shall be entitled to draw down the whole Letter of Credit;

7.4 a petition is presented to, and agreed to be heard by, a court having jurisdiction and has not been withdrawn within 14 Business Days of such petition being presented or an order is made or an effective resolution is passed or legislation is enacted for the dissolution, liquidation or winding up of the Assignee in which case the Assignor shall be entitled to draw down the whole Letter of Credit;

7.5 the Assignee becomes insolvent or makes an assignment for the benefit of creditors or it is deemed for the purposes of section 62 of the Insolvency Act 1984 to be unable to pay its debts as they become due (or, if it is not a company to which such section applies, would be so deemed if it were such a company) in which case the Assignor shall be entitled to draw down the whole Letter of Credit;

7.6 a receiver is appointed or an encumbrancer takes possession of the whole or a material part of the assets or undertaking of the Assignee in which case the Assignor shall be entitled to draw down the whole Letter of Credit;

7.7 the Assignee ceases or threatens to cease to carry on its business or a major part thereof or if in 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 Assignee and is not discharged within fourteen (14) days in which case the Assignor shall be entitled to draw down the whole Letter of Credit;

7.8 N/A;

7.9 N/A;

7.10 the Assignee or any of its Affiliates claims tax deduction for Abandonment Cost of any kind (including cost of plugging and cleaning the facilities) for tax purposes related to the Interest before the amounts to cover such costs have been called for in terms of advance required by the Assignor under the License Documents, in which case the Assignor shall be entitled to draw down the Letter of Credit the amount equal to the accumulated, total amount of Abandonment Cost being claimed as tax deductible expense by the Assignee;

8. Any of the circumstances set out in Paragraph 7 above shall constitute a default for the purpose of the draw notice pursuant to the Letter of Credit. The Assignee will notify the Assignor forthwith upon it becoming aware of the occurrence of an event under Paragraph 7. At any time, upon a request from the Assignor, the Assignee shall provide the Assignor with such evidence as the Assignor reasonably requires to satisfy itself that the bank which has issued a Letter of Credit is an Acceptable Bank. The Assignor shall notify the Assignee

Appendix 1 – Agreement A

forthwith upon it becoming aware of the occurrence of an event under Paragraph 7 if the Assignee has not previously notified the Assignor of such event.

9. Duration

The obligations of the Assignee under this DSA will remain in force until the decision on disposal related to PL ….. according to section 5 of the Norwegian Petroleum Act has been fully accomplished by the licensees of PL … to the satisfaction of the Norwegian Ministry, or in case failure of such accomplishment, until the Norwegian Ministry has carried out the necessary measures in order to accomplish such decision on disposal, and all costs of such measures have been finally allocated amongst the licensees of PL … (including former licensees which may be liable for the Abandonment Cost according to section 5-3 of the Norwegian Petroleum Act) and fully and finally paid.

10. Assignment

10.1 The Assignor shall be entitled to assign its rights and obligations under this DSA, provided that it also assigns its rights and obligations under any Letter of Credit and under the LC Deposit Account and subject to the execution by the Assignor of an agreement in form and substance reasonably acceptable to the Assignee.

10.2 All assignees' rights and obligations under this DSA (including Appendix A) shall remain in full force and effect irrespective of any assignment by Assignee of all of or parts of the Interest to any third party.

11. LC Deposit Account[11]

11.1 If the Assignor makes a demand under Letter(s) of Credit in accordance with Paragraph 7 the Assignor shall hold the payments received on deposit for the Assignor and the Assignee in accordance with the provisions of this Paragraph 11. The Assignor shall deposit such payments in a separate interest bearing account (the "LC Deposit Account") established in an Acceptable Bank. Interest that accrues on amounts held in the LC Deposit Account shall be deposited in the LC Deposit Account and may be withdrawn only in accordance with the provisions of this Paragraph11.

11.2 Subject to Paragraphs 9, 11.4 and 11.6 the Assignor shall only withdraw such amounts as are necessary from the LC Deposit Account (a) to meet the bank charges with respect to such account and (b) to meet any Abandonment Cost which the Assignor or any of its Affiliates have incurred and paid or are due to pay within 5 Business Days of the date of such withdrawal.

11.3 The Assignor shall promptly notify the Assignee of any withdrawals.

11.4 In the case of Paragraphs 7.1 and/or 7.3 applying, if the Assignee remedies its breach by delivering to the Assignor the Letter of Credit in compliance with the requirements of this DSA, the Assignor shall promptly remit that part of the outstanding balance of the LC Deposit Account which equals the amount of that Letter of Credit to the Assignee.

[11] One should be aware the potential risk of such payment into a deposit account being regarded as taxable income, hence seller will not be able to repay (if buyer is able to fulfil its abandonment obligations) the full pre-tax amount paid into escrow. Hence, the parties should agree upon the allocation of responsibility for "loss" of any tax-payments, and alternative models should be considered.

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11.5 The Assignor shall not grant any security or create any other form of encumbrance over amounts held in the LC Deposit Account (and shall procure that the bank holding the account waives its rights of set off in relation to such account).

11.6 The Assignor will open the LC Deposit Account and notify the Assignee of the details thereof on or before January 1 of the first calendar year for which the Letter of Credit under Paragraph 4 is required.

***

On behalf of ……..: On behalf of …… :

Appendix 1 – Agreement A

Appendix A

Form of Letter of Credit

(Letterhead of the Bank)

Date: [ ]

Standby Irrevocable Letter of Credit No. [ ] Issued on behalf of [ ]

To: ……. (the "Abandonment Beneficiary" which term shall include any transferee from the Abandonment Beneficiary of its rights under this Credit)

[ ] (the "Bank) hereby issues this Standby Irrevocable letter of Credit (the "Credit") no. [ ] effective as of the Effective Date, in favour of the Abandonment Beneficiary upon the following terms and conditions.

Irrevocable Standby Letter of Credit No. ●
Beneficiary: ●
Amount NOK ●

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

   "Banking Day" means a Day on which banks and financial markets are normally open for general commercial business in Norway (except, in any event, a Saturday or a Sunday).

   "Bank's Office" means [Norway address of the Bank].

   "Demand Notice" means a written dated notice to the Bank from the Abandonment Beneficiary in the form set out in Schedule 1 to this Credit.

   "**Effective Date**" means 1 January [ ] (or such other date as may be applicable pursuant to the DSA).

   "Expiry Date" means [ ].

   "Maximum Amount" means [●] NOK.

   "Maximum Liability" means [●] NOK less the amount of any Demand which has been paid by the Bank under this Credit.

2. The Bank is not obliged to make payments hereunder exceeding in aggregate the Maximum Amount. Any payment made by the Bank hereunder shall reduce the Bank's liability to make payment hereunder.

3. Demand hereunder may only be made upon the Bank at the Bank's Office by presentation of a Demand Notice signed, or purported to be signed, by a director or officer of the Abandonment Beneficiary.

4. The Bank, subject as herein set forth, agrees to pay to the account specified in the Demand Notice referred to in paragraph 2 above during business hours in Norway, the lesser of the total amount (without deduction or offset) demanded in such Demand Notice or the Maximum Liability on or before the fifth Banking Day following the Bank's receipt of the Demand Notice at the Bank's Office.

5. Partial drawings are permitted.

6. NOK shall be the currency of the payment made under this Credit.

Appendix 1 – Agreement A

7. The presentation and delivery of the Demand Notice as specified in paragraphs 3 and 4 above shall be conclusive evidence that the amount claimed is due to you.

8. All demands for payment must be received in writing at the Bank's office, in conformity with the terms of this Credit before the close of business on the Expiry Date. Any Demand received after 16.00 on the Expiry Date shall be ineffective provided that the Bank shall not be released from their obligations in respect of a Demand received prior to that time.

9. This Credit is issued subject to (except so far as otherwise expressly stated) the Uniform Customs and Practice for Documentary Credits (1993 Revision, International Chamber of Commerce, Publication No. 600).

10. Subject to the consent of the Bank, this Credit is transferable at the request of the Abandonment Beneficiary; such consent shall not be unreasonably withheld.

11. This Credit shall be governed by and construed in accordance with Norwegian law and, for our benefit only, the courts of Norway shall have exclusive jurisdiction to settle any disputes arising out of this letter.

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

Yours faithfully

[Bank]

By: _____

Authorised Signature

‘

Appendix 1 – Agreement A

Appendix A Schedule 1
Demand of Payment

To: [Bank]

Copy: [ ]

[Date]

Attention: [ ]

Dear Sirs

Irrevocable Standby Letter of Credit No. ● Dated ●

1. We refer to the above referenced Letter of Credit. Terms defined in the Letter of Credit have the same meanings in this Certificate.

2. We certify that:

   we are entitled under the DSA to make demand in respect of a sum of [ ] under this Letter of Credit. No previous demand has been made by us in respect of this entitlement; and

   [not less than [ ] days ago we gave [●] written notice of our intention to make demand under the Letter of Credit if such event or breach giving rise to our entitlement was not remedied. Notwithstanding such notice to [●], such failure has remained unremedied.]

   1. [NOTE: This paragraph 2 (b) will only apply if the event or breach giving rise to an entitlement to make a demand is capable of remedy]

3. Please make payment of NOK[ ] made by telegraphic transfer to ● Bank:

   2. Address:

   3. Sort Code:

   4. Account Name: [LC Deposit Account details to be inserted]

   5. Account Number:

6. 4. A fax confirmation of such payment shall also be sent to us.

   7. Yours faithfully

   8. for and on behalf of

   9. ……. AS

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APPENDIX B

FACILITIES IN PLACE ON PL …… ON THE …… 2010

Appendix 2 – Agreement B

DECOMMISSIONING SECURITY AGREEMENT

BETWEEN

[AA]

AND

[BB]

Appendix 2 – Agreement B

Appendix 2 – Agreement B

THIS AGREEMENT is made the [ ] day of [ ], 2010

BETWEEN:

(1) [AA], a company incorporated in [ ] having a registered number of [ ] and having its registered office at [ ] (hereinafter referred to as "Seller");

and

(2) [BB], a company incorporated in [ ] having a registered number of [ ] and having its registered office at [ ] (hereinafter referred to as "Purchaser")

hereinafter individually referred to as a Party and collectively as the Parties.

WHEREAS

(A) The Parties are the parties to the Sales and Purchase Agreement of even date with this Agreement relating to the sale of Sellers' [ ] % share in the Norwegian Production Licence [ ] (the "SPA");

(B) The Parties wish to provide for certain decommissioning security provisions with regard to the Interest.

NOW, THEREFORE, in consideration of the covenants and agreements contained herein, the Parties hereby agree as follows:

1. Definitions

In this Agreement the following terms shall have the meaning assigned to them:

{"[ ] Unit"[12]	*means the unit created in accordance with Article [ ] of the "Agreement Relating to the Unitisation and Operation of the [ ] Field in Blocks [ ] and [ ]", dated [ ], as has been or may in the future be amended, supplemented and novated.}*
"Acceptable Bank"	means a bank rated a minimum of [ ] by Moodys or [ ] by Standard and Poor's and Fitch IBCA (or such other comparable credit rating agency as may be approved by the Seller) or better of their senior, unsubordinated, unsecured long term debt, or any other bank with the prior written agreement of the Seller.

[12] Only to be used if the License transferred is part of a unit.

Appendix 2 – Agreement B

"Affiliate"	means (i) a Party's Ultimate Parent Company and (ii) any company (other than the Party) which is from time to time directly or indirectly controlled by the Party's Ultimate Parent Company. For this purpose:- (1) a company is directly controlled by another company or companies if that latter company owns or those latter companies together own fifty per cent or more of the voting rights attached to the issued share capital of the first mentioned company; and (2) a company is indirectly controlled by another company or companies if a series of companies can be specified, beginning with that latter company or companies and ending with the first mentioned company, so related that each company of the series (except the latter company or companies) is directly controlled by one or more of the companies earlier in the series.
"Agreement"	means this agreement including the attached exhibits.
"Anticipated Decommissioning Cost"	means the present value of the estimated total cost of the Seller Decommissioning Obligations at 31st December of the calendar year following that in which the calculation is made, discounted at the Discount Rate in accordance with the assumptions set out in Schedule 3.
"Change of Control"	means any direct or indirect change in control of a company (the term "control" having the meaning ascribed to it in paragraphs (1) and (2) of the definition of "Affiliate") through a single transaction or series of related transactions, and whether from one or more transferors to one or more transferees.
"Completion Date"	means the date of completion of the transaction contemplated by the SPA, being the last Working Day of the month in which the [ ] Working Day after the Notification Date (as defined in the SPA) falls, or such other date as the Parties may agree in writing under the SPA.
"Decommissioning Data"	means the data provided by Purchaser to Seller under Clause 4.7 (b).
"Decommissioning Security"	means the amount of the security to be provided by Purchaser in each year in which it provides a Letter of Credit calculated in accordance with Clause 4.30.
"Demand"	means as defined in the form of Letter of Credit set out in Schedule 2.
"Discount Rate"	means, at any point in time, (a) LIBOR + [ ] basis point; or (b) such other percentage rate as the Parties may agree.
"Extension and Amendment Notice"	has the meaning ascribed to it in the form of Letter of Credit set out in Schedule 2.
"Facilities"	means all wells, platforms, pipelines, equipment and other facilities and assets whatsoever associated with PL [ ] *{and/or the [ ] Unit, as the case may be}*[13]. The Facilities existing at the Completion Date are detailed in Schedule 4.

[13] Only to be used if the License transferred is part of a unit.

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"Fitch IBCA"	means Fitch IBCA Corporation or any successor in title to the rating agency business operated by such company.
"Interest"	means (i) the [ ]% ownership interests of the Seller in Petroleum Licenses [ ], including relating interest in the PL [ ] JOA, and the entire rights, title and interest associated therewith; *{(ii) the [ ]% ownership interest of the Seller in the [ ] Unit, and corresponding interest in the [ ] UOA and the entire rights, title and interest associated therewith;}*[14] (iii) the Seller's interest in the Associated Agreements; and (iv) the Seller's depreciation and uplift balances and tax liability as defined in Exhibit X of the Sales and Purchase Agreement.
"JOA Co-Venturers"	means the parties to any of the JOAs together with their respective successors and assigns, where relevant.
"JOA" *{or "JOAs"}*[15]	means, as the context requires, any or all of the "Avtale for Petroleumsvirksomhet til Utvinningstillatelse nr. [ ]", dated [ ]{, *and/or the "Agreement Relating to the Unitisation and Operation of the [ ] Field in Blocks [ ] and [ ]", dated [ ]}*[16] as *{has / each have}*[17] been or may in the future be amended, supplemented and novated.
"Letter of Credit"	means a letter of credit from an Acceptable Bank to be procured by Purchaser in respect of the Seller Decommissioning Obligations substantially on the terms set out in Schedule 2.
"LIBOR"	means the London Interbank Offered Rate as published electronically on Reuters as official quotation at 1200 hrs, Oslo time.
" LoC Deposit Account"	means as defined in Clause 04.10.
"Maximum Amount"	means the maximum aggregate commitment that can be requested of the issuing bank from time to time pursuant to the Letter of Credit, less the aggregate amount of any Demand or Demands which has or have been paid by any bank pursuant to any Letter of Credit issued pursuant to Clause 0 and which proceeds have not been paid or repaid to Purchaser pursuant to Clause 04.9.
"Moody's"	means Moody's Corporation or any successor in title to the rating agency business operated by such company.
{"Parent Company Guarantee" [18]	*means a guarantee that will be provided by the ultimate parent company of Purchaser in respect of the Seller Decommissioning Obligations substantially on the terms set out in Schedule 1.}*

[14] Only to be used if the License transferred is part of a unit.
[15] If appropriate
[16] Only to be used if the License transferred is part of a unit.
[17] Delete as appropriate
[18] Include if a PCG may be required und the DSA

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"PL [ ] Decommissioning Obligations"	means any and all obligations and liabilities that may be incurred by the PL[ ] Co-Venturers under Norwegian law in relation to abandonment, decommissioning and/or removal of the Facilities; except to the extent that any such obligations and liabilities have been completed in accordance with applicable law and the Norwegian government authorities' decision regarding the decommissioning of such Facilities and within the deadlines set by the Norwegian government authorities.
"PL[ ] JOA Co-Venturers"	means the parties to the "Avtale for Petroleumsvirksomhet til Utvinningstillatelse nr. [ ]", dated [ ]", together with their respective successors and assigns, where relevant.
"PL[ ] Value"	means the present value of the Interest, for the purposes only of determining the Trigger Date, as at 31st December of the year following that in which the calculation is made in accordance with Clause 4.4 and calculated applying the assumptions set out in Schedule 3.
"Purchaser Rating"	means as defined in Clause 03.1.
"Relevant Ratings"	means as defined in Clause 4.2.
"Seller Decommissioning Obligations"	means any and all obligations and liabilities that may be incurred by Seller under Norwegian law in relation to the PL[ ] Decommissioning Obligations related to the Facilities which were existing at the Completion Date.
"Standard & Poor's"	means Standard & Poor's Corporation or any successor in title to the rating agency business operated by such company.
"Trigger Date" [19]	*means the date more fully defined in Clause 4.4.*
"Ultimate Parent Company"	means: in respect of Seller: [ ] in respect of Purchaser: [ ]
"Working Day"	means any day, except Saturday and Sunday and public holidays, on which banks are normally open in Norway for the transaction of banking business.

2. Decommissioning Security Provisions

2.1 Purchaser has agreed to provide Seller security in respect of the payment of the Seller Decommissioning Obligations arising in respect of the Interest in the form of a *{Parent Company Guarantee or}*[20] a Letter of Credit.

{3. Parent Company Guarantee[21]

3.1 If at the Completion Date, the senior, unsubordinated, unsecured long term debt of the Purchaser's ultimate parent company (the "Purchaser Rating") is rated at least "[XX]" by Moody's and/or "[YY]" by Standard and Poor's and/or Fitch IBCA, Purchaser will procure the delivery to Seller of the Parent Company Guarantee in respect of the Seller Decommissioning Obligations, in the form set out in Schedule 1.

[19] Delete if Trigger Date is not used, see note 14
[20] Include if a Parent Company Guarantee may be required under the DSA.
[21] Include if a Parent Company Guarantee may be required under the DSA.

Appendix 2 – Agreement B

In the event that Purchaser is required under Clause 4 to procure the delivery to Seller of a Letter of Credit, such Letter of Credit will replace the requirement for the Parent Company Guarantee and such Parent Company Guarantee will be cancelled for the duration of the Letter of Credit.}

4. Letter of Credit

4.1 If at the Completion Date, the Purchaser Rating is rated below "[XX]" by Moody's and/or "[YY]" by Standard and Poor's and/or Fitch IBCA, Purchaser shall procure the delivery to Seller of the Letter of Credit in the form set out in Schedule 2, and in accordance with the provisions herein.[22]

{4.2 Rating Test[23]

If at any time the Purchaser Rating is reduced below or removed from the referenced ratings by two or more of the following three rating agencies: "[YY]" by Standard and Poor's, "[XX]" by Moody's and/or "[YY]" by Fitch IBCA (collectively the "Relevant Ratings") continuing for a period of forty-five consecutive days, the Parties shall meet within ten Working Days following such forty-five day period to discuss in good faith whether or not Purchaser will have sufficient funds readily available during the applicable time periods to meet its share of the PL[ ] Decommissioning Obligations. If, within seven Working Days following such meeting, Seller requests the Letter of Credit, Purchaser shall, within thirty Working Days following receipt of such request, either procure the delivery to Seller of the Letter of Credit in the form set out in Schedule 2, and in accordance with the provisions herein, or pay an amount equal to the face value of the Letter of Credit in accordance with Clause 04.8.

If at any time the Purchaser Rating is either increased or reinstated to a rating level at least equivalent to the Relevant Ratings from at least two (2) out the three (3) relevant rating agencies, then any outstanding Letter of Credit shall forthwith be returned by Seller to Purchaser for surrender and cancellation and the Parent Company Guarantee will immediately be reinstated.}

4.3 Amount

The amount of Letter of Credit shall be calculated by applying the following formula:

A = X x Y *{x (1-t)}*[24]

Where A = Decommissioning Security;
X = Anticipated Decommissioning Cost;
Y = 1.5; and
{t = prior to the Trigger Date: total of current corporate tax rate plus current special tax rate in Norway
after the Trigger Date: 0}[25]

{4.4 Trigger Date[26]

The Trigger Date will be the first date when D, calculated in accordance with the following formula; is equal to or larger than zero.

$$D = X \times Y \times (1 - t) - Z$$

[22] If a Letter of Credit is required at the outset, the following alternative text should be used:
"At the Completion Date, the Purchaser Rating shall procure the delivery to Seller of the Letter of Credit in the form set out in Schedule 2, and in accordance with the provisions herein."

[23] Not to be used if a Letter of Credit is required at the outset.

[24] Delete the t-element if no trigger date is used. The amount of the LoC will then be the post-tax decommissioning cost.

[25] See previous note.

[26] Only to be used if a pre-tax LoC amount is deemed to be sufficient initially.

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Where *X* = *Anticipated Decommissioning Cost;*
Y = *1.5; and*
Z = *PL[ ] Value*
t = *total of current corporate tax rate plus current special tax rate in Norway}*

4.5 Term

Such Letter of Credit shall have an initial three hundred and sixty four (364) day term and Purchaser shall procure that it (and every further Letter of Credit or extension thereof provided hereunder) is extended upon its expiry, subject always to Clauses *{04.2, last paragraph,}*[27] 04.6 and 04.12, until such date as the Seller Decommissioning Obligations are completed pursuant to Clause 5.

{Unless otherwise provided in Clause 4.2, last paragraph,}[28] Purchaser shall, no later than ten Working Days before the expiry of the Letter of Credit, procure the delivery to Seller of an Extension and Amendment Notice extending the term of the Letter of Credit for another three hundred and sixty four days and, if required pursuant to Clauses *{4.2, last paragraph,}*[29] 04.6 and 4.12, amending the Maximum Amount thereunder.

Failure to so provide such Extension and Amendment Notice shall entitle Seller to draw down the existing Letter of Credit in accordance with, and subject to, Clauses 4.8 and 4.9.

4.6 Changing the Amount

The Maximum Amount under the Letter of Credit to be put in place from time to time pursuant to the terms of Clause 04 shall, if required:

(a) upon the annual extension of the Letter of Credit be increased or decreased to reflect the revised Decommissioning Security, determined in accordance with Clause 04.3, based on the Anticipated Decommissioning Cost from time to time; provided that:

(i) in the event that the Maximum Amount is required to be decreased and Seller does not approve the amount of the decrease (acting reasonably and providing reasons therefore) within thirty days of the notice thereof being provided to it by Purchaser, the provisions of Clause 4.10 shall apply. The Maximum Amount shall remain unchanged pending final resolution under Clause 4.10;

(ii) in the event that the Maximum Amount is required to be increased and Seller does not (acting reasonably and providing reasons therefore) approve the amount of the increase within thirty days of notice thereof being provided to it by Purchaser, the provisions of Clause 4.10 shall apply. The Maximum Amount shall remain unchanged pending final resolution under Clause 4.10;

(iii) in the event that there are, at any time, less than two parties to (either of) the JOA(s), the Parties shall procure that the Anticipated Decommissioning Cost is calculated on an annual basis in accordance with Clause 4.10.

(b) in the event that the aggregate un-drawn amount of the outstanding Letter of Credit :

(i) is required to be increased under this Clause 4.6, then Purchaser shall procure that an appropriate Extension and Amendment Notice is provided in accordance with the terms of the Letter of Credit, in an amount which equals the relevant share of Anticipated Decommissioning Cost; or

[27] Only to be used if the Rating Test Clause (Clause 04.2) is included.
[28] See previous note.
[29] See previous note.

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(ii) is required to be decreased under this Clause 4.6, then Purchaser may procure that an Extension and Amendment Notice is provided in accordance with the terms of the Letter of Credit reducing the Maximum Amount to the appropriate reduced amount.

4.7 Access to Data

(a) The Parties agree that the Anticipated Decommissioning Cost, the PL[ ] Value and the Trigger Date are as set out in Schedule 3.

(b) Subject to the agreement of the JOA Co-Venturers, Purchaser shall annually provide to Seller no later than 31 August in each year commencing *XX*[30] the revised Anticipated Decommissioning Cost and the PL[ ] Value together with supporting information and documentation in order to allow Seller to reasonably verify such amounts and calculate *{the Trigger Date and, if applicable,}*[31] the Decommissioning Security.

(c) Seller shall give notice to Purchaser within thirty days of receipt of the Decommissioning Data as to whether it approves it or whether it objects.

(d) Within ten days of Seller issuing a notice of objection pursuant to Clause (c)(c) then the Parties shall meet promptly to discuss those objections and shall attempt to reach an amicable resolution. If no amicable resolution has been reached within sixty days of submission of the Decommissioning Data by Purchaser, then Seller shall be entitled to refer the Decommissioning Data to an expert for determination pursuant to Clause 4.10.

(e) If the JOA Co-Venturers will not consent to the release of Decommissioning Data to Seller for reasons of confidentiality, Purchaser shall provide Seller with its calculation of *{the Trigger Date and}*[32] the Decommissioning Security together with a letter of verification from their senior management that the calculations have been carried out applying the assumptions set out in Schedule 3 to the data agreed by JOA Co-Venturers. Seller shall still be entitled to refer *{the Trigger Date and/or}*[33] the Decommissioning Security to an expert for determination pursuant to Clause 04.10.

4.8 Draw on Letter of Credit

Subject always to Clause 04.9, Seller shall be entitled to draw on the current Letter of Credit if any of the following circumstances occur:

(a) Purchaser has not delivered an appropriate replacement Letter of Credit or an appropriate Extension and Amendment Notice in breach of Clause 04, in which case Seller shall be entitled to draw down:

(i) if no replacement Letter of Credit or extension of the existing Letter of Credit is provided, the whole of the Letter of Credit which Purchaser was obliged to replace or extend pursuant to Clause 04.3 and/or 4.6; or

(ii) if a replacement Letter of Credit is provided or an existing Letter of Credit is extended, the amount equal to the shortfall in the amount of the replaced or extended Letter of Credit;

(b) Seller is legally obligated to pay all or part of the Seller Decommissioning Obligations, in which case Seller shall be entitled to draw down an amount equal to the amount Seller is obligated to pay plus any taxes that the Seller will be obligated to pay on the amount drawn under the Letter of Credit;

(c) if the bank which has issued the Letter of Credit ceases to be an Acceptable Bank and Purchaser fails to provide a replacement Letter of Credit or Extension and Amendment

[30] The year after Completion.
[31] Delete if the Trigger Date is not used.
[32] See previous note.
[33] See previous note.

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Notice issued by an Acceptable Bank, making up the shortfall, within thirty Working Days of Seller notifying Purchaser that an issuing bank is no longer an Acceptable Bank, Seller shall be entitled to draw down the amount of the Letter of Credit. Upon a request from Seller, Purchaser shall provide Seller with such evidence as it can reasonably obtain and as Seller reasonably requires to satisfy itself that the bank which has issued the Letter of Credit is an Acceptable Bank;

(d) if the Purchaser files a petition of bankruptcy or make a general assignment for the benefit of its creditors, or if a petition of bankruptcy is filed against the Purchaser or a receiver appointed on account of the Purchaser's insolvency or if any equivalent action occurs in respect of Purchaser, in which case Seller shall be entitled to draw down the whole of the Letter of Credit.

Any of the circumstances set out in this Clause above shall constitute a default for the purpose of the Demand.

Without prejudice to the rights of Seller pursuant to Clause 4.8 (a), (b), (c) and (d), each Party shall notify the other Party promptly upon it becoming aware of the occurrence of an event under this Clause 04.8.

Without prejudice to the Purchaser's obligation to renew the Letter of Credit pursuant to Clause 04.5, Seller shall give Purchaser five Working Days prior written notice prior to submitting a Demand, save that where the relevant default is pursuant to Clause 4.8 (a), then Seller shall not be obliged to give Purchaser such prior written notice.

Notwithstanding the foregoing, Seller shall not be obliged to give five Working Days prior written notice as aforesaid if the existing Letter of Credit will expire before the end of the notice period. In such cases Seller shall give to Purchaser a reasonable period of prior written notice prior to submitting a Demand.

4.9 Restrictions to Draw on a Letter of Credit

In the event that Seller draws on a Letter of Credit provided pursuant to Clause 4.8 (a), (c) and/or (d), then all such amounts drawn shall:

(a) be for the account of Seller together with any interest accrued thereon; and

(b) be promptly returned by Seller to Purchaser, including any interest accrued, in the event that:

(i) a Letter of Credit or Extension and Amendment Notice that was not provided in a timely manner pursuant to Clause 4.8 (a) is provided to Seller in accordance with the requirements (other than the time for delivery) of Clause4; or

(ii) a Letter of Credit not provided by an Acceptable Bank is replaced by a Letter of Credit provided by an Acceptable Bank or any such shortfall is corrected by the delivery of an Extension and Amendment Notice issued by an Acceptable Bank; or

(iii) the petition of a bankruptcy is revoked or any other actions referred to in Clause 4.8 (d) is reversed, and an appropriate Letter of Credit has again been issued pursuant to the terms of this Clause 04;

(c) be applied by Seller for its own benefit in circumstances referred to in Clause 4.8 (b).

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4.10 LoC Deposit Account

If the Seller makes a demand under the Letter of Credit in accordance with Clause 4.8, the Seller shall hold the payments received on deposit for the Seller and the Purchaser in accordance with the provisions of this Clause 4.10. The Seller shall deposit such payments in a separate interest bearing account (the "LoC Deposit Account") established in an Acceptable Bank. Interest that accrues on amounts held in the LoC Deposit Account shall be deposited in the L0C Deposit Account and may be withdrawn only in accordance with the provisions of this Clause 4.10.

The Seller shall only withdraw such amounts as are necessary from the LoC Deposit Account (a) to meet the bank charges with respect to such account; (b) to meet any Seller Decommissioning Obligations which the Seller or any of its Affiliates have incurred and paid or are due to pay within 5 Working Days of the date of such withdrawal and (c) any taxes that the Seller will be obligated to pay on the amount withdrawn from the LoC Deposit Account.

The Seller shall promptly notify the Purchaser of any withdrawals.

The Seller shall not grant any security or create any other form of encumbrance over amounts held in the LoC Deposit Account (and shall procure that the bank holding the account waives its rights of set off in relation to such account).

The Seller will open the LoC Deposit Account and notify the Purchaser of the details thereof immediately upon making a demand under Letter of Credit in accordance with Clause 4.8.

4.11 Expert Referral

If Seller does not approve the Decommissioning Data or if Purchaser fails to provide in a timely fashion to Seller the Decommissioning Data pursuant to the terms of Clause 4.7, or if Seller has not in its sole reasonable opinion received sufficient information to verify the Anticipated Decommissioning Cost and the PL[ ] Value and/or to calculate *{the Trigger Date and}*[34] the Decommissioning Security, Seller shall promptly so notify Purchaser, requiring the appointment of an independent expert to resolve any such matter.

The independent expert shall be selected by the mutual agreement of the Parties, and the terms of reference shall be agreed, as soon as reasonably practicable and in any event within forty days of the Purchaser's receipt of the notice from Seller as described in the preceding paragraph, failing which agreement, the expert shall be appointed, on the application of any Party, by the Chairman of the Stavanger City Court (in Norwegian "Sorenskriveren i Stavanger Tingrett"). The independent expert shall be a firm of accountants or engineers skilled by reason of its qualification, experience and expertise in the estimation of abandonment costs for offshore oil and gas facilities. The independent expert shall act as an expert and not as an arbitrator, and its decision shall, in the absence of manifest error, be final and binding on the Parties. The costs of the independent expert shall be borne as to fifty per cent by each of the Parties.

Purchaser shall procure that the independent expert undertakes a review of the calculation of the Anticipated Decommissioning Costs and the PL[ ] Value, according to the terms of this Agreement, and Seller shall be entitled to make representations to the expert reflecting its reasons for not accepting the Decommissioning Data. The Parties shall use its reasonable endeavours to procure that the independent expert shall notify Seller and Purchaser in writing, by no later than forty five days from the date of submission to it, that it has determined the calculation of the Decommissioning Data. Based on the expert's calculation of the Decommissioning Data, a revised *{Trigger Date and, if applicable,}*[35] Decommissioning Security shall be determined.

[34] Delete if the Trigger Date is not used.
[35] See previous note.

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If the independent expert fails to notify Purchaser and Seller, in writing, of whether it has determined the calculation of the Decommissioning Data within forty five days of submission to it, then Seller, acting reasonably, may give notice to Purchaser of its substantiated estimate of the Decommissioning Costs, PL[ ] Value *{and the Trigger Date}*[36]. Based on such estimate, a revised *{Trigger Date and, if applicable,}*[37] the Decommissioning Security shall be determined. Such revised *{Trigger Date and}*[38] Decommissioning Security shall apply only until such time as the independent expert provides its estimate, which shall, at that time, replace Seller's estimate.

For the avoidance of doubt, during any period of expert determination under this Clause 04.10 until such time as the Maximum Amount is increased or decreased in accordance with Clause 4.6, the existing Letter of Credit shall remain in full force and effect, and in the event that renewal pursuant to Clause 4.5 is required during such period of expert determination, Purchaser shall provide an Extension and Amendment Notice in accordance with the provisions of Clause 4.5 in the amount of the expiring Letter of Credit.

4.12 Change in Legislation

In the event of a change of the Norwegian legislation pertaining to liabilities incurred in relation to abandonment (including legislation pertaining to taxation of settlement of such liabilities and/or securities for such liabilities), Seller and Purchaser shall meet to consider the effect of such amendments and consider, acting reasonably, whether the Maximum Amount under the required Letter of Credit should be amended to reflect any such release and shall in good faith agree to make such amendment.

4.13 Assignment

In the event that Purchaser (or any Affiliate who is a successor in title) wishes at any time to assign all or part of the Interest, this Agreement shall remain in force and Purchaser shall continue to be liable for the provision of Decommissioning Security hereunder.

Seller may assign this Agreement to an Affiliate without the prior consent of the Purchaser. Such Affiliate must commit to fulfil Seller's obligations under this Agreement.

5. Termination

5.1 The obligations under this Agreement shall continue until the date six (6) months after Seller has received confirmation from the operator of PL[ ] that all obligations in accordance with the Norwegian government authorities' decision regarding the decommissioning of the property comprising the Interest and which were in existence at the Completion Date, have been fulfilled within the deadline set by the Norwegian government authorities; and that all conditions stipulated by the Norwegian government authorities in connection with its decision have been met. If the PL[ ] JOA Co-Venturers have not fulfilled its obligations according to the Norwegian government authorities' decision, the obligations under this Agreement will continue until all measures taken by the Norwegian government authorities have been completed and all costs associated therewith have been reimbursed by the PL[ ] JOA Co-Venturers with no recourse to Seller.

6. Confidentiality

6.1 The terms and conditions of this Agreement shall be confidential and shall not, unless the Parties otherwise agree, be disclosed to a third party, except to:

(a) an Affiliate;

[36] See previous note.
[37] See previous note.
[38] See previous note.

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(b) the Norwegian government authorities;

(c) contractors, consultants, attorneys or arbitrators of a Party where disclosure is necessary; and/or

(d) a bank or other financial institution for the purpose of obtaining a Letter of Credit.

Disclosure to the persons or entities set forth in (c) and (d) may only be made on the condition that they undertake to treat the disclosed information as confidential under terms not less stringent than what follows from this Agreement.

7. Notices

7.1 Any notice to be given by a Party to another in connection with the execution or carrying into effect of this Agreement shall be given in writing, and may be given by delivering the same by hand or sending by post, telefax or e-mail at the respective addresses set out below.

[Seller]	*[Purchaser]*
Attn:	Attn:
E-mail:	E-Mail:

7.2 A notice shall be effective on receipt. Notice given by registered mail shall be deemed received on the date shown on the return receipt. Notices given by email shall be presumed received when confirmed by receiver.

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8. Governing Law, Settlement of Disputes

8.1 This Agreement shall be governed and construed in accordance with the laws of Norway.

8.2 Without prejudice to the Parties' rights to take interim legal measures, such as injunctions etc, any disputes or conflict arising in connection with or under this Agreement and which are not settled by mutual agreement, shall be settled exclusively by arbitration in Stavanger, Norway. The provisions of the Norwegian Arbitration Act ("Lov om Voldgift") of 14 May 2004 as amended from time to time, shall apply. The Parties shall agree that the arbitration and all communication and documentation associated therewith, including any arbitral award, shall be treated as confidential.

9. Miscellaneous

9.1 In the event of any proposed Change of Control of Purchaser or Purchaser's Ultimate Parent Company, Purchaser shall forthwith notify Seller of such circumstance and shall procure, not later than the date on which such Change of Control becomes effective, that the new ultimate parent company of Purchaser shall assume all of the Purchaser's and its Ultimate parent Company's responsibilities and liabilities under this Agreement.

9.2 The Parties shall at all times give each other such available information and prior notice as may be necessary or useful to enable each Party to exercise its rights and carry out its obligations under this Agreement.

9.3 The headings contained herein are for the purpose of convenience only and shall have no bearing on the interpretation or construction of the terms of this Agreement.

9.4 This Agreement represents the full expression of the agreement between the Parties and may only be modified or amended by written instrument executed by the duly authorised representatives of the Parties.

IN WITNESS WHEREOF the Parties have executed this Agreement on the day and year first above written. This Agreement has been made in 2 originals of which each of the signatories shall have one each.

for _____	for _____
By:_____	By:_____
Name:	Name:
Title:	Title:

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SCHEDULE 1

FORM OF PARENT COMPANY GUARANTEE

DATED [ ] 2010

PARENT COMPANY GUARANTEE
by
[ ]
in favour of
[AA]

in respect of
Certain decommissioning Liabilities

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THIS PARENT COMPANY GUARANTEE (the "Guarantee") is made the [ ] day of [ ] 2010

BETWEEN

[AA], a company incorporated in [ ] having a registered number of [ ] and having its registered office at [ ] (hereinafter referred to as "Seller");

and

[CC], a company incorporated in [ ] having a registered number of [ ] and having its registered office at [ ] (hereinafter referred to as the “Guarantor”).

WHEREAS

(A) The Seller has entered into the Sales and Purchase Agreement relating to the sale of Sellers’ [ ]% share in the Norwegian Production Licence [ ], and the Decommissioning Security Agreement regarding certain decommissioning security provisions with regard to the Interest, with [BB] (hereinafter referred to as "Purchaser"), both agreements dated [ ];

(B) The Guarantor is the ultimate parent company of Purchaser and has agreed to enter into this Guarantee in respect of the Guaranteed Obligations.

NOW, THEREFORE, the Parties hereby agree as follows:

1. INTERPRETATION

In this Guarantee the following words shall have the following meanings:

"Decommissioning Security Agreement" or "DSA"	means the Decommissioning Security Agreement dated [ ] between [AA] and [BB].
" Guaranteed Obligations"	means any and all of the obligations of any nature whatsoever of the Purchaser under the DSA, whether arising before, on or after the date of this Guarantee.

2. GUARANTEE

2.1 Subject to the terms and conditions stated herein, the Guarantor (as a primary obligor and not merely as a surety) hereby irrevocably guarantees to the Seller that the Purchaser will perform the Guaranteed Obligations, and shall comply with the terms and conditions of the DSA.

2.2 The Guarantor undertakes to pay to the Seller, within seven days upon written demand of the Seller stating that the Purchaser has failed to pay any amount due and payable to the Seller under the DSA, such amount due and payable.

2.3 The Guarantor further undertakes to hold the Seller whole for any taxes that the Seller has to pay on any amount paid to the Seller under this Guarantee.

2.4 The Guarantor further undertakes, upon the request of the Seller, to immediately perform any Guaranteed Obligations not performed by the Purchaser or procure that such Guaranteed Obligations are performed by a third party.

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3. NO RELEASE OF LIABILITY

3.1 This Guarantee shall remain in full force and effect notwithstanding, and the Guarantor's obligations under this Guarantee shall not be impaired, discharged or affected by:

(a) the winding-up, liquidation, bankruptcy or dissolution of the Purchaser or any analogous proceeding in any jurisdiction;

(b) any of the Guaranteed Obligations being or becoming illegal, invalid or unenforceable;

(c) time or other indulgence being granted or agreed to be granted to the Purchaser in respect of the Guaranteed Obligations;

(d) any amendment to or any variation of the DSA or a waiver, release or suspension of any part (but not the whole) of the Guaranteed Obligations;

(e) any assignment of the DSA to a third party or

(f) any other thing done or omitted or neglected to be done by the Seller or any other person or any other dealing, fact, matter or thing which, but for this provision, might operate to exonerate or discharge the Guarantor from, or otherwise prejudice or affect, any of the Guarantor's obligations under this Guarantee.

4.

4.1 This Guarantee shall be a continuing security and shall not be discharged by the performance of any particular Guaranteed Obligation and shall remain in full force and effect until all the Guaranteed Obligations are performed in full without any set-off restriction or condition and without deduction for or on account of any counterclaim.

5. CONCLUSIVE EVIDENCE

5.1 For all purposes, including any proceedings brought under this Guarantee, a copy of a certificate signed by an officer of the Seller as to the amount of any indebtedness comprised in the Guaranteed Obligations shall, in the absence of manifest error, be conclusive evidence against the Guarantor that such amount is in fact due and payable by the Purchaser to the Seller.

6. NOTICES

6.1 Any notice to be given by a Party to another in connection with the execution or carrying into effect of this Guarantee shall be given in writing, and may be given by delivering the same by hand or sending by post, telefax or e-mail at the respective addresses set out below.

[Purchaser]	*[Guarantor]*
Attn:	Attn:
E-mail:	E-Mail:

6.2 A notice shall be effective on receipt. Notice given by registered mail shall be deemed received on the date shown on the return receipt. Notices given by email shall be presumed received when confirmed by receiver.

7. GOVERNING LAW, SETTLEMENT OF DISPUTES

7.1 This Guarantee shall be governed and construed in accordance with the laws of Norway.

7.2 Without prejudice to the Parties' rights to take interim legal measures, such as injunctions etc, any disputes or conflict arising in connection with or under this Guarantee and which are not settled by mutual agreement, shall be settled exclusively by arbitration in Stavanger, Norway.

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The provisions of the Norwegian Arbitration Act ("Lov om Voldgift") of 14 May 2004 as amended from time to time, shall apply. The Parties shall agree that the arbitration and all communication and documentation associated therewith, including any arbitral award, shall be treated as confidential.

8. ASSIGNMENT

8.1 The Guarantor shall not assign or sub-contract or otherwise transfer, or purport to transfer, any of its rights or obligations under this Guarantee.

IN WITNESS WHEREOF the Parties have executed this Guarantee on the day and year first above written. This Gurantee has been made in 2 originals of which each of the signatories shall have one each.

for _____	for _____
By:_____	By:_____
Name:	Name:
Title:	Title:

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SCHEDULE 2

FORM OF LETTER OF CREDIT

Standby Letter of Credit
(Letterhead of the Bank)

Date: [ ]

Irrevocable Standby Letter of Credit No. [●]
Amount: Not Exceeding: [NOK/USD] (the "Maximum Liability")

To:
[Address]
(the **"Beneficiary"**)

Applicant:
[name and address]
(the **"Purchaser"**)

Dear Sirs

1. Definitions:

"Banking Day" means a day on which banks are normally permitted by law to open for general commercial business in Norway (except, in any event, a Saturday or a Sunday);

"Demand" means a demand for payment under this Letter of Credit substantially in the form set out in Appendix 1 to this Letter of Credit;

"Expiry Date" means the date falling three hundred and sixty four (364) days after the date of this Letter of Credit, unless this date is extended by an Extension and Amendment Notice, in which case the date stipulated in the Extension and Amendment Notice shall be the Expiry Date;

"Extension and Amendment Notice" means a notice provided to you by the Bank substantially in the form of Appendix 2 to this Letter of Credit which extends the Expiry Date of this Letter of Credit and/or which increases or decreases the Maximum Liability under this Letter of Credit, provided that no Extension and Amendment Notice which decreases the Maximum Liability will be effective until it has been countersigned by or on behalf of the Beneficiary;

"Maximum Liability" means [INSERT NUMBER] to reflect either (i) the Anticipated Decommissioning Cost as defined in the DSA, less the amount of any Demand which has been paid by the Bank under this Letter of Credit or (ii) any increased or decreased amount stipulated as a new Maximum Liability in the latest Extension and Amendment Notice (which, if required for the same to become effective under paragraph 11 below, has been countersigned by, or on behalf of, the Beneficiary to confirm and acknowledge the same) less the amount of any Demand which has been paid by the Bank under the Letter of Credit after the date of such Extension and Amendment Notice. Where such an Extension and Amendment notice is issued by the Bank (and, where required for the same to become effective under paragraph 11 below, countersigned by, or on behalf of, the Beneficiary) the Maximum Liability will be as specified in paragraph (ii) of this definition;

"Sales and Purchase Agreement" means the Sales and Purchase Agreement for Production Licence [ ] ([ ])%) between [AA] and [BB], dated [ ].

"Decommissioning Security Agreement" or **"DSA"** means the Decommissioning Security Agreement dated [ ] between [AA] and [BB].

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"JOA" (or **"JOAs"**) means(, as the context requires, any or all of) the "Avtale for Petroleumsvirksomhet til Utvinningstillatelse nr. [ ]", dated [ ] and/or the "Agreement Relating to the Unitisation and Operation of the [ ] Field in Blocks [ ] and [ ] ", dated [ ] as (has / each have) been or may in the future be amended, supplemented and novated.

"Interest" means: means (i) the [ ]% ownership interests of the Seller in Petroleum License [ ], including relating interest in the PL[ ] JOA, and the entire rights, title and interest associated therewith; ((ii) the [ ]% ownership interest of the Seller in the [ ] Unit, and corresponding interest in the [ ] UOA and the entire rights, title and interest associated therewith; (iii) the Seller's interest in the Associated Agreements as defined in the Sales and Purchase Agreement; and (iv) the Seller's depreciation and uplift balances and tax liability as defined in Exhibit [X] of the Sales and Purchase Agreement.

2. For the account and at the request of the Purchaser, and in order to secure performance by the Purchaser of certain of its obligations under the Sales and Purchase Agreement including in relation to the delivery of security for abandonment obligations, we hereby issue this irrevocable Standby Letter of Credit No. [●] (the **"**Letter of Credit**"**) in your favour in an amount equal to the Maximum Liability.

3. Following presentation to us at [***Bank's details***] of a Demand, we shall, by no later than five Banking Days after the date of presentation of the Demand, pay to you the amount of the Demand. We shall be entitled to presume that the signatories to the Demand are duly authorized to issue such Demand and we shall not be required to make any further investigation.

4. The Bank will not be obliged to make a payment under this Letter of Credit to the extent that any such payment would exceed the Maximum Liability then applicable.

5. Partial drawings are permitted.

6. (US Dollars / Norwegian Kroner) shall be the currency of the payment made under this Letter of Credit above.

7. Subject to paragraph 3 above, the presentation and delivery of documents as specified in paragraph 3 above shall be conclusive evidence that the amount payable under paragraph 3 is due to you.

8. All Demands must be received in writing at the office of [●] for the attention of [***particular department or officer***], in conformity with the terms of this Letter of Credit before the close of business on the Expiry Date. Any Demand received after 17:00 CET on the Expiry Date shall be ineffective, provided that the Bank shall not be released from their obligations in respect of a Demand received prior to that time. Unless previously released, at 17:00 CET on the Expiry Date, the obligations of the Bank under this Letter of Credit will cease with no further liability on the part of the Bank except in relation to any Demand validly presented under the Letter of Credit that remains unpaid. When the Bank is no longer under any obligations under this Letter of Credit, you shall return the original of this Letter of Credit to the Bank, along with written confirmation that this Letter of Credit has been released or cancelled or is no longer of any effect.

9. Our obligations under this Letter of Credit shall apply notwithstanding any amendments to, or other variations or extensions of, the terms of the JOAs or other documents related to the Interest, the DSA and/or the Sales and Purchase Agreement.

10 This Letter of Credit is subject to the Uniform Customs and Practice for Documentary Credits (2007 Revision), ICC Publication No. 600 (the **"UCP"**) (with the exception of Articles 18-32 inclusive (other than Articles 29a and 31a, which shall each apply) except to the extent, if any, inconsistent with the express terms of this Letter of Credit. Notwithstanding Article 36 of the

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UCP, if this Letter of Credit expires during an interruption of business as described in Article 36, we shall honour any demand made within 30 days after the earlier of:

(a) the date on which we notify you that we have resumed our business (and we shall notify you promptly of that fact) if such demand would have been honoured by us under this Letter of Credit; and

(b) the Expiry Date if no such interruption of business would have occurred,

11. The Bank will have the right to extend the Expiry Date of this Letter of Credit and/or to increase or decrease the Maximum Liability under this Letter of Credit at any time by issuing to you an Extension and Amendment Notice, provided that no Extension and Amendment Notice which decreases the Maximum Liability will be effective until it has been countersigned by, or on behalf of, the Beneficiary.

12. This Letter of Credit is not transferable or assignable by you.

13. This Letter of Credit shall be construed in accordance with Norwegian law and the courts of Norway shall have exclusive jurisdiction to settle any disputes arising out of this letter.

Yours faithfully

[Bank]

By: _____
Authorised Signature

Appendix 2
Extension and Amendment Notice

From: [Bank]

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To: [ ]

Date: [ ]

Irrevocable Standby Letter of Credit No [●]
dated [●] (the "Letter of Credit")

1. We refer to the Letter of Credit. This is an Extension and Amendment Notice. Terms and expressions defined in the Letter of Credit have the same meanings when used in this notice.

2. Further to the issuance of the Letter of Credit:

   (i) [the Expiry Date under, and as such term is defined in, the Letter of Credit shall be extended by three hundred and sixty four (364) days from its current Expiry Date, so that the new Expiry Date is [●];] [and/or]

   (ii) [the Maximum Liability under, and as such term is defined in, the Letter of Credit shall be [increased/decreased][39] from (USD/NOK)[●] to (USD/NOK)[●] [with effect from the Expiry Date][40].][41]

Yours faithfully

……
authorised signatory for
[Bank]

Confirmed and acknowledged by Purchaser

……
authorised signatory

Confirmed and acknowledged by [AA] ……
authorised signatory][42]

[39] Delete as appropriate.

[40] The words "with effect from the Expiry Date" are only to be included where the Extension and Amendment Notice is also extending the Expiry Date.

[41] Confirmation and acknowledgment by [AA] only required if the Maximum Liability under the Letter of Credit is being decreased but the Expiry Date is not being extended.

[42] Required if the maximum amount is decreased.

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SCHEDULE 3

ASSUMPTIONS FOR COMPUTING THE PL[ ] VALUE AND ANTICIPATED DECOMMISSIONING COST

3.

4. Anticipated Decommissioning Cost as at Completion Date: [to be inserted at Completion Date]

5. PL[ ] Value as at Completion Date: [to be inserted at Completion Date]

6. Trigger Date as at Completion Date: [to be inserted at Completion Date]

7. Assumptions for computing the PL[ ] Value and Anticipated Decommissioning Cost:

All cost and receipts referred to in Clauses 4.3 and 4.4 used for determining the Anticipated Decommissioning Cost and PL[ ] Decommissioning Security shall be expressed initially in real terms, and then inflated to the year in which the estimated costs and receipts at the Inflation rate, as expressed in paragraph 3 below, will occur, and finally discounted at the Discount Rate.
All forecasts and costs used for the purpose of calculating the PL[ ] Value and Anticipated Decommissioning Cost shall be operator data.

1 Currency

2 Cash Flows

3 Inflation

4 Tax Assumptions

5. Operating Assumptions

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SCHEDULE 4

FACILITIES EXISTING AT THE COMPLETION DATE