



United States Department of the Interior



MINERALS MANAGEMENT SERVICE

Gulf of Mexico OCS Region
1201 Elmwood Park Boulevard
New Orleans, Louisiana 70123-2394

OCS-G 33597

Offering Date 03/17/2010
Map Area and Block Number LA3 - Vermilion Area - 179

DECISION

Rental \$3,829.00
Balance of Bonus \$220,400.00

Total Amount Due \$224,229.00

Montecito Offshore L.L.C.
909 Poydras Street
Suite 2200
New Orleans, Louisiana 70012

LEASE FORMS TRANSMITTED FOR EXECUTION

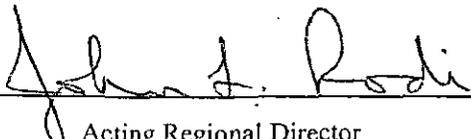
Pursuant to Section 8 of the Outer Continental Shelf Lands Act (67 Stat. 462; 43 U.S.C. 1337) as amended (92 Stat. 629), and the regulations pertaining thereto (30 CFR 256), your bid for the above block is accepted. Accordingly, in order to perfect your rights hereunder, the following actions must be taken:

1. Execute and return the three copies of attached lease. *(If lease is executed by an agent, evidence must be furnished of agent's authorization.)*
2. Pay the balance of bonus and the first year's rental indicated above in accordance with the attached Instructions for Electronic Transfer. Payment must be received by the Federal Reserve Bank of New York no later than noon, eastern standard time, on the 11th business day after receipt of this decision (30 CFR 256.47). That day is **June 9, 2010**.
3. Comply with bonding requirements according to 30 CFR 256, Subpart I.

Montecito Offshore L.L.C.

Compliance with requirements 1, 2, and 3 above must be made not later than the 11th business day after receipt of this decision. Failure to comply with above requirements will result in forfeiture of the 1/5 bonus deposit and your rights to acquire the lease.

IMPORTANT: *The lease form requires the attachment of the CORPORATE SEAL to all leases executed by corporations.*



Acting Regional Director

Attachments

Date May 21, 2010



UNITED STATES
DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE

OIL AND GAS LEASE OF SUBMERGED LANDS
UNDER THE OUTER CONTINENTAL SHELF LANDS ACT

Paperwork Reduction Act of 1995 statement: *This form does not constitute an information collection as defined by 44 U.S.C. 3501 et seq., and therefore does not require approval by the Office of Management and Budget.*

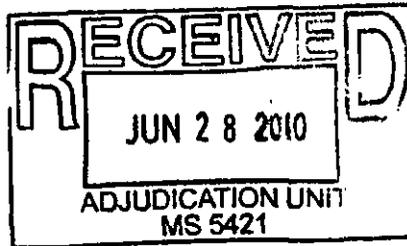
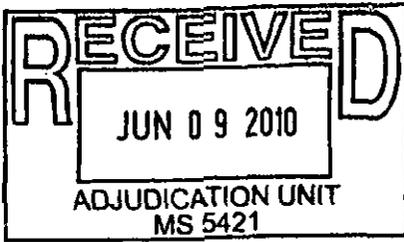
Office New Orleans, LA	Serial number OCS-G 33597
Cash bonus \$275,500.00	Rental rate per acre, hectare or fraction thereof See Addendum
Minimum royalty rate per acre, hectare or fraction thereof \$7.00 per acre	Royalty rate 18 3/4 percent Profit share rate

JUL 01 2010

This lease is effective as of **five** years (hereinafter called the "Initial Period") by and between the United States of America (hereinafter called the "Lessor"), by the Regional Director, Gulf of Mexico OCS Region, Minerals Management Service, its authorized officer, and

Montecito Offshore L.L.C.

100%



(hereinafter called the "Lessee"). In consideration of any cash payment heretofore made by the Lessee to the Lessor and in consideration of the promises, terms, conditions, and covenants contained herein, including the Stipulation(s) numbered **3 and 8** attached hereto, the Lessee and Lessor agree as follows:

Sec. 1. Statutes and Regulations. This lease is issued pursuant to the Outer Continental Shelf Lands Act of August 7, 1953; 43 U.S.C.1331 et seq., as amended, (hereinafter called "the Act"). This lease is subject to the Act, regulations promulgated pursuant thereto, and other statutes and regulations in existence upon the Effective Date of the lease, and those statutes enacted and regulations promulgated thereafter, except to the extent they are inconsistent with an express provision of this lease.

In accordance with the regulations at 2 CFR, part 180, and 2 CFR, part 1400, the Lessee must comply with the U.S. Department of the Interior's debarment and suspension (nonprocurement) requirements and must communicate this requirement to comply with these regulations to all persons with whom the Lessee does business as it relates to this lease by including this term as a condition when entering into contracts and transactions with others.

Sec. 2. Rights of Lessee. The Lessor hereby grants and leases to the Lessee the exclusive right and privilege to drill for, develop, and produce oil and gas resources, except helium gas, in the submerged lands of the Outer Continental Shelf containing approximately **546.875000** acres or hectares (hereinafter referred to as the "leased area"), described as follows:

NE1/4NE1/4; NE1/4NE1/4SE1/4; E1/2SE1/4NE1/4 of Block 179, Vermilion Area, OCS Leasing Map, Louisiana Map No. 3.

This lease is amended by addendum pursuant to the Final Notice of Sale for OCS Oil and Gas Lease Sale 213. The addendum shall become a part of the lease and supersede any inconsistent provisions of the lease form.

These rights include:

(a) the nonexclusive right to conduct within the leased area geological and geophysical explorations in accordance with applicable regulations;

(b) the nonexclusive right to drill water wells within the leased area, unless the water is part of geopressured-geothermal and associated resources, and to use the water produced therefrom for operations pursuant to the Act free of cost, on the condition that the drilling is conducted in accordance with procedures approved by the Director of the Minerals Management Service or the Director's delegate (hereinafter called the "Director"); and

(c) the right to construct or erect and to maintain within the leased area artificial islands, installations, and other devices permanently or temporarily attached to the seabed and other works and structures necessary to the full enjoyment of the lease, subject to compliance with applicable laws and regulations.

Sec. 3. Term. ~~This lease shall continue from the Effective Date of the lease for the Initial Period and so long thereafter as oil or gas is produced from the leased area in paying quantities, or drilling or well reworking operations, as approved by the Lessor, are conducted thereon, or as otherwise provided by regulation. See attached Lease Addendum for Term, under Sec. 3.~~

Sec. 4. Rentals. ~~The Lessee shall pay the Lessor, on or before the first day of each lease year which commences prior to a discovery in paying quantities of oil or gas on the leased area, a rental as shown on the face hereof, or attached addendum. During the time period in which a lease is classified as producible, i.e., following a discovery in paying quantities, but before royalty-bearing production begins, the Lessee shall pay the Lessor a rental, equal to the minimum royalty, as shown on the face hereof, which is paid at the end of each lease year until the start of royalty-bearing production. See attached Lease Addendum for Rentals, under Sec. 4.~~

Sec. 5. Minimum Royalty. ~~The Lessee shall pay the Lessor, at the expiration of each lease year which commences after the start of royalty-bearing production, and notwithstanding any royalty suspension which may apply, a minimum royalty as shown on the face hereof, or attached addendum, with credit applied for actual royalty paid during the lease year. If actual royalty paid exceeds the minimum royalty requirement, then no minimum royalty payment is due. See attached Lease Addendum for Minimum Royalty, under Sec. 5.~~

Sec. 6. Royalty on Production.

(a) The Lessee shall pay a royalty as shown on the face hereof in amount or value of production saved, removed, or sold from the leased area. Gas (except helium) and oil of all kinds are subject to royalty. The Lessee is liable for royalty payments on oil or gas lost or wasted from a lease site when such loss or waste is due to negligence on the part of the operator of the lease, or due to the failure to comply with any rule or regulation, order, or citation issued under the Federal Oil and Gas Royalty Management Act of 1982 or the Act. The Lessor shall determine whether production royalty shall be paid in amount or value.

(b) The value of production for purposes of computing royalty on production from this lease shall never be less than the fair market value of the production. The value of production shall be the estimated reasonable value of the production as determined by the Lessor, due consideration being given to the highest price paid for a part or for a majority of production of like quality in the same field or area, to the price received by the Lessee, to posted prices, to regulated prices, and to other relevant matters. Except when the Lessor, in its discretion, determines not to consider special pricing relief from otherwise applicable Federal regulatory requirements, the value of production for

the purposes of computing royalty shall not be deemed to be less than the gross proceeds accruing to the Lessee from the sale thereof. In the absence of good reason to the contrary, value computed on the basis of the highest price paid or offered at the time of production in a fair and open market for the major portion of like quality products produced and sold from the field or area where the leased area is situated will be considered to be a reasonable value.

(c) When paid in value, royalties on production shall be due and payable monthly on the last day of the month next following the month in which the production is obtained, unless the Lessor designates a later time. When paid in amount, such royalties shall be delivered at pipeline connections or in tanks provided by the Lessee. Such deliveries shall be made at reasonable times and intervals and, at the Lessor's option, shall be effected either (i) on or immediately adjacent to the leased area, without cost to the Lessor, or (ii) at a more convenient point closer to shore or on shore, in which event the Lessee shall be entitled to reimbursement for the reasonable cost of transporting the royalty substance to such delivery point. See attached Lease Addendum for Royalty Suspension Provisions, under Sec. 6.

Sec. 7. Payments. The Lessee shall make all payments (rentals, royalties and any other payments required by this lease) to the Lessor by electronic transfer of funds, check, draft on a solvent bank, or money order unless otherwise provided by regulations or by direction of the Lessor. Rentals, royalties, and any other payments required by this lease shall be made payable to the Minerals Management Service and tendered to the Director. Determinations made by the Lessor as to the amount of payment due shall be presumed to be correct and paid as due.

Sec. 8. Bonds. The Lessee shall maintain at all times the bond(s) required by regulation prior to the issuance of the lease and shall furnish such additional security as may be required by the Lessor if, after operations have begun, the Lessor deems such additional security to be necessary.

Sec. 9. Plans. The Lessee shall conduct all operations on the leased area in accordance with approved exploration plans and approved development and production plans as are required by regulations. The Lessee may depart from an approved plan only as provided by applicable regulations.

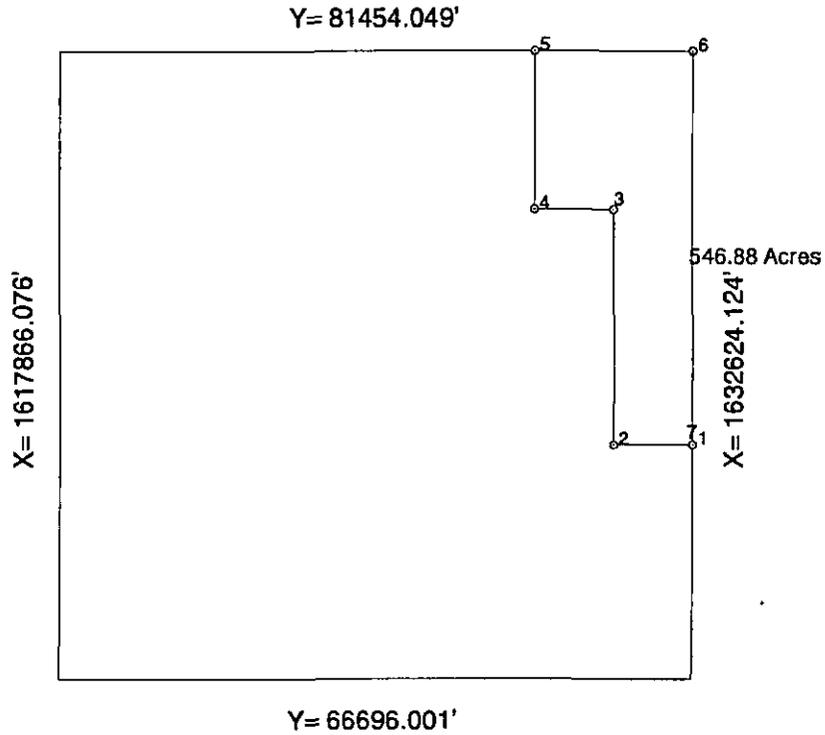
Sec. 10. Performance. The Lessee shall comply with all regulations and Orders. After due notice in writing, the Lessee shall drill such wells and produce at such rates as the Lessor may require in order that the leased area or any part thereof may be properly and timely developed and produced in accordance with sound operating principles.

Sec. 11. Directional Drilling. A directional well drilled under the leased area from a surface location on nearby land not covered by this lease shall be deemed to have the same effect for all purposes of the lease as a well drilled from a surface location on the leased area. In those circumstances, drilling shall be considered to have been commenced on the leased area when drilling is commenced on the nearby land for the purpose of directionally drilling under the leased area, and production of oil or gas from the leased area through any directional well surfaced on nearby land or drilling or reworking of any such directional well shall be considered production or drilling or reworking operations on the leased area for all purposes of the lease. Nothing contained in this Section shall be construed as granting to the Lessee any interest, license, easement, or other right in any nearby land.

**UNITED STATES DEPARTMENT OF INTERIOR
MINERALS MANAGEMENT SERVICE
OCS BLOCK DIAGRAM**

SALE NO. 213
DATE 17-MAR-2010

OPD NAME Vermillion Area
OPD NO. LA3
BLOCK NO. 179
OCS LEASE NO. G33597



NE1/4NE1/4; NE1/4NE1/4SE1/4; E1/2SE1/4NE1/4

	X INTERSECTIONS	Y	X ARC CENTERS	Y
1	1,632,624.124'	72,230.269'		
2	1,630,779.368'	72,230.269'		
3	1,630,779.368'	77,764.537'		
4	1,628,934.612'	77,764.537'		
5	1,628,934.612'	81,454.049'		
6	1,632,624.124'	81,454.049'		
7	1,632,624.124'	72,230.269'		

THE COORDINATE VALUES APPEARING ON THIS DOCUMENT WERE DERIVED USING NORTH AMERICAN DATUM 1927

**Sale 213 Lease Addendum – RS20
Leases in Water Depths from 0 – <200 Meters**

This lease is amended by addendum pursuant to the Final Notice of Sale for OCS Oil and Gas Lease Sale 213. The addendum shall become a part of the lease and supersede any inconsistent provisions of the lease form.

Sec. 3. Term.

This lease shall continue from the effective date of the lease for the initial period and so long thereafter as oil or gas is produced from the leased area in paying quantities, or drilling or well reworking operations, as approved by the Lessor, are conducted thereon, or as otherwise provided by regulation.

The 5-year initial lease term for this lease may be extended to 8 years if a well, targeting hydrocarbons below 25,000 feet true vertical depth subsea (TVD SS), is spudded within the first 5 years of the initial lease term. The 3-year extension will be granted in cases where the well is drilled to a target below 25,000 feet TVD SS and may also be in cases where the well does not reach a depth below 25,000 feet TVD SS due to mechanical or safety reasons.

In order for the 5-year initial lease term to be extended to 8 years, the lessee is required to submit to the Regional Supervisor for Production and Development, within 30 days after completion of the drilling operation, a letter providing the well number, spud date, information demonstrating the target below 25,000 feet TVD SS, and, if applicable, any safety or mechanical problems encountered that prevented the well from reaching a depth below 25,000 feet TVD SS. The Regional Supervisor must concur in writing that the conditions have been met to extend the lease term 3 years. The Regional Supervisor will provide written confirmation of any lease extension within 30 days of receipt of the letter provided.

For any lease that has a well spudded in the first 5 years of the initial lease term with a hydrocarbon target below 25,000 feet TVD SS, the regulations found at 30 CFR 250.175 will not be applicable at the end of the 5th year.

For any lease that does not have a well spudded in the first 5 years of the initial lease term that targets hydrocarbons below 25,000 feet TVD SS, suspensions authorized by the regulations then in effect will be available, but the 3-year extension will not be available. Before the end of the 8th year, the lessee may seek a suspension under the regulations then in effect.

Sec. 4. Rentals.

Annual rentals are to be paid at the rental rates summarized in the following table on or before the 1st day of each lease year until determination of well producibility is made, then at the expiration of each lease year until the start of royalty-bearing production.

Rental Rates per Acre or Fraction Thereof	
Lease Years	Annual Rental Rate
1-5	\$7.00
Extended Lease Year No.	Escalating Annual Rental Rate
6	\$14.00
7	\$21.00
8+	\$28.00

If this lease is granted a 3-year extension beyond the 5-year initial period as provided above, the lessee will pay an escalating rental rate. The escalating rental rates after the 5th year will become fixed and no longer escalate if another well is spudded during the 3-year extended term of the lease that targets hydrocarbons below 25,000 feet TVD SS, and MMS concurs that this has occurred. In this case the rental rate will become fixed at the rental rate in effect during the lease year in which the additional well was spudded.

Sec. 5. Minimum Royalty.

Minimum royalty of \$7.00 per acre or fraction thereof per year is to be paid at the expiration of each lease year beginning in the year in which royalty-bearing production commences, and continuing thereafter regardless of either the lease year or whether any royalty suspension may apply. A credit will be applied for any actual royalty paid on this lease during the lease year in which minimum royalty is owed on this lease. If the actual royalty paid on this lease for a given lease year exceeds the minimum royalty otherwise owed, then no minimum royalty payment is due.

Sec. 6. Royalty on Production.

Notwithstanding the language in Sec. 6 of the lease instrument, this lease may be eligible for royalty relief for ultra-deep wells pursuant to 30 CFR 203.0 and 30 CFR 203.30-203.49. The regulations provide a deep gas incentive, as follows:

- a royalty suspension volume (RSV) of 35 billion cubic feet of natural gas for certain wells completed in a drilling depth category (20,000 feet TVD SS or deeper) for leases in 0 to less than 400 meters of water.

This RSV incentive is conditional on applicable price thresholds.

Stipulation No. 3 - Military Areas

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 that occur in, on, or above the Outer Continental Shelf (OCS), and 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 (U.S.) 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 U.S. Government, its contractors or subcontractors, or any of its officers, agents, or employees. The lessee further agrees to indemnify and save harmless the U.S. Government against all claims for loss, damage, or injury sustained by the lessee, or to indemnify and save harmless the U.S. Government 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 U.S. Government, 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, a 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.

Warning Area

W-59

Command Headquarters

Naval Air Station.
JRB 159 Fighter Wing
400 Russell Avenue, Box 27
Building 285
New Orleans, Louisiana 70143-0027
Telephone: (504) 391-8695/8696 (Operations)

Stipulation No. 8 - Protected Species

The Outer Continental Shelf Lands Act (OCSLA) at 43 U.S.C. 1333 extends the laws of the U.S. Government to the subsoil and seabed of the OCS and to all artificial islands, and all installations and other devices erected thereon for the purpose of exploring for, developing, producing resources, or transporting such resources. The laws of the U.S. Government include the Endangered Species Act and the Marine Mammal Protection Act, which are designed to protect threatened and endangered species and marine mammals. The OCSLA at 43 U.S.C. 1332 also requires expeditious and orderly development of the OCS, subject to environmental safeguards. The MMS implements those laws in 30 CFR Part 250, Subpart A (250.101, 250.106) and Subpart B Plans and Information ("implementing regulations").

In response to these laws and MMS implementing regulations, the lessee and its operators must:

(a) collect and remove flotsam resulting from activities related to exploration, development, and production of this lease;

(b) 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) observe for marine mammals and sea turtles while on vessels, reduce vessel speed to 10 knots or less when assemblages of cetaceans are observed, and maintain a distance of 90 meters or greater from whales, and a distance of 45 meters or greater from small cetaceans and sea turtles;

(d) employ mandatory mitigation measures prescribed by MMS or National Oceanic and Atmospheric Administration for all seismic surveys including the use of an "exclusion zone" based upon the appropriate water depth, ramp-up and shutdown procedures, visual monitoring, and reporting;

(e) immediately report all sightings and locations of injured or dead protected species (marine mammals and sea turtles) to the appropriate stranding network. If oil and gas industry activity is responsible for the injured or dead animal (e.g., because of a vessel strike), the responsible parties should remain available to assist the stranding network. If the injury or death was caused by a collision with the lessee's vessel, the lessee must notify MMS within 24 hours of the strike; and

(f) identify important habitats, including designated critical habitat, used by listed species (e.g., sea turtle nesting beaches, piping plover critical habitat), in oil spill contingency planning 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.

The lessee and its operators, personnel, and subcontractors are responsible for carrying out the specific mitigation measures outlined in the most current MMS Notices to Lessees, which interpret requirements in the above-mentioned implementing regulations.

Sec. 12. Safety and Inspection Requirements. The Lessee shall:
(a) maintain all places of employment within the leased area in compliance with occupational safety and health standards and, in addition, free from recognized hazards to employees of the Lessee or of any contractor or subcontractor operating within the lease area;
(b) maintain all operations within the leased area in compliance with regulations or orders intended to protect persons, property and the environment on the Outer Continental Shelf; and
(c) allow prompt access, at the site of any operation subject to safety regulations, to any authorized Federal inspector and shall provide any documents and records which are pertinent to occupational or public health, safety, or environmental protection as may be requested.

Sec. 13. Suspension and Cancellation.
(a) The Lessor may suspend or cancel this lease pursuant to section 5 of the Act, and compensation shall be paid when provided by the Act.
(b) The Lessor may, upon recommendation of the Secretary of Defense, during a state of war or national emergency declared by Congress or the President of the United States, suspend operations under the lease, as provided in section 12(c) of the Act, and just compensation shall be paid to the Lessee for such suspension.

Sec. 14. Indemnification. The Lessee shall indemnify the Lessor for, and hold it harmless from, any claim, including claims for loss or damage to property or injury to persons caused by or resulting from any operation on the leased area conducted by or on behalf of the Lessee. However, the Lessee shall not be held responsible to the Lessor under this section for any loss, damage, or injury caused by or resulting from:
(a) negligence of the Lessor other than the commission or omission of a discretionary function or duty on the part of a Federal Agency whether or not the discretion involved is abused; or
(b) the Lessee's compliance with an order or directive of the Lessor against which an administrative appeal by the Lessee is filed before the cause of action for the claim arises and is pursued diligently thereafter.

Sec. 15. Disposition of Production.
(a) As provided in section 27(a)(2) of the Act, the Lessor shall have the right to purchase not more than $16 \frac{2}{3}$ percent by volume of the oil and gas produced pursuant to the lease at the regulated price or, if no regulated price applies, at the fair market value at the wellhead of the oil and gas saved, removed, or sold, except that any oil or gas obtained by the Lessor as royalty or net profit share shall be credited against the amount that may be purchased under this subsection.
(b) Pursuant to section 27(b) and (c) of the Act, the Lessor may offer and sell certain oil and gas obtained or purchased pursuant to a lease. As provided in section 27(d) of the Act, the Lessee shall take any Federal oil or gas for which no acceptable bids are received, as determined by the Lessor, and which is not transferred to a Federal Agency pursuant to section 27(a)(3) of the Act, and shall pay to the Lessor a cash amount equal to the regulated price or, if no regulated price applies, the fair market value of the oil or gas so obtained.
(c) As provided in section 8(b)(7) of the Act, the Lessee shall offer 20 percent of the crude oil, condensate, and natural gas liquids produced on the lease, at the market value and point of delivery as provided by regulations applicable to Federal royalty oil, to small or independent refiners as defined in the Emergency Petroleum Allocation Act of 1973.
(d) In time of war or when the President of the United States shall so prescribe, the Lessor shall have the right of first refusal to purchase at the market price all or any portion of the oil or gas produced from the leased area, as provided in section 12(b) of the Act.

Sec. 16. Unitization, Pooling, and Drilling Agreements. Within such time as the Lessor may prescribe, the Lessee shall subscribe to and operate under a unit, pooling, or drilling agreement embracing all or part of the lands subject to this lease as the Lessor may determine to be appropriate or necessary. Where any provision of a unit, pooling, or drilling agreement, approved by the Lessor, is inconsistent with a provision of this lease, the provision of the agreement shall govern.

Sec. 17. Equal Opportunity Clause. During the performance of this lease, the Lessee shall fully comply with paragraphs (1) through (7) of section 202 of Executive Order 11246, as amended (reprinted in 41 CFR 60-1.4(a)), and the implementing regulations which are for the purpose of preventing employment discrimination against persons on the basis of race, color, religion, sex, or national origin. Paragraphs (1) through (7) of section 202 of Executive Order 11246, as amended, are incorporated in this lease by reference.

Sec. 18. Certification of Nonsegregated Facilities. By entering into this lease, the Lessee certifies, as specified in 41 CFR 60-1.8, that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments and that it does not and will not permit its employees to perform their services at any location under its control where segregated facilities are maintained. As used in this certification, the term "segregated facilities" means, but is not limited to, any waiting rooms, work areas, restrooms and washrooms, restaurants and other eating areas, timeclocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, or national origin, because of habit, local custom, or otherwise. The Lessee further agrees that it will obtain identical certifications from proposed contractors and subcontractors prior to award of contracts or subcontracts unless they are exempt under 41 CFR 60-1.5.

Sec. 19. Reservations to Lessor. All rights in the leased area not expressly granted to the Lessee by the Act, the regulations, or this lease are hereby reserved to the Lessor. Without limiting the generality of the foregoing, reserved rights included:
(a) the right to authorize geological and geophysical exploration in the lease area which does not unreasonably interfere with or endanger actual operations under the lease, and the right to grant such easements or rights-of-way upon, through, or in the leased area as may be necessary or appropriate to the working of other lands or to the treatment and shipment of products thereof by or under authority of the Lessor;
(b) the right to grant leases for any minerals other than oil and gas within the leased area, except that operations under such leases shall not unreasonably interfere with or endanger operations under this lease;
(c) the right, as provided in section 12(d) of the Act, to restrict operations in the leased area or any part thereof which may be designated by the Secretary of Defense, with approval of the President, as being within an area needed for national defense and, so long as such designation remains in effect, no operations may be conducted on the surface of the leased area or the part thereof included within the designation except with the concurrence of the Secretary of Defense. If operations or production under this lease within any designated area are suspended pursuant to this paragraph, any payments of rentals and royalty prescribed by this lease likewise shall be suspended during such period of suspension of operations and production, the term of this lease shall be extended by adding thereto any such suspension period, and the Lessor shall be liable to the Lessee for such compensation as is required to be paid under the Constitution of the United States.

Sec. 20. Transfer of Lease. The Lessee shall file for approval with the appropriate field office of the Minerals Management Service any instrument of assignment or other transfer of this lease, or any interest therein, in accordance with applicable regulations.

Sec. 21. Surrender of Lease. The Lessee may surrender this entire lease or any officially designated subdivision of the leased area by filing with the appropriate field office of the Minerals Management Service a written relinquishment, in triplicate, which shall be effective as of the date of filing. No surrender of this lease or of any portion of the leased area shall relieve the Lessee or its surety of the obligation to pay all accrued rentals, royalties, and other financial obligations or to abandon all wells on the area to be surrendered in a manner satisfactory to the Director.

Sec. 22. Removal of Property No longer Useful and upon Termination of Lease. The Lessee shall remove all devices, works, and structures from the premises when no longer useful to operations, but no later than 1 year after termination of this lease in whole or in part except as with the expressed permission of the Regional Supervisor. Such decommissioning operations shall be carried out in a safe and timely manner and in accordance with applicable laws and regulations. The Director may require decommissioning at any time. However, the Lessee may, with the approval of the Director, continue to maintain devices, works, and structures on the leased area for drilling or producing on other leases.

Sec. 23. Remedies in Case of Default.

(a) Whenever the Lessee fails to comply with any of the provisions of the Act, the regulations issued pursuant to the Act, or the terms of this

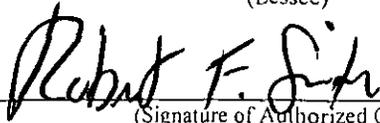
lease, the lease shall be subject to cancellation in accordance with the provisions of section 5(c) and (d) of the Act and the Lessor may exercise any other remedies which the Lessor may have, including the penalty provisions of section 24 of the Act. Furthermore, pursuant to section 8(o) of the Act, the Lessor may cancel the lease if it is obtained by fraud or misrepresentation.

(b) Nonenforcement by the Lessor of a remedy for any particular violation of the provisions of the Act, the regulations issued pursuant to the Act, or the terms of this lease shall not prevent the cancellation of this lease or the exercise of any other remedies under paragraph (a) of this section for any other violation or for the same violation occurring at any other time.

Sec. 24. Unlawful Interest. No member of, or delegate to, Congress, or Resident Commissioner, after election or appointment, or either before or after they have qualified and during their continuance in office, and no officer, agent, or employee of the Department of the Interior, except as provided in 43 CFR Part 20, shall be admitted to any share or part in this lease or derive any benefit that may arise therefrom. The provisions of Section 3741 of the Revised Statutes, as amended, 41 U.S.C. 22, and the Act of June 25, 1948, 62 Stat. 702, as amended, 18 U.S.C. 431-433, relating to contracts made or entered into, or accepted by or on behalf of the United States, form a part of this lease insofar as they may be applicable.

Montecito Offshore L.L.C.

(Lessee)



(Signature of Authorized Officer)

Robert F. Smith

(Name of Signatory)

Managing Member

(Title)

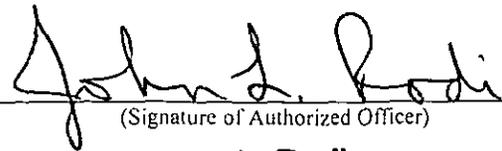
June 8, 2010

(Date)

909 Poydras Street, Suite 2200
New Orleans, Louisiana 70112

(Address of Lessee)

THE UNITED STATES OF AMERICA, Lessor



(Signature of Authorized Officer)

John L. Rodi

(Name of Signatory)

Acting Regional Director

(Title)

29 JUN 2010

(Date)

If this lease is executed by a corporation, it must bear the corporate seal



United States Department of the Interior



MINERALS MANAGEMENT SERVICE

Gulf of Mexico OCS Region
1201 Elmwood Park Boulevard
New Orleans, Louisiana 70123-2394

DEPARTMENT OF THE INTERIOR MINERALS MANAGEMENT SERVICE RECEIPT CONFIRMATION REPORT LIST FOR GULF OF MEXICO LEASE SALE 213

DCN: 060810

<u>OCS-G#</u>	<u>QUAL#</u>	<u>COMPANY</u>	<u>AMOUNT</u>
33551	00078	Chevron U.S.A. Inc.	\$641,569.60
33552	00078	Chevron U.S.A. Inc.	156,369.60
33554	00078	Chevron U.S.A. Inc.	6,159,169.60
33555	00078	Chevron U.S.A. Inc.	919,509.60
33559	00078	Chevron U.S.A. Inc.	317,489.60
33560	00078	Chevron U.S.A. Inc.	2,205,569.60
33561	00078	Chevron U.S.A. Inc.	444,449.60
33887	00078	Chevron U.S.A. Inc.	288,341.60
33579	02579	Tana Exploration Company LLC	202,991.20
33604	02579	Tana Exploration Company LLC	930,991.20
33597	03109	Montecito Offshore L.L.C.	224,229.00
33692	03065	Stone Energy Offshore, L.L.C.	559,365.00
33703	02417	ARENA ENERGY, LLC	367,752.00
33796	01364	Newfield Exploration Company	267,600.00
33798	01364	Newfield Exploration Company	351,600.00
33833	00724	Marathon Oil Company	469,365.60

TOTAL \$14,506,362.80

The above leases were **paid in full on June 08, 2010.**



SIGNATURE

Adjudication Assistant

TITLE

June 09, 2010

DATE

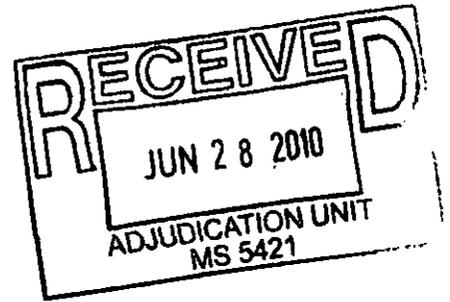
**TAKE PRIDE[®]
IN AMERICA** 

Montecito Offshore, L.L.C.

909 Poydras Street, Suite 2200

New Orleans, Louisiana 70112

(504) 525-6909



June 25, 2010

Ms. Susan B. Hooper
Land Law Examiner, Adjudication Unit
Department of the Interior
Minerals Management Service
Gulf of Mexico OCS Region
1201 Elmwood Park Blvd.
New Orleans, Louisiana 70123-2394

Re: Reference: MS 5421
Oil and Gas Lease
OCS-G 33597 - Vermilion Block 179

Dear Ms. Hooper:

Per your letter of June 17, 2010, the company's name and the signatory party's name has been corrected to match the qualifications documents.

In regards to the required bond, a DOO was filed on June 15, 2010, designating Virgin Offshore U.S.A., Inc. as operator, GOM 2427. The area wide bond already in place by Virgin Offshore U.S.A., Inc. should satisfy the bonding requirements. Please call me if you have any questions.

Yours truly,

A handwritten signature in cursive script that reads "Lori Montecino".

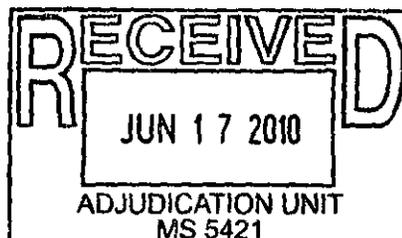
Lori Montecino

Enclosures

Montecito Offshore, L.L.C.

909 Poydras Street, Suite 2200
New Orleans, Louisiana 70112
(504) 525-6909

June 16, 2010



Department of the Interior
Minerals Management Service
Gulf of Mexico OCS Region (MS 5421)
1201 Elmwood Park Blvd.
New Orleans, Louisiana 70123-2394

Attn: Adjudication Department

Re: **Designation of Operator**
OCS-G 33597 - Vermilion Block 179

Dear Adjudication Department:

Enclosed are three (3) originals of the Designation of Operator for OCS-G 33597, Vermilion Block 179.
Also enclosed is one original each of Designation of Applicant and Designated Applicant Information
Certification for the same block.

In the event you have any questions or require additional information please do not hesitate to call.

Yours truly,

A handwritten signature in cursive script that reads "Lori Montecino".

Lori Montecino

Enclosures

Montecito Offshore, L.L.C.

909 Poydras Street, Suite 2200
New Orleans, Louisiana 70112
(504) 525-6909

June 8, 2010

Department of the Interior
Minerals Management Service
Gulf of Mexico OCS Region (MS 5421)
1201 Elmwood Park Blvd.
New Orleans, Louisiana 70123-2394

Attn: Adjudication Department

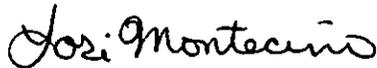
Re: Lease Forms
OCS-G 33597 - Vermilion Block 179

Dear Adjudication Department:

Enclosed are three (3) originals of the above referenced lease obtained in Lease Sale 213. The balance of the bonus and first year's rental will be wired to Minerals Management on Wednesday, June 9, 2010. The required bond will be forwarded to your office shortly, as we expect to receive it in the next few days.

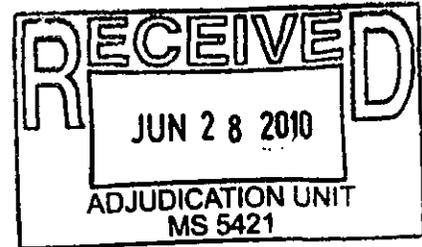
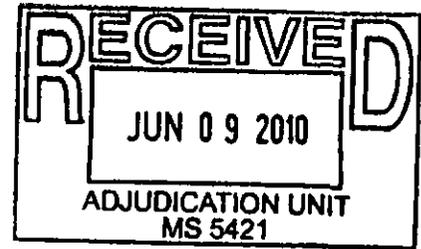
In the event you have any questions or require additional information please do not hesitate to call.

Yours truly,



Lori Montecino

Enclosures



BID FORM

Regional Director
Minerals Management Service, DOI
Gulf of Mexico OCS Region
1201 Elmwood Park Boulevard
New Orleans, Louisiana 70123-2394

Oil and Gas Lease Sale 213
Date of Lease Sale: March 17, 2010
Company Submitting Bid: Montecito Offshore
GOM Company Number: 3109 L.L.C.

Oil and Gas Lease Bid

It is understood that this bid legally binds the bidder(s) to comply with all applicable regulations, including paying the 1/5th bonus on all high bids, as provided in the Final Notice of Sale.

The following bid is submitted for an oil and gas lease on the area and block of the Outer Continental Shelf specified below:

Map Name	Map Number	Block Number	Amount Bid
<u>Vermilion</u>	<u>LA3</u>	<u>179</u>	<u>\$275,500</u>

GOM Company Number	Percent Interest	Company Name(s), Address(es), and Signature(s)
<u>3109</u>	<u>100</u>	<u>Montecito Offshore L.L.C.</u> <u>909 Poydras Street, Suite 2200</u> <u>New Orleans, Louisiana 70112</u>
		By: <u>Robert F. Smith</u> <u>Robert F. Smith, Managing Member</u>
		By: _____
		By: _____

3109

100

Montecito Offshore L.L.C.
909 Poydras Street, Suite 2200
New Orleans, Louisiana 70112

By: Robert F. Smith
Robert F. Smith, Managing Member

By: _____

By: _____

TOTAL: 100.00