ROUND 2

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GENERAL FACTS

The primary goal of this meeting is to renegotiate several specific terms of a hydrocarbon production sharing contract ("***PSC***") between the Government of Ligeria (hereafter "***Ligeria***"), as grantor, and the Knox Oil & Gas, Inc. (hereafter "***Knox***"), as grantee. Knox is a Houston-based publicly traded independent exploration and production ("***E&P***") company that has existing operations in the North Sea, the Gulf of Mexico, and off the Atlantic coast of Africa. Knox has had tremendous success operating in deep water, and as a result, is regarded as an industry leader in development and implementation of new technologies and in environmental stewardship. Three years ago, the Ligerian government granted Knox an exclusive license to explore for oil and gas, and last year Knox discovered a significant oil field within the confines of the license area. Knox touts its flexibility as an independent E&P company, as well as its prowess with environment, health and safety as two qualities that set it apart from competitors.

Ligeria is a large coastal nation (approximately twice the size of the State of Texas) located in sub-Saharan Africa, with a population of approximately 12,500,000. The economy has historically been primarily agricultural, with gross domestic product relying on exports of various agricultural products. Another large contributor to the economy is tourism. The geographic location of Ligeria lends itself to magnificent waves, and Ligeria has become well known as a bucket-list destination for surfers and beach goers. Recently, agricultural exports have declined due to weak economic growth in the primary export markets for Ligeria's goods, so the country's treasury is increasingly dependent upon the tourism sector to generate revenue.

Although Ligeria has never suffered a catastrophic oil spill, and the regulatory agencies have no reason to suspect Knox utilizes anything less than state of the art practices, the possibility of rising sea levels worries many citizens and government officials, and delegates from the tourism industry have expressed concern over what happens to the offshore rigs like the one Knox is using (which they consider to be unsightly – a matter of opinion to be sure) once the oil and gas project ends. At the same time, to mitigate the economic effects of decreasing agricultural exports the newly-elected President of Ligeria is interested in increasing the revenue Ligeria receives from oil and gas production. In order to do this, one approach would be to facilitate investment and exploration in Ligeria from International Oil Companies ("***IOC***s"). Also, the newly-elected government of

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Ligeria 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.

Another approach to mitigating the projected budget shortfall would be to extract more revenue from the arrangement between Ligeria and Knox, but the existing PSC between the Ligerian government and Knox sets forth the royalties, taxes, and other economic terms governing the oil and gas field where Knox's discovery is located. An attempt by the Ligerian government to renegotiate those terms unilaterally may give other IOCs pause, as others have been keen to replicate Knox's results offshore Ligeria, but may be reluctant to invest in and enter a jurisdiction where sanctity of contract is not honored.

The new President ran on a platform of reducing corruption and ensuring Ligerian citizens benefit from the extractive industries like oil and gas production, and defeated the incumbent by a substantial margin. Because she views her predecessor as corrupt and self-interested (as did the voters, evidently), she and her new cabinet place little value on the contract between Knox and the previous administration, and other than the potential to scare potential entrants out of drilling for oil and gas in Ligeria, they have little concern about honoring Knox's contract. Whether the previous administration was corrupt or not, because there was no existing hydrocarbon production in Ligeria before Knox's discovery, it was necessary for the Ligerian government to create and implement a fiscal framework which was lenient enough to attract IOCs to explore for oil and gas in a previously unexplored region in lieu of more prospective locations (which would have more certainty of successfully encountering/producing oil and gas).

Ligeria's Minister of Energy has reported to the President and her cabinet that many other oil-producing nations in the region have adopted a policy of mandatory state participation when licenses are granted to IOCs. In such a framework, the state creates a national oil company ("***NOC***") which is deemed to be a co-venturer with the IOC in developing the license. The host government benefits from the arrangement as its knowledge of conducting such operations is increased by working alongside the IOC personnel, with the goal being to foster a NOC which is eventually capable of conducting operations in Ligeria, for Ligeria's sole benefit. IOCs are often skeptical of these arrangements, as the often less-seasoned NOC employees are rarely as efficient as their IOC counterparts, and the time and expense of projects are key factors in IOCs deciding where to drill. Also, IOCs are rarely keen to share sensitive intellectual property with a NOC which is likely to be a competitor years later.

The contract between Knox and Ligeria 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 of the country in which the investment is to take place, whereas host governments tend to want disputes to be handled within their own court system. The parties to this negotiation cannot be certain whether international arbitration will be allowed in the event of a dispute.

Ligeria has not yet enacted any legislative reforms, and instead prefers to engage in direct negotiations with IOCs to accomplish its goals instead of amending existing legislation. As a result, Knox has been asked to directly negotiate with the Ligerian Government. Negotiations will commence on March 26, in Houston, Texas. There are several key issues that need to be negotiated between the Government of Ligeria and Knox, which are listed below:

Development Plan

In the initial phases of negotiating an E&P license, host governments and IOCs typically agree on certain facets of the strategy that will be utilized in the exploitation of the hydrocarbon resource, one of which is how many wells the IOC will drill in the attempt to discover oil or gas in commercial quantities (such wells are known as "***Exploration Wells***"). The host government usually wants a high number of Exploration Wells to ensure that an area for which an IOC has an exclusive right to drill is maximally explored, whereas the IOC, which often has many such commitments in several countries, will usually wish to minimize the required number of Exploration Wells. From the IOC perspective, if a prospect does not appear to be economically viable after an unsuccessful well (or wells), the IOC does not wish to continue investing capital for what may begin to resemble gambling for a good result.

Each side has a rational view, so when the license was being negotiated, Ligeria and Knox agreed that Knox would be required to drill up to three Exploration Wells, but that if a successful well were drilled (i.e. not a "dry hole," or well with no oil or gas found), no further Exploration Wells would be required. In their rush to execute an agreement before either side reconsidered, an overly exuberant team from Knox and a then-inexperienced team from Ligeria did not consider what would be required in the event of a successful well. A "***Development Plan***" sets forth the strategy for systematically and efficiently maximizing the recovery of hydrocarbons from a successful prospect, but neither Knox nor Ligeria took care to ensure the terms of the license included such a plan.

Now that a successful Exploration Well has been drilled, both sides understand that there must be some agreement on the way to produce the oil and gas from the license area. Knox argues that in light of the good news from the Exploration Well, no Development Plan is needed and the company should be allowed to exploit the field as it deems prudent. The Ligerian government wants to prioritize development of the field, as the economic benefit to the government is sorely needed under the current economic conditions, and the more quickly the additional wells are drilled the more quickly Ligeria's treasury will reap rewards from the royalty Knox pays on production and from income tax.

Mandatory State Participation

The government of Ligeria has observed the experience of several other oil-abundant jurisdictions, in that abundant supplies of hydrocarbons have provided for the development of a national oil company, which can serve as a source of employment for nationals, as well as a vehicle for economic diversification. Other nations have insisted that as a condition of the license an IOC is granted to explore for and produce oil and gas, the local NOC will partner with the IOC in development of the asset. In most cases the NOC takes a minority share of the interest, and works alongside the IOC to produce any oil and gas discovered. In some cases the NOC pays its share of costs (for example, an NOC with a 25% interest in the project would be responsible for paying 25% of the costs of operations), and in other cases the IOC "carries" the NOC's share of costs as a condition of being granted the license. These projects can foster cordial working relationships between an IOC and the host country (thus improving the IOC's chances of being granted additional exploration acreage in the future) but 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. Naturally, the government would like to see as many citizens employed by its NOC and, more generally, the entire oil and gas sector, as possible. In contrast, IOCs are often wary of the decreased efficiency and risk of compromising their intellectual property with regard to drilling and production techniques. Most IOCs believe that if a "carried" NOC interest is mandated, the government should be more lenient when negotiating royalty rates and the state's allocated share of production.

Royalty and Production Sharing

Ligeria uses a hybrid royalty and production-sharing system, meaning that the main sources of government revenue from an oil and gas project are royalties and the government's fractional share of Knox's production (if any). As a frontier jurisdiction with no previous hydrocarbon experience, Ligeria needed 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. Now that Knox has discovered a field larger than most experts had considered possible, the government and citizens of Ligeria feel that the original terms were too lenient and that Knox is unjustly profiting at Ligeria's expense. At issue are the production share (the fraction of Knox's oil and gas production that must be delivered cost-free to the Ligerian government), and the royalty rate (Knox's payment to the government of a fraction of the total value of Knox's share of production). Knox representatives believe that "a contract is a contract," but the new Ligerian government is suspicious of the former regime and is likely to view the terms as illegitimate. The existing contract allocates 10% of Knox's oil and gas production to Ligeria's Ministry of Energy and provides for a 15% post-allocation royalty.

"Green" Technology/Climate Change Mitigation

Governments that are heavily dependent upon oil and gas production for their revenue face a daunting challenge: as global concerns about climate change and rising sea levels grow, public companies like Knox are increasingly under pressure from large shareholders (like pension funds and other institutional investors) to reduce their carbon footprint and to employ "green" methods to produce the world's energy. Imposing fines or requiring onerous efforts to reduce greenhouse gas emissions may increase the cost of a project so greatly that the IOC is unable to continue its operations in an economically viable way – in effect killing the goose that lays the golden eggs. On the other hand, countries like Ligeria are among those most likely to be affected by rising sea levels, as the coastally based tourism sector would nearly disappear – literally and figuratively – if nothing is done to mitigate the changing climate. Neither Knox nor Ligeria is convinced that mitigation measures will be effective, but both are under pressure from various constituencies (shareholders and NGOs for Knox, and citizens and tourism industry delegates for Ligeria) to increase efforts to address climate change.

Decommissioning Fund

A decommissioning plan is an integral part of any E&P contract or license granted by a host government; alas, Ligeria did not insist on such a program at the time the E&P license was granted to Knox by the previous administration. The new government wants the IOC to ensure that once the project is finished, the well is safely plugged and abandoned, and that any infrastructure left behind (oil production platforms, pipelines, etc) are dismantled safely and responsibly to leave minimal impact on the landscape. Some jurisdictions require IOCs to pay into a fund to cover the expense of such activities throughout the life of a project, while others require the IOC to guarantee performance of those obligations themselves regardless of cost, and to remain liable for any environmental issues which may later be attributable to the development. Typically the IOC is interested in as much flexibility as possible, including the requirement for as little obligatory capital expenditure as possible, and a release of all claims once the decommissioning activities have concluded and the government regulators have indicated satisfaction with the result.

Confidential Information for the Lawyers Representing Knox

Knox is desperate to enter into more international E&P contracts with foreign host-governments. The U.S. assets within Knox's portfolio are declining rapidly, primarily because Knox wasn't able to capture the most prolific sweet spots in the Gulf of Mexico. The lack of infrastructure near those blocks has made it fairly difficult for Knox to develop its Gulf of Mexico assets. Knox is particularly keen to keep its project in Ligeria profitable because of its opportunity to leverage that success as it negotiates with other countries for similar licenses, but at the same time is wary that any renegotiation it tolerates in Ligeria will signal to other countries that Knox is an easy target for those who would hope to change deal terms in the middle of a project. Knox does not wish to give away too much, but is certainly aware that other international oil and gas companies now have their sights on Ligeria's now-proven (by Knox) hydrocarbon resources, and that if they don't accommodate some of the new President's requests they may not be allowed to bid on future projects offshore Ligeria.

Knox is not enthusiastic about litigating disputes in a Ligerian court, and cannot be sure that any disputes under the terms of the PSC would be handled via international arbitration, as it would much prefer. Finally, missing out on the Gulf of Mexico targets makes the discovery in Ligeria a key source of cash flow for Knox. While the temptation to take whatever terms Ligeria demands is strong, Knox's shareholders will not tolerate an expensive project that fails to generate an appropriate rate of return. If Ligeria can't be reasonable, Knox can elect to abandon the project. The shame and embarrassment to Ligeria would be great, and the optics would likely discourage other IOCs from ever considering investing in Ligeria – and the President likely knows it. But projects like this one have decades-long lifespans, and bluffing at this level can mean years of a strained and unsatisfying partnership between the IOC and host government.

Development Plan

Knox understands that the initial contract should have included some guidance and obligations regarding activity on the license area, and that the failure to include a framework for the development of the prospect in the event of a successful Exploration Well is as much Knox's fault as it is Ligeria's. After all, Knox is in business to make money, and the more oil and gas Knox can produce the better. At the same time, Knox's geological and geophysical ("***G&G***") experts do not believe that the area will require more than two wells to be developed profitably and responsibly, and that the Exploration Well can be re-worked to serve as one of those two

Development Wells, necessitating only one more well to ensure the complete and efficient production of most of the recoverable oil and gas in the prospect area. Industry periodicals have reported that the Ligerian Ministry of Energy is keen to see many more wells in the license area, laboring under the belief that more wells will mean more oil and gas (and in less time), but Knox's G&G team believes excess wells may actually damage the hydrocarbon reservoir, ultimately limiting the amount of oil and gas recovered (a concept Ligeria's nascent NOC is unlikely to understand). The G&G team believes the prospect area can safely sustain as many as three total wells, but that a fourth might damage the reservoir to the point that both Knox and Ligeria would actually realize less total production.

Knox is adamantly opposed to the presence of other oil companies in the prospect area, as its intellectual property would be at risk, not to mention the inequity of competitors getting a "free look" at the prospect. Knox would have borne all the risk of drilling the Exploration Well at a time when no one could be certain of its success. At the same time, Knox acknowledges that it would be uncommon for a government to allow a single well to retain an entire prospect area. For this reason, Knox is keen to limit the number of parcels and of wells drilled on the prospect to no more than three total (including the re-worked Exploration Well), and for that commitment to be sufficient to exclude other companies from the prospect area. If Ligeria refuses to exclude other companies, Knox will require a commitment from Ligeria not to permit competitors to drill within a reasonable distance of any existing Knox operations.

Mandatory State Participation

Knox prides itself on its ability to execute projects on schedule and under budget. This is primarily because of the relationships Knox has built with various vendors and "preferred service providers" over the years; put another way, Knox is used to dealing with skilled laborers with world-class expertise and experience. It will be very difficult for Knox to achieve these same lofty targets if it is forced to partner with another company, but especially with a newly formed NOC which is likely to be staffed by inexperienced workers who will require quite a bit of guidance and training, as well as a workforce unaccustomed to the work schedule most U.S.-based oil companies demand. Labor union restrictions for Ligerian workers are a great concern to Knox, as the operations on the rig are a twenty-four hour per day affair.

Furthermore, Knox already splits the produced oil and gas with Ligeria via the PSC arrangement. If it is a deal breaker and Ligeria is absolutely adamant for Knox to accommodate the inefficiencies of training its new NOC, you may agree to a partnership of no more than 15%, but the PSC would need to be significantly amended to reduce Ligeria's share of Knox's production. Knox also feels that since it would be a partnership, the Ligerian NOC should certainly pay for its share of costs for operating the project. Nevertheless, Knox is willing to carry up to half of the NOC's costs for up to the first five years of the joint venture since it recognizes that the costs at the beginning of any oil and gas project are staggeringly high.

"Green" Technology/Climate Change Mitigation

Knox is keen to show its shareholders that it is a good steward of the environment. Not only does this keep shareholder activism at bay, it is a good negotiating tactic for Knox's activities elsewhere. Most oil companies would love to be perceived by host governments as operating as eco-friendly as possible. One way for Knox to utilize its expertise is to separate the gas produced with oil, and subsequently re-inject that gas back into the oil reservoir. Doing so reduces the amount of carbon dioxide emitted from the project into the atmosphere, and also increases the pressure which forces oil to the surface; as a result, Knox will likely recover more oil. However, this technology is not inexpensive or foolproof, and Knox is keen to keep its advantage in such new tech so that it can position itself as the best-in-class of oil companies globally – a company countries would want to do business with. Due to the potential for added oil recovery, Knox is happy to deploy this technology on the project at no charge but will not train workers from the new Ligerian NOC about how to develop and use the process.

Royalty – Production Sharing

A major reason Knox was willing to enter into the original contract with Ligeria, and to risk its capital there in lieu of other (more geologically certain) locations was the favorable royalty rate Knox was promised. As first mover, Knox was willing to drill in Ligeria when no other companies were, and as a reward for gambling on success, Ligeria offered Knox an admittedly low 15% royalty. This rate is 5-10 points lower than Knox would expect to find in a nation with a history of prolific oil production and industry-friendly stakeholders, but Ligeria had – and has – neither. As a result, Knox Management feels a fair initial proposal would be to freeze the royalty rate of 15% and production share of 10%. Knox could accept a royalty rate as high as 20%, provided Ligeria accepts a lower share of the production from the well (10-15% for example). However, if Ligeria is insistent on Knox forming a partnership with the NOC, then the royalty and production share under the PSC would need to decrease because Ligeria would essentially be "double dipping" by receiving a percentage of the oil and gas production though the PSC and also the NOC partnership. After all, Knox will be doing all of the costly work to find and produce the valuable hydrocarbons that, up to this point, Ligeria has neglected to collect.

Decommissioning Fund/Plan

Because of its experience in jurisdictions with more established regulations surrounding offshore oil and gas development (specifically the Gulf of Mexico and the North Sea), dealing with decommissioning obligations is nothing new to Knox. As a result, Knox feels it has a better understanding of what terms and conditions are in line with the global market for such obligations, and feels what is good enough for the United Kingdom and the United States (namely, insurance policies in an amount sufficient to cover decommissioning costs and environmental remediation in the event a company is insolvent) should be acceptable to the Ligerian government. Knox would prefer to be obligated only to decommission the well at the end of its useful lifespan, and once Ligerian regulators have inspected the work and signed-off on the quality of the job, Knox believes its obligations should end there.

Such an event is so far in the future that exact costs cannot reasonably be determined, so Knox believes any fee per barrel of oil produced is unreasonable. Further, Knox anticipates producing nearly a billion barrels of oil from this field, and the size of the fund would quickly exceed the actual amount needed to perform the work by a large margin. Knox is willing to accept the obligation to pay for the cost of plugging and decommissioning the well, but will not consider paying anything into a decommissioning fund. If it is a deal breaker, Knox is willing to obtain an insurance policy to cover any subsequent environmental issues for three to five years after decommissioning. Finally, if Ligeria forces Knox to accept the new Ligerian NOC as a partner in the field, Knox feels strongly that the NOC should bear its proportionate share of costs for decommissioning, just as any other partner would be required to do.

Confidential Information for the Lawyers Representing Ligeria

The Government of Ligeria is facing massive budget deficits in the near future, due primarily to falling demand for its agricultural exports in the international marketplace. Exports of basic agrarian items make up a significant portion of the Ligerian 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, while at the same time protecting Ligeria's pristine beaches which drive tourist dollars to the treasury. For the first goal, further developing the oil and gas sector is perceived as an appealing option for several reasons: 1) the high geologic prospectivity of offshore basins around Ligeria; 2) a desire for resource independence, and an avoidance of dependence on imports; and 3) and production of a domestic resource that can provide significant socio-economic benefits to Ligeria. At the same time, however, the nascent oil and gas industry has been targeted by protestors who worry that the purported link between carbon emissions and rising sea levels means that the industry seen by some to be the savior of Ligeria's economy will end up destroying the picturesque beaches and the tourist accommodations nearby.

The new President is sympathetic to these concerns and does not feel her reelection is likely if she does not take steps to assuage the protestors' fears. Finally, Ligeria is not enthusiastic about escalating this renegotiation to the point that Knox attempts to utilize the dispute resolution provisions of the PSC to have the matter settled via international arbitration. If Ligeria is successful in keeping any litigation in its own courts, it has an obvious advantage, but even in that case the optics of a country litigating/arbitrating against its first successful oil and gas investor are unsavory to the President, who would not be pleased with the negotiation team if other companies refuse to consider investing in Ligeria for fear of meeting the same fate.

Finally, while the successful discovery by Knox provides a strong incentive for them to try to keep their project in Ligeria, there is a real risk that Knox would simply decline to accept the terms of the renegotiation and just walk away. With only one well drilled, their sunk costs would be painful, but not enough to justify decades of disadvantageous new terms. Such a public spectacle would be disastrous for Ligeria's reputation and economy. Ligeria could in effect "evict" Knox and expropriate the assets – and Knox's negotiating team likely knows it – but projects like this one have decades-long lifespans, and bluffing at this level can mean years of a strained and unsatisfying partnership between IOC and host government.

Development Plan

The Minister of Energy is skeptical of those who insist that the world's energy needs will be supplied by renewable sources, and believes that a plentiful and well-diversified supply of oil and gas is the best insurance Ligeria will ever have against energy insecurity and the economic pain that often accompanies spikes in fossil fuel commodity prices. While the Minister does not dispute that a single successful Exploration Well is sufficient to satisfy the terms of the initial contract, she does not believe Knox – or any IOC – is likely to drill as many Development Wells as the country needs to mitigate its economic and strategic challenges. The Minister proposes that the area covered by the license held by Knox be divided into four equivalent parcels, and that Knox be required to drill a Development Well in each of the four parcels. Should Knox refuse, the Minister suggests that Knox should be required to relinquish the non-drilled parcel. While Knox is likely to view this as punitive, the Ministry insists that it is not; it is simply a way to ensure Ligeria's natural resources are developed as quickly and efficiently as possible. The Ministry intends to make the relinquished parcels available for a bid round so that other interested IOCs will be able to negotiate for the right to develop those areas which Knox refuses to drill, but Knox's history with Ligeria does buy some good will, and the government would be willing to guarantee Knox that no competitor would be allowed to conduct operations within a reasonable distance of Knox's wells as a measure to help safeguard Knox's intellectual property.

The Minister would ideally like you to get a commitment from Knox to drill at least three more wells (the Exploration Well would count as one of the four total wells the Minister desires) but is willing to accept two additional wells to facilitate an agreement with Knox. However, it can't be expected to forego too much of the opportunity to develop the prospect area and is prepared to offer the relinquished areas to other companies despite Knox's likely objection over the resulting close proximity of industry competitors.

Mandatory State Participation

Knox has the potential to be a great part of Ligeria's economic recovery due to its successful well, but the President has no interest in being hostage to the investment whims of foreign companies. Ligeria should have its own National Oil Company, staffed by Ligerians, which will be able to compete head to head with any other company. At present, however, there is very little oil and gas expertise in the country. Therefore, the President proclaimed that the new NOC will "partner" with any IOC granted an exploration, development or production license in Ligeria as a condition of the grant. The Ligerian NOC will work alongside foreign workers on each prospect, and therefore will learn the industry from the bottom up by on-the-job training. This will provide jobs for Ligerian citizens – alleviating the climbing unemployment rate – in prestigious STEM fields like engineering and geology and will ultimately reduce Ligeria's dependence on the foreign companies to provide the labor and expertise necessary to ensure Ligeria's energy needs are met.

Ligeria's new NOC should be awarded some percentage of the project, possibly less at first as the employees find their feet – but ideally greater than 10% in order to hold a meaningful stake. Ligeria is willing to pay for its share of the costs (for example, Ligeria would cover 10% of the costs of the project if it owns a 10% share) however, the costs at the beginning of any oil and gas project can be truly exorbitant. Therefore, Ligeria would need Knox to carry some of the NOC's costs for a period of time as a condition of being allowed to develop the oil and gas fields off Ligeria's coast.

Royalty and Production Sharing

The new Finance Minister is of the opinion that royalties are the easiest way to raise significant amounts of governmental income and is therefore in favor of increasing the royalty as much as possible. At the same time, increasing Ligeria's share of Knox's production would provide greater security for power generation in the population centers and enable more rapid development of other industries, thus diversifying Ligeria's economy. Because of this, the Finance Minister has proposed a royalty rate of 25% and an increase of Ligeria's allocated production to 20%. The Minister feels that Knox will agree to higher royalties because of the high level of geologic prospectivity that exists in Ligeria (ironically, proven by Knox's successful well!), and the likelihood that Knox will not be granted any future contracts if they do not cooperate now. Knox has "de-risked" investment in Ligeria by proving to the world that oil and gas exists in abundant quantities there, and Knox's competitors are sure to follow soon.

Although the Minister's ideal outcome would be a 25% royalty and 20% production share, you are authorized to accept a 20% royalty and 15% production share if Knox refuses to allow the Ligerian NOC some percentage of the project. If you do succeed in negotiating a percentage of the project for the NOC, then you can certainly be even more flexible on the royalty/production share percentages since Ligeria would be receiving a percentage of oil and gas production through the NOC partnership as well.

<u>"Green" Technology/Climate Change Mitigation</u>

Ligeria's new government is keen to show its citizens that it is a good steward of the environment. Not only does this keep stakeholder/environmental activism in Ligeria's thriving tourism sector at bay, it is a good negotiating tactic for Ligeria's planned activities to attract yet more IOCs to develop its oil and gas resources. The United Nations looks favorably on governments which are learning to operate as eco-friendly as possible, and which impose strict regulations on visiting IOCs with regard to greenhouse gas emissions. Such favor from the UN means increased probability of receiving UN aid, which Ligeria could use to fund its development of its newly-formed NOC, thus providing foreign IOCs with a reliable and well-funded partner to develop oil fields off Ligeria's coast. The Ministry of Environmental Affairs is inexperienced in such matters, but understands Knox uses techniques it has developed to sequester greenhouse gas in the reservoirs it develops, and believes Knox should be required to use that technology in Ligeria as a show of good faith in exchange for being the first company allowed to drill for oil and gas in the nation. Ideally the NOC can benefit by learning the new technology directly from Knox for its own use in the future, but it recognizes that Knox may be reluctant to share its IP free of charge.

<u>Decommissioning Fund/Plan</u>

The Ministry of Energy is extremely eager to have E&P activities continue in Ligeria, but the Ministry of Environmental Affairs is keen to minimize the footprint companies like Knox will leave behind once projects like this one are finished. As a result, the Ministries have agreed that Knox, at a minimum, must be responsible for paying the cost of plugging and abandoning the well once Ligerian regulators have inspected the work and signed-off on the quality of the job. Ideally, it would also like Knox to pay $2 to $4 per barrel of oil produced into a decommissioning fund, which Ligeria will be able to access in the event that Knox is unable to fulfill these obligations. Oil companies are just as likely as any other corporations to find themselves in bankruptcy, and Ligeria is keen to insulate itself against any poor management choices or commodity price downturns which would render Knox unwilling or unable to meet its decommissioning obligations in the future. Ligeria realizes that once Knox's operations in the country are complete, any lingering liabilities will be difficult to enforce against Knox. Therefore, the Minister believes Knox should maintain sufficient insurance for any environmental remediation costs (should the well begin to leak hazardous substances) for at least five years after the project ends.