South Texas
COLLEGE OF LAW
— HOUSTON —

PRIVATE AND INDEPENDENT SINCE 1923

ROUND 1

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GENERAL FACTS

The primary goal of this meeting is to negotiate several specific terms of a hydrocarbon exploration license between the Government of Kuland (hereafter "***Kuland***"), as grantor, and the Prize Oil Company, LLC (hereafter "***Prize***"[3]), as grantee.

Prize is a U.S.-based independent exploration and production company that has existing operations in the Rockies region, the Permian Basin, and the Gulf of Mexico. Prize is looking to broaden its portfolio by expanding into the international arena, and as a result, is looking for direct negotiation opportunities in various parts of the world. Specifically, Prize is looking for opportunities in countries with no existing hydrocarbon production, which is why the Executive Committee[4] has authorized the new ventures group to enter into direct negotiations with Kuland. Prize touts its flexibility as an independent exploration and production company, as well as its quick decision-making process as two qualities that set it apart from competitors.

Kuland is a small island nation located in the Southern Pacific Ocean, with a population of approximately 3,500,000. The economy is primarily agricultural, with gross domestic product relying on exports of various agricultural products. A large portion of the economy is also supported by eco-tourism. The geographic location of Kuland lends itself to lush vegetation and scenery, and Kuland has become well known for outdoor activities (zip-lining, hiking, climbing, maritime activities and sea-related excursions). Recently, agricultural exports have declined due to weak economic growth in the primary export markets for Kuland's goods, so the country's leadership is seeking to diversify the economy into other sectors. Although Kuland has never had substantive oil and gas production, the geologic subsurface features indicate a fairly high likelihood of working petroleum systems[5] in offshore areas of the Kulandian coast. In addition, numerous scholarly and academic articles have been published that reference geologic indications of the presence of hydrocarbons.

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[3] Reference to Daniel Yergin's Pulitzer Prize-winning definitive history of the oil and gas industry: ***The Prize.***

[4] The corporate Executive Committee is the highest non-board level of corporate decision-makers, usually comprised of corporate executives (i.e. Chairman/Chief Executive Officer, Chief Financial Officer, General Counsel, Chief Operations Officer, and other C-Suite executives a corporation may designate).

[5] A set of subsurface conditions where the required elements (consisting of source rock, maturation, migration, reservoirs, traps, and preservation) are proven to exist and occurred in the correct sequence/relative timing for hydrocarbon accumulations to be present.

Aside from geologic prospectivity[6], there are two additional reasons the President of Kuland is interested in drawing international oil and gas investment to Kuland. First, Kuland is highly dependent on imports of oil and natural gas for domestic consumption. This dependence on imported hydrocarbons makes budgetary planning very difficult, as the wild fluctuations in crude price have very harmful effects on governmental cash flows and financial planning cycles. Also, the elected government of Kuland views industrialization as a path to further development and growth (and a departure from a primarily agrarian economy) and would like to establish a thriving petrochemical industry within the country, if possible. In order to do this, it is necessary to facilitate investment and exploration in Kuland from International Oil Companies ("***IOC***s")[7].

Because there is no existing hydrocarbon production in Kuland, it was necessary for the Kulandian Government to create and implement a hydrocarbon framework[8]. The Kulandian Government understood and appreciated that the hydrocarbon framework would need to be "balanced" between the Government and the IOC. External advisors counseled the Government that a successful legal, contractual & fiscal framework would need to meet and address the objectives of the government (to attract IOC investment and to prudently manage the country's national resources) balanced with addressing the goals and objectives of IOCs (achieving the minimum rate of return necessary to support investment in exploration activity in Kuland). The President's Council of Ministers recently reviewed and approved the new Hydrocarbon code and accompanying regulations via Decree Law, which was subsequently ratified by the legislature.

Kuland has not yet conducted any bid rounds[9], and instead prefers to engage in direct negotiations with IOCs. Prize is one of the companies that has been selected to directly negotiate with the Kulandian Government. Negotiations will commence on March 24, 2018, in Houston, Texas. Attached as Annex 1 is a map of the contractual area to be negotiated between Kuland and Prize. There are several key issues that need to be negotiated between the Government of Kuland and Prize, which are listed below:

Royalty

Kuland has elected to use a tax/royalty system, meaning that the two main sources of government revenue from an oil and gas project are corporate income taxes and royalties. As a frontier jurisdiction with no previous hydrocarbon experience, Kuland needs to have the royalty low enough to attract foreign direct investment, but high enough for oil/gas royalty revenues to create a significant contribution to the national budget.

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[6] The degree of likelihood of finding hydrocarbons (high prospectivity means high likelihood of hydrocarbon discovery, and vice versa for low prospectivity).

[7] An exploration and production company having international assets.

[8] Hydrocarbon framework refers to the legal, contractual, fiscal and regulatory structure governing exploration for and production of hydrocarbons.

[9] A process whereby the government designates certain contractual areas to be put up for auction or bid by IOCs, with the goal of entering into contractual arrangements with the successful IOC bidder for the specific contractual area in question.

Corporate Income Tax

The Kulandian Government Budget Office has conducted research regarding fiscal competitiveness with regard to the appropriate rate of corporate income tax for similarly situated countries. The research supports the notion that the lower the corporate income tax rate, the more likely it is that foreign multinational corporations will establish branches or corporate offices in Kuland. It is important that the Kulandian Government not be perceived as providing too favorable tax treatment to foreign corporations while domestic corporations are left paying significantly higher corporate income tax rates.

International Arbitration

The Kuland model contract[10] contains a dispute resolution clause, but the clause does not address whether any party to the contract will have the right to seek redress via international arbitration. IOCs often require the right to arbitrate internationally, depending on the type of project, complexity, and aboveground risk profile[11] of the country in which the investment is to take place. The parties to this negotiation will need to address whether international arbitration will be allowed in the event of a dispute.

Stabilization[12]

Governments often see stabilization clauses as an infringement on the sovereign's right to enact legislation or regulate a certain sector. Kuland considers itself an extremely stable investment environment, from a legal and contractual standpoint, and prides itself on never having expropriated any asset of a foreign investor in the history of foreign direct investment in the country. However, budgetary issues are of growing concern for the government in light of falling tax revenue, and a tax increase on domestic organizations would be politically very risky for any representatives' chances of getting elected or re-elected. It would be much easier politically to increase taxes on foreign investors than repatriate profits from operations conducted in Kuland.

Minimum Work Program[13]

A minimum work program requirement is an integral part of any Exploration & Production contract or license granted by a host government. The government wants the IOC to carry out as much activity as possible, including: i) initial reconnaissance work (bathymetry and piston

[10] A contractual template promulgated by the host government that is used for all contracts to be entered into with IOCs.

[11] A profile given to a particular country based on analysis performed by an IOC's risk assessment group. Aboveground risk profiles often assess issues such as political stability, contractual sanctity for contracts entered into in the subject country, economic growth and development, likelihood of insurrection or rebellion, etc.

[12] Stabilization refers to a clause often included in a government contract, which addresses how changes in law following the execution of the contract are to be treated, and the extent to which those changes modify the rights or obligations of the IOC under the contract. One of the more common types of stabilization are clauses which fix or freeze, for the term of the project, the applicable legislation or regulations affecting the project to those in effect on the date the government contract is executed. If a contract has such protections, it is often referred to as "stabilized", via the "stabilization provision" in the contract. IOCs often seek stabilization provisions for fiscal issues, regulations, or other areas that have the potential to materially affect the terms of the contractual agreement.

[13] Minimum work program is a level of minimum exploration activity that that the IOC commits to carry out during the exploration phase of a contract.

coring[14]); ii) seismic studies (re-processing of existing seismic data, acquisition of 2-D seismic and/or 3-D seismic); and iii) the drilling of wells. The IOC is interested in as much flexibility as possible, including the requirement for as little obligatory capital expenditure as possible. The minimum work program will be a function of how much investment capital a company has available in its corporate portfolio, its budget for exploration activity, and the level of prospectivity the IOC believes there to be in the contractual area being negotiated.

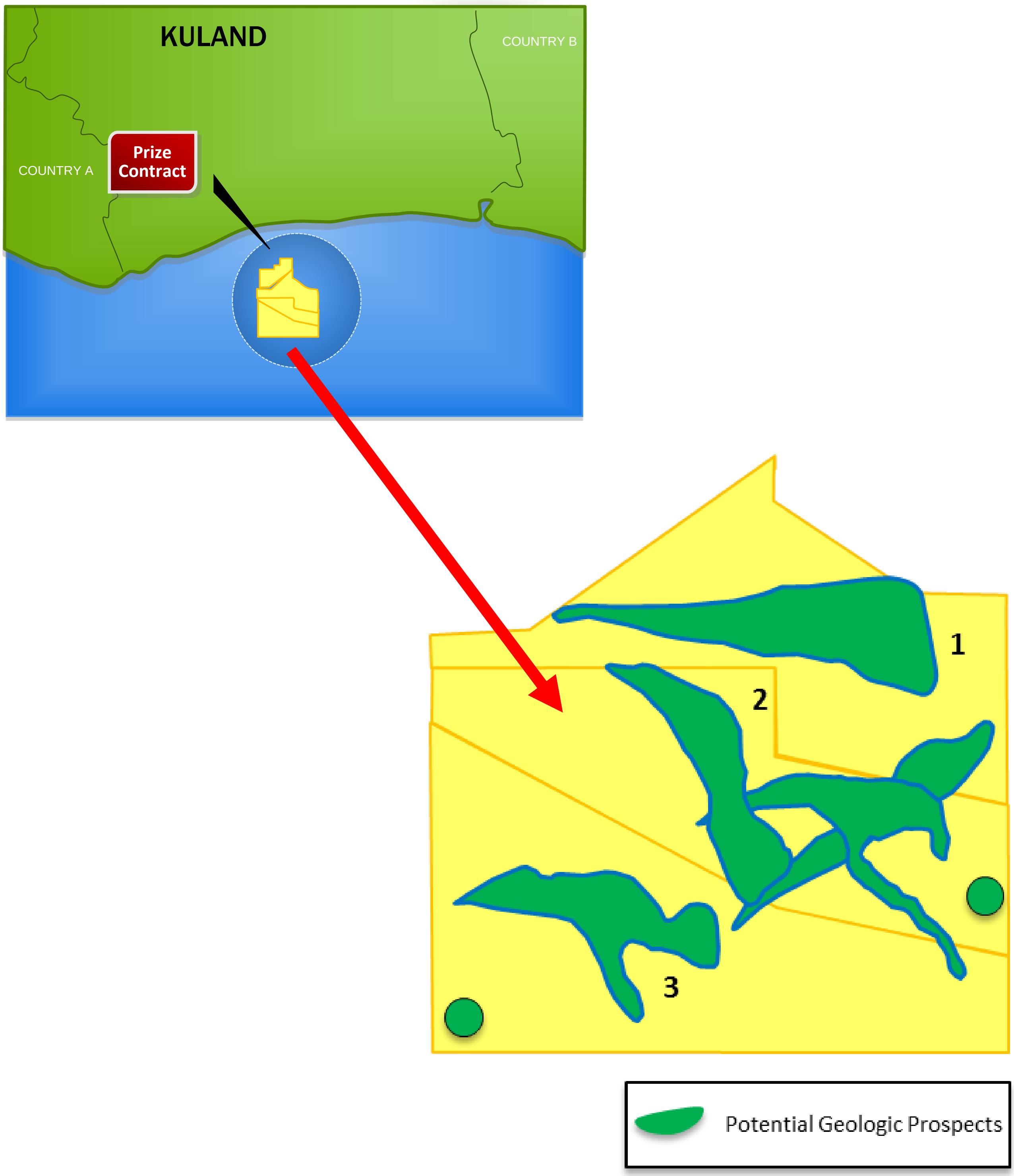
Local Content[15]

Local content requirements (similar to domestic market obligations) are becoming a more significant issue in negotiations between IOCs and host governments. Naturally, the government would like to see as many citizens employed by IOCs and, more generally, the entire oil and gas sector, as possible. At the same time, it is important to understand that the available pool of potential employees with the skill set to work in the hydrocarbon sector is likely quite limited due to the lack of existing oil and gas operations in-country. The Government of Kuland has also observed the experience of several other gas-abundant jurisdictions, in that abundant supplies of natural gas have provided for the development of a thriving petro-chemical industry, which creates exportable value-added products, while serving as a source of employment for nationals, as well as a vehicle for economic diversification.

[14] Bathymetry could be described as the measure of depth of the water in oceans, seas, or lakes. For hydrocarbon operations, one principal purpose of bathymetry is for assessing oceanic conditions for drilling planning. Piston coring entails driving tubular barrels into the seabed to obtain seabed samples that will be analyzed for the presence of hydrocarbons.

[15] Local Content refers to the minimum level of labor (national employees) and procurement from local vendors that an IOC must utilize while carrying out exploration and production activities pursuant to the contract.

ANNEX 1: MAP OF KULAND OFFSHORE BLOCKS



CONFIDENTIAL FACTS FOR KULAND

The Government of Kuland is facing massive budget deficits in the near future, due primarily to falling demand for its exports in the international marketplace. Exports of basic agrarian items make up the majority of the Kulandian budget, and reduced exports have hit local producers and exporters hard. In light of this, there is tremendous political pressure on the government to diversify the economy beyond exports of simple, non-value added items. The oil and gas sector is perceived as an appealing option for several reasons: i) the high geologic prospectivity of offshore basins around Kuland; ii) a desire for resource independence, and an avoidance of dependence on imports; ii) and production of a domestic resource that can provide significant socio-economic benefits to Kuland.

In addition to budgetary issues, the Government is keen to shore up its balance of payments challenges by exporting hydrocarbon products and value-added derivatives of petroleum. In light of this, the Council of Ministers[16] has provided guidance to the Ministry of Hydrocarbons regarding what terms will be acceptable to the Council with respect to the negotiation with Prize.

Royalty

The Ministry of Finance has been extremely vocal throughout the discussion of the framework for developing a hydrocarbon sector. The current Finance Minister is of the opinion that royalty is the easiest way to raise significant amounts of governmental income, and is therefore in favor of assessing as high a royalty as possible. Because of this, the Finance Minister has proposed a royalty rate of 25%. The Minister would be willing to discuss a lower rate provided a production-based escalating royalty[17] structure is used, where the more cumulative production occurs, the higher the royalty becomes after certain production thresholds have been met. Even if a production-based escalating royalty is used, the maximum royalty rate the Minister has authorized you to request remains 25%. If a production-based royalty is to be used, Kuland would like a royalty between 14-17% on all production up to 1 million combined barrels of oil/BTU of natural gas. Kuland would like a royalty between 18-21% on all production up to 2 million combined barrels of oil/BTU of natural gas. Kuland would like a royalty between 22-25% on all production exceeding 2 million combined barrels of oil/BTU of natural gas. The Finance Minister would like you to seek the highest royalty percentage possible within each range. The Minister feels that IOCs will agree to higher royalties because of the high level of geologic prospectivity that exists in Kuland.

Corporate Income Tax

The Minister of Finance has also been very assertive regarding the level of corporate income tax to be assessed on IOCs that conduct operations in Kuland. The current corporate income tax rate

[16] The Council of Ministers is an Executive Agency body consisting of the Ministers of each of the Ministries within the Kulandian government. Because the terms being negotiated by the Ministry of Hydrocarbons via the contract to be negotiated will implicate different areas of the government (fiscal matters, environmental matters, regulatory matters, exports), the Council of Ministers' guidance and oversight are required.

[17] A production-based escalating royalty is a royalty system whereby the royalty increases as production increases. The practical effect of this is that as production increases (and the IOC's revenue increases, assuming a flat commodity price environment), the government receives more income from royalty.

is 35%. The Minister, acknowledging that neighboring countries have recently provided fiscal relief to the oil and gas sector in order to attract precious exploration capital from IOCs, would be willing to accept a lower corporate income tax rate. If the rate must be lowered, a corporate income tax rate of 20 – 30% is preferable. The Minister would like you to get as high a tax rate as possible because other corporations are already being taxed at 35%, and though Kuland is willing to reduce the rate to facilitate an agreement with Prize, it can't be expected to forego too much of the compensation it feels it is owed for letting a company gain wealth off its natural resources.

Stabilization/International Arbitration

Kuland prides itself on a long history of honoring contracts and maintaining legal and contractual integrity with regard to previously developed projects. Numerous large-scale, long-term contracts have been entered into during the past few decades, and there have been relatively few related disputes. In addition, the court system in Kuland is well defined, free from corruption, and independent from Executive Branch influence. Thus, Kuland's position is that there is no need for international arbitration. In the event a mega-scale project is developed, however, Kuland would allow for arbitration to be conducted in Kuland, with International Chamber of Commerce[18] rules applicable to the dispute or the UNCITRAL[19] rules if absolutely necessary. In the event an impasse is reached with Prize over arbitral venue, the Government of Kuland would be willing to discuss an arbitral seat outside Kuland in a neutral forum.

Kuland has never provided contractual stability for any of its existing contracts. Despite this, numerous foreign investors have elected to invest in Kuland and/or establish subsidiaries incorporated in Kuland. The President of Kuland does not want to be the first President in Kuland's history to grant foreign investors stabilization protection and is extremely reluctant to agree to any stabilization provisions requested by any IOC. However, the President acknowledges the need to diversify Kuland's economy. Thus, if stabilization is the one issue preventing an IOC from developing a project, the President would be willing to accept limited stability, focusing only on the fiscal terms of the project, at the time the contract is signed. Under no circumstances would the President of Kuland accept project-wide stabilization[20].

Local Content

The government's desire to encourage oil and gas investment in Kuland is partially based on the socio-economic benefits that usually accompany hydrocarbon sector development. The President of Kuland sees oil and gas investment and activity as a potentially major contributor to employment. Thus, the President and the Legislature want a minimum level of local content that

[18] The International Chamber of Commerce provides dispute resolution services, and has promulgated arbitration rules for parties to utilize during the dispute resolution process. Their website can be found at: https://iccwbo.org/dispute-resolution-services/arbitration/

[19] UNCITRAL stands for United Nations Commission on International Trade Law, and is a set of rules developed for purposes of resolving international commercial disputes. UNCITRAL is not an arbitration or dispute resolution forum, but is merely a set of rules by which the parties can agree to apply in the event of a conflict.

[20] "Project-wide stabilization" means stabilization protection that applies to ***all*** aspects of a hydrocarbon project, and not just specific aspects of a development. Some contracts provide for stabilization of fiscal terms only, or certain other contractual terms. The framework preferred by Prize is that the Kulandian government stabilize all aspects of the project (regulatory, contractual, fiscal, environmental, and legal).

all IOCs must comply with as part of any with the Government. After evaluating local content requirements in nearby countries that are similarly situated to Kuland, the Kulandian Government wants a minimum local content of 35%. The Ministry of Labor has pointed out to the President, however, that a 35% minimum local content requirement for the oil and gas sector may be difficult to achieve, given that there is currently no oil and gas production. This means that few, if any, of Kuland's citizens have the necessary skills and expertise. In light of this, the President would be willing to accept a local content requirement as low as 20%.

Minimum Work Program

The Ministry of Finance is extremely eager to have exploration activity carried out in Kuland. As a result, the Minister would ideally like to require the drilling of three exploration wells as part of the contract. However, the Minister has expressed flexibility regarding the drilling obligation and would accept 10,000 square kilometers of 3-D seismic data studies per exploration well not drilled.

CONFIDENTIAL FACTS FOR PRIZE

Prize is desperate to enter into an international exploration & production contract with a foreign host-government. The U.S. assets within Prize's portfolio are declining rapidly, primarily because Prize wasn't able to capture the most prolific sweet spots in many of the onshore plays where it is currently operating. In addition, although Prize has several blocks in the Gulf of Mexico, the lack of infrastructure near those blocks has made it fairly difficult for Prize to develop its Gulf of Mexico assets. Prize is particularly attracted to Kuland because of the lack of existing oil and gas operations, and Prize views the "blank canvas" in oil and gas as an opportunity to work with Kuland to develop a framework that is attractive both for the host government and international oil and gas companies.

Royalty

Prize is looking for potential projects in countries with fiscal terms that are competitive vis-à-vis its other assets. Royalty rates for these assets range anywhere from 10%-22%. As a result, Prize Management feels a fair initial proposal would be a royalty rate of 12%. Prize could accept a royalty rate as high as 23%, provided a production-based escalating royalty[21] structure is used, where the more cumulative production occurs, the higher the royalty rate becomes after certain production thresholds have been met. If such a structure is to be used, Prize would prefer a royalty between 12-15% on all production up to 1 million combined barrels of oil/BTU of natural gas. Prize would prefer a royalty between 16-19% on all production up to 2 million combined barrels of oil/BTU of natural gas. Prize would prefer a royalty between 20-23% on all production exceeding 2 million combined barrels of oil/BTU of natural gas. If such a structure is to be used, you should try to negotiate for as law a royalty as possible within each range. After all, Prize will be doing all of the costly work to find and produce the valuable hydrocarbons that, up to this point, Kuland has neglected to collect.

Corporate Income Tax

Since Kuland utilizes a royalty/tax system, the corporate income tax is another major economic lever the parties have to significantly impact project economics. As with royalty, Prize is looking for a corporate income tax rate that is on par with the current fiscal terms for other projects in its portfolio. The income from those existing projects is subject to various tax rates around the world, ranging from 10-30%. The senior management team has vowed never to enter another country with as a corporate tax rate over 25%. It much prefers its highly lucrative plays, where the host nation has a tax rate below 15%. With that said, Prize's managers know that this agreement could be Kuland's first E&P contract in history. So, the Kulandian Government will be looking to set a favorable precedent for future E&P agreements, by having as high a tax rate as possible. Senior Management has authorized you to negotiate a corporate income tax rate between 15-25%. It feels that range shows sensitivity to Kuland's desires and gives Prize a competitive tax rate and, in turn, ample incentive to keep investing in plays in Kuland.

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[21] A production-based escalating royalty is a royalty system whereby the royalty increases as production increases. The practical effect of this is that as production increases (and the IOC's revenue increases, assuming a flat commodity price environment), the government receives more income from royalty.

Stabilization/International Arbitration

Stabilization and International Arbitration are critical for any project to be sanctioned by Prize. Because offshore projects are costly, complex, and of long duration, project stability and the right to arbitrate in a neutral forum are critical.

Prize, being a U.S.-based corporation, prefers to arbitrate in a jurisdiction favorable to American companies. In light of this, it is corporate policy that all arbitration provisions provide for UNCITRAL[22] rules, with the seat of the arbitration being located in Miami, Florida, or New York City. In the event a counterparty is unwilling to accept an American seat of arbitration, the negotiating team may consider a neutral arbitral seat. Under no circumstances will Prize Management agree to an arbitration proceeding in Kuland, nor will Prize Management agree to International Chamber of Commerce arbitration proceedings[23].

Given the magnitude of offshore projects, Prize needs satisfactory assurance that project-wide risks are properly mitigated. The preferred approach for such risk mitigation is project-wide stabilization[24]. External legal advisors for Prize have advised that adequate stabilization protection is the best defense against expropriation (nationalization), or any other change in legal, regulatory, contractual, or fiscal terms that substantially affect the parties' benefit of the bargain. As a result, Prize will require project-wide stabilization to protect against any changes implemented by the Kulandian government after any Exploration & Production contract has been agreed to and signed by the parties. In the event project-wide stabilization cannot be granted by the Government, at a minimum, Prize would require stabilization focusing only on the fiscal terms of the project, at the time the contract is signed.

Local Content

Prize prides itself on its ability to execute projects on schedule and under budget. This is primarily because of the relationships Prize has built with various vendors and "preferred service providers" over the years. It will be very difficult for Prize to rely on labor or a workforce that does not have significant experience in the oil and gas sector and with whom Prize has never worked. Prize would prefer a 15% local content level. On the other hand, Prize understands that the Government of Kuland is probably expecting that oil and gas investment and activity will be a major creator of jobs and employment within Kuland. In light of this, after receiving assurances from several Engineering, Procurement and Construction (EPC) vendors that have worked on various projects, Prize is willing to use up to 23% local content.

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[22] UNCITRAL stands for United Nations Commission on International Trade Law, and is a set of rules developed for purposes of resolving international commercial disputes. UNCITRAL is not an arbitration or dispute resolution forum, but is merely a set of rules by which the parties can agree to apply in the event of a conflict.

[23] The International Chamber of Commerce provides dispute resolution services, and has promulgated arbitration rules for parties to utilize during the dispute resolution process. Their website can be found at: https://iccwbo.org/dispute-resolution-services/arbitration/

[24] "Project-wide stabilization" means stabilization protection that applies to ***all*** aspects of a hydrocarbon project, and not just specific aspects of a development. Some contracts provide for stabilization of fiscal terms only, or certain other contractual terms. The framework preferred by Prize is that the Kulandian government stabilize all aspects of the project (regulatory, contractual, fiscal, environmental, legal).

Minimum Work Program

Because of low gas prices, Prize management is looking for maximum flexibility in terms of the capital commitments that must be made in order to secure contractual rights in a particular jurisdiction. Based on an internal review of the corporate capital budget for fiscal year 2018, management for Prize has authorized a capital budget of $100MM dollars. Each offshore well has an approximate cost of $40MM, while each 10,000 square kilometers of 3-D seismic studies cost approximately $20MM. The directive given to the Prize negotiating team has been to secure a contract with as few capital obligations as possible, but under no circumstances is the negotiating team to agree to a minimum work program that exceeds the allocated budget.