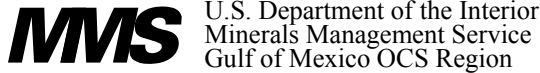

Leasing Activities Information



Lease Stipulations for Oil and Gas Lease Sale 185 (Final Notice of Sale)

Seven stipulations will be applied to leases resulting from this sale on blocks shown on the map “Stipulations and Deferred Blocks, Sale 185” included in the Final Notice of Sale 185 Package. These stipulations are:

- Stipulation No. 1 - Topographic Features
- Stipulation No. 2 - Live Bottoms
- Stipulation No. 3 - Military Areas
- Stipulation No. 4 - Blocks South of Baldwin County, Alabama
- Stipulation No. 5 - Law of the Sea Convention Royalty Payment
- Stipulation No. 6 - Protected Species
- Stipulation No. 7 - Below Seabed Operations on Mississippi Canyon Block 474

Stipulation No. 1 - Topographic Features

(This stipulation will be included only in leases on blocks within the areas so indicated in the Biological Stipulation Map Package for the Central Gulf of Mexico which is available from the MMS Gulf of Mexico Regional Office Public Information Unit. Please see the Notice of Sale 185 Package for the address and telephone numbers.)

The banks that cause this stipulation to be applied to blocks of the Central Gulf are:

| <u>Bank Name</u> | No Activity Zone Defined by <u>Isobath (meters)</u> |
|------------------|---|
| McGrail Bank | 85 |
| Bouma Bank | 85 |
| Rezak Bank | 85 |
| Sidner Bank | 85 |
| Rankin Bank | 85 |
| Sackett Bank[2] | 85 |
| Ewing Bank | 85 |
| Diaphus Bank[2] | 85 |

| | |
|-----------------|----|
| Parker Bank | 85 |
| Jakkula Bank | 85 |
| Sweet Bank[1] | 85 |
| Bright Bank | 85 |
| Geyer Bank[3] | 85 |
| MacNeil Bank[3] | 82 |
| Alderdice Bank | 80 |
| Fishnet Bank[2] | 76 |
| 29 Fathom Bank | 64 |
| Sonnier Bank | 55 |

- [1] Only paragraph A of the stipulation applies.
 [2] Only paragraphs A and B apply.
 [3] Western Gulf of Mexico bank with a portion of its “3-Mile Zone” in the Central Gulf of Mexico.

A. No activity including structures, drilling rigs, pipelines, or anchoring will be allowed within the listed isobath (“No Activity Zone” as shown in the aforementioned Biological Stipulation Map Package) of the banks as listed above.

B. Operations within the area shown as “1,000-Meter Zone” in the aforementioned Biological Stipulation Map Package shall be restricted by shunting all drill cuttings and drilling fluids to the bottom through a downpipe that terminates an appropriate distance, but no more than 10 meters, from the bottom.

C. Operations within the area shown as “1-Mile Zone” in the aforementioned Biological Stipulation Map Package shall be restricted by shunting all drill cuttings and drilling fluids to the bottom through a downpipe that terminates an appropriate distance, but no more than 10 meters, from the bottom. (Where there is a “1-Mile Zone” designated, the “1,000-Meter Zone” in paragraph B. is not designated.)

D. Operations within the area shown as “3-Mile Zone” in the aforementioned Biological Stipulation Map Package shall be restricted by shunting all drill cuttings and drilling fluids from development operations to the bottom through a downpipe that terminates an appropriate distance, but no more than 10 meters, from the bottom.

Stipulation No. 2 - Live Bottoms

(This stipulation will be included only in leases as shown on the map "Stipulations and Deferred Blocks, Sale 185" included in the Notice of Sale 185 Package.)

For the purpose of this stipulation, “live bottom areas” are defined as seagrass communities; or those areas which contain biological assemblages consisting of such sessile invertebrates as sea fans, sea whips, hydroids, anemones, ascidians, sponges, bryozoans, or corals living upon and attached to naturally occurring hard or rocky

formations with rough, broken, or smooth topography; or areas whose lithotope favors the accumulation of turtles, fishes, and other fauna.

Prior to any drilling activities or the construction or placement of any structure for exploration or development on this lease, including, but not limited to, anchoring, well drilling, and pipeline and platform placement, the lessee will submit to the Regional Director (RD) a live bottom survey report containing a bathymetry map prepared utilizing remote sensing techniques. The bathymetry map shall be prepared for the purpose of determining the presence or absence of live bottoms which could be impacted by the proposed activity. This map shall encompass such an area of the seafloor where surface disturbing activities, including anchoring, may occur.

If it is determined that the live bottoms might be adversely impacted by the proposed activity, the RD will require the lessee to undertake any measure deemed economically, environmentally, and technically feasible to protect the pinnacle area. These measures may include, but are not limited to, the following:

- A. The relocation of operations; and
- B. The monitoring to assess the impact of the activity on the live bottoms.

Stipulation No. 3 - Military Areas

(This stipulation will be included in leases located within the Warning Areas and Eglin Water Test Areas 1 and 3, as shown on the map "Stipulations and Deferred Blocks, Sale 185" included in the Notice of Sale 185 Package.)

- A. Hold and Save Harmless

Whether compensation for such damage or injury might be due under a theory of strict or absolute liability or otherwise, the lessee assumes all risks of damage or injury to persons or property, which occur in, on, or above the Outer Continental Shelf (OCS), to any persons or to any property of any person or persons who are agents, employees, or invitees of the lessee, its agents, independent contractors, or subcontractors doing business with the lessee in connection with any activities being performed by the lessee in, on, or above the OCS, if such injury or damage to such person or property occurs by reason of the activities of any agency of the United States Government, its contractors or subcontractors, or any of its officers, agents or employees, being conducted as a part of, or in connection with, the programs and activities of the command headquarters listed in the following table.

Notwithstanding any limitation of the lessee's liability in section 14 of the lease, the lessee assumes this risk whether such injury or damage is caused in whole or in part by any act or omission, regardless of negligence or fault, of the United States, its contractors or subcontractors, or any of its officers, agents, or employees. The lessee further agrees to indemnify and save harmless the United States against all claims for loss,

damage, or injury sustained by the lessee, or to indemnify and save harmless the United States against all claims for loss, damage, or injury sustained by the agents, employees, or invitees of the lessee, its agents, or any independent contractors or subcontractors doing business with the lessee in connection with the programs and activities of the aforementioned military installation, whether the same be caused in whole or in part by the negligence or fault of the United States, its contractors, or subcontractors, or any of its officers, agents, or employees and whether such claims might be sustained under a theory of strict or absolute liability or otherwise.

B. Electromagnetic Emissions

The lessee agrees to control its own electromagnetic emissions and those of its agents, employees, invitees, independent contractors or subcontractors emanating from individual designated defense warning areas in accordance with requirements specified by the commander of the command headquarters listed in the following table to the degree necessary to prevent damage to, or unacceptable interference with, Department of Defense flight, testing, or operational activities, conducted within individual designated warning areas. Necessary monitoring control, and coordination with the lessee, its agents, employees, invitees, independent contractors or subcontractors, will be effected by the commander of the appropriate onshore military installation conducting operations in the particular warning area; provided, however, that control of such electromagnetic emissions shall in no instance prohibit all manner of electromagnetic communication during any period of time between a lessee, its agents, employees, invitees, independent contractors or subcontractors and onshore facilities.

C. Operational

The lessee, when operating or causing to be operated on its behalf, boat, ship, or aircraft traffic into the individual designated warning areas shall enter into an agreement with the commander of the individual command headquarters listed in the following list, upon utilizing an individual designated warning area prior to commencing such traffic. Such an agreement will provide for positive control of boats, ships, and aircraft operating into the warning areas at all times.

| | |
|------|---|
| W-59 | Naval Air Station - JRB 400 Russel Avenue Box 27 New Orleans, Louisiana 70143-0027 Telephone: (504) 391-8696/8687 |
| W-92 | Naval Air Station Air Operations Department Air Traffic Division/Code 52 New Orleans, Louisiana 70146-5000 Telephone: (504) 393-3100/3101 |

| | |
|--|---|
| W-147 | 147th Fighter Wing Operations Officer 14657 Sneider Street Houston, Texas 77034-5586 Telephone (281) 929-2716/2683 |
| Eglin Water Test Areas 1 and 3 | Air Armament Center Attention: Robert J. Arnold Encroachment Committee Chairman 101 West "D" Ave., Suite 222 Eglin AFB, Florida 32542-5492 Telephone: (850) 882-3614 |
| W-155 (For Agreement) | Chief, Naval Air Training Naval Air Station Attn: Office No. 206 Corpus Christi, Texas 78419-5100 Telephone: (512) 939-3862/3902 |
| W-155 (Filing Plans) | Naval Air Training Command Attention: Training Wing Six, Operations Pensacola, Florida 32508 Telephone: (850) 452-2305 |
| W-155 (Current Operational Control) | Fleet Area Control & Surveillance Attention: Facility (FACSFAC), Operations Naval Air Station Pensacola, Florida 32508 Telephone: (850) 452-4671 |
| W-453 | Air National Guard - CRTC 4715 Hews Avenue Building 1 Gulfport, Mississippi 39507-4324 Telephone: (601) 867-2432/2433 |

Stipulation No. 4 - Blocks South of Baldwin County, Alabama

(This stipulation will be included only in leases on blocks south of and within 15 miles of Baldwin County, Alabama, as shown on the map "Stipulations and Deferred Blocks, Sale 185" included in the Notice of Sale 185 Package.)

In order to minimize visual impacts from development operations on this block, you will contact lessees and operators of leases in the vicinity prior to submitting a Development Operations Coordination Document (DOCD) to determine if existing or planned surface

production structures can be shared. If feasible, your DOCD should reflect the results of any resulting sharing agreement, propose the use of subsea technologies, or propose another development scenario that does not involve new surface structures.

If you cannot formulate a feasible development scenario that does not call for new surface structure(s), your DOCD should ensure that they are the minimum necessary for the proper development of the block and that they will be constructed and placed, using orientation, camouflage, or other design measures, to limit their visibility from shore.

The MMS will review and make decisions on your DOCD in accordance with applicable Federal regulations and MMS policies, and in consultation with the State of Alabama (Geological Survey/Oil and Gas Board).

Stipulation No. 5 - Law of the Sea Convention Royalty Payment

(This stipulation will be included in leases beyond the United States (U.S.) Exclusive Economic Zone (EEZ) in the area formerly known as the Western Gap, as shown on the map "Stipulations and Deferred Blocks, Sale 185" included in the Notice of Sale 185 Package.)

If the U.S. becomes a party to the 1982 Law of the Sea Convention (Convention) prior to or during the life of a lease issued by the U.S. on a block or portion of a block located beyond the U.S. EEZ and subject to such conditions that the Senate may impose through its constitutional role of advice and consent, then the following royalty payment lease provisions will apply to the lease so issued, consistent with Article 82 of the Convention:

1. The Convention requires payments annually by coastal States party to the Convention with respect to all production at a site after the first five years of production at that site. Any such payments will be made by the U.S. government and not the lessee.

2. For the purpose of this stipulation regarding payments by the lessee to the U.S., a site is defined as an individual lease whether or not the lease is located in a unit.

3. For the purpose of this stipulation, the first production year begins on the first day of commercial production (excluding test production). Once a production year begins it shall run for a period of 365 days whether or not the lease produces continuously in commercial quantities. Subsequent production years shall begin on the anniversary date of first production.

4. If total lease production during the first five years following first production exceeds the total royalty suspension volume(s) provided in the lease terms, or through application and approval of relief from royalties, the following provisions of this stipulation will not apply. If after the first five years of production but prior to termination of this lease, production exceeds the total royalty suspension volume(s) provided in the lease terms, or through application and approval of relief from royalties,

the following provisions of this stipulation will no longer apply effective the day after the suspension volumes have been produced.

5. If, in any production year after the first five years of lease production, due to lease royalty suspension provisions or through application and approval of relief from royalties, no lease production royalty is due or payable by the lessee to the U.S., then the lessee will be required to pay, as stipulated in paragraph 9 below, Convention-related royalty in the following amount so that the required Convention payments may be made by the U. S. government as provided under the Convention:

- A. In the sixth year of production, one percent of the value of the sixth year's lease production saved, removed, or sold from the leased area;
- B. After the sixth year of production, the Convention-related royalty payment rate shall increase by one percent for each subsequent year until the twelfth year and shall remain at seven percent thereafter until lease termination.

6. If the U.S. becomes a party to the Convention after the fifth year of production from the lease, and a lessee is required, as provided herein, to pay Convention-related royalty, the amount of the royalty due will be based on the above payment schedule as determined from first production. For example, U.S. accession to the Convention in the tenth year of lease production would result in a Convention-related royalty payment of five percent of the value of the tenth year's lease production, saved, removed, or sold from the lease. The following year, a payment of six percent would be due, and so forth as stated above, up to a maximum of seven percent per year.

7. If, in any production year after the first five years of lease production, due to lease royalty suspension provisions or through application and approval of relief from royalties, lease production royalty is paid but is less than the payment provided for by the Convention, then the lessee will be required to pay to the U.S. government the Convention-related royalty in the amount of the shortfall.

8. In determining the value of production from the lease if a payment of Convention-related royalty is to be made, the provisions of the lease and applicable regulations shall apply.

9. The Convention-related royalty payment(s) required under paragraphs 5 through 7 of this stipulation, if any, shall not be paid monthly but shall be due and payable to MMS on or before 30 days after the expiration of the relevant production lease year.

10. The lessee will receive royalty credit in the amount of the Convention-related royalty payment required under paragraphs 5 through 7 of this stipulation, which will apply to royalties due under the lease for which the Convention-related royalty accrued in subsequent periods as non-Convention related royalty payments become due.

11. Any lease production for which the lessee pays no royalty other than a Convention-related requirement, due to lease royalty suspension provisions or through application and approval of relief from royalties, will count against the lease's applicable royalty suspension or relief volume.

12. The lessee will not be allowed to apply or recoup any unused Convention-related credit(s) associated with a lease that has been relinquished or terminated.

Stipulation No. 6 - Protected Species

(This stipulation will apply to all leases resulting from this sale.)

To reduce the potential taking of Federally protected species (e.g., sea turtles, marine mammals, Gulf sturgeon, and other listed species):

(a) MMS will condition all permits issued to lessees and their operators to require them to collect and remove flotsam resulting from activities related to exploration, development, and production of this lease.

(b) MMS will condition all permits issued to lessees and their operators to require them to post signs in prominent places on all vessels and platforms used as a result of activities related to exploration, development, and production of this lease detailing the reasons (legal and ecological) why release of debris must be eliminated.

(c) MMS will develop, in conjunction with National Oceanic and Atmospheric Administration Fisheries, an observer training program to minimize the risk of vessel strikes to protected species.

(d) MMS will require that all seismic surveys employ mandatory mitigation measures to include the use of a 500 meter impact zone based on the appropriate water depth, visual observers, and ramp-up procedures. Seismic operations must immediately cease when a sperm whale is detected within the 500 meter impact zone. Ramp-up procedures and seismic surveys may be initiated only during daylight.

(e) MMS will require lessees and operators to instruct offshore personnel to immediately report all sightings and locations of injured or dead endangered and threatened species (e.g. sea turtles and whales) to the MMS. If oil and gas industry activity is responsible for the injured or dead animals (e.g. because of a vessel strike), the MMS shall require the responsible parties to assist the respective salvage and stranding network as appropriate.

(f) MMS will require oil spill contingency planning to identify important habitats, including designated critical habitat, used by listed species (e.g. sea turtle nesting beaches, piping plover critical habitat), and require the strategic placement of

spill cleanup equipment to be used only by personnel trained in less-intrusive cleanup techniques on beach and bay shores.

Lessees and operators will be instructed how to implement these mitigation measures in Notices To Lessees.

Stipulation No. 7 - Below Seabed Operations on Mississippi Canyon Block 474

(This stipulation will apply only to a lease resulting from this sale on Mississippi Canyon Block 474, as shown on the map “Stipulations and Deferred Blocks, Sale 185” included in the Notice of Sale 185 Package.)

The lessee agrees that no activity including, but not limited to, structures, drilling rigs, pipelines, and/or anchoring will be located on the seabed or in the water column above or within any portion of this lease. All exploration, development, and production activities or operations must take place from outside the lease by the use of directional drilling or other techniques.