
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2007

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 001-32936



HELIX ENERGY SOLUTIONS GROUP, INC.

(Exact name of registrant as specified in its charter)

Minnesota
*(State or other jurisdiction
of incorporation or organization)*

95-3409686
*(I.R.S. Employer
Identification No.)*

**400 North Sam Houston Parkway East
Suite 400
Houston, Texas**
(Address of principal executive offices)

77060
(Zip Code)

(281) 618-0400

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 31, 2007, 91,331,935 shares of common stock were outstanding.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements.**

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

| | June 30, 2007 (Unaudited) | December 31, 2006 |
|--|---------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 96,390 | \$ 206,264 |
| Short-term investments | 10,000 | 285,395 |
| Accounts receivable — | | |
| Trade, net of allowance for uncollectible accounts of \$1,740 and \$982, respectively | 311,849 | 287,875 |
| Unbilled revenue | 56,377 | 82,834 |
| Other current assets | 76,832 | 61,532 |
| Total current assets | <u>551,448</u> | <u>923,900</u> |
| Property and equipment | 3,167,825 | 2,721,362 |
| Less — accumulated depreciation | <u>(630,429)</u> | <u>(508,904)</u> |
| | 2,537,396 | 2,212,458 |
| Other assets: | | |
| Equity investments | 212,319 | 213,362 |
| Goodwill, net | 828,228 | 822,556 |
| Other assets, net | 137,758 | 117,911 |
| | <u>\$4,267,149</u> | <u>\$ 4,290,187</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 268,877 | \$ 240,067 |
| Accrued liabilities | 188,148 | 199,650 |
| Income tax payable | — | 147,772 |
| Current maturities of long-term debt | 26,165 | 25,887 |
| Total current liabilities | <u>483,190</u> | <u>613,376</u> |
| Long-term debt | 1,386,011 | 1,454,469 |
| Deferred income taxes | 476,094 | 436,544 |
| Decommissioning liabilities | 140,682 | 138,905 |
| Other long-term liabilities | 4,231 | 6,143 |
| Total liabilities | <u>2,490,208</u> | <u>2,649,437</u> |
| Commitments and contingencies | — | — |
| Minority interest | 73,152 | 59,802 |
| Convertible preferred stock | 55,000 | 55,000 |
| Shareholders' equity: | | |
| Common stock, no par, 240,000 shares authorized, 91,341 and 90,628 shares issued, respectively | 752,623 | 745,928 |
| Retained earnings | 866,306 | 752,784 |
| Accumulated other comprehensive income | 29,860 | 27,236 |
| Total shareholders' equity | <u>1,648,789</u> | <u>1,525,948</u> |
| | <u>\$4,267,149</u> | <u>\$ 4,290,187</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share amounts)

| | Three Months Ended June 30, | |
|--|--------------------------------|------------------|
| | 2007 | 2006 |
| Net revenues: | | |
| Contracting services | \$268,492 | \$223,903 |
| Oil and gas | <u>142,082</u> | <u>81,110</u> |
| | <u>410,574</u> | <u>305,013</u> |
| Cost of sales: | | |
| Contracting services | 182,464 | 133,710 |
| Oil and gas | <u>86,345</u> | <u>39,611</u> |
| | <u>268,809</u> | <u>173,321</u> |
| Gross profit | 141,765 | 131,692 |
| Gain on sale of assets | 5,684 | 16 |
| Selling and administrative expenses | <u>33,388</u> | <u>27,414</u> |
| Income from operations | 114,061 | 104,294 |
| Equity in earnings (losses) of investments, net of impairment charge | (4,748) | 4,520 |
| Net interest expense and other | <u>14,286</u> | <u>2,983</u> |
| Income before income taxes | 95,027 | 105,831 |
| Provision for income taxes | 33,261 | 35,887 |
| Minority interest | 3,119 | — |
| Net income | 58,647 | 69,944 |
| Preferred stock dividends | 945 | 805 |
| Net income applicable to common shareholders | <u>\$ 57,702</u> | <u>\$ 69,139</u> |
| Earnings per common share: | | |
| Basic | <u>\$ 0.64</u> | <u>\$ 0.88</u> |
| Diluted | <u>\$ 0.61</u> | <u>\$ 0.83</u> |
| Weighted average common shares outstanding: | | |
| Basic | <u>90,047</u> | <u>78,462</u> |
| Diluted | <u>95,991</u> | <u>83,965</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share amounts)

| | Six Months Ended June 30, | |
|---|------------------------------|------------------|
| | 2007 | 2006 |
| Net revenues: | | |
| Contracting services | \$533,580 | \$435,238 |
| Oil and gas | <u>273,049</u> | <u>161,423</u> |
| | <u>806,629</u> | <u>596,661</u> |
| Cost of sales: | | |
| Contracting services | 360,519 | 265,402 |
| Oil and gas | <u>168,730</u> | <u>97,301</u> |
| | <u>529,249</u> | <u>362,703</u> |
| Gross profit | 277,380 | 233,958 |
| Gain on sale of assets | 5,684 | 283 |
| Selling and administrative expenses | <u>63,988</u> | <u>48,442</u> |
| Income from operations | 219,076 | 185,799 |
| Equity in earnings of investments, net of impairment charge | 1,356 | 10,756 |
| Net interest expense and other | <u>27,298</u> | <u>5,440</u> |
| Income before income taxes | 193,134 | 191,115 |
| Provision for income taxes | 66,384 | 64,978 |
| Minority interest | 11,338 | — |
| Net income | 115,412 | 126,137 |
| Preferred stock dividends | 1,890 | 1,609 |
| Net income applicable to common shareholders | <u>\$113,522</u> | <u>\$124,528</u> |
| Earnings per common share: | | |
| Basic | <u>\$ 1.26</u> | <u>\$ 1.59</u> |
| Diluted | <u>\$ 1.21</u> | <u>\$ 1.51</u> |
| Weighted average common shares outstanding: | | |
| Basic | <u>90,021</u> | <u>78,216</u> |
| Diluted | <u>95,262</u> | <u>83,659</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

| | Six Months Ended June 30, | |
|--|------------------------------|------------------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 115,412 | \$ 126,137 |
| Adjustments to reconcile net income to net cash provided by operating activities — | | |
| Depreciation and amortization | 143,462 | 67,664 |
| Asset impairment charge | 904 | — |
| Dry hole expense | 116 | 20,654 |
| Equity in earnings of investments, net of distributions | 24 | (356) |
| Equity in (earnings) losses of OTSL, inclusive of impairment charge | 10,841 | (2,650) |
| Amortization of deferred financing costs | 1,522 | 969 |
| Stock compensation expense | 7,472 | 3,816 |
| Deferred income taxes | 36,477 | 29,120 |
| Gain on sale of assets | (5,684) | (283) |
| Excess tax benefit from stock-based compensation | (432) | (7,529) |
| Minority interest | 11,338 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 3,501 | (51,312) |
| Other current assets | 93 | (1,754) |
| Accounts payable and accrued liabilities | 3,655 | (20,658) |
| Income taxes payable | (162,044) | (5,557) |
| Other noncurrent, net | (42,966) | (8,936) |
| Net cash provided by operating activities | <u>123,691</u> | <u>149,325</u> |
| Cash flows from investing activities: | | |
| Capital expenditures | (431,482) | (125,794) |
| Acquisition of businesses, net of cash acquired | (136) | (78,174) |
| Investments in equity investments | (15,265) | (19,019) |
| Distributions from equity investments, net of equity in earnings of investments | 6,279 | — |
| Sale of short-term investments, net | 275,395 | — |
| Increase in restricted cash | (551) | (5,577) |
| Proceeds from sales of property | 4,339 | 16,782 |
| Net cash used in investing activities | <u>(161,421)</u> | <u>(211,782)</u> |
| Cash flows from financing activities: | | |
| Repayment of Senior Credit Facilities | (4,200) | — |
| Repayment of Cal Dive International, Inc. revolving credit facility | (61,000) | — |
| Repayment of MARAD borrowings | (1,888) | (1,798) |
| Deferred financing costs | (88) | (1,914) |
| Capital lease payments | (1,249) | (1,491) |
| Preferred stock dividends paid | (1,890) | (1,863) |
| Repurchase of common stock | (3,969) | (225) |
| Excess tax benefit from stock-based compensation | 432 | 7,529 |
| Exercise of stock options, net | 802 | 8,520 |
| Net cash (used in) provided by financing activities | <u>(73,050)</u> | <u>8,758</u> |
| Effect of exchange rate changes on cash and cash equivalents | 906 | 897 |
| Net decrease in cash and cash equivalents | (109,874) | (52,802) |
| Cash and cash equivalents: | | |
| Balance, beginning of year | 206,264 | 91,080 |
| Balance, end of period | <u>\$ 96,390</u> | <u>\$ 38,278</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Helix Energy Solutions Group, Inc. and its majority-owned subsidiaries (collectively, “Helix” or the “Company”). Unless the context indicates otherwise, the terms “we,” “us” and “our” in this report refer collectively to Helix and its majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. These condensed consolidated financial statements are unaudited, have been prepared pursuant to instructions for the Quarterly Report on Form 10-Q required to be filed with the Securities and Exchange Commission, and do not include all information and footnotes normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles.

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and are consistent in all material respects with those applied in our annual report on Form 10-K for the year ended December 31, 2006, as amended by our Form 10-K/A for the year ended December 31, 2006 filed on June 18, 2007 (“2006 Form 10-K”). The preparation of these financial statements requires us to make estimates and judgments that affect the amounts reported in the financial statements and the related disclosures. Actual results may differ from our estimates. Management has reflected all adjustments (which were normal recurring adjustments unless otherwise disclosed herein) that it believes are necessary for a fair presentation of the condensed consolidated balance sheets, results of operations and cash flows, as applicable. Operating results for the period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. Our balance sheet as of December 31, 2006 included herein has been derived from the audited balance sheet as of December 31, 2006 included in our 2006 Form 10-K. These condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto included in our 2006 Form 10-K.

Certain reclassifications were made to previously reported amounts in the condensed consolidated financial statements and notes thereto to make them consistent with the current presentation format.

Note 2 – Company Overview

We are an international offshore energy company that provides development solutions and other key services (contracting services operations) to the open market as well as to our own reservoirs (oil and gas operations). Our oil and gas business is a prospect generating, exploration, development and production company. By employing our own key services and methodologies in our reservoirs, we seek to lower finding and development costs relative to industry norms.

Contracting Services Operations

We seek to provide services and methodologies which we believe are critical to finding and developing offshore reservoirs and maximizing the economics from marginal fields. Those “life of field” services are organized in five disciplines: reservoir and well tech services, drilling, production facilities, construction and well operations. We have disaggregated our contracting services operations into three reportable segments in accordance with Statement of Financial Accounting Standard No. 131 *Disclosures about Segments of an Enterprise and Related Information* (“SFAS No. 131”): Contracting Services (which currently includes deepwater construction, well operations and reservoir and well tech services), Shelf Contracting, and Production Facilities. Within our contracting services operations, we operate primarily in the Gulf of Mexico, the North Sea and the Asia/Pacific regions, with services that cover the lifecycle of an offshore oil or gas field. Our Shelf Contracting segment, consists of our majority-owned subsidiary, Cal Dive International, Inc. (“Cal Dive” or “CDI”), including its 40% interest in Offshore Technology Solutions Limited (“OTSL”). For information related to the impairment of OTSL, see “—Note 8—Equity Investments.” In December 2006, Cal Dive completed an initial public offering of 22,173,000 shares of its stock. See “—Note 4 – Initial Public Offering of Cal Dive International, Inc.” below.

Oil and Gas Operations

In 1992 we began our oil and gas operations to provide a more efficient solution to offshore abandonment, to expand our off-season asset utilization and to achieve better returns than are likely to be generated through pure service contracting. Over the last 15 years we have evolved this business model to include not only mature oil and gas properties but also proved reserves yet to be developed, and most recently the properties of Remington Oil and Gas Corporation ("Remington"), an exploration, development and production company we acquired in July 2006. By owning oil and gas reservoirs and prospects, we are able to utilize the services we otherwise provide to third-parties to create value at key points in the life of our own reservoirs including during the exploration and development stages, the field management stage and the abandonment stage.

Note 3 – Statement of Cash Flow Information

We define cash and cash equivalents as cash and all highly liquid financial instruments with original maturities of less than three months. As of June 30, 2007 and December 31, 2006, we had \$34.2 million and \$33.7 million, respectively, of restricted cash included in other assets, net, all of which was related to funds required to be escrowed to cover decommissioning liabilities associated with the South Marsh Island 130 ("SMI 130") acquisition in 2002 by our Oil and Gas segment. We have fully satisfied the escrow requirement as of June 30, 2007. We may use the restricted cash for decommissioning the related field.

The following table provides supplemental cash flow information for the six months ended June 30, 2007 and 2006 (in thousands):

| | Six Months Ended June 30, | |
|---|------------------------------|----------|
| | 2007 | 2006 |
| Interest paid (net of capitalized interest) | \$ 32,047 | \$ 5,072 |
| Income taxes paid | \$191,950 | \$41,414 |

Non-cash investing activities for the six months ended June 30, 2007 and 2006 included \$3.0 million and \$62.6 million, respectively, of accruals for capital expenditures. The accruals have been reflected in the condensed consolidated balance sheet as an increase in property and equipment and accounts payable.

Note 4 – Initial Public Offering of Cal Dive International, Inc.

In December 2006, we contributed the assets of our Shelf Contracting segment into Cal Dive, our then wholly owned subsidiary. Cal Dive subsequently sold 22,173,000 shares of its common stock in an initial public offering and distributed the net proceeds of \$264.4 million to us as a dividend. In connection with the offering, CDI also entered into a \$250 million revolving credit facility. In December 2006, Cal Dive borrowed \$201 million under the facility and distributed \$200 million of the proceeds to us as a dividend. For additional information related to the Cal Dive credit facility, see "—Note 9 – Long-Term Debt" below. We recognized an after-tax gain of \$96.5 million, net of taxes of \$126.6 million, as a result of these transactions in 2006. CDI used the remaining proceeds for general corporate purposes.

In connection with the offering, together with CDI shares issued to CDI employees since the offering, our ownership of CDI decreased to approximately 73% as of June 30, 2007 and December 31, 2006. Subject to market conditions, we may sell additional shares of Cal Dive common stock in the future.

Further, in conjunction with the offering, the tax basis of certain of CDI's tangible and intangible assets was increased to fair value. The increased tax basis should result in additional tax deductions available to CDI over a period of two to five years. Under a Tax Matters Agreement between us and CDI,

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for a period of ten years from the closing of CDI's initial public offering, to the extent CDI generates taxable income sufficient to realize the additional tax deductions, CDI will be required to pay us 90% of the amount of tax savings actually realized from the step-up of the basis of certain assets. As of June 30, 2007 and December 31, 2006, we have a receivable from CDI of approximately \$8.8 million and \$11.3 million, respectively, related to the Tax Matters Agreement. For additional information related to the Tax Matters Agreement, see our 2006 Form 10-K.

Note 5 – Acquisition of Remington Oil and Gas Corporation

On July 1, 2006, we acquired 100% of Remington, an independent oil and gas exploration and production company headquartered in Dallas, Texas, with operations concentrated in the onshore and offshore regions of the Gulf Coast, for approximately \$1.4 billion in cash and stock and the assumption of \$357.8 million of liabilities. The merger consideration was 0.436 of a share of our common stock and \$27.00 in cash for each share of Remington common stock. On July 1, 2006, we issued 13,032,528 shares of our common stock to Remington stockholders and funded the cash portion of the Remington acquisition (approximately \$806.8 million) and transaction costs (approximately \$18.6 million) through borrowings under a credit agreement (see “— Note 9—Long-Term Debt” below).

The Remington acquisition was accounted for as a business combination with the acquisition price allocated to the assets acquired and liabilities assumed based upon their estimated fair values, with the excess being recorded in goodwill. The final valuation of net assets was completed in June 2007 with no material changes to our preliminary valuation. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

| | |
|---|---------------------------|
| Current assets | \$ 154,408 |
| Property and equipment | 863,935 |
| Goodwill | 711,656 |
| Other intangible assets(1) | 6,800 |
| Total assets acquired | <u>\$1,736,799</u> |
| Current liabilities | \$ 131,881 |
| Deferred income taxes | 204,096 |
| Decommissioning liabilities (including current portion) | 20,044 |
| Other non-current liabilities | 1,800 |
| Total liabilities assumed | <u>\$ 357,821</u> |
| Net assets acquired | <u>\$1,378,978</u> |

- (1) The intangible asset is related to a favorable drilling rig contract and to several non-compete agreements between the Company and certain members of senior management. The fair value of the drilling rig contract was \$5.0 million, with \$2.5 million reclassified into property and equipment for drilling of a certain successful exploratory well in March 2007. The remaining \$2.5 million was reclassified into property and equipment in July 2007 as the result of drilling another successful exploratory well. The fair value of the non-compete agreements was \$1.8 million, which is being amortized over the term of the agreements (three years) on a straight-line basis.

Note 6 – Oil and Gas Properties

We follow the successful efforts method of accounting for our interests in oil and gas properties. Under the successful efforts method, the costs of successful wells and leases containing productive reserves are capitalized. Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized. Costs incurred relating to unsuccessful exploratory wells are expensed in the period the drilling is determined to be unsuccessful.

At June 30, 2007, we had capitalized approximately \$144.7 million of exploratory drilling costs associated with ongoing exploration and/or appraisal activities. Such capitalized costs may be charged

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against earnings in future periods if management determines that commercial quantities of hydrocarbons have not been discovered or that future appraisal drilling or development activities are not likely to occur. The following table provides a detail of our capitalized exploratory project costs at June 30, 2007 and December 31, 2006 (in thousands):

| | June 30, 2007 | December 31, 2006 |
|--------------------------------------|-------------------|----------------------|
| Noonan(1) | \$ 83,421 | \$ 27,824 |
| Danny(1) | 15,286 | — |
| Huey | 11,570 | 11,378 |
| East Cameron 169 #1(1) | 8,481 | — |
| Castleton (part of <i>Gunnison</i>) | 7,070 | 7,070 |
| High Island A466 #1(1) | 6,785 | — |
| Vermilion 348 #1(1) | 5,342 | — |
| South Marsh Island 123 #1 | 5,306 | — |
| Other | 1,475 | 3,711 |
| Total | <u>\$ 144,736</u> | <u>\$ 49,983</u> |

(1) Wells have been or are currently being completed.

As of June 30, 2007, all of these exploratory well costs had been capitalized for a period of one year or less, except for Huey and Castleton. We are not the operator of Castleton.

The following table reflects net changes in suspended exploratory well costs during the six months ended June 30, 2007 (in thousands):

| | 2007 |
|--|-------------------|
| Beginning balance at January 1, | \$ 49,983 |
| Additions pending the determination of proved reserves | 151,973 |
| Reclassifications to proved properties | (57,104) |
| Charged to dry hole expense | (116) |
| Ending balance at June 30, | <u>\$ 144,736</u> |

Further, the following table details the components of exploration expense for the three and six months ended June 30, 2007 and 2006 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------|--------------------------------|-----------------|------------------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Delay rental | \$ 1,612 | \$ 126 | \$ 1,638 | \$ 290 |
| Geological and geophysical costs | 1,376 | (456) | 2,414 | 739 |
| Dry hole expense | (10) | — | 116 | 20,746 |
| Total exploration expense | <u>\$ 2,978</u> | <u>\$ (330)</u> | <u>\$ 4,168</u> | <u>\$ 21,775</u> |

We agreed to participate in the drilling of an exploratory well (Tulane prospect) that was drilled in first quarter 2006. This prospect targeted reserves in deeper sands within the same trapping fault system of a currently producing well. In March 2006, mechanical difficulties were experienced in the drilling of this well, and after further review, the well was plugged and abandoned. Approximately \$20.7 million related to this well was charged to earnings during the first half of 2006.

In December 2006, we acquired a 100% working interest in the *Camelot* oil field in the North Sea for the assumption of certain decommissioning liabilities estimated at approximately \$7.6 million. In June 2007, we sold a 50% working interest in this property for approximately \$1.8 million and the assumption by the purchaser of 50% of the decommissioning liability of approximately \$4.0 million. We recognized a gain of approximately \$1.6 million as a result of this sale.

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Note 7 – Details of Certain Accounts (in thousands)

Other current assets consisted of the following as of June 30, 2007 and December 31, 2006:

| | June 30, 2007 | December 31, 2006 |
|-----------------------------------|------------------|----------------------|
| Other receivables | \$ 3,214 | \$ 3,882 |
| Prepaid insurance | 4,399 | 17,320 |
| Other prepaids | 17,435 | 9,174 |
| Income tax receivable | 14,013 | — |
| Current deferred tax assets | 5,947 | 3,706 |
| Insurance claims to be reimbursed | 6,809 | 3,627 |
| Hedging assets | — | 5,202 |
| Gas imbalance | 7,435 | 4,739 |
| Spare parts inventory | 8,773 | 3,660 |
| Current notes receivable | — | 1,500 |
| Assets held for sale | — | 698 |
| Other | 8,807 | 8,024 |
| | <u>\$ 76,832</u> | <u>\$ 61,532</u> |

Other assets, net, consisted of the following as of June 30, 2007 and December 31, 2006:

| | June 30, 2007 | December 31, 2006 |
|--|-------------------|----------------------|
| Restricted cash | \$ 34,227 | \$ 33,676 |
| Deferred drydock expenses, net | 45,024 | 26,405 |
| Deferred financing costs | 27,232 | 28,257 |
| Intangible assets with definite lives, net | 17,247 | 20,783 |
| Intangible asset with indefinite life | 7,100 | 6,922 |
| Other | 6,928 | 1,868 |
| | <u>\$ 137,758</u> | <u>\$ 117,911</u> |

Accrued liabilities consisted of the following as of June 30, 2007 and December 31, 2006:

| | June 30, 2007 | December 31, 2006 |
|--------------------------------------|-------------------|----------------------|
| Accrued payroll and related benefits | \$ 21,445 | \$ 42,381 |
| Royalties payable | 78,079 | 67,822 |
| Current decommissioning liability | 29,615 | 28,766 |
| Insurance claims to be reimbursed | 6,809 | 3,627 |
| Accrued interest | 11,098 | 15,579 |
| Other | 41,102 | 41,475 |
| | <u>\$ 188,148</u> | <u>\$ 199,650</u> |

Note 8 – Equity Investments

As of June 30, 2007, we have the following material investments that are accounted for under the equity method of accounting:

- *Deepwater Gateway, L.L.C.* In June 2002, we, along with Enterprise Products Partners L.P. ("Enterprise"), formed Deepwater Gateway, L.L.C. ("Deepwater Gateway") (each with a 50% interest) to design, construct, install, own and operate a tension leg platform ("TLP") production

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hub primarily for Anadarko Petroleum Corporation's *Marco Polo* field in the Deepwater Gulf of Mexico. Our investment in Deepwater Gateway totaled \$113.3 million and \$119.3 million as of June 30, 2007 and December 31, 2006, respectively, and was included in our Production Facilities segment.

- *Independence Hub, LLC*. In December 2004, we acquired a 20% interest in Independence Hub, LLC ("Independence"), an affiliate of Enterprise. Independence owns the "Independence Hub" platform located in Mississippi Canyon block 920 in a water depth of 8,000 feet. The platform reached mechanical completion in May 2007. As a result, our performance guaranty related to Independence terminated in May 2007 with no further obligations. First production began in July 2007. Our investment in Independence was \$95.8 million and \$82.7 million as of June 30, 2007 and December 31, 2006, respectively (including capitalized interest of \$6.5 million and \$5.5 million at June 30, 2007 and December 31, 2006, respectively), and was included in our Production Facilities segment.
- *OTSL*. In July 2005, we acquired a 40% minority ownership interest in OTSL, now held through CDI, in exchange for our dynamically positioned dive support vessel, *Witch Queen*. OTSL provides marine construction services to the oil and gas industry in and around Trinidad and Tobago, as well as the U.S. Gulf of Mexico. We periodically review our equity investments for impairment. Recognition of an impairment occurs when the decline in an investment is deemed other than temporary. During the second quarter of 2007, OTSL generated significant operating losses, lost several project bids and ultimately decided to exit the saturation diving market. Based on these events, CDI determined that there were indicators of an impairment in its investment in OTSL. Additionally, OTSL had a significant working capital deficit which would require cash infusion before the end of the year to fund operations and working capital requirements. As a result, we evaluated this investment to determine whether a permanent loss in value had occurred. To determine whether OTSL had the ability to sustain a level of earnings that would justify the carrying amount of the investment, CDI considered the near-term and longer-term operating and financial prospects of OTSL, and CDI's longer-term intent of retaining the investment in the entity. Based on this evaluation, CDI determined that there was an other than temporary impairment in OTSL at June 30, 2007 and the full value of its investment in OTSL was impaired and recognized equity losses of OTSL, inclusive of the impairment charge, of \$11.8 million in the second quarter of 2007. In accordance with the terms of the OTSL agreement, CDI is not required to make additional investments and has no plans to make additional investments in OTSL and therefore will not be subject to future losses or impairments relating to its ownership interest. As of December 31, 2006, CDI's investment in OTSL was \$10.9 million.

Note 9 – Long-Term Debt

Senior Credit Facilities

On July 3, 2006, we entered into a Credit Agreement (the "Credit Agreement") with Bank of America, N.A., as administrative agent and as lender, together with the other lenders (collectively, the "Lenders"). Under the Credit Agreement, we borrowed \$835 million in a term loan (the "Term Loan") and may borrow up to \$300 million (the "Revolving Loans") under a revolving credit facility (the "Revolving Credit Facility"). In addition, the Revolving Credit Facility may be used for issuances of letters of credit up to an aggregate outstanding amount of \$50 million. The proceeds from the Term Loan were used to fund the cash portion of the Remington acquisition. At June 30, 2007 and December 31, 2006, \$828.7 million and \$832.9 million, respectively, of the Term Loan was outstanding.

The Term Loan matures on July 1, 2013 and is subject to scheduled principal payments of \$2.1 million quarterly. The Revolving Loans mature on July 1, 2011. We may elect to prepay amounts outstanding under the Term Loan without prepayment penalty, but may not reborrow any amounts prepaid. We may prepay amounts outstanding under the Revolving Loans without prepayment penalty, and may reborrow amounts prepaid prior to maturity. We did not have any amount outstanding under the

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Revolving Loans at June 30, 2007. The Credit Agreement includes terms, conditions and covenants that we consider customary for this type of facility. As of June 30, 2007, we were in compliance with these terms, conditions and covenants.

The Term Loan currently bears interest at the one-, three- or six-month LIBOR at our election plus a 2.00% margin. Our average interest rate on the Term Loan for the three and six months ended June 30, 2007 was approximately 7.3% (including the effects of our interest rate swaps-see below). The Revolving Loans bear interest based on one-, three- or six-month LIBOR at our election plus a margin ranging from 1.00% to 2.25%. Margins on the Revolving Loans will fluctuate in relation to the consolidated leverage ratio as provided in the Credit Agreement.

As the rates for the Term Loan are subject to market influences and will vary over the term of the Credit Agreement, we entered into various interest rate swaps for \$200 million of notional value effective as of October 3, 2006. These hedges are designated as cash flow hedges and qualify for hedge accounting. Under the swaps we receive interest based on three-month LIBOR and pay interest quarterly at an average annual fixed rate of 5.131% which began in October 2006. The objective of the hedges is to eliminate the variability of cash flows in the interest payments for up to \$200 million of our Term Loan. Changes in the cash flows of the interest rate swap are expected to exactly offset the changes in cash flows (i.e., changes in interest rate payments) attributable to fluctuations in LIBOR on up to \$200 million of our Term Loan.

Cal Dive International, Inc. Revolving Credit Facility

In November 2006, CDI entered into a five-year \$250 million revolving credit facility with certain financial institutions. The loans mature in November 2011. Loans under this facility are non-recourse to Helix. Loans under the revolving credit facility currently bear interest at the LIBOR rate plus a margin ranging from 0.625% to 1.75%. CDI's interest rate on the credit facility for the three and six months ended June 30, 2007 was approximately 6.1% and 6.2%, respectively.

The CDI credit agreement and the other documents entered into in connection with this credit facility include terms, conditions and covenants that are customary for this type of facility. At June 30, 2007, CDI was in compliance with these terms, conditions and covenants.

At June 30, 2007 and December 31, 2006, CDI had outstanding debt of \$140 million and \$201 million, respectively, under this credit facility. CDI expects to use the remaining availability under the revolving credit facility for working capital and other general corporate purposes. We do not have access to any unused portion of CDI's revolving credit facility.

Bridge Loan Commitment

In July 2007, we entered into a commitment for a bridge loan facility with a financial institution. Under the commitment letter, the financial institution has provided us with an underwritten commitment to fund up to \$100 million through October 1, 2007 to fund, to the extent our Revolving Credit Facility is not available, the cash portion of any conversion payments required to be made upon conversion of our 3.25% Convertible Senior Notes due 2025 ("Convertible Senior Notes") (see below) during third quarter 2007. The amount that may be drawn under this facility will be due on December 31, 2008. This facility bears interest based on one-, two-, three- or six-month LIBOR, at our election, plus a margin of 2.00% prior to April 1, 2008 and 4.00% thereafter. In the event the facility is drawn upon, the commitment letter provides the lender with substantial flexibility to replace or restructure the debt prior to December 31, 2008 through alternative debt instruments (such as high yield bonds).

Convertible Senior Notes

On March 30, 2005, we issued \$300 million of our Convertible Senior Notes at 100% of the principal amount to certain qualified institutional buyers. The Convertible Senior Notes are convertible into

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cash and, if applicable, shares of our common stock based on the specified conversion rate, subject to adjustment.

The Convertible Senior Notes can be converted prior to the stated maturity under certain triggering events specified in the indenture governing the Convertible Senior Notes. In second quarter 2007, the closing sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on June 29, 2007 exceeded 120% of the conversion price (i.e. \$38.56 per share). As a result, pursuant to the terms of the indenture, the Convertible Senior Notes can be converted during third quarter 2007. As we have sufficient financing available under our Revolving Credit Facility and a commitment from a financial institution to fully fund the cash portion of the potential conversion, the Convertible Senior Notes continue to be classified as a long-term liability in the accompanying balance sheet. If in future quarters the conversion price trigger is met and we do not have alternative long-term financing or commitments available to cover the conversion (or a portion thereof), the portion uncovered would be classified as a current liability in the accompanying balance sheet.

Approximately 1.6 million shares and 977,000 shares underlying the Convertible Senior Notes were included in the calculation of diluted earnings per share for the three and six months ended June 30, 2007, respectively, and approximately 1.3 million shares and 1.2 million shares for the three and six months ended June 30, 2006, respectively, because our average share price for the respective periods was above the conversion price of approximately \$32.14 per share. As a result, there would be a premium over the principal amount, which is paid in cash, and the shares would be issued on conversion. The maximum number of shares of common stock which may be issued upon conversion of the Convertible Senior Notes is 13,303,770.

MARAD Debt

At June 30, 2007 and December 31, 2006, \$129.4 million and \$131.3 million was outstanding on our long-term financing for construction of the Q4000. This U.S. government guaranteed financing is pursuant to Title XI of the Merchant Marine Act of 1936 which is administered by the Maritime Administration ("MARAD Debt"). The MARAD Debt is payable in equal semi-annual installments which began in August 2002 and matures 25 years from such date. The MARAD Debt is collateralized by the Q4000, with us guaranteeing 50% of the debt, and initially bore interest at a floating rate which approximated AAA Commercial Paper yields plus 20 basis points. As provided for in the MARAD Debt agreements, in September 2005, we fixed the interest rate on the debt through the issuance of a 4.93% fixed-rate note with the same maturity date (February 2027). In accordance with the MARAD Debt agreements, we are required to comply with certain covenants and restrictions, including the maintenance of minimum net worth, working capital and debt-to-equity requirements. As of June 30, 2007, we were in compliance with these covenants and restrictions.

In September 2005, we entered into an interest rate swap agreement with a bank. The swap was designated as a cash flow hedge of a forecasted transaction in anticipation of the refinancing of the MARAD Debt from floating rate debt to fixed-rate debt that closed on September 30, 2005. The interest rate swap agreement totaled an aggregate notional amount of \$134.9 million with a fixed interest rate of 4.695%. On September 30, 2005, we terminated the interest rate swap and received cash proceeds of approximately \$1.5 million representing a gain on the interest rate differential. This gain was deferred and is being amortized over the remaining life of the MARAD Debt as an adjustment to interest expense.

Other

In connection with the acquisition of Helix Energy Limited, we issued a two-year note payable to the former owners totaling approximately £3.1 million, or approximately \$5.6 million, on November 3, 2005 (the balance was approximately \$6.3 million and \$6.2 million at June 30, 2007 and at December 31, 2006, respectively). The note bears interest at a LIBOR based floating rate with interest payments due quarterly beginning January 1, 2006. The note is due in November 2007.

Deferred financing costs of \$27.2 million and \$28.3 million are included in other assets, net as of June 30, 2007 and December 31, 2006, respectively, and are being amortized over the life of the respective agreement.

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Scheduled maturities of long-term debt and capital lease obligations outstanding as of June 30, 2007 were as follows (in thousands):

| | Term Loan | CDI Revolving Credit Facility | Convertible Senior Notes | MARAD Debt | Loan Notes(1) | Capital Leases | Total |
|--|------------------|--|--------------------------------|------------------|------------------|-------------------|--------------------|
| Less than one year | \$ 8,400 | \$ — | \$ — | \$ 3,917 | \$ 11,303 | \$ 2,545 | \$ 26,165 |
| One to two years | 8,400 | — | — | 4,113 | — | 230 | 12,743 |
| Two to Three years | 8,400 | — | — | 4,318 | — | — | 12,718 |
| Three to four years | 8,400 | — | — | 4,533 | — | — | 12,933 |
| Four to five years | 8,400 | 140,000 | — | 4,760 | — | — | 153,160 |
| Over five years | 786,700 | — | 300,000 | 107,757 | — | — | 1,194,457 |
| Long-term debt | 828,700 | 140,000 | 300,000 | 129,398 | 11,303 | 2,775 | 1,412,176 |
| Current maturities | (8,400) | — | — | (3,917) | (11,303) | (2,545) | (26,165) |
| Long-term debt, less current maturities | <u>\$820,300</u> | <u>\$140,000</u> | <u>\$ 300,000</u> | <u>\$125,481</u> | <u>\$ —</u> | <u>\$ 230</u> | <u>\$1,386,011</u> |

(1) Includes \$5 million of loan provided by Kommandor RØMØ, a member in Kommandor LLC of which we own 50%, to Kommandor LLC as of June 30, 2007. The loan is expected to be repaid at the completion of the initial conversion, which is forecasted to be the end of 2007. As such, the entire loan amount is classified as current.

We had unsecured letters of credit outstanding at June 30, 2007 totaling approximately \$35.3 million. These letters of credit primarily guarantee various contract bidding, contractual performance and insurance activities and shipyard commitments. The following table details our interest expense and capitalized interest for the three and six months ended June 30, 2007 and 2006 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-----------------------|--------------------------------|-----------------|------------------------------|-----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Interest expense | \$ 23,153 | \$ 5,063 | \$ 46,246 | \$ 9,598 |
| Interest income | (1,933) | (644) | (6,575) | (1,463) |
| Capitalized interest | (6,396) | (1,233) | (11,799) | (2,411) |
| Interest expense, net | <u>\$ 14,824</u> | <u>\$ 3,186</u> | <u>\$ 27,872</u> | <u>\$ 5,724</u> |

The carrying amount and estimated fair value of our debt instruments, including current maturities as of June 30, 2007 and December 31, 2006 were as follows (amount in thousands):

| | June 30, 2007 | | December 31, 2006 | |
|---------------------------------------|-------------------|---------------|-------------------|---------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Term Loan(1) | \$828,700 | \$830,772 | \$832,900 | \$834,462 |
| Cal Dive Revolving Credit Facility(2) | 140,000 | 140,000 | 201,000 | 201,000 |
| Convertible Senior Notes(1) | 300,000 | 429,600 | 300,000 | 378,780 |
| MARAD Debt(3) | 129,398 | 120,599 | 131,286 | 126,691 |
| Loan Notes(4) | 11,303 | 11,303 | 11,146 | 11,146 |

(1) The fair values of these instruments were based on quoted market prices as of June 30, 2007 and December 31, 2006, as applicable.

(2) The carrying value of the Cal Dive revolving credit facility approximates fair value as of June 30, 2007 and December 31, 2006.

(3) The fair value of the MARAD debt was determined by a third-party valuation of the remaining average life and outstanding principal balance of the MARAD indebtedness as compared to other government guaranteed obligations in the market place with similar terms.

(4) The carrying value of the loan notes approximates fair value as the maturity dates of these securities are less than one year.

Note 10 – Income Taxes

The effective tax rate for the three and six months ended June 30, 2007 was 35.0% and 34.4%, respectively. The effective tax rate for the three and six months ended June 30, 2006 was 33.9% and 34.0%, respectively. The effective tax rate for the second quarter of 2007 was primarily increased by non-cash equity losses and the related impairment charge in connection with CDI's investment in OTSL for which minimal tax benefit was recorded and a \$2.0 million nondeductible accrual by CDI for a cash settlement to be paid for a civil claim by the Department of Justice related to the consent decree Cal Dive entered into in connection with the Acergy US Inc. ("Acergy") and Torch Offshore, Inc. ("Torch") acquisitions in 2005. This increase was partially offset by lower effective tax rates in foreign jurisdictions.

We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48") on January 1, 2007. The impact of the adoption of FIN 48 was immaterial on our financial position, results of operations and cash flows. We record tax related interest in interest expense and tax penalties in operating expenses as allowed under FIN 48. As of June 30, 2007, we had no material unrecognized tax benefits and no material interest and penalties were recognized.

We file tax returns in the U.S. and in various state, local and non-U.S. jurisdictions. We anticipate that any potential adjustments to our state, local and non-U.S. jurisdiction tax returns by tax authorities would not have a material impact on our financial position. The tax periods ending December 31, 2002, 2003, 2004, 2005 and 2006 remain subject to examination by the U.S. Internal Revenue Service ("IRS"). In addition, as we acquired Remington on July 1, 2006, we are exposed to any tax uncertainties related to Remington. For Remington, the tax periods ending December 31, 2003, 2004, 2005, and June 30, 2006 remain subject to examination by the IRS. The 2004 and 2005 tax returns for Remington are currently under examination by the IRS. The 2004 tax return includes the utilization of a net operating loss generated prior to 1999. As of June 30, 2007, the IRS has not issued any proposed adjustments for the years under examination.

Note 11 – Hedging Activities

We are currently exposed to market risk in three major areas: commodity prices, interest rates and foreign currency exchange rates. Our risk management activities involve the use of derivative financial instruments to hedge the impact of market price risk exposures primarily related to our oil and gas production, variable interest rate exposure and foreign currency exchange rate exposure. All derivatives are reflected in our balance sheet at fair value, unless otherwise noted.

Commodity Hedges

We have entered into various cash flow hedging costless collar contracts to stabilize cash flows relating to a portion of our expected oil and gas production. All of these qualify for hedge accounting. The aggregate fair value of the hedge instruments was a net (liability) asset of \$(339,000) and \$5.2 million as of June 30, 2007 and December 31, 2006, respectively. We recorded unrealized gains (losses) of approximately \$4.7 million and \$(3.6) million, net of tax expense (benefit) of \$2.5 million and \$(1.9) million, respectively, during the three and six months ended June 30, 2007, respectively, in accumulated other comprehensive income, a component of shareholders' equity, as these hedges were highly effective. For the three and six months ended June 30, 2006, we recorded \$(788,000) and \$2.4 million, respectively, of unrealized (losses) gains, net of tax (benefit) expense of \$(424,000) and \$1.3 million, respectively. During the three and six months ended June 30, 2007, we reclassified approximately \$152,000 and \$2.3 million of gains, respectively, from other comprehensive income to net revenues upon the sale of the related oil and gas production. For the three and six months ended June 30, 2006, we reclassified approximately \$1.4 million and \$6.3 million, respectively, of gains from other comprehensive income to net revenues.

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As of June 30, 2007, we had the following volumes under derivative contracts related to our oil and gas producing activities totaling 1,140 MBbl of oil and 15,350 MMBtu of natural gas:

| <u>Production Period</u> | <u>Instrument Type</u> | <u>Average Monthly Volumes</u> | <u>Weighted Average Price</u> |
|------------------------------|------------------------|--------------------------------|-------------------------------|
| Crude Oil: | | | |
| July 2007 – December 2007 | Collar | 100 MBbl | \$50.00 — \$67.98 |
| January 2008 – December 2008 | Collar | 45 MBbl | \$56.57 — \$76.51 |
| Natural Gas: | | | |
| July 2007 – December 2007 | Collar | 1,283,333 MMBtu | \$7.50 — \$10.05 |
| January 2008 – December 2008 | Collar | 637,500 MMBtu | \$7.32 — \$10.87 |

We have not entered into any hedge instruments subsequent to June 30, 2007. Changes in NYMEX oil and gas strip prices would, assuming all other things being equal, cause the fair value of these instruments to increase or decrease inversely to the change in NYMEX prices.

As of June 30, 2007, we had natural gas forward sales contracts for the period from April 2008 through December 2008. The contracts cover an average of 317,178 MMBtu per month at a weighted average price of \$8.40. Subsequent to June 30, 2007, we entered into five additional natural gas forward sales contracts and one oil forward sales contract. Gas forward sales contracts cover the period from October 2007 through December 2008. The contracts cover an average of 541,667 MMBtu per month at a weighted average price of \$8.31. The oil forward sales contract is for the period of October 2007 through December 2008. The contract covers an average of 41 MBbl per month at a price of \$72.20. Hedge accounting does not apply to these contracts as these contracts qualify as normal purchases and sales transactions.

Interest Rate Hedge

As the rates for our Term Loan are subject to market influences and will vary over the term of the loan, we entered into various cash flow hedging interest rate swaps to stabilize cash flows relating to a portion of our interest payments for our Term Loan. The interest rate swaps were effective October 3, 2006. These interest rate swaps qualify for hedge accounting. See “–Note 9 – Long-Term Debt” above for a detailed discussion of our Term Loan. The aggregate fair value of the hedge instruments was a net asset (liability) of \$648,000 and \$(531,000) as of June 30, 2007 and December 31, 2006, respectively. For the three and six months ended June 30, 2007, we recorded unrealized gains of approximately \$1.2 million and \$952,000, respectively, net of tax expense of \$642,000 and \$413,000, respectively, in accumulated other comprehensive income, a component of shareholders’ equity, as these hedges were highly effective.

Foreign Currency Hedge

In December 2006, we entered into various foreign currency forward purchase contracts to stabilize expected cash outflows relating to a shipyard contract where the contractual payments are denominated in euros. These forward contracts qualify for hedge accounting. Under the forward contracts, we hedged €7.0 million that was settled in June 2007 at an exchange rate of 1.3255 and €11.0 million at an exchange rate of 1.3326 to be settled in December 2007. In June 2007, we settled €7.0 million of our foreign currency forward contract and recognized a gain of \$68,000, and subsequently entered into a €14.0 million foreign currency forward contract that was settled in July 2007. The aggregate fair value of the hedge instruments was a net asset (liability) of \$576,000 and (\$184,000) as of June 30, 2007 and December 31, 2006, respectively. For the three and six months ended June 30, 2007, we recorded unrealized gains of approximately \$227,000 and \$558,000, respectively, net of tax expense of \$122,000 and \$266,000, respectively, in accumulated other comprehensive income, a component of shareholders’ equity, as these hedges were highly effective.

Note 12 – Comprehensive Income

The components of total comprehensive income for the three and six months ended June 30, 2007 and 2006 were as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------------|--------------------------------|------------------|------------------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income | \$ 58,647 | \$ 69,944 | \$115,412 | \$126,137 |
| Foreign currency translation gain | 4,078 | 7,846 | 4,715 | 9,006 |
| Unrealized gain (loss) on hedges, net | 6,098 | (788) | (2,091) | 2,443 |
| Total comprehensive income | <u>\$ 68,823</u> | <u>\$ 77,002</u> | <u>\$118,036</u> | <u>\$137,586</u> |

The components of accumulated other comprehensive income were as follows (in thousands):

| | June 30, 2007 | December 31, 2006 |
|--|------------------|----------------------|
| Cumulative foreign currency translation adjustment | \$ 29,295 | \$ 24,580 |
| Unrealized gain on hedges, net | 565 | 2,656 |
| Accumulated other comprehensive income | <u>\$ 29,860</u> | <u>\$ 27,236</u> |

Note 13 – Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing the net income available to common shareholders by the weighted-average shares of outstanding common stock. The calculation of diluted EPS is similar to basic EPS, except that the denominator includes dilutive common stock equivalents and the income included in the numerator excludes the effects of the impact of dilutive common stock equivalents, if any. The computation of basic and diluted EPS amounts were as follows (in thousands):

| | Three Months Ended June 30, 2007 | | Three Months Ended June 30, 2006 | |
|--|-------------------------------------|---------------|-------------------------------------|---------------|
| | Income | Shares | Income | Shares |
| Earnings applicable per common share — Basic | \$ 57,702 | 90,047 | \$ 69,139 | 78,462 |
| Effect of dilutive securities: | | | | |
| Stock options | — | 383 | — | 414 |
| Restricted shares | — | 284 | — | 137 |
| Employee stock purchase plan | — | 19 | — | 4 |
| Convertible Senior Notes | — | 1,627 | — | 1,317 |
| Convertible preferred stock | 945 | 3,631 | 805 | 3,631 |
| Earnings applicable per common share — Diluted | <u>\$ 58,647</u> | <u>95,991</u> | <u>\$ 69,944</u> | <u>83,965</u> |

| | Six Months Ended June 30, 2007 | | Six Months Ended June 30, 2006 | |
|--|-----------------------------------|---------------|-----------------------------------|---------------|
| | Income | Shares | Income | Shares |
| Earnings applicable per common share — Basic | \$ 113,522 | 90,021 | \$ 124,528 | 78,216 |
| Effect of dilutive securities: | | | | |
| Stock options | — | 375 | — | 513 |
| Restricted shares | — | 227 | — | 122 |
| Employee stock purchase plan | — | 32 | — | 7 |
| Convertible Senior Notes | — | 976 | — | 1,170 |
| Convertible preferred stock | 1,890 | 3,631 | 1,609 | 3,631 |
| Earnings applicable per common share — Diluted | <u>\$ 115,412</u> | <u>95,262</u> | <u>\$ 126,137</u> | <u>83,659</u> |

There were no antidilutive stock options in the three and six months ended June 30, 2007 and 2006 as the option strike price was below the average market price for the applicable periods. Net income for the diluted earnings per share calculation for

the three and six months ended June 30, 2007 and 2006 was adjusted to add back the preferred stock dividends as if the convertible preferred stock were converted into 3.6 million shares of common stock.

Note 14 – Stock-Based Compensation Plans

We have three stock-based compensation plans: the 1995 Long-Term Incentive Plan, as amended (the “1995 Incentive Plan”), the 2005 Long-Term Incentive Plan, as amended (the “2005 Incentive Plan”) and the 1998 Employee Stock Purchase Plan, as amended (the “ESPP”). In addition, CDI has a stock-based compensation plan, the 2006 Long-Term Incentive Plan (the “CDI Incentive Plan”) available only to the employees of CDI and its subsidiaries.

We began accounting for our stock-based compensation plans under the fair value method beginning January 1, 2006. We continue to use the Black-Scholes option pricing model for valuing stock options and recognize compensation cost for our share-based payments on a straight-line basis over the applicable vesting period. During the six months ended June 30, 2007, we granted 686,912 shares of restricted shares to certain key executives, selected management employees and non-employee members of the board of directors under the 2005 Incentive Plan. The average market value of the restricted shares was \$31.55 per share, or \$21.7 million, at the date of grant. For 2007 restricted share grants to executives and selected management employees, at the grant date we estimated that 8% may be forfeited as the number of restricted stock recipients has increased. No forfeitures were estimated for outstanding unvested options and restricted shares granted prior to January 1, 2007 as historical forfeitures have been immaterial. There were no stock option grants in the first half of 2007 and 2006.

For the three and six months ended June 30, 2007, \$265,000 and \$530,000, respectively, was recognized as compensation expense related to stock options. Future compensation cost associated with unvested options at June 30, 2007 was approximately \$1.3 million. The weighted average vesting period related to unvested stock options at June 30, 2007 was approximately 1.2 years. For the three and six months ended June 30, 2007, \$3.0 million and \$5.9 million (of which \$519,000 and \$ 1.0 million, respectively, of expense is related to the CDI Incentive Plan), respectively, were recognized as compensation expense related to restricted shares. For the three and six months ended June 30, 2006, \$1.3 million and \$2.5 million, respectively, were recognized as compensation expense related to restricted shares. Future compensation cost associated with unvested restricted shares at June 30, 2007 was approximately \$41.0 million, of which \$7.7 million is related to the CDI Incentive Plan. The weighted average vesting period related to unvested restricted shares of our common stock at June 30, 2007 was approximately 3.8 years.

Employee Stock Purchase Plan

Effective May 12, 1998, we adopted a qualified, non-compensatory ESPP, which allows employees to acquire shares of common stock through payroll deductions over a six-month period. The purchase price is equal to 85 percent of the fair market value of the common stock on either the first or last day of the subscription period, whichever is lower. Purchases under the plan are limited to the lesser of 10 percent of an employee's base salary or up to \$25,000 of our stock value. In January and July 2007, we issued 109,754 and 113,230 shares, respectively, of our common stock to our employees under this plan, which increased our common stock outstanding. We subsequently repurchased the same number of shares of our common stock in the open market at \$29.94 and \$40.00 per share in January and July 2007, respectively, and reduced the number of shares of our common stock outstanding. During the six months ended June 30, 2006, 41,006 shares of common stock were purchased in the open market at a share price of \$26.14. For the three and six months ended June 30, 2007, we recognized \$496,000 and \$996,000, respectively, of compensation expense related to stock purchased under the ESPP. For the six months ended June 30, 2006, we recognized \$568,000 of compensation expense related to stock purchased under the ESPP.

Note 15 – Business Segment Information (in thousands)

Our operations are conducted through two lines of business: contracting services operations and oil and gas operations. We have disaggregated our contracting services operations into three reportable segments in accordance with SFAS 131: Contracting Services, Shelf Contracting and Production Facilities. As a result, our reportable segments consist of the following: Contracting Services, Shelf Contracting, Production Facilities, and Oil and Gas. The Contracting Services segment includes deepwater pipelay, well operations, robotics and reservoir and well tech services. The Shelf Contracting segment consists of assets deployed primarily for diving-related activities and shallow water construction. See “— Note 4—Initial Public Offering of Cal Dive International, Inc.” for discussion of the initial public offering of CDI common stock (represented by the Shelf Contracting segment). All material intercompany transactions between the segments have been eliminated in our consolidated results of operations.

We evaluate our performance based on income before income taxes of each segment. Segment assets are comprised of all assets attributable to the reportable segment. The majority of our Production Facilities segment is accounted for under the equity method of accounting. Our investment in Kommandor LLC, a Delaware limited liability company, was consolidated in accordance with FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (“FIN 46”) and is included in our Production Facilities segment.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues - | | | | |
| Contracting Services | \$154,719 | \$112,590 | \$292,436 | \$213,620 |
| Shelf Contracting | 135,258 | 124,764 | 284,484 | 244,554 |
| Oil and Gas | 142,082 | 81,110 | 273,049 | 161,423 |
| Intercompany elimination | (21,485) | (13,451) | (43,340) | (22,936) |
| Total | <u>\$410,574</u> | <u>\$305,013</u> | <u>\$806,629</u> | <u>\$596,661</u> |
| Income from operations - | | | | |
| Contracting Services | \$ 31,987 | \$ 18,653 | \$ 55,082 | \$ 39,193 |
| Shelf Contracting | 36,142 | 51,599 | 84,445 | 95,917 |
| Production Facilities equity investments(1) | (145) | (335) | (332) | (653) |
| Oil and Gas | 48,685 | 35,374 | 87,902 | 52,339 |
| Intercompany elimination | (2,608) | (997) | (8,021) | (997) |
| Total | <u>\$114,061</u> | <u>\$104,294</u> | <u>\$219,076</u> | <u>\$185,799</u> |
| Equity in earnings (losses) of OTSL, inclusive of impairment | <u>\$ (11,793)</u> | <u>\$ (183)</u> | <u>\$ (10,841)</u> | <u>\$ 2,650</u> |
| Equity in earnings of equity investments excluding OTSL | <u>\$ 7,045</u> | <u>\$ 4,703</u> | <u>\$ 12,197</u> | <u>\$ 8,106</u> |

(1) Included selling and administrative expense of Production Facilities incurred by us. See equity in earnings of equity investments excluding OTSL for earnings contribution.

| | June 30, 2007 | December 31, 2006 |
|-----------------------|--------------------|----------------------|
| Identifiable Assets - | | |
| Contracting Services | \$1,045,031 | \$ 1,313,206 |
| Shelf Contracting | 445,608 | 452,153 |
| Production Facilities | 285,848 | 242,113 |
| Oil and Gas | 2,490,662 | 2,282,715 |
| Total | <u>\$4,267,149</u> | <u>\$ 4,290,187</u> |

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Intercompany segment revenues during the three and six months ended June 30, 2007 and 2006 were as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------|--------------------------------|------------------|------------------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Contracting Services | \$ 16,901 | \$ 10,215 | \$ 31,497 | \$ 18,192 |
| Shelf Contracting | 4,584 | 3,236 | 11,843 | 4,744 |
| Total | <u>\$ 21,485</u> | <u>\$ 13,451</u> | <u>\$ 43,340</u> | <u>\$ 22,936</u> |

Intercompany segment profit (which related primarily to intercompany capital projects) during the three and six months ended June 30, 2007 and 2006 was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------|--------------------------------|---------------|------------------------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| Contracting Services | \$ 657 | \$ 248 | \$ 2,675 | \$ 248 |
| Shelf Contracting | 1,951 | 749 | 5,346 | 749 |
| Total | <u>\$ 2,608</u> | <u>\$ 997</u> | <u>\$ 8,021</u> | <u>\$ 997</u> |

During the three and six months ended June 30, 2007, we derived \$56.8 million and \$97.4 million, respectively, of our revenues from our operations in the United Kingdom, utilizing \$257.5 million of our total assets in this region. During the three and six months ended June 30, 2006, we derived \$33.2 million and \$62.3 million, respectively, of our revenues from our operations in the United Kingdom, utilizing \$185.8 million of our total assets in this region. The majority of the remaining revenues were generated in the U.S. Gulf of Mexico.

Note 16 – Related Party Transactions

In April 2000, we acquired a 20% working interest in *Gunnison*, a Deepwater Gulf of Mexico prospect of Kerr-McGee Oil & Gas Corporation (“Kerr-McGee”). Financing for the exploratory costs of approximately \$20 million was provided by an investment partnership (OKCD Investments, Ltd. or “OKCD”) in exchange for a revenue interest that is an overriding royalty interest of 25% of our 20% working interest. The investors of OKCD include certain current and former members of Helix senior management. Production began in December 2003. Payments to OKCD from us totaled \$5.7 million and \$11.7 million in the three and six months ended June 30, 2007, respectively, and \$9.0 million and \$19.4 million in the three and six months ended June 30, 2006.

Note 17 – Commitments and Contingencies

Commitments

We are converting the *Caesar* (acquired in January 2006 for \$27.5 million in cash) into a deepwater pipelay vessel. Total conversion costs are estimated to be approximately \$135 million, of which approximately \$45.4 million had been incurred, with an additional \$57.9 million committed, at June 30, 2007. The initial budget for this conversion was \$110 million. The increase in projected cost relates primarily to the weakening of the U.S. dollar versus the applicable foreign currency and escalating costs for certain materials and services due to increasing demand. In addition, we will upgrade the *Q4000* to include drilling capability by adding a modular-based drilling system, and will also perform thruster modifications and other significant upgrades on the vessel. The total cost for all of these activities is estimated to be approximately \$75 million, of which approximately \$32.3 million had been incurred, with an additional \$25.1 million committed, at June 30, 2007.

We are also constructing a \$183 million multi-service dynamically positioned dive support/well intervention vessel (“*Well Enhancer*”) that will be capable of working in the North Sea and West of

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Shetlands to support our expected growth in that region. The initial budget for this vessel was \$160 million. The increase in projected cost relates primarily to the weakening of the U.S. dollar versus the applicable foreign currency and escalating costs for certain materials and services due to increasing demand. We expect the *Well Enhancer* to join our fleet in 2008. At June 30, 2007, we had incurred approximately \$25.3 million, with an additional \$95.8 million committed to this project.

Further, we, along with Kommandor RØMØ, a Danish corporation, formed Kommandor LLC to convert a ferry vessel into a floating production unit to be named the Helix Producer I (the "Vessel"). The cost of the ferry and the conversion is approximately \$89 million. Kommandor RØMØ and we are each responsible for 50% of the agreed Vessel and conversion cost. Upon completion of the conversion, scheduled for the end of 2007, we will charter the Vessel from Kommandor LLC, and will install, at 100% our cost, processing facilities and a disconnectable fluid transfer system ("DTS") on the Vessel for use on our *Phoenix* field. The cost of these additional facilities is approximately \$100 million. Kommandor LLC qualified as a variable interest entity under FIN 46. We determined that we were the primary beneficiary of Kommandor LLC and thus have consolidated the financial results of Kommandor LLC as of June 30, 2007 in our Production Facilities segment. Kommandor LLC has been a development stage enterprise since its formation in October 2006.

On June 19, 2007, Kommandor LLC entered into a term loan agreement ("Loan Agreement") with Nordea Bank Norge ASA. Pursuant to the Loan Agreement, the lenders will make available to Kommandor up to \$45.0 million pursuant to a secured term loan facility. Kommandor will use all amounts borrowed under the facility to repay its existing subordinated indebtedness for the long-term financing of the Vessel and to fund expenses and fees related to the conversion of such Vessel to operate as a floating production unit. Kommandor expects this borrowing to occur at the end of 2007 or in the first quarter of 2008 upon the delivery of the Vessel after its conversion, and at such time, in accordance with the provisions of FIN 46, the entire obligation will be included in our consolidated balance sheet. The funding of the amount set forth in the draw request is subject to certain customary conditions.

In addition, as of June 30, 2007, we have also committed approximately \$34.6 million in additional capital expenditures for exploration, development and drilling costs related to our oil and gas properties.

Contingencies

We are involved in various legal proceedings, primarily involving claims for personal injury under the General Maritime Laws of the United States and the Jones Act based on alleged negligence. In addition, from time to time we incur other claims, such as contract disputes, in the normal course of business.

On December 2, 2005, we received an order from the U.S. Department of the Interior Minerals Management Service ("MMS") that the price thresholds for both oil and gas were exceeded for 2004 production and that royalties are due on such production notwithstanding the provisions of the Outer Continental Shelf Deep Water Royalty Relief Act of 2005 ("DWRRA"), which was intended to stimulate exploration and production of oil and natural gas in the deepwater Gulf of Mexico by providing relief from the obligation to pay royalty on certain federal leases. Our only leases affected by this order are the *Gunnison* leases. On May 2, 2006, the MMS issued an order that superseded and replaced the December 2005 order, and claimed that royalties on gas production are due for 2003 in addition to oil and gas production in 2004. The May 2006 order also seeks interest on all royalties allegedly due. We filed a timely notice of appeal with respect to both MMS orders. Other operators in the Deep Water Gulf of Mexico who have received notices similar to ours are seeking royalty relief under the DWRRA, including Kerr-McGee, the operator of *Gunnison*. In March of 2006, Kerr-McGee filed a lawsuit in federal district court challenging the enforceability of price thresholds in certain deepwater Gulf of Mexico leases such as ours. We do not anticipate that the MMS director will issue decisions in our or the other companies' administrative appeals until the Kerr-McGee litigation has been resolved. As a result of this dispute, we have recorded reserves for the disputed royalties (and any other royalties that may be claimed from the *Gunnison* leases), plus interest at 5%, for our portion of the *Gunnison* related MMS claim. The total

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reserved amount at June 30, 2007 and December 31, 2006 was approximately \$48.6 million and \$42.6 million, respectively. At this time, it is not anticipated that any penalties would be assessed if we are unsuccessful in our appeal.

Although the above discussed matters may have the potential for additional liability and may have an impact on our consolidated financial results for a particular reporting period, we believe that the outcome of all such matters and proceedings will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Note 18 – Recently Issued Accounting Principles

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, of adopting this statement.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS No. 159”). SFAS No. 159 allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, SFAS No. 159 specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. The provisions of SFAS No. 159 are effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, of adopting this statement.

Note 19 – Pending Transaction

On June 11, 2007, CDI and Horizon Offshore, Inc. (“Horizon”) announced that they had entered into an agreement under which CDI will acquire Horizon in a transaction valued at approximately \$650 million, including approximately \$22 million of Horizon’s net debt as of March 31, 2007. Under the terms of the agreement, Horizon stockholders will receive a combination of \$9.25 in cash and 0.625 shares of CDI common stock for each Horizon common stock outstanding, or an estimated total of \$302.5 million in cash and 20.4 million shares of CDI common stock. The expected issuance of this equity will reduce our majority interest in CDI from approximately 73% to approximately 59%. The boards of directors of CDI and Horizon unanimously approved the transaction. Closing of the transaction is subject to regulatory approvals and other customary conditions, as well as Horizon stockholder approval.

In limited circumstances, if Horizon fails to close the transaction, it must pay Cal Dive a termination fee of \$18.9 million. Cal Dive obtained a commitment from a bank to fund the cash portion of the transaction consideration through a \$675 million commitment from a bank, consisting of a \$375 million senior secured term loan and a \$300 million senior secured revolving credit facility which are non-recourse to Helix.

Note 20 – Subsequent Event

In October 2006, we acquired a 58% interest in Seatrac Pty Ltd. (“Seatrac”) for total consideration of approximately \$12.7 million (including \$180,000 of transaction costs), with approximately \$9.1 million paid to existing shareholders and \$3.4 million for subscription of new Seatrac shares. We have changed the name of this entity to Well Ops SEA Pty Ltd. Under the terms of the purchase agreement, we had an option to purchase the remaining 42% of the entity for approximately \$10.1 million. On July 1, 2007, we exercised this option and purchased the remaining 42% of the entity. This purchase was accounted for as a business combination with the acquisition price allocated to the assets acquired and liabilities assumed based upon their estimated fair value.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

FORWARD-LOOKING STATEMENTS AND ASSUMPTIONS

This Quarterly Report on Form 10-Q contains certain statements that are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical facts, included herein or incorporated herein by reference are forward-looking statements. Included among forward-looking statements are, among other things:

- statements related to the volatility in commodity prices for oil and gas and in the supply of and demand for oil and gas or the ability to replace oil and gas reserves;
- statements regarding our anticipated production volumes, results of exploration, exploitation, development, acquisition or operations expenditures and current or prospective reserve levels with respect to any property or well;
- statements regarding any financing transactions or arrangements, or ability to enter into such transactions;
- statements relating to the construction or acquisition of vessels or equipment and our proposed acquisition of any producing property or well prospect, including statements concerning the engagement of any engineering, procurement and construction contractor and any anticipated costs related thereto;
- statements that our proposed vessels, when completed, will have certain characteristics or the effectiveness of such characteristics;
- statements regarding projections of revenues, gross margin, expenses, earnings or losses or other financial items;
- statements regarding our business strategy, our business plans or any other plans, forecasts or objectives, any or all of which are subject to change;
- statements regarding any Securities and Exchange Commission or other governmental or regulatory inquiry or investigation;
- statements regarding anticipated legislative, governmental, regulatory, administrative or other public body actions, requirements, permits or decisions;
- statements regarding anticipated developments, industry trends, performance or industry ranking relating to our services or any statements related to the underlying assumptions related to any projection or forward-looking statement;
- statements related to environmental risks, drilling and operating risks, or exploration and development risks and the ability of the combined company to retain key members of its senior management and key employees;
- statements regarding general economic or political conditions, whether internationally, nationally or in the regional and local market areas in which we are doing business; and
- any other statements that relate to non-historical or future information.

These forward-looking statements are often identified by the use of terms and phrases such as "achieve," "anticipate," "believe," "estimate," "expect," "forecast," "plan," "project," "propose," "strategy," "predict," "envision," "hope," "intend," "will," "continue," "may," "potential," "achieve," "should," "could" and similar terms and phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. You should not place undue reliance on these forward-looking statements.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those described under the heading "Risk Factors" in our 2006 Form 10-K. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these risk factors. Forward-looking statements are only as of the date they are made, and other than as required under the securities laws, we assume no obligation to update or revise these forward-looking statements or provide reasons why actual results may differ.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements. We prepare these financial statements in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We base our estimates on historical experience, available information and various other assumptions we believe to be reasonable under the circumstances. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. There have been no material changes or developments in authoritative accounting pronouncements or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe would change the Critical Accounting Policies and Estimates as disclosed in our 2006 Form 10-K.

Recently Issued Accounting Principles

In September 2006, the FASB issued SFAS No. 157. This statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, of adopting this statement.

In February 2007, the FASB issued SFAS No. 159, which allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, SFAS No. 159 specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. The provisions of SFAS No. 159 are effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, of adopting this statement.

RESULTS OF OPERATIONS

Our operations are conducted through two lines of business: contracting services operations and oil and gas operations. We have disaggregated our contracting services operations into three reportable segments in accordance with SFAS 131. As a result, our reportable segments consist of the following: Contracting Services, Shelf Contracting, Production Facilities, and Oil and Gas. The Contracting Services segment includes services such as deepwater pipelay, well operations, robotics and reservoir and well tech services. The Shelf Contracting segment consists of assets deployed primarily for diving-related activities and shallow water construction. See “—Note 4 – Initial Public Offering of Cal Dive International, Inc.” for discussion of the initial public offering of CDI common stock (represented by the Shelf Contracting segment). All material intercompany transactions between the segments have been eliminated in our consolidated results of operations.

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Comparison of Three Months Ended June 30, 2007 and 2006

The following table details various financial and operational highlights for the periods presented:

| | Three Months Ended June 30, | | Increase/ (Decrease) |
|---|--------------------------------|------------------|-------------------------|
| | 2007 | 2006 | |
| Revenues (in thousands) – | | | |
| Contracting Services | \$ 154,719 | \$ 112,590 | \$ 42,129 |
| Shelf Contracting | 135,258 | 124,764 | 10,494 |
| Oil and Gas | 142,082 | 81,110 | 60,972 |
| Intercompany elimination | (21,485) | (13,451) | (8,034) |
| | <u>\$410,574</u> | <u>\$305,013</u> | <u>\$ 105,561</u> |
| Gross profit (in thousands) – | | | |
| Contracting Services | \$ 43,071 | \$ 30,247 | \$ 12,824 |
| Shelf Contracting | 45,565 | 60,943 | (15,378) |
| Oil and Gas | 55,737 | 41,499 | 14,238 |
| Intercompany elimination | (2,608) | (997) | (1,611) |
| | <u>\$141,765</u> | <u>\$131,692</u> | <u>\$ 10,073</u> |
| Gross Margin – | | | |
| Contracting Services | 28% | 27% | 1 pt |
| Shelf Contracting | 34% | 49% | (15) pts |
| Oil and Gas | 39% | 51% | (12) pts |
| Total company | 35% | 43% | (8) pts |
| Number of vessels(1)/ Utilization(2) – | | | |
| Contracting Services: | | | |
| Pipelay | 2/70% | 3/85% | |
| Well operations | 2/94% | 2/83% | |
| ROVs | 39/86% | 31/75% | |
| Shelf Contracting | 25/63% | 24/87% | |

- (1) Represents number of vessels as of the end the period excluding acquired vessels prior to their in-service dates, vessels taken out of service prior to their disposition and vessels jointly owned with a third party.
- (2) Average vessel utilization rate is calculated by dividing the total number of days the vessels in this category generated revenues by the total number of calendar days in the applicable period.

Intercompany segment revenues during the three months ended June 30, 2007 and 2006 were as follows (in thousands):

| | Three Months Ended June 30, | | Increase/ (Decrease) |
|----------------------|--------------------------------|------------------|-------------------------|
| | 2007 | 2006 | |
| Contracting Services | \$ 16,901 | \$ 10,215 | \$ 6,686 |
| Shelf Contracting | 4,584 | 3,236 | 1,348 |
| | <u>\$ 21,485</u> | <u>\$ 13,451</u> | <u>\$ 8,034</u> |

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Intercompany segment profit (which related primarily to intercompany capital projects) during the three months ended June 30, 2007 and 2006 was as follows (in thousands):

| | Three Months Ended June 30, | | Increase/ (Decrease) |
|----------------------|--------------------------------|---------------|-------------------------|
| | 2007 | 2006 | |
| Contracting Services | \$ 657 | \$ 248 | \$ 409 |
| Shelf Contracting | 1,951 | 749 | 1,202 |
| | <u>\$ 2,608</u> | <u>\$ 997</u> | <u>\$ 1,611</u> |

The following table details various financial and operational highlights related to our Oil and Gas segment for the periods presented (price volume analysis relates to U.S. operations only):

| | Three Months Ended June 30, | | Increase/ (Decrease) |
|---|--------------------------------|------------------|-------------------------|
| | 2007 | 2006 | |
| Oil and Gas information— | | | |
| Oil production volume (MBbls) | 938 | 642 | 296 |
| Oil sales revenue (in thousands) | \$ 58,429 | \$ 41,721 | \$ 16,708 |
| Average oil sales price per Bbl (excluding hedges) | \$ 62.78 | \$ 66.69 | \$ (3.91) |
| Average realized oil price per Bbl (including hedges) | \$ 62.32 | \$ 64.98 | \$ (2.66) |
| Increase (decrease) in oil sales revenue due to: | | | |
| Change in prices (in thousands) | \$ (1,704) | | |
| Change in production volume (in thousands) | 18,412 | | |
| Total increase in oil sales revenue (in thousands) | <u>\$ 16,708</u> | | |
| Gas production volume (MMcf) | 10,144 | 4,798 | 5,346 |
| Gas sales revenue (in thousands) | \$ 81,738 | \$ 38,573 | \$ 43,165 |
| Average gas sales price per mcf (excluding hedges) | \$ 8.00 | \$ 7.51 | \$ 0.49 |
| Average realized gas price per mcf (including hedges) | \$ 8.06 | \$ 8.04 | \$ 0.02 |
| Increase (decrease) in gas sales revenue due to: | | | |
| Change in prices (in thousands) | \$ 88 | | |
| Change in production volume (in thousands) | 43,077 | | |
| Total increase in gas sales revenue (in thousands) | <u>\$ 43,165</u> | | |
| Total production (MMcfe) | 15,772 | 8,650 | 7,122 |
| Price per Mcfe | \$ 8.89 | \$ 9.28 | \$ (0.39) |
| Oil and Gas revenue information (in thousands)— | | | |
| Oil and gas sales revenue | \$ 140,167 | \$ 80,294 | \$ 59,873 |
| Miscellaneous revenues ⁽¹⁾ | 1,915 | 816 | 1,099 |
| | <u>\$ 142,082</u> | <u>\$ 81,110</u> | <u>\$ 60,972</u> |

(1) Miscellaneous revenues primarily relate to fees earned under our process handling agreements.

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Presenting the expenses of our Oil and Gas segment (U.S. operations only) on a cost per Mcfe of production basis normalizes for the impact of production gains/losses and provides a measure of expense control efficiencies. The following table highlights certain relevant expense items in total (in thousands) and on this basis with barrels of oil converted to Mcfe at a ratio of one barrel to six Mcf:

| | Three Months Ended June 30, | | | |
|------------------------------------|-----------------------------|----------------|------------------|----------------|
| | 2007 | | 2006 | |
| | Total | Per Mcfe | Total | Per Mcfe |
| Oil and gas operating expenses(1): | | | | |
| Direct operating expenses(2) | \$ 22,912 | \$ 1.45 | \$ 9,665 | \$ 1.12 |
| Repairs and maintenance | 4,144 | 0.26 | 10,107 | 1.17 |
| Impairment expense | 904 | 0.06 | — | — |
| Other | 2,754 | 0.17 | 472 | 0.05 |
| Total | <u>\$ 30,714</u> | <u>\$ 1.94</u> | <u>\$ 20,244</u> | <u>\$ 2.34</u> |
| Depletion expense | \$ 48,521 | \$ 3.08 | \$ 17,812 | \$ 2.06 |
| Accretion expense | \$ 2,572 | \$ 0.16 | \$ 1,884 | \$ 0.22 |

(1) Excludes exploration expense (credit) of \$3.0 million and \$(330,000) for the three months ended June 30, 2007 and 2006, respectively. Exploration expense is not a component of lease operating expense.

(2) Includes production taxes.

Results of operations for our Oil and Gas segment in the United Kingdom were immaterial for the three months ended June 30, 2007 and 2006.

Revenues. During the three months ended June 30, 2007, our revenues increased by 35% as compared to the same period in 2006. Contracting Services revenues increased primarily due to the following:

- improved contract pricing for the pipelay, well operations and remotely operated vehicle (“ROV”) divisions due to continually improving market conditions;
- higher utilization in our well operations division, as the Q4000 was out of service during a portion of second quarter 2006 for thruster related repairs; and
- increased revenues related to our ROV division for ROV support work and pipe burial projects in second quarter 2007; partially offset by
- lower pipelay vessel utilization in second quarter 2007 as a result of a planned drydock.

Shelf Contracting revenues increased primarily as a result of the initial deployment of certain assets we acquired through the Acergy, Torch and Fraser Diving International Limited (“Fraser”) acquisitions that came into service subsequent to first quarter 2006. These increases were partially offset by an increased number of out of service days for regulatory drydocks and vessel upgrades for certain vessels in our Shelf Contracting segment in second quarter 2007.

Oil and Gas revenues increased 75% during the three months ended June 30, 2007 as compared to the same period in 2006. The increase was primarily due to increases in oil and natural gas production. The production volume increase of 82% during second quarter 2007 over the same period in 2006 was mainly attributable to the Remington acquisition. The Oil and Gas revenues increase was partially offset by lower oil prices realized in the second quarter of 2007 as compared to the same prior year period.

Gross Profit. Gross profit in the second quarter of 2007 increased 8% as compared to the same period in 2006. The Contracting Services gross profit increase was primarily attributable to improved contract pricing for the pipelay, well operations and ROV divisions. The gross profit decrease in second quarter 2007 as compared to the same prior year period for Shelf Contracting was due to increased out of service days referred to above and increased depreciation and deferred drydock amortization. Shelf Contracting gross margin decrease in second quarter 2007 as compared to second quarter 2006 was due to increased out of service days, certain lower margin contracts in the international markets and

increased depreciation and amortization related to deferred drydock costs on newly deployed vessels and other vessel upgrades.

The Oil and Gas gross profit increase in second quarter 2007 as compared to the same period in 2006 was primarily due to higher oil and gas production as discussed above, partially offset by higher depletion expense as a result of the Remington acquisition. The lower Oil and Gas gross margin in second quarter 2007 as compared to 2006 was primarily due to higher depletion expense.

Gain on Sale of Assets, Net. Gain on sale of assets, net, increased by \$5.7 million during the three months ended June 30, 2007 as compared to the same prior year period. This increase was primarily related to a gain of \$2.4 million for the sale of a mobile offshore production unit and a \$1.6 million gain related to the sale of a 50% interest in *Camelot*. In addition, we recognized a gain of \$1.6 million in the second quarter for the sale of a saturation system owned by CDI.

Selling and Administrative Expenses. Selling and administrative expenses of \$33.4 million for the second quarter of 2007 were \$6.0 million higher than the \$27.4 million incurred in the same prior year period. The increase was due primarily to higher overhead to support our growth. Further, in June 2007, CDI recorded a \$2.0 million charge for an anticipated cash settlement, subject to final negotiation of a court-approved settlement agreement, with the Department of Justice related to a civil claim alleging that CDI violated the consent decree entered into in connection with the Acergy and Torch acquisitions by failing to divest certain divestiture assets in accordance with terms of the consent decree. Selling and administrative expenses decreased slightly to 8% of revenues in the three months ended June 30, 2007 as compared to 9% in the same prior year period.

Equity in Earnings (Losses) of Investments, Net of Impairment Charge. Equity in earnings (losses) of investments decreased by \$9.3 million during the three months ended June 30, 2007 as compared to the same prior year period. This decrease was primarily due to equity losses from CDI's 40% investment in OTSL and a related non-cash asset impairment charge both totaling \$11.8 million. As a result of the impairment charge, the carrying value of CDI's investment in OTSL was reduced to zero at June 30, 2007. This decrease was partially offset by a \$2.2 million increase in equity in earnings related to our 20% investment in Independence Hub as we reached mechanical completion in March 2007 and began receiving demand fees.

Net Interest Expense and Other. We reported net interest and other expense of \$14.3 million in second quarter 2007 as compared to \$3.0 million in the prior year. Gross interest expense of \$23.2 million during the three months ended June 30, 2007 was higher than the \$5.1 million incurred in 2006 as a result of our Term Loan, which closed in July 2006, and CDI's revolving credit facility, which closed in December 2006. Offsetting the increase in interest expense was \$6.4 million of capitalized interest and \$1.9 million of interest income in the second quarter of 2007, compared with \$1.2 million of capitalized interest and \$644,000 of interest income in the same prior year period.

Provision for Income Taxes. Income taxes decreased to \$33.3 million in the three months ended June 30, 2007 as compared to \$35.9 million in the same prior year period. The decrease was primarily due to decreased profitability. The effective tax rate of 35.0% for second quarter 2007 was higher than the 33.9% for second quarter 2006. The effective tax rate for the second quarter of 2007 was increased by equity in losses and impairment of CDI's investment in OTSL, which had minimal tax benefit, and by CDI's accrual for the anticipated settlement with the Department of Justice, which had no tax benefit. These increases in the effective tax rate were partially offset by lower effective tax rates in foreign jurisdictions.

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Comparison of Six Months Ended June 30, 2007 and 2006

The following table details various financial and operational highlights for the periods presented:

| | Six Months Ended June 30, | | Increase/ (Decrease) |
|--|------------------------------|------------------|-------------------------|
| | 2007 | 2006 | |
| Revenues (in thousands) – | | | |
| Contracting Services | \$292,436 | \$213,620 | \$ 78,816 |
| Shelf Contracting | 284,484 | 244,554 | 39,930 |
| Oil and Gas | 273,049 | 161,423 | 111,626 |
| Intercompany elimination | <u>(43,340)</u> | <u>(22,936)</u> | <u>(20,404)</u> |
| | <u>\$806,629</u> | <u>\$596,661</u> | <u>\$ 209,968</u> |
| Gross profit (in thousands) – | | | |
| Contracting Services | \$ 77,565 | \$ 59,685 | \$ 17,880 |
| Shelf Contracting | 103,517 | 111,149 | (7,632) |
| Oil and Gas | 104,319 | 64,121 | 40,198 |
| Intercompany elimination | <u>(8,021)</u> | <u>(997)</u> | <u>(7,024)</u> |
| | <u>\$277,380</u> | <u>\$233,958</u> | <u>\$ 43,422</u> |
| Gross Margin – | | | |
| Contracting Services | 27% | 28% | (1) pt |
| Shelf Contracting | 36% | 45% | (9) pts |
| Oil and Gas | 38% | 40% | (2) pts |
| Total company | 34% | 39% | (5) pts |
| Number of vessels(1)/ Utilization(2) – | | | |
| Contracting Services: | | | |
| Pipelay | 2/82% | 3/91% | |
| Well operations | 2/80% | 2/77% | |
| ROVs | 39/79% | 31/80% | |
| Shelf Contracting | 25/66% | 24/89% | |

- (1) Represents number of vessels as of the end the period excluding acquired vessels prior to their in-service dates, vessels taken out of service prior to their disposition and vessels jointly owned with a third party.
- (2) Average vessel utilization rate is calculated by dividing the total number of days the vessels in this category generated revenues by the total number of calendar days in the applicable period.

Intercompany segment revenues during the six months ended June 30, 2007 and 2006 were as follows (in thousands):

| | Six Months Ended June 30, | | Increase/ (Decrease) |
|----------------------|------------------------------|------------------|-------------------------|
| | 2007 | 2006 | |
| Contracting Services | \$ 31,497 | \$ 18,192 | \$ 13,305 |
| Shelf Contracting | 11,843 | 4,744 | 7,099 |
| | <u>\$ 43,340</u> | <u>\$ 22,936</u> | <u>\$ 20,404</u> |

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Intercompany segment profit (which related primarily to intercompany capital projects) during the six months ended June 30, 2007 and 2006 was as follows (in thousands):

| | Six Months Ended June 30, | | Increase/ (Decrease) |
|----------------------|------------------------------|---------------|-------------------------|
| | 2007 | 2006 | |
| Contracting Services | \$ 2,675 | \$ 248 | \$ 2,427 |
| Shelf Contracting | 5,346 | 749 | 4,597 |
| | <u>\$ 8,021</u> | <u>\$ 997</u> | <u>\$ 7,024</u> |

The following table details various financial and operational highlights related to our Oil and Gas segment for the periods presented (price volume analysis relates to U.S. operations only):

| | Six Months Ended June 30, | | Increase/ (Decrease) |
|---|------------------------------|-------------------|-------------------------|
| | 2007 | 2006 | |
| Oil and Gas information— | | | |
| Oil production volume (MBbls) | 1,897 | 1,197 | 700 |
| Oil sales revenue (in thousands) | \$ 112,482 | \$ 74,279 | \$ 38,203 |
| Average oil sales price per Bbl (excluding hedges) | \$ 59.41 | \$ 62.99 | \$ (3.58) |
| Average realized oil price per Bbl (including hedges) | \$ 59.31 | \$ 62.07 | \$ (2.76) |
| Increase (decrease) in oil sales revenue due to: | | | |
| Change in prices (in thousands) | \$ (3,312) | | |
| Change in production volume (in thousands) | 41,515 | | |
| Total increase in oil sales revenue (in thousands) | <u>\$ 38,203</u> | | |
| Gas production volume (MMcf) | 19,991 | 9,752 | 10,239 |
| Gas sales revenue (in thousands) | \$ 157,168 | \$ 85,305 | \$ 71,863 |
| Average gas sales price per mcf (excluding hedges) | \$ 7.74 | \$ 7.99 | \$ (0.25) |
| Average realized gas price per mcf (including hedges) | \$ 7.86 | \$ 8.75 | \$ (0.89) |
| Increase (decrease) in gas sales revenue due to: | | | |
| Change in prices (in thousands) | \$ (8,633) | | |
| Change in production volume (in thousands) | 80,496 | | |
| Total increase in gas sales revenue (in thousands) | <u>\$ 71,863</u> | | |
| Total production (MMcfe) | 31,371 | 16,932 | 14,439 |
| Price per Mcfe | \$ 8.60 | \$ 9.43 | \$ (0.83) |
| Oil and Gas revenue information (in thousands)— | | | |
| Oil and gas sales revenue | \$ 269,650 | \$ 159,584 | \$ 110,066 |
| Miscellaneous revenues ⁽¹⁾ | 3,399 | 1,839 | 1,560 |
| | <u>\$ 273,049</u> | <u>\$ 161,423</u> | <u>\$ 111,626</u> |

(1) Miscellaneous revenues primarily relate to fees earned under our process handling agreements.

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Presenting the expenses of our Oil and Gas segment (U.S. operations only) on a cost per Mcfe of production basis normalizes for the impact of production gains/losses and provides a measure of expense control efficiencies. The following table highlights certain relevant expense items in total (in thousands) and on this basis with barrels of oil converted to Mcfe at a ratio of one barrel to six Mcf:

| | Six Months Ended June 30, | | | |
|------------------------------------|---------------------------|----------------|------------------|----------------|
| | 2007 | | 2006 | |
| | Total | Per Mcfe | Total | Per Mcfe |
| Oil and gas operating expenses(1): | | | | |
| Direct operating expenses(2) | \$ 44,909 | \$ 1.43 | \$ 21,511 | \$ 1.27 |
| Repairs and maintenance | 10,691 | 0.34 | 13,811 | 0.82 |
| Impairment expense | 904 | 0.03 | — | — |
| Other | 4,079 | 0.13 | 472 | 0.03 |
| Total | <u>\$ 60,583</u> | <u>\$ 1.93</u> | <u>\$ 35,794</u> | <u>\$ 2.12</u> |
| Depletion expense | \$ 95,439 | \$ 3.04 | \$ 35,995 | \$ 2.13 |
| Accretion expense | \$ 5,094 | \$ 0.16 | \$ 3,736 | \$ 0.22 |

(1) Excludes exploration expense of \$4.2 million and \$21.8 million for the six months ended June 30, 2007 and 2006, respectively. Exploration expense is not a component of lease operating expense.

(2) Includes production taxes.

Results of operations for our Oil and Gas segment in the United Kingdom were immaterial for the six months ended June 30, 2007 and 2006.

Revenues. During the six months ended June 30, 2007, our revenues increased by 35% as compared to the same period in 2006. Contracting Services revenues increased primarily due to improved contract pricing for the pipelay, well operations and ROV divisions. Shelf Contracting revenues increased primarily as a result of the initial deployment of certain assets we acquired through the Torch, Acergy and Fraser acquisitions that came into service subsequent to the first quarter of 2006. These increases were partially offset by two vessels CDI did not operate (one owned and one chartered) in first quarter 2006 that were in operation in 2006 and an increased number of out of service days for regulatory drydock and vessel upgrades for certain vessels in our Shelf Contracting segment.

Oil and Gas revenues increased 69% during the six months ended June 30, 2007 as compared to the same period in 2006. The increase was primarily due to increases in oil and natural gas production. The production volume increase of 85% during the six months ended June 30, 2007 over the same period in 2006 was mainly attributable to the Remington acquisition. This Oil and Gas revenues increase was partially offset by lower oil and gas prices realized in the first half of 2007 as compared to the same prior year period.

Gross Profit. Gross profit in the first half of 2007 increased 19% as compared to the same period in 2006. The Contracting Services gross profit increase was primarily attributable to improved contract pricing for the pipelay, well operations and ROV divisions. The gross margin decrease for Contracting Services was primarily due to our fulfillment of our lower margin work bid in 2005 for our pipelay assets. The gross profit decrease within Shelf Contracting was primarily attributable to overall lower margins in the international markets, an increased number of out of service days as a result of planned drydocks, and increased depreciation and amortization related to deferred drydock costs on newly deployed vessels and other vessel upgrades.

The Oil and Gas gross profit increase in the first half of 2007 as compared to the same period in 2006 was primarily due to higher oil and gas production as discussed above. In addition, gross profit and gross margin were higher in the six months ended June 30, 2007 as compared to 2006 as a result of decreased exploration costs of approximately \$17.6 million. Exploration costs were higher in the first half 2006 primarily as a result of the \$20.7 million dry hole expense related to the Tulane prospect. The gross

profit increase was partially offset by lower oil and gas prices as discussed above and higher depletion expense as a result of the Remington acquisition.

Gain on Sale of Assets, Net. Gain on sale of assets, net, increased by \$5.4 million during the six months ended June 30, 2007 as compared to the same prior year period. This increase was primarily related to a gain of \$2.4 million for the sale of a mobile offshore production unit and a \$1.6 million gain related to the sale of a 50% interest in *Camelot*. In addition, we recognized a gain of \$1.6 million in the second quarter for the sale of a saturation system owned by CDI.

Selling and Administrative Expenses. Selling and administrative expenses of \$64.0 million for the first half of 2007 were \$15.6 million higher than the \$48.4 million incurred in the same prior year period. The increase was due primarily to higher overhead to support our growth. Further, in June 2007, CDI recorded a \$2.0 million charge for an anticipated cash settlement referred to above with the Department of Justice. For both six-month periods ended June 30, 2007 and 2006, selling and administrative expenses were approximately 8% of revenues.

Equity in Earnings (Losses) of Investments, Net of Impairment Charge. Equity in earnings (losses) of investments decreased by \$9.4 million during the six months ended June 30, 2007 as compared to the same prior year period. This decrease was primarily due to second quarter 2007 equity losses from CDI's 40% investment in OTSL and a related non-cash asset impairment charge both totaling \$11.8 million. This decrease was partially offset by a \$2.6 million increase in equity in earnings related to our 20% investment in Independence Hub as we reached mechanical completion in March 2007 and began receiving demand fees. In addition, equity in earnings of our 50% investment in Deepwater Gateway increased by \$1.6 million in the first half of 2007 as compared to 2006 due to higher throughput at the *Marco Polo* TLP.

Net Interest Expense and Other. We reported net interest and other expense of \$27.3 million in the six months ended June 30, 2007 as compared to \$5.4 million in the prior year. Gross interest expense of \$46.2 million during the six months ended June 30, 2007 was higher than the \$9.6 million incurred in 2006 as a result of our Term Loan, which closed in July 2006, and CDI's revolving credit facility, which closed in December 2006. Offsetting the increase in interest expense was \$11.8 million of capitalized interest and \$6.6 million of interest income in the first half of 2007, compared with \$2.4 million of capitalized interest and \$1.5 million of interest income in the same prior year period.

Provision for Income Taxes. Income taxes increased to \$66.4 million in the six months ended June 30, 2007 as compared to \$65.0 million in the same prior year period. The effective tax rate for the six months ended June 30, 2007 was of 34.4% as compared to 34.0% for the same prior year period. The effective tax rate for the six months ended June 30, 2007 was increased by equity in losses and impairment of CDI's investment in OTSL, which had minimal tax benefit, and by CDI's accrual for the anticipated settlement with the Department of Justice, which had no tax benefit. These increases in the effective tax rate were partially offset by lower effective tax rates in foreign jurisdictions.

LIQUIDITY AND CAPITAL RESOURCES**Overview**

The following tables present certain information useful in the analysis of our financial condition and liquidity for the periods presented (in thousands):

| | <u>June 30, 2007</u> | <u>December 31, 2006</u> |
|---------------------|--------------------------|------------------------------|
| Net working capital | \$ 68,258 | \$ 310,524 |
| Long-term debt(1) | 1,386,011 | 1,454,469 |

(1) Long-term debt does not include the current maturities portion of the long-term debt as such amount is included in net working capital.

| | <u>Six Months Ended June 30,</u> | |
|---------------------------------|--------------------------------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| Net cash provided by (used in): | | |
| Operating activities | \$ 123,691 | \$ 149,325 |
| Investing activities | \$(161,421) | \$(211,782) |
| Financing activities | \$ (73,050) | \$ 8,758 |

Our primary cash needs are to fund capital expenditures to allow the growth of our current lines of business and to repay outstanding borrowings and make related interest payments. Historically, we have funded our capital program, including acquisitions, with cash flows from operations, borrowings under credit facilities and use of project financing along with other debt and equity alternatives.

In accordance with the Senior Credit Facilities, Convertible Senior Notes, MARAD Debt and Cal Dive's credit facility, we are required to comply with certain covenants and restrictions, including the maintenance of minimum net worth, working capital and debt-to-equity requirements. As of June 30, 2007 and December 31, 2006, we were in compliance with these covenants and restrictions. The Senior Credit Facilities contain provisions that limit our ability to incur certain types of additional indebtedness. These provisions effectively prohibit us from incurring any additional secured indebtedness or indebtedness guaranteed by the Company. The Senior Credit Facilities do, however, permit us to incur unsecured indebtedness, and also permit our subsidiaries to incur project financing indebtedness (such as our MARAD Debt) secured by the underlying asset, provided that the indebtedness is not guaranteed by us.

The Convertible Senior Notes can be converted prior to the stated maturity under certain triggering events specified in the indenture governing the Convertible Senior Notes. In second quarter 2007, the closing sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on June 29, 2007 exceeded 120% of the conversion price (i.e. \$38.56 per share). As a result, pursuant to the terms of the indenture, the Convertible Senior Notes can be converted during third quarter 2007, although we do not anticipate such occurring. In July 2007, we entered into a commitment for a bridge loan facility with a financial institution. Under the commitment letter, the financial institution has provided us with an underwritten commitment to fund up to \$100 million through October 1, 2007 to fund, to the extent our Revolving Credit Facility is not available, the cash portion of any conversion payments required to be made upon conversion of our Convertible Senior Notes. As we have sufficient financing available under our Revolving Credit Facility and a commitment from a financial institution to fully fund the cash portion of the potential conversion, the Convertible Senior Notes continue to be classified as a long-term liability in the accompanying balance sheet. If in future quarters the conversion price trigger is met and we do not have alternative long-term financing or commitments available to cover the conversion (or a portion thereof), the portion uncovered would be classified as a current liability in the accompanying balance sheet.

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For the remainder of 2007, assuming the current balance of the CDI revolver remains outstanding, we expect to make approximately \$43.8 million of interest payments, excluding the effect of interest rate swaps. In addition, we expect to make preferred dividend payments totaling approximately \$1.9 million for the remainder of 2007. As of June 30, 2007, we had \$300 million of available borrowing capacity under our credit facilities, and CDI had \$110 million of available borrowing under its revolving credit facility. We do not have access to any unused portion of CDI's revolving credit facility. See "Notes to Condensed Consolidated Financial Statements (Unaudited) — Note 9 – Long-term Debt" for additional information related to our long-term obligations, including our obligations under capital commitments.

Working Capital

Cash flow from operating activities decreased by \$25.6 million in the six months ended June 30, 2007 as compared to the same period in 2006. This decrease was primarily due to income taxes paid in the first half of 2007 of approximately \$162.0 million, most of which (\$126.6 million) was related to the proceeds received from the CDI initial public offering. In addition, during the first half of 2007, we performed approximately \$29.5 million of drydock work on our vessels in both our Contracting Services and Shelf Contracting segments. These decreases were partially offset by improved cash receipts from trade accounts receivables collection (improved receivables turnover) and by higher profitability, after adjusting for non-cash related costs such as depreciation, deferred taxes, stock compensation expense, equity in losses and impairment of OTSL and minority interest reduction, in the six months ended June 30, 2007 as compared to the same period in 2006.

Investing Activities

Capital expenditures have consisted principally of strategic asset acquisitions related to the purchase or construction of DP vessels, acquisition of select businesses, improvements to existing vessels, acquisition of oil and gas properties and investments in our production facilities. Significant sources (uses) of cash associated with investing activities for the six months ended June 30, 2007 and 2006 were as follows (in thousands):

| | Six Months Ended June 30, | |
|---|------------------------------|---------------------|
| | 2007 | 2006 |
| Capital expenditures: | | |
| Contracting Services | \$ (99,557) | \$ (53,187) |
| Shelf Contracting | (12,272) | (7,387) |
| Production Facilities | (36,854) | (1,257) |
| Oil and Gas ⁽¹⁾ | (282,799) | (63,963) |
| Acquisition of businesses, net of cash acquired: | | |
| Remington Oil and Gas Corporation ⁽²⁾ | (136) | — |
| Acergy US Inc. | — | (78,174) |
| Sale of short-term investments | 275,395 | — |
| Investments in production facilities | (15,265) | (19,019) |
| Distributions from equity investments, net ⁽³⁾ | 6,279 | — |
| Increase in restricted cash | (551) | (5,577) |
| Proceeds from sale of properties | 4,339 | 16,782 |
| Cash provided by (used in) investing activities | <u>\$ (161,421)</u> | <u>\$ (211,782)</u> |

(1) Included approximately \$116,000 and \$20.7 million of capital expenditures related to exploratory dry holes in the six months ended June 30, 2007 and 2006. For additional information, see "Notes to Condensed Consolidated Financial Statements (Unaudited) – Note 6."

(2) For additional information related to the Remington acquisition, see "Notes to Condensed Consolidated Financial Statements (Unaudited) – Note 5."

(3) Distributions from equity investments are net of undistributed equity earnings from our equity investments, exclusive of OTSL. Gross distributions from our equity investments are detailed below.

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On June 11, 2007, CDI announced an agreement pursuant to which it will acquire Horizon in a transaction valued at approximately \$650 million, which includes approximately \$22 million of Horizon's net debt as of March 31, 2007. Under the terms of the agreement, Horizon stockholders will receive \$9.25 in cash and 0.625 shares of CDI common stock for each Horizon share, or an estimate of \$302.5 million and 20.4 million CDI shares. The expected issuance of this equity will reduce our majority interest in CDI from approximately 73% to approximately 59%. Closing of the transaction is subject to regulatory approvals and other customary conditions, as well as Horizon stockholder approval. See "Notes to Condensed Consolidated Financial Statements—Note 19" included herein for detailed discussion of this transaction. Cal Dive expects to fund the cash portion of the Horizon acquisition through a \$375 million senior secured term facility and a \$300 million senior secured revolving credit facility which have been underwritten by a bank and are non-recourse to Helix.

Short-term Investments

As of June 30, 2007 and December 31, 2006, we held approximately \$10.0 million and \$285.4 million, respectively, in municipal auction rate securities which have been classified as available-for-sale securities. These instruments are long-term variable rate bonds tied to short-term interest rates that are reset through a "Dutch Auction" process which occurs every 7 to 35 days. Although these instruments do not meet the definition of cash and cash equivalents, due to the liquid nature of these securities, we expect to use these instruments to fund our working capital as needed.

Restricted Cash

As of June 30, 2007 and December 31, 2006, we had \$34.2 million and \$33.7 million of restricted cash, respectively, included in other assets, net, in the accompanying condensed consolidated balance sheet, all of which related to the escrow funds for decommissioning liabilities associated with the SMI 130 acquisition in 2002 by our Oil and Gas segment. We have fully satisfied the escrow requirement as of June 30, 2007. We may use the restricted cash for decommissioning the related field.

Equity Investments

We made the following contributions to our equity investments during the six months ended June 30, 2007 and 2006 (in thousands):

| | Six Months Ended June 30, | |
|--------------|------------------------------|------------------|
| | 2007 | 2006 |
| Independence | \$ 12,475 | \$ 19,019 |
| Other | 2,790 | — |
| Total | <u>\$ 15,265</u> | <u>\$ 19,019</u> |

We received the following distributions from our equity investments during the six months ended June 30, 2007 and 2006 (in thousands):

| | Six Months Ended June 30, | |
|-------------------|------------------------------|-----------------|
| | 2007 | 2006 |
| Deepwater Gateway | \$ 15,500 | \$ 7,750 |
| Independence | 3,000 | — |
| Total | <u>\$ 18,500</u> | <u>\$ 7,750</u> |

During the second quarter of 2007, OTSL generated significant operating losses, lost several project bids and ultimately decided to exit the saturation diving market. Based on these events, CDI determined that there were indicators of an impairment in its investment in OTSL. As a result, CDI evaluated this investment to determine whether a permanent loss in value had occurred. In June 2007,

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CDI concluded that an impairment in the carrying value of OTSL was other than temporary, and as a result, CDI recorded a loss in equity investment in OTSL of \$11.8 million, which reduced the carrying value of OTSL to zero.

Oil and Gas Activities

In February 2007, we completed the drilling of an exploratory well in our 100% owned Noonan prospect located in Garden Banks block 506 in the Gulf of Mexico. The Noonan well has been completed and the development plan being screened includes a fast track subsea tie-back to the 100% owned East Cameron block 381 platform located in shallower water. First production is expected to be achieved in the second half of 2008. As of June 30, 2007, approximately \$88.5 million of capitalized project costs were related to Noonan.

In July 2007, we announced that we completed the drilling of an exploratory well in our 100% owned Danny prospect also located in Garden Banks block 506. The well confirmed the presence of high quality oil in a single sand body. The well is being completed and is anticipated that the Danny discovery will be developed in conjunction with the development of the Noonan reservoir. First production from Danny is expected in the second half of 2008. As of June 30, 2007, approximately \$20.1 million of capitalized project costs were related to Danny.

In December 2006, we acquired a 100% working interest in the *Camelot* oil field in the North Sea for the assumption of certain decommissioning liabilities estimated at approximately \$7.6 million. In June 2007, we sold a 50% working interest in this property for approximately \$1.8 million and the assumption by the purchaser of 50% of the decommissioning liability of approximately \$4.0 million. We recognized a gain of approximately \$1.6 million as a result of this sale.

Outlook

We anticipate capital expenditures for the remainder of 2007 will range from \$475 million to \$525 million. Our projected capital expenditures on certain projects have increased as compared to the initially budgeted amounts due primarily to the weakening of the U.S. dollar with respect to foreign denominated contracts and escalating costs for certain materials and services due to increasing demand. We may increase or decrease these plans based on various economic factors. We believe internally generated cash flow and borrowings under our existing credit facilities will provide the necessary capital to fund our 2007 initiatives (excluding the pending Horizon acquisition).

The following table summarizes our contractual cash obligations as of June 30, 2007 and the scheduled years in which the obligations are contractually due (in thousands):

| | Total (1) | Less Than 1 year | 1-3 Years | 3-5 Years | More Than 5 Years |
|--------------------------------|--------------------|-----------------------------|------------------|------------------|------------------------------|
| Convertible Senior Notes(2) | \$ 300,000 | \$ — | \$ — | \$ — | \$ 300,000 |
| Term Loan | 828,700 | 8,400 | 16,800 | 16,800 | 786,700 |
| MARAD debt | 129,398 | 3,917 | 8,431 | 9,293 | 107,757 |
| CDI Revolving Credit Facility | 140,000 | — | — | 140,000 | — |
| Loan notes | 11,303 | 11,303 | — | — | — |
| Capital leases | 2,775 | 2,545 | 230 | — | — |
| Acquisition of businesses(3) | 302,500 | 302,500 | — | — | — |
| Drilling and development costs | 34,600 | 34,600 | — | — | — |
| Property and equipment(4) | 197,272 | 197,272 | — | — | — |
| Operating leases(5) | 138,083 | 59,101 | 65,239 | 5,893 | 7,850 |
| Other(6) | 4,815 | 4,100 | 715 | — | — |
| Total cash obligations | <u>\$2,089,446</u> | <u>\$ 623,738</u> | <u>\$ 91,415</u> | <u>\$171,986</u> | <u>\$1,202,307</u> |

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- (1) Excludes unsecured letters of credit outstanding at June 30, 2007 totaling \$35.3 million. These letters of credit primarily guarantee various contract bidding, contractual performance and insurance activities and shipyard commitments.
- (2) Maturity 2025. Can be converted prior to stated maturity (see "Notes to Condensed Consolidated Financial Statements (Unaudited) – Note 9"). In second quarter 2007, the conversion triggers were met, so the notes can be converted during third quarter 2007. As we have sufficient financing secured under our Revolving Credit Facility and a commitment from a financing institution to fully fund the cash portion of the potential conversion, the Convertible Senior Notes continue to be classified as a long-term liability in the accompanying balance sheet. If in future quarters the conversion price trigger is met and we do not have alternative long-term financing or commitments available to cover the conversion (or a portion thereof), the portion uncovered would be classified as a current liability in the accompanying balance sheet.
- (3) Related to the cash portion of CDI's pending Horizon acquisition. CDI has obtained a commitment for long-term financing to fund the cash portion of the acquisition. See "Notes to Condensed Consolidated Financial Statements (Unaudited) —Note 19" included herein for detailed discussion of this transaction.
- (4) Costs incurred as of June 30, 2007 and additional property and equipment commitments at June 30, 2007 consisted of the following (in thousands):

| | <u>Costs Incurred</u> | <u>Costs Committed</u> | <u>Total Project Cost</u> |
|--|---------------------------|----------------------------|-------------------------------|
| Caesar conversion | \$ 45,440 | \$ 57,940 | \$ 135,000 |
| Q4000 upgrade & modification | 32,343 | 25,146 | 75,000 |
| Well Enhancer construction | 25,313 | 95,780 | 183,000 |
| Helix Producer I conversion ^(a) | 36,141 | 18,406 | 175,000 |
| Total | <u>\$139,237</u> | <u>\$ 197,272</u> | <u>\$ 568,000</u> |

- (a) Represents 100% of the vessel conversion cost, of which we expect our portion to be approximately \$154.0 million.
- (5) Operating leases included facility leases and vessel charter leases. Vessel charter lease commitments at June 30, 2007 were approximately \$112.3 million.
- (6) Other consisted of scheduled payments pursuant to 3-D seismic license agreements.

Contingencies

In orders from the MMS dated December 2005 and May 2006, ERT received notice from the MMS that the price thresholds were exceeded for 2004 oil and gas production and for 2003 gas production, and that royalties are due on such production notwithstanding the provisions of the DWRRA. As of June 30, 2007, we have approximately \$48.6 million accrued for the related royalties and interest. See "Notes to Condensed Consolidated Financial Statements (Unaudited)—Note 17" for a detailed discussion of this contingency.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

We are currently exposed to market risk in three major areas: interest rates, commodity prices and foreign currency exchange rates.

Interest Rate Risk. As of June 30, 2007, including the effects of interest rate swaps, approximately 55% of our outstanding debt was based on floating rates. As a result, we are subject to interest rate risk. In September 2006, we entered into various cash flow hedging interest rate swaps to stabilize cash flows relating to interest payments on \$200 million of our Term Loan. Excluding the portion of our debt for which we have interest rate swaps in place, the interest rate applicable to our remaining variable rate debt may rise, increasing our interest expense. The impact of market risk is estimated using a hypothetical increase in interest rates by 100 basis points for our variable rate long-term debt that is not hedged. Based on this hypothetical assumption, we would have incurred an additional \$2.5 million and \$5.1 million in interest expense for the three and six months ended June 30, 2007, respectively. Interest rate risk was immaterial in the three and six months ended June 30, 2006 as an immaterial portion of our outstanding debt at such date was based on floating rates.

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Commodity Price Risk. As of June 30, 2007, we had the following volumes under derivative contracts related to our oil and gas producing activities totaling 1,140 MBbl of oil and 15,350 MMBtu of natural gas:

| <u>Production Period</u> | <u>Instrument Type</u> | <u>Average Monthly Volumes</u> | <u>Weighted Average Price</u> |
|------------------------------|------------------------|--------------------------------|-------------------------------|
| Crude Oil: | | | |
| July 2007 – December 2007 | Collar | 100 MBbl | \$50.00 — \$67.98 |
| January 2008 – December 2008 | Collar | 45 MBbl | \$56.57 — \$76.51 |
| Natural Gas: | | | |
| July 2007 – December 2007 | Collar | 1,283,333 MMBtu | \$ 7.50 — \$10.05 |
| January 2008 – December 2008 | Collar | 637,500 MMBtu | \$ 7.32 — \$10.87 |

We have not entered into any hedge instruments subsequent to June 30, 2007. Changes in NYMEX oil and gas strip prices would, assuming all other things being equal, cause the fair value of these instruments to increase or decrease inversely to the change in NYMEX prices.

As of June 30, 2007, we had natural gas forward sales contracts for the period from April 2008 through December 2008. The contracts cover an average of 317,178 MMBtu per month at a weighted average price of \$8.40. Subsequent to June 30, 2007, we entered into five additional natural gas forward sales contracts and one oil forward sales contract. Gas forward sales contracts cover the period from October 2007 through December 2008. The contracts cover an average of 541,667 MMBtu per month at a weighted average price of \$8.31. The oil forward sales contract is for the period of October 2007 through December 2008. The contract covers an average of 41 MBbl per month at a price of \$72.20. Hedge accounting does not apply to these contracts as these contracts qualify as normal purchases and sales transactions.

Foreign Currency Exchange Risk. Because we operate in various regions in the world, we conduct a portion of our business in currencies other than the U.S. dollar. In December 2006, we entered into various foreign currency forward contracts to stabilize expected cash outflows relating to a shipyard contract where the contractual payments are denominated in euros. These forward contracts qualify for hedge accounting. Under the forward contracts, we hedged €7.0 million that was settled in June 2007 at an exchange rate of 1.3255 and €11.0 million at an exchange rate of 1.3326 to be settled in December 2007. In June 2007, we settled €7.0 million of our foreign currency forward contract and recognized a gain of \$68,000, and subsequently entered into a €14.0 million foreign currency forward contract that was settled in July 2007. The aggregate fair value of the hedge instruments was a net asset (liability) of \$576,000 and (\$184,000) as of June 30, 2007 and December 31, 2006, respectively. For the three and six months ended June 30, 2007, we recorded unrealized gains of approximately \$227,000 and \$558,000, respectively, net of tax expense of \$122,000 and \$266,000, respectively, in accumulated other comprehensive income, a component of shareholders' equity, as these hedges were highly effective.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) as of the end of the fiscal quarter ended June 30, 2007. Based on this evaluation, the principal executive officer and the principal financial officer have concluded that our disclosure controls and procedures were effective as of the end of the fiscal quarter ended June 30, 2007 to ensure that information that is required to be disclosed by us in the reports we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, as appropriate, to allow timely decisions regarding required disclosure.

(b) *Changes in internal control over financial reporting.* There have been no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act, in the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION**Item 1. Legal Proceedings**

See Part I, Item 1, Note 17 to the Condensed Consolidated Financial Statements, which is incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

| Period | (a) Total number of shares purchased | (b) Average price paid per share | (c) Total number of shares purchased as part of publicly announced program | (d) Maximum value of shares that may yet be purchased under the program |
|----------------------------|--------------------------------------|----------------------------------|--|---|
| April 1 to April 30, 2007 | — | \$ — | — | \$ N/A |
| May 1 to May 31, 2007(1) | 114 | 36.30 | — | N/A |
| June 1 to June 30, 2007(1) | 222 | 39.91 | — | N/A |
| | <u>336</u> | <u>\$ 38.68</u> | <u>—</u> | <u>\$ N/A</u> |

(1) Represents shares subject to restricted share awards withheld to satisfy tax obligations arising upon the vesting of restricted shares.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of the Shareholders of the Company was held on May 7, 2007, in Houston, Texas, for the purpose of electing three Class I directors each for a three-year term ending in 2010. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934, and there was no solicitation in opposition to management's solicitation.

Proposal 1: Each of the Class I directors nominated by the Board of Directors and listed in the proxy statement was elected with votes as follows:

| Nominee | Shares For | Shares Withheld |
|----------------------|------------|-----------------|
| Owen Kratz | 71,911,799 | 8,714,699 |
| John V. Lovoi | 79,669,797 | 956,701 |
| Bernard Duroc-Danner | 66,058,673 | 14,567,825 |

The term of office of each of the following directors continued after the meeting:

Gordon F. Ahalt
 Martin Ferron
 T. William Porter
 William L. Transier
 Anthony Tripodo
 James A. Watt

Item 6. Exhibits

- 4.1 Term Loan Agreement by and among Kommandor LLC, Nordea Bank Norge ASA, as arranger and agent, Nordea Bank Finland Plc, as swap bank, together with the other lender parties thereto, effective as of June 13, 2007(1)
- 15.1 Independent Registered Public Accounting Firm's Acknowledgement Letter(1)
- 31.1 Certification Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 by Owen Kratz, Executive Chairman(1)

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- 31.2 Certification Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 by A. Wade Pursell, Chief Financial Officer(1)
- 32.1 Section 1350 Certification of Principal Executive Officer, Owen Kratz, Executive Chairman(2)
- 32.2 Section 1350 Certification of Principal Financial Officer, A. Wade Pursell, Chief Financial Officer(2)
- 99.1 Report of Independent Registered Public Accounting Firm(1)

(1) Filed herewith

(2) Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**HELIX ENERGY SOLUTIONS GROUP, INC.
(Registrant)**

Date: August 3, 2007

By: /s/ Owen Kratz
Owen Kratz
Executive Chairman

Date: August 3, 2007

By: /s/ A. Wade Pursell
A. Wade Pursell
Executive Vice President and
Chief Financial Officer

**INDEX TO EXHIBITS
OF
HELIX ENERGY SOLUTIONS GROUP, INC.**

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- 32.2 Section 1350 Certification of Principal Financial Officer, A. Wade Pursell, Chief Financial Officer(2)
- 99.1 Report of Independent Registered Public Accounting Firm(1)

(1) Filed herewith

(2) Furnished herewith

THOMMESSEN

**USD 45,000,000
TERM LOAN AGREEMENT**

for

Kommandor LLC
as Borrower

provided by

**The Financial Institutions
listed in Schedule 1**
as Lenders

with

Nordea Bank Norge ASA
as Arranger

Nordea Bank Norge ASA
as Agent

and

Nordea Bank Finland Plc.
as Swap Bank

Dated 13 June 2007

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SCHEDULES

- 1 Lenders and Commitments
- 2 Conditions Precedent
- 3 Form of Drawdown Notice
- 4 Form of Selection Notice
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- 6 Form of Transfer Certificate
- 7 Form of Assignment Agreement

THIS TERM LOAN AGREEMENT is dated 13 June 2007 and made between:

- (1) **Kommandor LLC** of Corporation Trust Center, 1209 Orange Street, City of Wilmington, Delaware, USA, as borrower (the "**Borrower**");
- (2) **The banks and financial institutions listed in Schedule 1**, as original lenders (together, the "**Lenders**");
- (3) **Nordea Bank Norge ASA** of Middelthunsgate 17, N-0368 Oslo, Norway, organisation number 911 044 110, as facility agent (the "**Agent**");
- (4) **Nordea Bank Norge ASA** of Middelthunsgt. 17, N-0368 Oslo, Norway, organisation number 911 044 110, as arranger (the "**Arranger**"); and
- (5) **Nordea Bank Finland Plc.** of TO1, FIN-00020 Nordea, Helsinki, Finland, as swap bank (the "**Swap Bank**").

IT IS AGREED as follows:

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement, unless the context otherwise requires:

"Account Pledge" means the pledge over the Earnings Account and any other accounts as agreed between the Borrower and the Agent (on behalf of the Finance Parties and the Swap Bank) as security for the Borrower's obligations under this Agreement and any Swap Agreement, in form and substance satisfactory to the Agent (on behalf of the Finance Parties and the Swap Bank).

"Additional Conversion" means the Bareboat Charterer's conversion of the Vessel into a floating production unit by installing the TPF on top of the Vessel's deck.

"Agreement" means this term loan facility agreement, as it may be amended, supplemented and varied from time to time, including its Schedules and any Transfer Certificate.

"Assignment Agreement" means the assignment agreement collateral to this Agreement to be made between the Borrower and the Agent (on behalf of the Finance Parties and the Swap Bank) for the first priority assignment of the Earnings and Insurances, as security for all amounts due from time to time under this Agreement and any Swap Agreement, substantially in the form set out in Schedule 7 (Form of Assignment Agreement).

"Availability Period" means the period from and including the date of this Agreement up to and including 31 March 2008.

"Available Commitment" means a Lender's Commitment less the amount of its participation in the Loan outstanding.

"Bareboat Agent" means Bank of America N.A., as Administrative Agent for the Bareboat Lenders.

"Bareboat Charterer" means Helix Energy Solutions Group, Inc., a Minnesota corporation

"Bareboat Charterer Security" means:

- a) the Bareboat Charterer Share Pledge;
- b) the UCCI Charge; and
- c) the Second Mortgage.

"Bareboat Charterer Share Pledge" means the pledge (such pledge to have first priority if required by the Bareboat Agent (on behalf of the Bareboat Lenders) by the Bareboat Charterer of all of its shares in the Borrower in favour of the Bareboat Agent (on behalf of the Bareboat Lenders) as security for its obligations under the Bareboat External Funding.

"Bareboat Charterer Undertaking" means an undertaking from the Bareboat Charterer in favour of the Agent (on behalf of the Finance Parties) relating to certain matters relating to the Bareboat Charterer, the Vessel and the operation of the Vessel, in form and substance satisfactory to the Agent.

"Bareboat Charterparty" means the bareboat charterparty to be made between the Borrower (as owner) and the Bareboat Charterer prior to the Drawdown Date for the bareboat charter of the Vessel to the Bareboat Charterer for a period of ten (10) years, commencing on the Delivery Date at a daily net charter hire in USD of not less than zero point four per thousand (0.4 ‰) of the Project Cost, in form and substance as approved by the Agent (on behalf of the Finance Parties and the Swap Bank).

"Bareboat Charterparty Assignment" means the deed of assignment collateral to this Agreement for the first priority assignment of the Bareboat Charterparty to be made between the Borrower and the Agent (on behalf of the Finance Parties and the Swap Bank) as security for the Borrower's obligations under this Agreement and any Swap Agreement(s), in form and substance as approved by the Agent (on behalf of the Finance Parties and the Swap Bank).

"Bareboat External Funding" means the Credit Agreement dated as of 30 July 2006 among the Bareboat Charterer as borrower, the Bareboat Lenders and the Bareboat Agent.

"Bareboat Facility" means the facility provided by the Bareboat Charterer to the Borrower as a part of the pre-delivery financing of the Vessel, in form and substance satisfactory to the Agent (on behalf of the Finance Parties and the Swap Bank).

"Bareboat Lenders" means the lenders providing the Bareboat External Funding.

"Break Costs" means the amount (if any) by which:

- a) the interest which a Lender should have received for the period from the date of receipt of all or part of its participation in the Loan or Unpaid Sum to the last day of the current Interest Period in respect of the Loan or Unpaid Sum, had the principal amount or Unpaid Sum been paid on the last day of that Interest Period, less the Margin for such period on such amounts; exceeds
- b) the amount which that Lender would be able to obtain by placing an amount equal to the principal amount or Unpaid Sum received by it on deposit with a leading bank in the relevant interbank market for a period starting on the Business Day following receipt or recovery and ending on the last day of the current Interest Period.

"Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in Oslo, New York and London (or any other relevant place of payment under Clause 27 (Payment mechanics)).

"Closing Date" means a date on which all Finance Documents have been agreed and signed, however no later than 15 March 2007.

"Commitment" means:

- a) in relation to a Lender, the amount set opposite its name under the heading "Commitments" in Schedule 1 (Lenders and Commitments) and the amount of any other Commitment transferred to it pursuant to Clause 24.2 (Assignments and transfers by the Lenders); and
- b) in relation to any New Lender, the amount of any Commitment transferred to it pursuant to Clause 24.2 (Assignments and transfers by the Lenders),

to the extent not cancelled, reduced or transferred by it under this Agreement.

"Company" means, at any given time in relation to the Vessel, the company responsible for the Vessel's compliance with the ISM Code pursuant to paragraph 1.1.2 of the ISM Code.

"Compliance Certificate" means a certificate substantially in the form as set out in Schedule 5 (Form of Compliance Certificate).

"Conversion Contract" means the conversion contract dated 7 April 2006 as subsequently amended and assigned from time to time between Hays Maritime DK ApS (and subsequently assigned to the Borrower) and the Yard for the conversion of the Vessel into an offshore construction vessel and for the redelivery by the Yard of the Vessel following the conversion.

"Default" means an Event of Default or any event or circumstance specified in Clause 23 (Events of Default) which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Finance Documents or any combination of any of the foregoing) be an Event of Default.

"Delivery Date" means the date the Vessel is actually redelivered to the Borrower under the Conversion Contract, such redelivery being scheduled to occur in October 2007.

"DOC" means in relation to the Technical Manager (if any) or the Bareboat Charterer a valid document of compliance issued to the Technical Manager (if any) of the Bareboat Charterer pursuant to paragraph 13.2 of the ISM Code.

"Drawdown Date" means the Delivery Date or, as the context requires, the date on which the Loan is actually made.

"Drawdown Notice" means the notice substantially in the form set out in Schedule 3 (Form of Drawdown Notice).

"Earnings" means all moneys whatsoever which are now, or later become, payable (actually or contingently) to the Borrower and which arise out of the use of or operation of the Vessel, including (but not limited to):

- a) all freight, hire and passage moneys payable to the Borrower, including (without limitation) payments of any nature under the Bareboat Charterparty or any other charter or agreement for the employment, use, possession, management and/or operation of the Vessel;
- b) any claim under any guarantees related to freight and hire payable to the Borrower as a consequence of the operation of the Vessel;
- c) compensation payable to the Borrower in the event of any requisition of the Vessel or for the use of the Vessel by any government authority or other competent authority;
- d) remuneration for salvage, towage and other services performed by the Vessel payable to the Borrower;
- e) demurrage and retention money receivable by the Borrower in relation to the Vessel;
- f) all moneys which are at any time payable under the Insurances in respect of loss of earnings;
- g) if and whenever the Vessel is employed on terms whereby any moneys falling within litra a) to f) above are pooled or shared with any other person, that proportion of the net receipts of the relevant pooling or sharing arrangement which is attributable to the Vessel; and
- h) any other money whatsoever due or to become due to the Borrower from third parties in relation to the Vessel, or otherwise.

"Earnings Account" means USD account no. 8911013002 with Nordea Bank Finland Plc, New York Branch and USD account no. 8911012002 with Nordea Bank Finland Plc, Grand Cayman Branch, or any other account agreed between the Borrower and the Agent, of the Borrower with the Agent to which all the Earnings shall be paid.

"Environmental Approval" means any permit, licence, consent, approval and other authorisations and the filing of any notification, report or assessment required under any Environmental Law for the operation of the Vessel.

"Environmental Claim" means any claim, proceeding or investigation by any party in respect of any Environmental Law or Environmental Approval.

"Environmental Law" means any applicable law, regulation, convention or treaty in any jurisdiction in which the Borrower and/or the Bareboat Charterer conduct business which relates to the pollution or protection of the environment or to the carriage of material which is capable of polluting the environment.

"Event of Default" means any event or circumstance specified as such in Clause 23 (Events of Default).

"Facility" means the term loan facility made available under this Agreement as described in Clause 2.1 (Facility).

"Fee Letter" means the letter dated 28 September 2006 between the Arranger and the Borrower (or the Agent and the Borrower) setting out any fees referred to in Clause 11 (Fees).

"Final Maturity Date" means the day falling seven (7) years (eighty-four (84) months) after the Delivery Date.

"Finance Documents" means this Agreement, the Security Documents, the Intercreditor Agreement, the Fee Letter, the Bareboat Charterer Undertaking and any other document (whether creating a Security Interest or not) which is executed at any time by the Borrower or any other person as security for, or to establish any form of subordination to the Finance Parties under this Agreement or any of the other documents referred to herein or therein.

"Finance Party" means the Agent, the Arranger and the Lenders.

"Financial Indebtedness" means any indebtedness for or in respect of:

- a) moneys borrowed;
- b) any amount raised by acceptance under any acceptance credit facility;
- c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instruments;
- d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with GAAP, be treated as a finance or capital lease;
- e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
- g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);
- h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution;
- i) any amount raised by the issue of redeemable shares;
- j) any amount of any liability under an advance or deferred purchase agreement if one of the primary reasons behind the entry into such agreement is to raise finance; and
- k) (without double counting) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (j) above.

"Financial Support" means the making of any (whether actual or contingent) loans, credit or guarantee, indemnity or other assurance against financial loss to or for the benefit of any person, or otherwise voluntarily assume any liability in respect of any obligation of any other person.

"FPU Equipment" means, following the Additional Conversion, the TPF and other assets attached, installed or rigged on the Vessel from time to time.

"Free Cash" means the amounts (expressed in USD or USD equivalent) which are standing to the credit of current and deposit accounts with the Agent, excluding any amounts to which the right of access or use is blocked or restricted (whether by way of encumbrances or otherwise).

"GAAP" means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

"Insurances" means, in relation to the Vessel, all policies and contracts of insurance (which expression includes all entries of the Vessel in a protection and indemnity or war risk association) which are from time to time during the Security Period in place or taken out or entered into by or for the benefit of the Borrower (whether in the sole name of the Borrower or in the joint names of the Borrower and any other person) in respect of the Vessel or otherwise in connection with the Vessel and all benefits thereunder (including claims of whatsoever nature and return of premiums).

"Intercreditor Agreement" means the intercreditor agreement made or to be made between the Borrower, the Agent, the Lenders, the Arranger, the Swap Bank, the Bareboat Charterer and the Bareboat Agent on behalf of the Bareboat Lenders, covering among other things the matters set forth in Clause 17.3 (Intercreditor Agreement) hereof.

"Interest Payment Date" means the last Business Day of each Interest Period.

"Interest Period" means, in relation to the Loan, each of the successive periods determined in accordance with Clause 9.1 (Selection of Interest Periods), and, in relation to an Unpaid Sum, each period determined in accordance with Clause 8.3 (Default interest).

"ISM Code" means the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention.

"ISPS Code" means the International Ship and Port Facility Security (ISPS) Code as adopted by the International Maritime Organization's (IMO) Diplomatic Conference of December 2002.

"Lenders" means the banks and financial institutions listed in Schedule 1 (Lenders and Commitments) and any New Lender, which in each case has not ceased to be a Party in accordance with the terms of this Agreement.

"LIBOR" means for any Interest Period:

- a) the rate per annum equal to the offered quotation for deposits in USD ascertained by the Agent to be the rate established by the British Bankers' Association and appearing on the Reuters' page LIBOR01, published or reported by Reuter's through its monitor service or any equivalent successor to such service at or about 11:00 hours (London time) on the applicable Quotation Day; or
- b) if no such rate is available, the rate per annum at which the Lenders are able to acquire USD for the relevant Interest Period in the London interbank Euro-currency market at or about 11:00 hours (London time) on the applicable Quotation Day, as conclusively certified by the Agent to the Borrower.

“Loan” means the lower amount of (i) the amount equal to sixty per cent (60%) of the Project Cost and (ii) USD 45,000,000, or as the context requires, the aggregate principal amount outstanding under this Agreement from time to time.

“Majority Lenders” means:

- a) if there is no Loan outstanding, a Lender or Lenders whose Commitments aggregate more than 51% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 51% of the Total Commitments immediately prior to the reduction); or
- b) at any time, a Lender or Lenders whose participations in the Loan then outstanding aggregate more than 51% of the Loan then outstanding.

“Margin” means zero point ninety-five per cent (0.95%) per annum.

“Market Value” means the aggregate fair market value of the Vessel, being the average of valuations of the Vessel obtained from two (2) reputable and independent ship brokers, to be appointed by the Agent, with or without physical inspection of the Vessel (as the Agent may require, but no physical inspection shall be required following the Additional Conversion) on the basis of a sale for prompt delivery for cash at arm’s length on normal commercial terms as between a willing buyer and a willing seller, on an “as is, where is” basis, free of any existing charter or other contract of employment and/or pool arrangement.

“Material Adverse Effect” means a change in the business, assets or financial position of the Borrower which in the Majority Lenders’ reasonable opinion will adversely affect the ability of the Borrower to comply with its obligations under the relevant Finance Documents.

“Mortgage” means the first priority mortgage (and any deed of covenants collateral thereto), to be executed and recorded by the Borrower against the Vessel in the Ship Registry in favour of the Agent (on behalf of the Finance Parties and the Swap Bank), in form and substance satisfactory to the Agent (on behalf of the Finance Parties and the Swap Bank).

“New Lender” has the meaning set out in Clause 24 (Changes to the Parties).

“Operating Agreement” means the operating agreement dated 5 October 2006 between the Partners regarding their joint ownership of the Borrower.

“Original Financial Statements” means the opening balance sheet of the Borrower as of 31 December 2006 prepared in accordance with GAAP.

“Partners” means Rømø and the Bareboat Charterer.

“Party” means a party to this Agreement (including its successors and permitted transferees).

“Project Cost” means the project cost for the purchase price of the Vessel, the conversion of the Vessel under the Conversion Contract, owner’s delivery and related costs (including, but not limited to, finance, insurance and supervision costs), such project cost estimated at USD 75,000,000 and with any project costs in excess of USD 75,000,000 to be covered by capital contributions from the Partners, subject to the limits set forth in the Operating Agreement.

“Quotation Day” means the day occurring two (2) Business Days prior to the commencement of an Interest Period.

"Rømø" means Kommandør Rømø A/S of Denmark.

"Second Mortgage" means the second priority mortgage and any deed of covenants collateral thereto, to be executed and recorded by the Borrower against the Vessel in the Ship Registry in favour of the Bareboat Agent as security for the Bareboat External Funding, in form and substance satisfactory to the Agent (on behalf of the Finance Parties and the Swap Bank).

"Security Documents" means all or any security documents as may be entered into from time to time pursuant to Clause 17 (Security).

"Security Interest" means any mortgage, charge (whether fixed or floating), encumbrance, pledge, lien, assignment by way of security, finance lease, sale and repurchase or sale and leaseback arrangement, sale of receivables on a recourse basis or other security interest or any other agreement or arrangement having the effect of conferring security.

"Security Period" means the period commencing on the date of this Agreement and ending the date on which the Agent notifies the Borrower, the other Finance Parties and the Swap Bank that:

- a) all amounts which have become due for payment by the Borrower or any other party under the Finance Documents and any Swap Agreement have been paid;
- b) no amount is owing or has accrued (without yet having become due for payment) under any of the Finance Documents and/or any Swap Agreement;
- c) the Borrower has no future or contingent liability under any provision of this Agreement, the other Finance Documents and/or any Swap Agreement; and
- d) the Agent, the Majority Lenders and the Swap Bank in their reasonable discretion do not consider that there is a significant risk that any payment or transaction under a Finance Document and/or any Swap Agreement would be set aside, or would have to be reversed or adjusted, in any present or possible future proceeding relating to a Finance Document and/or any Swap Agreement or any asset covered (or previously covered) by a Security Interest created by a Finance Document.

"Selection Notice" means a notice substantially in the form set forth in Schedule 4 (Form of Selection Notice) given in accordance with Clause 9.1 (Selection of Interest Periods).

"Share Pledge" means the first priority pledge by Rømø of all of its shares in the Borrower in favour of the Agent (on behalf of the Finance Parties and the Swap Bank) as security for all amounts due from time to time under this Agreement and any Swap Agreement, in form and substance satisfactory to the Agent (on behalf of the Finance Parties and the Swap Bank) (such pledge (i) not to apply to or (ii) only to rank second priority, in respect of the Bareboat Charterer's shares in the Borrower).

"Ship Registry" means the Bahamas Ship Registry, in which the Vessel shall be registered, or such other ship registry as approved by the Agent in writing.

"SMC" means a valid safety management certificate issued for the Vessel pursuant to paragraph 13.7 of the ISM Code.

"SMS" means a safety management system for the Vessel developed and implemented in accordance with the ISM Code and including the functional requirements duties and obligations that follow from the ISM Code.

"Subordinated Loan Agreement" means the subordinated loan agreement dated 31 October 2006 between Rømmø and the Borrower whereby Rømmø has made available a loan in the amount of USD 5,000,000 to the Borrower as a part of the pre-delivery financing of the Vessel.

"Swap Agreement" means any interest rate or currency swap agreement or agreements, hereunder any ISDA Master Agreement and any schedules and confirmations thereto, to be made between the Borrower and the Swap Bank in relation to interest and currency hedging for a hedging line of up to USD 3,000,000.

"Tax on Overall Net Income" means a Tax imposed on a Finance Party by the jurisdiction under the laws of which it is incorporated, or in which it is located or treated as resident for tax purposes, on:

- a) the net income, profits or gains of that Finance Party world wide; or
- b) such of the net income, profits or gains of that Finance Party as are considered to arise in or relate to or are taxable in that jurisdiction.

"Taxes" means all present and future taxes, levies, imposts, duties, charges, fees, deductions and withholdings, and any restrictions and conditions resulting in a charge together with interest thereon and penalties in respect thereof and **"tax"** and **"taxation"** shall be construed accordingly.

"Technical Management Agreement" means any agreement entered into between the Bareboat Charterer and the Technical Manager for the technical management of the Vessel.

"Technical Manager" means such technical manager as approved by the Agent (on behalf of the Lenders) (if any).

"Total Commitments" means the aggregate of the Commitments, being the lower amount of (i) the amount equal to sixty per cent (60%) of the Project Cost and (ii) USD 45,000,000, at the date of this Agreement.

"Total Loss" means, in relation to the Vessel:

- a) the actual, constructive, compromised, agreed, arranged or other total loss of the Vessel; and
- b) any expropriation, confiscation, requisition or acquisition of the Vessel, whether for full consideration, a consideration less than its proper value, a nominal consideration or without any consideration, which is effected by any government or official authority or by any person or persons claiming to be or to represent a governmental or official authority (excluding a requisition for hire for a fixed period not exceeding one (1) year without any right to extension) unless it is within one (1) month from the Total Loss Date redelivered to the full control of the Borrower.

"Total Loss Date" means:

- a) in the case of an actual total loss of the Vessel, the date on which it occurred or, if that is unknown, the date when the Vessel was last heard of;

- b) in the case of a constructive, compromised, agreed or arranged total loss of the Vessel, the earlier of: (i) the date on which a notice of abandonment is given to the insurers (provided a claim for total loss is admitted by such insurers) or, if such insurers do not forthwith admit such a claim, at the date at which either a total loss is subsequently admitted by the insurers or a total loss is subsequently adjudged by a competent court of law or arbitration panel to have occurred or, if earlier, the date falling six (6) months after notice of abandonment of the Vessel was given to the insurers; and (ii) the date of compromise, arrangement or agreement made by or on behalf of the Borrower with the Vessel's insurers in which the insurers agree to treat the Vessel as a total loss; or
- c) in the case of any other type of total loss, on the date (or the most likely date) on which it appears to the Agent that the event constituting the total loss occurred.

"TPF" means the production facility to be installed on the top of the Vessel's deck by the Bareboat Charterer for separation of oil and gas, following the Delivery Date

"Transaction Documents" means the Finance Documents, the Conversion Contract, the Bareboat Charterparty, the Technical Management Agreement (if any), the Subordinated Loan Agreement, the Operating Agreement and the Swap Agreement, together with the other documents contemplated herein or therein.

"Transfer Certificate" means a certificate substantially in the form as set out in Schedule 6 (Form of Transfer Certificate) or any other form agreed between the Agent and the Borrower.

"Transfer Date" means, in respect of a Transfer (as defined in Clause 24.2 (Assignments and transfers by Lenders)), the proposed Transfer Date as set out in the Transfer Certificate relating to the Transfer.

"Unpaid Sum" means any sum due and payable but unpaid by the Borrower under the Finance Documents.

"UCCI Charge" means the first priority charge to be executed and registered by the Borrower over the FPU Equipment in favour of the Bareboat Agent as security for the Bareboat External Funding.

"USD" means United States Dollars, being the lawful currency of the United States of America.

"VAT" means value added tax.

"Vessel" means MV "Karl" (t/b/r "Helix Producer 1"), a 1986 built train ferry to be rebuilt to an offshore construction support vessel of 18,800 dwt, 161m length and 29m beam to be delivered to the Borrower from the Yard under the Conversion Contract in October 2007 and registered in the name of the Borrower in the Ship Registry.

"Yard" means Brodogradiliste Viktor Lenac d.d. u. stecaju, Croatia.

1.2 Construction

In this Agreement, unless the context otherwise requires:

- a) Clause and Schedule headings are for ease of reference only;

- b) words denoting the singular number shall include the plural and vice versa. In particular, for so long as Nordea Bank Norge ASA is the only Lender, references to "Lenders" or "Majority Lenders" shall be construed as a reference to Nordea Bank Norge ASA;
- c) references to Clauses and Schedules are references, respectively, to the Clauses and Schedules of this Agreement;
- d) references to a provision of law is a reference to that provision as it may be amended or re-enacted, and to any regulations made by the appropriate authority pursuant to such law;
- e) references to "**control**" means the power to appoint a majority of the board of directors or to direct the management and policies of an entity, whether through the ownership of voting capital, by contract or otherwise;
- f) a Default is "continuing" if it has not been remedied or waived;
- g) references to "**indebtedness**" includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent; and
- h) references to a "**person**" shall include any individual, firm, partnership, joint venture, company, corporation, trust, fund, body, corporate, unincorporated body of persons, or any state or any agency of a state or association (whether or not having separate legal personality).

2 THE FACILITY

2.1 Facility

Subject to the terms of this Agreement, the Lenders make available to the Borrower a USD secured term loan facility in the aggregate amount equal to the Total Commitments.

2.2 Finance Parties' rights and obligations

The obligations of each Finance Party under the Finance Documents are several. Failure by a Finance Party to perform its obligations under the Finance Documents does not affect the obligations of any other Party under the Finance Documents. No Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents.

The rights of each Finance Party under or in connection with the Finance Documents are separate and independent rights and any debt arising under the Finance Documents to a Finance Party from the Borrower shall be a separate and independent debt. A Finance Party may, except as otherwise stated in the Finance Documents, separately enforce its rights under the Finance Documents with respect to notices to the Borrower in respect of Events of Default and the prosecution of claims for a deficiency judgement if the proceeds from the Security Interest provided to the Finance Parties is insufficient to repay the Unpaid Sum due to such Finance Party in full. The Finance Parties agree that unless and until the Agent has transferred its rights and obligations to the Finance Parties in writing, the Finance Parties shall not seek to enforce any Security Interest hereunder except to exercise any right of setoff such Finance Party may have in respect to deposits of the Borrower.

3 PURPOSE

3.1 Purpose

The Borrower shall apply all amounts borrowed by it hereunder towards refinancing the subordinated loan under the Subordinated Loan Agreement and the Bareboat Facility and for the long term financing of the Vessel, however always limited to an amount equal to the lower of (i) USD 45,000,000 and (ii) 60% of the Project Costs.

3.2 Monitoring

Without prejudice to the obligations of the Borrower under this Clause 3, no Finance Party is bound to monitor or verify the application of any amount borrowed pursuant to this Agreement.

4 CONDITIONS PRECEDENT

4.1 Initial conditions precedent

- a) At the time of signing of this Agreement, the Borrower shall deliver the documents and other evidence listed in Schedule 2 Part I (Condition precedent – Signing) to the Agent, in form and substance satisfactory to the Agent (acting reasonably).
- b) The Borrower may not deliver a Drawdown Notice unless the Agent has received originals or certified copies of all of the documents and other evidence listed in Schedule 2 Part II (Conditions precedent — Drawdown) other than the documents listed in items 3a, 3g) and 4g) which shall be delivered at the Drawdown Date at the latest, in form and substance satisfactory to the Agent (acting reasonably). The Agent shall notify the Borrower and the Lenders promptly upon being so satisfied.

4.2 Further conditions precedent

The Lenders will only be obliged to comply with Clause 5.4 (Lenders' participation) if on the date of the Drawdown Notice and on the proposed Drawdown Date:

- a) no Default is continuing or would result from the proposed Loan; and
- b) the representations and warranties contained in Clause 18 (Representations and warranties) deemed to be repeated on those dates are true and correct in all material respects.

4.3 Maximum number of drawings

The Facility may be drawn in one amount only.

4.4 Waiver of conditions precedent

The conditions specified in this Clause 4 are solely for the benefit of the Lenders and may be waived on their behalf in whole or in part and with or without conditions by the Agent (acting on the instructions of the Majority Lenders).

5 DRAWDOWN

5.1 Delivery of the Drawdown Notice

The Borrower may utilise the Loan by delivering to the Agent the duly completed Drawdown Notice no later than 10:00 hours (London time) three (3) (and if parts of the Facility is syndicated to lenders other than Nordea Bank Norge ASA, four (4)) Business Days prior to the proposed Drawdown Date.

5.2 Completion of the Drawdown Notice

The Drawdown Notice is irrevocable and will not be regarded as having been duly completed unless:

- a) the proposed Drawdown Date is a Business Day within the Availability Period;
- b) the currency specified is USD and the amount of the proposed Loan is an amount which is not more than the Total Commitments; and
- c) the proposed Interest Period complies with Clause 9 (Interest Periods).

5.3 Availability

Any amount of the Total Commitments not utilised by the expiry of the Availability Period shall automatically be cancelled at close of business in Oslo on such date.

5.4 Lenders' participation

Upon receipt of the Drawdown Notice, the Agent shall notify each Lender of the details of the requested Loan and the amount of each Lender's participation in the Loan. If the conditions set out in this Agreement have been met, each Lender shall no later than 10:00 hours (London time) on the Drawdown Date make available to the Agent for the account of the Borrower an amount equal to its participation in the Loan to be advanced pursuant to the Drawdown Notice.

6 REPAYMENT

6.1 Repayment

The Borrower shall repay the Loan in twenty-eight (28) quarterly consecutive instalments, each being in an amount equal to 1/28 of the amount of the Facility, the first instalment falling due three (3) months after the Delivery Date. Any principal amount outstanding shall be due and payable together with the final instalment at the Final Maturity Date, as well as all other sums due and outstanding hereunder at such date.

6.2 Re-borrowing

The Borrower may not re-borrow any part of the Loan which is repaid.

7 PREPAYMENT AND CANCELLATION

7.1 Mandatory prepayment – Total Loss or sale

If the Vessel is sold (or otherwise disposed of), becomes a Total Loss, the Bareboat Charterparty is terminated for whatever reason or early termination fees are paid under the Bareboat Charterparty, the Borrower shall be obliged to prepay the Loan:

- a) in case of a sale (or other disposal), on or before the date on which the sale (or disposal) is completed by delivery of the Vessel to the buyer; or
- b) in the case of a Total Loss, on the earlier of the date falling one hundred and twenty (120) days after the Total Loss Date and the receipt by the Agent (on behalf of the Finance Parties and the Swap Bank) of the proceeds of Insurance relating to such Total Loss (or in the event of a requisition for title of the Vessel, within sixty (60) days after the occurrence of such requisition of title); or
- c) in the case of early termination fees under the Bareboat Charterparty, at the payment date for such early termination fees.

7.2 Mandatory prepayment – illegality

If it becomes unlawful in any applicable jurisdiction for a Lender to perform any of its obligations as contemplated by this Agreement or to fund or maintain its participation in the Loan:

- a) that Lender shall promptly notify the Agent upon becoming aware of that event;
- b) the Agent shall promptly notify the Borrower (specifying the obligations the performance of which is thereby rendered unlawful and the law giving rise to the same) upon receipt of notification in accordance with litra a) above;
- c) upon the Agent notifying the Borrower, the Commitment of that Lender will be immediately cancelled; and
- d) the Borrower shall prepay that Lender's participation in the Loan made to the Borrower on the last day of the Interest Period occurring after the Agent has notified the Borrower or, if earlier, the date specified by the Lender in the notice delivered to the Agent (being no earlier than the last day of any applicable grace period permitted by law).

7.3 Voluntary prepayment

The Borrower may, on the last day of an Interest Period, if it gives the Agent not less than ten (10) Business Days' prior written notice, prepay the whole or any part of the Loan (but if in part, being an amount of minimum USD 250,000 and in integral multiples of USD 250,000).

7.4 Voluntary cancellation

The Borrower may, on the last day of an Interest Period, if it gives the Agent not less than ten (10) Business Days' prior notice, cancel the whole or any part (but if in part, being in a minimum amount of USD 250,000 and in integral multiples of USD 250,000) of the Total Commitments.

Any cancellation under this Clause 7.4 shall reduce the Commitments of the Lenders rateably under the Facility.

7.5 Terms and conditions for prepayments and cancellation

7.5.1 Irrevocable notice

Any notice of prepayment or cancellation by the Borrower under this Clause 7 shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date upon which the prepayment or cancellation is to be made.

7.5.2 Additional payments

Any prepayment under this Agreement shall be made together with accrued interest on the amount prepaid and, subject to Clause 10.3 (Break Costs), without premium or penalty.

7.5.3 No re-borrowing

The Borrower may not re-borrow any part of the Loan which is prepaid.

7.5.4 Time of prepayment and cancellation

The Borrower shall not repay or prepay all or any part of the Loan or cancel all or any part of the Commitments except at the times and in the manner expressly provided for in this Agreement.

7.5.5 No reinstatement

No amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.

7.5.6 Forwarding of notice of prepayment and cancellation

If the Agent receives a notice under this Clause 7 it shall promptly forward a copy of that notice to the Borrower or the affected Lender, as appropriate.

7.5.7 Application

Any amount prepaid pursuant to this Clause 7 shall be applied against the remaining instalments set forth in Clause 6.1 (Repayment) in inverse order of maturity and shall reduce rateably each Lender's participation in the Loan.

8 INTEREST

8.1 Calculation of interest

The rate of interest for the Loan for each Interest Period is the percentage rate per annum which is the aggregate of:

- a) the Margin; and
- b) LIBOR.

Effective interest pursuant to the Norwegian Financial Agreement Act 1999 has been calculated by the Agent as set out in a separate notice from the Agent to the Borrower.

8.2 Payment of interest

The Borrower shall pay accrued interest on the Loan on each Interest Payment Date (and if the Interest Period is longer than three (3) months, on the date falling at three (3) monthly intervals after the first day of the Interest Period).

8.3 Default interest

If the Borrower fails to pay any amount payable by it under the Finance Documents on its due date, interest shall accrue on the overdue amount from the due date and up to the date of actual payment (both before and after judgment) at a rate determined by the Agent to be two per cent (2.00%) higher than the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted the Loan in the currency of the overdue amount for successive Interest Periods, each of a duration selected by the Agent (acting reasonably). Any interest accruing under this Clause 8.3 shall be immediately payable by the Borrower on demand by the Agent. Default interest (if unpaid) arising on an overdue amount will be compounded with the overdue amount at the end of each Interest Period applicable to that overdue amount but will remain immediately due and payable.

8.4 Notification of rates of interest

The Agent shall promptly notify the Lenders and the Borrower of the determination of a rate of interest under this Agreement.

9 INTEREST PERIODS

9.1 Selection of Interest Periods

- a) The Borrower may select an Interest Period for the Loan in the Drawdown Notice or (if the Loan has already been borrowed) in a Selection Notice.
- b) Each Selection Notice is irrevocable and must be received by the Agent not later than 11:00 hours (London time) one (1) Business Day before the Quotation Day for that Interest Period.
- c) If the Borrower fails to deliver a Selection Notice to the Agent in accordance with litra b) above, the relevant Interest Period will be three (3) months.
- d) The Borrower may select an Interest Period of one (1), three (3) or six (6) months or any such other period agreed between the Borrower and the Agent (on behalf of the Lenders).
- e) An Interest Period for the Loan shall not extend beyond the Final Maturity Date, but shall be shortened so that it ends on the Final Maturity Date.
- f) Each Interest Period for the Loan shall start on the Drawdown Date or (if already made) on the first day after its preceding Interest Period.

9.2 Non-Business Day

If an Interest Period would otherwise end on a day which is not a Business Day, that Interest Period will instead end on the next Business Day in that calendar month (if there is one) or the preceding Business Day (if there is not).

9.3 Notification of Interest Periods

The Agent will notify the Borrower and the Lenders of the Interest Periods determined in accordance with this Clause 9.

10 CHANGES TO THE CALCULATION OF INTEREST

10.1 Market disruption

- a) If a Market Disruption Event occurs in relation to the Loan for any Interest Period, then the rate of interest on each Lender's share of the Loan for the Interest Period shall be the rate per annum which is the sum of:
 - (i) the Margin; and
 - (ii) the rate notified to the agent by that Lender as soon as practicable and in any event before interest is due to be paid in respect of that Interest Period, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its participation in the Loan from whatever source it may reasonably select.
- b) In this Agreement, "**Market Disruption Event**" means:
 - (i) at or about 11:00 hours (London time) on the Quotation Day for the relevant Interest Period LIBOR is not available; or
 - (ii) before close of business in London on the Quotation Day for the relevant Interest Period, the Agent receives notifications from a Lender or Lenders (whose

participations in the Loan exceed fifty per cent (50.00%) of the Loan) that the cost to it or them of obtaining matching deposits in the London interbank market would be in excess of LIBOR.

10.2 Alternative basis of interest or funding

If a Market Disruption Event occurs and the Agent or the Borrower so requires, the Agent and the Borrower shall enter into negotiations (for a period of not more than thirty (30) days) with a view to agreeing a substitute basis for determining the rate of interest. Any alternative basis agreed pursuant to this Clause 10.2 shall, with the prior consent of all the Lenders and the Borrower, be binding on all Parties.

10.3 Break Costs

The Borrower shall, within three (3) Business Days of demand by a Finance Party, pay to that Finance Party its Break Cost attributable to all or any part of the Loan or Unpaid Sum being paid by the Borrower on a day other than the last day of an Interest Period for the Loan or Unpaid Sum. If the Lender(s) receives a gain as a result of the breaking of the Lender's financing in connection with a prepayment of the Facility or a part thereof under Clause 7.1 (Mandatory prepayment – Total loss or sale) or 7.2 (Mandatory prepayment – illegality), the Lender(s) shall pay such gain to the Borrower when the gain is received by the Lender(s).

Each Lender shall, as soon as reasonably practicable after a demand by the Agent (and the Agent shall be obliged to make such demand upon the Borrower's request), provide a certificate confirming and documentation for the amount of its Break Cost for any Interest Period in which they accrue.

11 FEES

11.1 Arrangement fee

The Borrower shall pay to the Arranger an arrangement fee in the amount and at the times agreed in a Fee Letter.

11.2 Commitment fee

The Borrower shall pay to the Agent (for distribution among the Lenders) a commitment fee of fifty per cent (50%) per annum of the Margin on the Lenders' Available Commitment accruing from the Closing Date and up until the Drawdown Date, payable quarterly in arrears, and on the Drawdown Date.

12 TAX GROSS-UP AND INDEMNITIES

12.1 Taxes

12.1.1 No withholding

All payments by the Borrower under the Finance Documents shall be made free and clear of and without deduction or withholding for or on account of any Tax or any other governmental or public payment imposed by the laws of any jurisdiction from which or through which such payment is made, unless a Tax deduction or withholding is required by law.

12.1.2 Tax gross-up

a) The Borrower shall promptly upon becoming aware that it must make a Tax deduction or withholding (or that there is any change in the rate or the basis of a Tax deduction or withholding) notify the Agent accordingly. Similarly, a Lender shall notify the Agent on becoming so aware in respect of a payment payable to that Lender. If the Agent receives such notification from a Lender it shall notify the Borrower and that Lender.

- b) If a Tax deduction or withholding is required by law to be made by the Borrower:
- (i) the amount of the payment due from the Borrower shall be increased to an amount which (after making any Tax deduction or withholding) leaves an amount equal to the payment which would have been due if no Tax deduction or withholding had been required; and
 - (ii) the Borrower shall make that Tax deduction or withholding within the time allowed and in the minimum amount required by law.
- c) Within thirty (30) days of making either a Tax deduction or withholding or any payment required in connection with that Tax deduction or withholding, the Borrower shall deliver to the Agent for the Finance Party entitled to the payment evidence reasonably satisfactory to that Finance Party that the Tax deduction or withholding has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

12.2 Tax indemnity

The Borrower shall (within three (3) Business Days of demand by the Agent) pay to the Agent for the account of the relevant Finance Party an amount equal to the loss, liability or cost which a Finance Party determines will be or has been (directly or indirectly) suffered for or on account of any Tax by such Finance Party in respect of a Finance Document, save for (a) any Tax on Overall Net Income assessed on a Finance Party, (b) to the extent such loss, liability or cost is compensated under Clause 12.1 (Tax gross-up), (c) any taxes that may arise from a Finance Party's gross negligence or wilful misconduct.

12.3 VAT

All amounts set out, or expressed to be payable under a Finance Document by any Party to a Finance Document shall be deemed to be exclusive of any VAT. If VAT is chargeable, the Borrower shall pay to the Agent for the account of such Finance Party (in addition to the amount required pursuant to the Finance Documents) an amount equal to such VAT.

12.4 Exemptions

Any Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is resident for tax purposes, or any treaty to which such jurisdiction is a party, with respect to payments hereunder or under any other Transaction Document shall, at the cost of the Borrower, deliver to the Borrower (with a copy to the Agent), at the time or times reasonably requested by the Borrower, such properly completed and executed documentation prescribed by applicable law and as advised by the Borrower as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if requested by the Borrower and at the cost of the Borrower, shall deliver such other documentation reasonably requested and advised by the Borrower as will enable the Borrower or the Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements.

13 INCREASED COSTS

13.1 Increased Costs

- a) The Borrower shall, upon demand from the Agent, pay for the account of a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its affiliates as a result of (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation (including any laws and regulations implementing new

or modified capital adequacy requirements but excluding any effect of the Basel II Accord) or (ii) compliance with any law or regulation made after the date of this Agreement.

b) In this Agreement, the term “**Increased Costs**” means:

- (i) a reduction in the rate of return from the Loan or on a Finance Party’s (or its affiliate’s) overall capital;
- (ii) an additional or increased cost; or
- (iii) a reduction of any amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its affiliates to the extent that it is attributable to that Finance Party having entered into its Commitments or funding or performing its obligations under any Finance Document.

c) A Finance Party intending to make a claim pursuant to this Clause 13.1 shall notify the Agent of the event giving rise to the claim, following which the Agent shall promptly notify the Borrower. Each Finance Party shall as soon as practicable after a demand by the Agent (and the Agent shall be obliged to make such a demand upon the Borrower’s request), provide a confirmation for and documentation showing the amount of its Increased Costs.

13.2 Exceptions

Clause 13.1 (Increased Costs) does not apply to the extent any Increased Cost is:

- a) attributable to a Tax deduction or withholding required by law to be made by the Borrower;
- b) compensated for by Clause 12.1 (Tax gross-up) or Clause 12.2 (Tax indemnity);
- c) attributable to the wilful breach by the relevant Finance Party or its affiliates of any law or regulation;
- d) attributable to the financial rating of the Lender’s parent company or companies; or
- e) attributable to the gross negligence of a Finance Party.

14 OTHER INDEMNITIES

14.1 Currency indemnity

a) If any sum due from the Borrower under the Finance Documents (a “**Sum**”), or any order, judgement or award given or made in relation to a Sum, has to be converted from the currency (the “**First Currency**”) in which that Sum is payable into another currency (the “**Second Currency**”) for the purpose of:

- (i) making or filing a claim or proof against the Borrower;
- (ii) obtaining or enforcing an order, judgement or award in relation to any litigation or arbitration proceedings,

the Borrower shall as an independent obligation, within three (3) Business Days of demand, indemnify each Finance Party to whom that Sum is due against any cost, loss or liability arising out of or as a result of the conversion including any discrepancy between (A) the rate of exchange used to convert that Sum from the First Currency into the Second

Currency and (B) the rate or rates of exchange available to that person at the time of its receipt of that Sum.

- b) The Borrower waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency or currency unit other than that in which it is expressed to be payable.
- c) Notwithstanding the foregoing, the Lenders acknowledge that, where feasible, all borrowings and payments hereunder shall be calculated and made in USD.

14.2 Other indemnities

The Borrower shall within three (3) Business Days of demand, indemnify each Finance Party against any costs, loss or liability incurred by that Finance Party as a result of:

- a) the occurrence of any Event of Default;
- b) a failure by the Borrower to pay any amount due under the Finance Documents on its due date;
- c) the funding, or making arrangements to fund, its participation in the Loan requested by the Borrower in a Drawdown Notice but not made by reason of the operation of any one or more of the provisions of this Agreement (other than by reason of default or negligence by the Lender(s) or the Agent); or
- d) the Loan (or part of the Loan) not being prepaid in accordance with a notice of prepayment given by the Borrower (other than by reason of default or gross negligence by the Lender(s) or the Agent).

14.3 Indemnity to the Agent

The Borrower shall promptly indemnify the Agent against any cost, loss or liability incurred by the Agent (acting reasonably) as a result of:

- a) investigating any event which it reasonably believes is a possible Event of Default; or
- b) acting or verifying any notice, request or instruction which it reasonably believes to be genuine, correct or appropriately authorised.

15 MITIGATION BY THE LENDERS

15.1 Mitigation

Without in any way limiting the obligations of the Borrower hereunder, each Finance Party shall, in consultation with the Borrower, take all reasonable steps for a period of fifteen (15) Business Days to mitigate any circumstances which arise and which would result in any amount becoming payable under or pursuant to, or cancelled pursuant to, any of:

- a) Clause 7.2 (Mandatory prepayment – illegality);
- b) Clause 12 (Tax gross-up and indemnities); and
- c) Clause 13 (Increased costs),

including (but not limited to) transferring its rights and obligations under the Finance Documents to another affiliate.

A Finance Party is not obliged to take any steps under this Clause 15.1 if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

15.2 Indemnity

The Borrower shall indemnify each Finance Party for all costs and expenses reasonably incurred by that Finance Party as a result of steps taken by it under Clause 15.1 (Mitigation).

If a Finance Party after attempts at mitigation cannot avoid the effect of the matters listed above, the Borrower may ask for (but without any obligation on the Lender) such Lender transferring its interest and obligations hereunder to another Lender or to a third party that shall become a Lender, upon written notice to the Agent.

16 COSTS AND EXPENSES

16.1 Transaction expenses

The Borrower shall promptly on demand pay to the Agent and the Arranger the amount of all reasonable costs and expenses (including legal fees) reasonably incurred by any of them in connection with the negotiation, preparation, printing, perfection, execution, registration and legal costs of syndication of:

- a) this Agreement and any other documents referred to in this Agreement; and
- b) any other Finance Documents executed after the date of this Agreement.

16.2 Amendment and enforcement costs, etc

The Borrower shall, within three (3) Business Days of demand, reimburse the Agent or another Finance Party for the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

- a) the granting of any release, waiver or consent under the Finance Documents;
- b) any amendment or variation of any of the Finance Documents requested by or related to the Borrower; and
- c) the preservation, protection, enforcement or maintenance of, or attempt to preserve or enforce, any of the rights of the Finance Parties under the Finance Documents.

17 SECURITY

17.1 Security — Loan

The Borrower's obligations and liabilities under this Agreement, including (without limitation) the Borrower's obligation to repay the Loan together with all unpaid interest, default interest, commissions, charges, expenses and any other derived liability whatsoever of the Borrower towards the Lenders and the Agent in connection with this Agreement, shall at any time until all amounts due to the Lenders and the Agent hereunder have been paid and/or repaid in full, be secured by:

- a) the Mortgage (including the deed of covenants (if any));
- b) the Assignment Agreement;

- c) the Account Pledge;
- d) the Bareboat Charterparty Assignment; and
- e) the Share Pledge.

The Borrower undertakes to ensure that the above Security Documents are being duly executed by the parties thereto in favour of the Agent (on behalf of the Finance Parties and the Swap Bank) on or about the date of this Agreement, legally valid and in full force and effect, and to execute or procure the execution of such further documentation as the Agent may reasonably require in order for the relevant Finance Parties to maintain the security position envisaged hereunder.

17.2 Security – Swap Agreement(s)

The Agent and the Lenders have agreed that the Borrower's obligations under the Swap Agreement(s), if any, shall be secured by the Security Documents with the rights of the Swap Bank ranking *pari passu* with the rights of the Agent (on behalf of the Finance Parties) under the Security Documents as set out in Clause 17.1 (Security – Loan).

17.3 Intercreditor Agreement

The Borrower shall enter into the Intercreditor Agreement which *inter alia* shall regulate the rights and obligations between the Finance Parties, the Swap Bank and the Bareboat Charterer with regard to *inter alia* the various Securities Interest under the Finance Documents, the Swap Agreement and the Bareboat External Funding.

The Security Interest granted in favour of the Bareboat Agent (on behalf of the Bareboat Lenders) shall be fully subordinated to and rank in priority after the Security Interest granted in favour of the Agent (on behalf of the Finance Parties and the Swap Bank) under the Finance Documents and the Swap Agreement(s). In case the Bareboat Agent (on behalf of the Bareboat Lenders) seeks to enforce its Security Interest in the FPU Equipment and such enforcement is not contested by the Bareboat Charterer, the Bareboat Agent (on behalf of the Bareboat Lenders) shall, by ten (10) days prior written notice to the Agent, inform the Agent of such enforcement and its intention either to:

- a) have the FPU Equipment removed from the Vessel, in which case the parties shall jointly arrange for the Vessel to be sailed to a pre-agreed safe harbour, whereafter the Bareboat Agent (on behalf of the Bareboat Lenders) shall be entitled, at its sole expense and risk, to safely remove the FPU Equipment from the Vessel within sixty (60) days and restore the Vessel to such condition as it was delivered to the Bareboat Charterer under the Bareboat Charter; or
- b) prepay any outstanding amounts under the Finance Documents and Swap Agreement(s) with a right of subrogation into the Security Interests granted under the Finance Documents and the Swap Agreement.

18 REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to each Finance Party as follows at the date of this Agreement:

18.1 Status

The Borrower is a limited liability company, duly organised and validly existing under the laws of Delaware, USA and has the power to own its assets and carry on its business as it is currently being conducted. The Borrower has no subsidiaries.

18.2 Binding obligations

Subject to the legal reservations in the legal opinions referred to in Schedule 2 (Condition precedents), the Transaction Documents to which the Borrower is a party constitute legal, valid, binding and enforceable obligations, and save as provided herein or therein and/or as have been or shall be completed prior to the Drawdown Date, no registration, filing, payment of tax or fees or other formalities are necessary or desired to render the Transaction Documents enforceable against the Borrower, and in respect of the Vessel, for the Mortgage to constitute a valid and enforceable first priority mortgage over the Vessel, save for the registration of the Mortgage with the Ship Registry.

18.3 No conflict with other obligations

The entry into and performance by the Borrower of, and the transactions contemplated by, the Transaction Documents do not and will not conflict with:

- a) any law or regulation or any order or decree of any governmental agency or court by which it is bound;
- b) any constitutional documents of the Borrower; or
- c) any agreement or document to which it is a party or by which it or any of its assets are bound.

18.4 Power and authority

The Borrower has the power to enter into, perform and deliver, and has taken all necessary actions to authorise its entry into, performance and delivery of, the Transaction Documents to which it is a party and the transactions contemplated by those Transaction Documents.

18.5 Authorisations and consents

All authorisations, approvals, consents and other matters, official or otherwise, required by the Borrower in connection with the entering into, performance, validity and enforceability of the Transaction Documents and the transactions contemplated hereby and thereby have been obtained or effected and are in full force and effect.

18.6 Taxes

The Borrower has complied with all material taxation laws in all jurisdictions where it is subject to taxation and has paid all material Taxes and other amounts due to governments and other public bodies. No material claims are being asserted against it with respect to any Taxes or other payments due to public or governmental bodies. The Borrower is not required to make any withholdings or deductions for or on account of Tax from any payment it may make under any of the Finance Documents.

18.7 No Default

No Event of Default is continuing or might reasonably be expected to result from the making of the Loan. No other event or circumstances is outstanding which constitutes a default or (with the expiry of a grace period, giving of notice or the making of any determination or any combination of the foregoing) might constitute a default under any other agreement or instrument which is binding on the Borrower or to which the Borrower's assets are subject will have a Material Adverse Effect.

18.8 No misleading information

Any factual information, documents, exhibits or reports relating to the Borrower and which have been furnished to the Finance Parties by or on behalf of the Borrower are complete and correct in all material respects and do not contain any misstatement of fact or omit to state a fact making such information, exhibits or reports misleading in any material respect.

18.9 Original Financial Statements

- a) *Complete and correct.* The Original Financial Statements fairly and accurately represent the assets, liabilities and the financial condition of the Borrower as of the Original Financial Statements.
- b) *No undisclosed liabilities.* As of the date of the Original Financial Statements, the Borrower had no material liabilities, direct or indirect, actual or contingent, and there is no material, unrealised or anticipated losses from any unfavourable commitments not disclosed by or reserved against in the Original Financial Statements.
- c) *No material change.* Since the date of the Original Financial Statements, there has been no material adverse change in the business, operations, assets or condition (financial or otherwise) of the Borrower.

18.10 Pari passu ranking

The Borrower's payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations preferred by mandatory law or principles of equity applying to companies generally.

18.11 No existing Security Interest

No Security Interest exists over the Vessel except:

- a) as described in Clause 17 (Security); and
- b) the Bareboat Charterer Security.

18.12 No immunity

The execution and delivery by the Borrower of each Transaction Document to which it is a party constitute, and its exercise of its rights and performance of its obligations under each Transaction Document will constitute, private and commercial acts performed for private and commercial purposes, and the Borrower will not (except for bankruptcy or any similar proceedings) be entitled to claim for itself or any or all of its assets immunity from suit, execution, attachment or other legal process in any other proceedings in relation to any Transaction Document.

18.13 No winding-up

The Borrower has not taken any corporate action nor have any other steps been taken or legal proceedings been started or threatened against it for its reorganisation, winding-up, dissolution or administration or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of it or any or all of its assets.

18.14 Environmental compliance

The Borrower has performed and observed in all material respects all Environmental Laws, Environmental Approvals and all other material covenants, conditions, restrictions or agreements directly or indirectly concerned with any contamination, pollution or waste or the release or discharge of any toxic or hazardous substance in connection with the Vessel.

18.15 Environmental Claims

No Environmental Claim has been commenced or is threatened against the Borrower where that claim would be reasonably likely, if adversely determined, to have a Material Adverse Effect on the Borrower.

18.16 ISM Code and ISPS Code compliance

Following the Delivery Date, all requirements of the ISM Code and the ISPS Code as they relate to the Borrower, the Technical Manager (if any), the Charterer and the Vessel have been complied with in all material respects.

18.17 The Vessel

The Vessel will:

- a) on the Drawdown Date be in the absolute ownership of the Borrower free and clear of all encumbrances (other than current crew wages, the Mortgage and liens permitted under the Mortgage) and the Borrower will be the sole, legal and beneficial owner of the Vessel;
- b) on the Drawdown Date be registered in the name of the Borrower with the Ship Registry under the laws and flag of the relevant jurisdiction;
- c) following the Additional Conversion be operationally seaworthy in every way and fit for service (following the conversion under the Conversion Contract); and
- d) on the Drawdown Date be interim classed with Lloyd's Register of Shipping free of all overdue requirements and recommendations and following the Additional Conversion finally classed with Lloyd's Register of Shipping free of all overdue requirements and recommendations.

18.18 No money laundering

The Borrower is acting for its own account in relation to the Loan and in relation to the performance and the discharge of its obligations and liabilities under the Finance Documents and the transactions and other arrangements effected or contemplated by the Finance Documents to which the Borrower is a party, and the foregoing will not involve or lead to contravention of any law, official requirement or other regulatory measure or procedure implemented to combat money laundering (as defined in Article 1 of the Directive (91/308/EEC) and Directive 2001/97 of the European Parliament and of 4 December 2001 amending Council Directive 91/308).

18.19 Repetition

The representations and warranties set out in this Clause 18 are deemed to be made by the Borrower on the date of this Agreement and shall be deemed to be repeated:

- a) on the date of the Drawdown Notice;
- b) on the Drawdown Date;
- c) on the first day of each Interest Period; and
- d) in each Compliance Certificate forwarded to the Agent pursuant to Clause 19.2 (Compliance certificate) (or, if no such Compliance Certificate is forwarded, on each day such certificate should have been forwarded to the Agent at the latest).

18.20 No other Financial Indebtedness or Financial Support

Except as permitted by this Agreement:

- a) no Financial Indebtedness is outstanding with the Borrower; and
- b) no Financial Support has been granted by the Borrower.

19 INFORMATION UNDERTAKINGS

The Borrower gives the undertakings set out in this Clause 19 to each Finance Party and such undertakings shall remain in force throughout the Security Period.

19.1 Financial statements

The Borrower shall and shall procure that the Partners and the Bareboat Charterer shall, supply to the Agent in sufficient copies for all of the Lenders:

- a) as soon as the same become available, but in any event within one hundred and twenty (120) days after the end of each of the Borrower's, the Partners' and the Bareboat Charterer's financial years their audited financial statements for that financial year; and
- b) as soon as the same become available, but in any event within ninety (90) days after the end of each quarter of each of the Borrower's, the Partners' and the Bareboat Charterer's financial years, each of their unaudited consolidated financial statements for that financial quarter.

Documents required to be delivered pursuant to this Clause 19.1 with respect to the Bareboat Charterer may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Bareboat Charterer posts such documents, or provides a link thereto on the Bareboat Charterer's website on the Internet at its website address and has notified the Agent and the Lenders thereof; or (ii) on which such documents are posted on the Bareboat Charterer's behalf on an Internet or intranet website, if any, to which each Lender and the Agent have access (whether commercial, third-party website or whether sponsored by the Agent) and the Agent having been notified thereof; provided that: the Bareboat Charterer shall, upon the request of the Agent, deliver paper copies of such documents to the Agent for any Lender that requests paper copies.

19.2 Compliance Certificate

The Borrower shall and shall procure that the Bareboat Charterer shall, supply to the Agent, with each set of financial statements delivered pursuant to Clause 19.1 (Financial statements), a Compliance Certificate signed by an authorised officer of the Borrower, the Bareboat Charterer, respectively, setting out (in reasonable detail) *inter alia* computations as to compliance with Clause 20 (Financial covenants) as at the date at which those financial statements were drawn up.

19.3 Requirements as to financial statements

The Borrower shall insure that each set of financial statements delivered pursuant to Clause 19.1 (Financial statements) is prepared using GAAP, accounting practices and financial reference periods. In relation to any set of financial statements, the Borrower shall notify the Agent that there has been a change in GAAP, the accounting practices or reference periods and in such case its auditors shall deliver to the Agent:

- a) a description of any change necessary for those financial statements to reflect GAAP, accounting practices and reference periods; and

b) sufficient information, in form and substance as may be reasonably required by the Agent, to enable the Lenders to determine whether Clause 20 (Financial covenants) has been complied with and make an accurate comparison between the financial position indicated in those financial statements and the previous financial statements of the Borrower (if any).

19.4 Information — miscellaneous

The Borrower shall notify the Agent and/or supply to the Agent (in sufficient copies for all the Lenders, if the Agent so requests):

- a) all material documents dispatched by the Borrower to its shareholders, its creditors generally at the same time as they are dispatched;
- b) immediately upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against the Borrower and/or the Bareboat Charterer, and which might, if adversely determined, have a Material Adverse Effect on the Borrower;
- c) immediately upon becoming aware of them, of any breach by the Bareboat Charterer of any financial covenants under any financing agreement to which the Bareboat Charterer is a party;
- d) immediately, such further information regarding the business, operations, assets and operations (financial or otherwise) of the Borrower and/or the Bareboat Charterer as any Finance Party (through the Agent) may reasonably request.

19.5 Notification of default

The Borrower shall notify the Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.

19.6 Notification of Environmental Claims

The Borrower shall inform the Agent in writing as soon as reasonably practicable upon becoming aware of the same:

- a) if any Environmental Claim has been commenced or (to the best of the Borrower's knowledge and belief) is threatened against the Borrower, the Bareboat Charterer or the Vessel; and
- b) of any fact and circumstances which will or are reasonably likely to result in any Environmental Claim being commenced or threatened against the Borrower, the Bareboat Charterer or the Vessel,

where the claim would be reasonably likely, if determined against the Borrower or the Vessel, to have a Material Adverse Effect on the Borrower.

20 FINANCIAL COVENANTS

20.1 Free Cash

The Borrower shall at all times ensure that it has Free Cash of at least USD 250,000.

20.2 Financial testing

The financial covenants set out in Clauses 20.1 (Free Cash) shall be calculated in accordance with GAAP and tested by reference to the latest financial statements (whether audited or unaudited) and/or each Compliance Certificate delivered pursuant to Clause 19.2 (Compliance Certificate).

21 GENERAL UNDERTAKINGS

The Borrower gives the undertakings set out in this Clause 21 to each Finance Party and such undertakings shall remain in force throughout the Security Period.

21.1 Authorisations etc.

The Borrower shall promptly:

- a) obtain, comply and do all that is necessary to maintain in full force and effect; and
- b) supply certified copies to the Agent (if so requested) of,

any authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration required under any law or regulation of its jurisdiction of incorporation which is necessary or required to enable it to perform its obligations under the Transaction Documents and to ensure the legality, validity, enforceability or admissibility in evidence in its jurisdiction of incorporation of any Transaction Document.

21.2 Compliance with laws

The Borrower shall comply in all respects with all laws to which it may be subject, if failure so to comply would materially impair its ability to perform its obligations under the Transaction Documents.

21.3 Pari passu ranking

The Borrower shall ensure that its obligations under the Finance Documents do and will rank at least *pari passu* with all its other present and future unsecured and unsubordinated obligations, except for those obligations which are preferred by mandatory law or principles of equity applying to companies generally in the jurisdictions of their incorporation or in the jurisdiction in the ports of calls.

21.4 Title

The Borrower will hold legal title to and own the entire beneficial interest in the Vessel, the Insurances and the Earnings, free of all Security Interest and other interests and rights of every kind, except for those created by the Finance Documents and as set out in Clause 21.5 (Negative pledge).

21.5 Negative pledge

The Borrower shall not create or permit to subsist any Security Interest over the Vessel or its equipment (including the FPU Equipment), the Earnings, the Insurances, the shares (or other equity interest) in the Borrower) other than the Security Interest under the Security Documents, the Bareboat Charterer Security, liens permitted under the Mortgage and Security Interests consented to in writing by the Agent (acting upon instruction from the Majority Lenders).

21.6 Shareholder loans

Any shareholder loans shall be fully subordinated to and rank in priority to the Loan and shall be on such terms and conditions as approved in writing by the Agent (on behalf of the Lenders).

21.7 Disposals

The Borrower shall not sell, transfer or otherwise dispose of the whole or any part of its interest in the Vessel or its equipment or the Earnings nor otherwise dispose of all or any part of its assets for an amount exceeding USD 1,000,000 in the aggregate, without the prior written consent of the Agent (on behalf of the Lenders).

21.8 Shareholders and change of control

The Borrower shall not agree to any transfer of shares, the granting of options of ownership or change in ownership of the Borrower without the prior written consent of the Agent (on behalf of the Lenders), save for the exercise of put and call options by the Partners set out in the Operating Agreement.

21.9 Dividend restrictions

Save for the repayment of the loans granted under the Bareboat Facility and the Subordinated Loan Agreement (both with shall be repaid at the Drawdown Date), the Borrower shall not pay, make or declare any dividend whether in cash or in kind or make any other payments (including distribution of cash), grant or repay any loans (including payment of interest and amortisation) or issue any guarantees or otherwise to any of its shareholders (or any affiliates thereof) in respect of any financial year, unless:

- a) in respect of the Bareboat Charterer, the Bareboat Charterer is, and will continue to be upon making such distributions, in compliance with the financial covenants of any of its financial arrangements and the Bareboat Charterer having provided the Agent with a Compliance Certificate with regard to its compliance with such financial covenants; and
- b) in respect of the Borrower, the Borrower has and will maintain Free Cash of at least USD 250,000 following such distributions.

21.10 Change of business, etc.

The Borrower shall ensure that:

- a) no substantial change is made to the general nature of the business of the Borrower;
- b) no change is made to its legal name, organisation or jurisdiction of incorporation; and
- c) no change is made to its fiscal year end date,

than that existing at the date of this Agreement (unless consented to in writing by the Agent (on behalf of the Lenders)).

21.11 No mergers etc.

The Borrower shall not enter into any merger, amalgamation, de-merger, split-up, divest, consolidation with or into any other person or be the subject of any reconstruction without the prior consent of the Agent (on behalf of the Lenders).

21.12 Environmental compliance

The Borrower shall (and shall procure that the Bareboat Charterer shall) comply in all material respects with all Environmental Laws subject to the terms and conditions of any Environmental Approval and obtain and maintain any Environmental Approval.

21.13 Commercial and technical management

The Borrower shall procure that the Technical Manager (if any) shall continue as technical manager of the Vessel, and there shall be no change to such technical management and/or the Technical Management Agreement (if any) without the prior written consent of the Agent.

21.14 Transaction Documents

The Borrower shall procure that none of the Transaction Documents are amended or terminated, or any waiver or any material terms thereof are agreed thereunder without the prior written consent of the Agent (on behalf of the Finance Parties and the Swap Bank) unless such amendment, termination, waiver or term does not in all material respects affect the Lenders' rights under the Finance Documents.

21.15 Acquisitions

The Borrower shall not make any acquisition of any shares or securities of a person, or the assets or business of a person, other than in the ordinary course of business or as consented to in writing by the Agent (on behalf of the Majority Lenders).

21.16 Financial Support restrictions

- a) The Borrower shall not incur or allow to subsist any Financial Support.
- b) The restrictions in paragraph a) above do not apply to any Financial Support:
 - (i) made, granted or given in the ordinary course of business;
 - (ii) consented to in writing by the Majority Lenders.

21.17 Financial Indebtedness restrictions

- a) The Borrower shall not incur, create or permit to subsist any Financial Indebtedness (whether secured or unsecured) other than as incurred under the Finance Documents, the Subordinated Loan Agreement and the Bareboat Facility (which shall, together with any outstanding amount under the Subordinated Loan Agreement, be repaid at the Drawdown Date at the latest).
- b) The restrictions in paragraph a) above do not apply to any Financial Indebtedness consented to in writing by the Majority Lenders.

21.18 Bank accounts

The Borrower shall hold and maintain all its bank accounts (hereunder the Earnings Account) with the Agent or Nordea Bank Finland Plc, New York Branch and ensure that all Earnings are paid to the Earnings Account.

22 VESSEL COVENANTS

The Borrower gives the undertakings set out in this Clause 22 to each Finance Party from the Drawdown Date and such undertakings shall remain in force throughout the Security Period.

22.1 Insurance

- a) The Borrower shall maintain or ensure that the Vessel is insured against such risks, including but not limited to, Hull and Machinery, Protection & Indemnity (including maximum cover for pollution liability as normally adopted by the industry for similar vessels), Hull Interest and/or Freight Interest, War Risk insurances, in such amounts, on

such terms and with such insurers as the Agent shall approve. If the Vessel is operated outside of the United States Gulf of Mexico, the Borrower shall, if requested by the Agent, procure appropriate war risk insurance for the area of the Vessel's operation,

- b) The value of the Hull and Machinery insurance shall cover at least eighty per cent (80.00%) of the Market Value of the Vessel (excluding the FPU Equipment) and the aggregate insurance value of the Vessel (except Protection & Indemnity), shall be at least equal to the higher of the Market Value (excluding the FPU Equipment) and one hundred and twenty per cent (120.00%) of the Loan.
- c) The Borrower shall procure that the Agent (on behalf of the Finance Parties and the Swap Bank) is noted as first priority mortgagee in the insurance contracts, together with the confirmation from the underwriters to the Agent thereof that the notice of assignment with regards to the Insurances and the loss payable clauses are noted in the insurance contracts and that standard letters of undertaking are executed by the insurers.
- d) Not later than seven (7) days prior to the expiry date of the relevant Insurances, the Borrower shall procure the delivery to the Agent of a certificate from the insurance broker(s) through whom the Insurances referred to in litra a) have been renewed and taken out in respect of the Vessel with insurance values as required by litra b), that such Insurances are in full force and effect and that the Agent (on behalf of the Finance Parties and the Swap Bank) have been noted by the relevant insurers.
- e) The Agent will, for the account of the Borrower, take out a Mortgagee's Interest Insurance and a Mortgagees' Interest Insurance Additional Perils Insurance (both covering one hundred and ten per cent (110.00%) of the Loan) relevant to the Vessel.
- f) If any of the Insurances referred to in litra a) form part of a fleet cover, the Borrower shall procure that the insurers shall undertake to the Agent that they shall neither set-off against any claims in respect of the Vessel any premiums due in respect of other vessels under such fleet cover or any premiums due for other insurances, nor cancel this Insurance for reason of non-payment of premiums for other vessels under such fleet cover or of premiums for such other insurances, and shall undertake to issue a separate policy in respect of the Vessel if and when so requested by the Agent.
- g) The Borrower shall procure that the Vessel always is employed in conformity with the terms of the instruments of Insurances (including any warranties expressed or implied therein) and comply with such requirements as to extra premium or otherwise as the insurers may prescribe.
- h) The Borrower will not make any material change to the Insurances described under litra a) and b) above without the prior written consent of the Agent (on behalf of the Lenders).

22.2 Classification and repairs

The Borrower shall keep or shall procure that the Vessel is kept in a good, safe and efficient condition consistent with first class ownership and management practice and in particular:

- a) so as to maintain its class at the highest level with Lloyd's Register of Shipping or another classification society approved by the Agent, free of overdue recommendations and qualifications; and

- b) so as to comply with the laws and regulations (statutory or otherwise) applicable to vessels registered under the flag state of the Vessel or to vessels trading to any jurisdiction to which the Vessel may trade from time to time.

22.3 Notification of certain events

The Borrower shall, and shall ensure that the Bareboat Charterer shall, immediately notify the Agent of:

- a) any accident to the Vessel involving repairs where the costs will or is likely to exceed USD 1,000,000 (or the equivalent in any other currency);
- b) any requirement or recommendation made by any insurer or classification society or by any competent authority which is not, or cannot be, immediately complied with;
- c) any exercise or, to the extent the Borrower has knowledge thereof, purported exercise of any arrest or lien on the Vessel, its Earnings or the Insurances;
- d) any occurrence as a result of which the Vessel has become or is, by the passing of time or otherwise, likely to become a Total Loss; and
- e) any claim for a material breach of the ISM Code or the ISPS Code being made against the Borrower, the Technical Manager (if any), the Bareboat Charterer or otherwise in connection with the Vessel.

22.4 Operation of the Vessel

- a) The Borrower shall comply, or procure the compliance in all material respects with the ISM Code and the ISPS Code, all Environmental Laws and all other laws or regulations relating to the Vessel, its ownership, operation and management or to the business of the Borrower and shall not employ the Vessel nor allow its employment:
 - (i) in any manner contrary to law or regulation in any relevant jurisdiction including but not limited to the ISM Code; and
 - (ii) in the event of hostilities in any part of the world (whether war is declared or not), in any zone which is declared a war zone by any government or by the war risk insurers of the Vessel unless the Borrower has (at its expense) effected any special, additional or modified insurance cover which shall be necessary or customary for first class shipowners trading vessels within the territorial waters of such country at such time and has provided evidence of such cover to the Agent.

Without limitation to the generality of this Clause 22.4, the Borrower shall comply or procure compliance, with, as applicable, all requirements of the International Convention for the Safety of Life at Sea (SOLAS) 1974 as adopted, amended or replaced from time to time including, but not limited to, the STCW 95, the ISM Code or the ISPS Code.

- b) The Vessel shall be employed under the Bareboat Charterparty and, except as contemplated under the Operating Agreement, the Borrower shall not, without the prior written consent of the Agent (on behalf of the Majority Lenders), neither terminate, cancel, make any [material] amendments or supplements to the Bareboat Charterparty nor assign the Bareboat Charterparty to any of the person (save for the Bareboat Charterparty Assignment).

22.5 ISM Code compliance

The Borrower will:

- a) procure that the Vessel remains subject to a SMS for the duration of the Loan;
- b) procure that a valid and current SMC is maintained for the Vessel for the duration of the Loan;
- c) procure that the Technical Manager (if any) or Bareboat Charterer maintains a valid and current DOC for the duration of the Loan;
- d) immediately notify the Agent in writing of any actual or threatened withdrawal, suspension, cancellation or modification of the SMC of the Vessel or of the DOC of the Technical Manager (if any) or the Bareboat Charterer; and
- e) immediately notify the Agent in writing of any "accident" or "major non-conformity", each as those terms is defined in the Guidelines in the application of the IMO International Safety Management Code issued by the International Chamber of Shipping and International Shipping Federation.

22.6 Inspections, on site reports and class records

- a) Prior to the Delivery Date, the Borrower shall provide the Agent with on site reports at times requested by the Agent and in a form acceptable to the Agent (acting reasonably), and shall permit, and shall procure that the Yard shall permit one or more persons appointed by the Agent to inspect the Vessel on site for the reasonable account of the Borrower upon the Agent giving reasonable prior notice.
- b) From and including the Delivery Date but prior to the commencement of the Additional Conversion, the Borrower shall permit, and shall procure that any charterers permit, one person appointed by the Agent to inspect the Vessel once a year for the reasonable account of the Borrower upon the Agent giving prior reasonable written notice.
- c) Following the completion of the Additional Conversion, the Borrower shall permit, and shall procure that any charterers permit, one person appointed by the Agent to inspect the Vessel visually once a year (provided that the Vessel is employed under the Bareboat Charter, is in class and insured in accordance with Clause 22.1 (Insurances)) and a full physical inspection when the Vessel is in drydock or in port, for the reasonable account of the Borrower upon the Agent giving reasonable prior written notice to the Borrower and always to be conducted in a manner not to interfere with the operative production of the Vessel.
- d) The Borrower shall instruct the classification society to send to the Agent, following a written request from the Agent, copies of all class records held by the classification society in relation to the Vessel.

22.7 Surveys

The Borrower shall submit to or cause the Vessel to be submitted to such periodic or other surveys as may be required for classification purposes and to ensure full compliance with regulations of the flag state of the Vessel and to supply or to cause to be supplied to the Agent copies of all survey reports and confirmations of class issued in respect thereof whenever such is required by the Agent, however limited to once a year.

22.8 Arrest

The Borrower shall or shall procure that the Bareboat Charterer shall, promptly pay and discharge:

- a) all liabilities which give or may give rise to maritime or possessory liens on or claims enforceable against the Vessel and its equipment (including the FPU Equipment), the Earnings or the Insurances;
- b) all tolls, taxes, dues, fines, penalties and other amounts charged in respect of the Vessel, the Earnings or the Insurances; and
- c) all other outgoings whatsoever in respect of the Vessel, the Earnings and the Insurances,

and forthwith upon receiving a notice of arrest of the Vessel, or its detention in exercise or purported exercise of any lien or claim, the Borrower shall or shall procure that the Bareboat Charterer shall procure its release by providing bail or providing the provision of security or otherwise as the circumstances may require.

22.9 Total Loss

In the event that the Vessel shall suffer a Total Loss, the Borrower shall, within a period of one hundred and twenty (120) days after the Total Loss Date (or sixty (60) days in the event of a requisition for hire), obtain and present to the Agent, a written confirmation from the relevant insurers that the claim relating to the Total Loss has been accepted in full, and the insurance proceeds shall be applied in prepayment of the Loan in accordance with Clause 7.1 (Mandatory prepayment — Total Loss or sale).

22.10 Flag, name and registry

The Borrower shall not, without the prior written consent of the Agent (on behalf of the Lenders), such consent not to be unreasonably withheld, change the flag, name or Ship Registry of the Vessel.

22.11 Additional Conversion

Notwithstanding this Clause 22, the Lenders agree that the Bareboat Charterer may complete the Additional Conversion without the prior consent of the Lenders or the Agent, provided that (i) the Intercreditor Agreement is in full force and effect and (ii) the Bareboat Charterer gives the Agent twenty (20) Business Days prior written notice that the Vessel is to be delivered to the shipyard where the Additional Conversion is to take place.

22.12 Subsidiaries

The Borrower shall not incorporate or acquire any subsidiaries for the duration of the Security Period.

23 EVENTS OF DEFAULT

Each of the events or circumstances set out in this Clause 23 is an Event of Default.

23.1 Non-payment

The Borrower does not pay on the due date any amount payable to a Finance Party pursuant to a Finance Document at the place and in the currency in which it is expressed to be payable unless:

- a) its failure to pay is caused by administrative or technical error affecting the transfer of funds despite timely payment instructions by the Borrower; and

b) payment is made within three (3) Business Days of its due date.

23.2 Financial covenants

Any requirement in Clause 20 (Financial covenants) is not satisfied.

23.3 Other obligations

- a) The Borrower does not comply with any provision of the Finance Documents (other than those referred to in Clause 23.1 (Non-payment) and Clause 23.2 (Financial covenants)).
- b) No Event of Default under litra a) above will occur if the failure to comply is capable of remedy and is remedied within ten (10) Business Days of the earlier of the Agent giving notice to the Borrower or the Borrower becoming aware of the failure to comply. The remedy period as set out in this Clause 23.3 b) shall not apply to any Event of Default under Clause 22.1. (Insurances) and 22.10 (Flag, name and registry).

23.4 Misrepresentations

Any representation or statement made or deemed to be made by the Borrower in the Finance Documents or any other document delivered by or on behalf of the Borrower under or in connection with any of the Finance Documents is or proves to have been incorrect or misleading in any material respect when made or deemed to be made.

23.5 Cross default

- a) Any Financial Indebtedness of the Borrower and/or the Bareboat Charterer and/or the Bareboat Charterer's subsidiaries (as the case may be) is not paid when due nor within any originally applicable grace period or have not been waived, or the Bareboat Charterer is not in compliance with its financial covenants under any of its Financial Indebtedness (however taking into consideration waiver(s) provided to the Bareboat Charterer from its financiers with regard to a breach of such financial covenants);
- b) any Financial Indebtedness of the Borrower and/or the Bareboat Charterer and/or the Bareboat Charterer's subsidiaries (as the case may be) is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described);
- c) any commitment for any Financial Indebtedness of the Borrower and/or the Bareboat Charterer and/or the Bareboat Charterer's subsidiaries (as the case may be) is cancelled or suspended by a creditor of the Borrower and/or the Bareboat Charterer and/or the Bareboat Charterer's subsidiaries (as the case may be) as a result of an event of default (however described).
- d) any creditor of the Borrower and/or the Bareboat Charterer and/or the Bareboat Charterer's subsidiaries (as the case may be) entitled to declare any Financial Indebtedness of the Borrower and/or the Bareboat Charterer and/or Bareboat Charterer's subsidiaries (as the case may be) due and payable prior to its specified maturity as a result of an event of default (however described),

in circumstances where the aggregate amount of all such Financial Indebtedness referred to in all or any of sub-clauses (a) to (d), in respect of the Borrower is USD 1,000,000 (or its equivalent in other currencies) or more, and in respect of the Bareboat Charterer together with its subsidiaries, is USD 20,000,000 (or its equivalent in other currencies) or more.

23.6 Insolvency

- a) The Borrower is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness.
- b) The value of the assets of the Borrower is less than its liabilities (taking into account contingent and prospective liabilities).
- c) A moratorium is declared in respect of any indebtedness of the Borrower.

23.7 Insolvency proceedings

Any corporate action, legal proceedings or other procedure or step is taken in relation to:

- a) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme or arrangement or otherwise) of the Borrower;
- b) a composition, compromise, assignment or arrangement with any creditor of the Borrower;
- c) the appointment of a liquidator, receiver, administrative receiver, administrator or other similar officer in respect of the Borrower; or
- d) enforcement of any Security Interest over any assets of the Borrower [that is not bonded within ten (10) Business Days].

23.8 Creditor's process

Any expropriation, attachment, sequestration, distress or execution affects any asset or assets of the Borrower having an aggregate value of USD 500,000.

23.9 Unlawfulness

It is or becomes unlawful or impossible for the Borrower or any of the parties to any of the Security Documents to perform any of their respective obligations under the Finance Documents.

23.10 Material adverse change

Any event or series of events occur which, in the opinion of the Agent (on behalf of the Lenders), might have a Material Adverse Effect on the Borrower.

23.11 Permits

Any licence, consent, permission or approval required in order to enforce, complete or perform any of the Transaction Documents is revoked, terminated or modified having a Material Adverse Effect on the Borrower.

23.12 Litigation

There is current or pending any claims, litigation, arbitration or administrative proceedings before any court, arbitral body or agency against the Borrower which might, if adversely determined, have a Material Adverse Effect on the Borrower.

23.13 Acceleration

Upon the occurrence of an Event of Default and the expiry of the applicable remedy period without remedy and any time thereafter for as long as such Event of Default is continuing, the Agent may, and shall if so directed by the Majority Lenders, by written notice to the Borrower:

- a) cancel the Total Commitments whereupon they shall immediately be cancelled;
- b) declare that all or part of the Loan together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents, be either immediately due and payable and/or payable upon demand, whereupon they shall become either immediately due and payable or payable on demand; and/or
- c) start enforcement in respect of the Security Interests established by the Security Documents; and/or
- d) take any other action, with or without notice to the Borrower, exercise any other right or pursue any other remedy conferred upon the Agent or the Finance Parties by any of the Finance Documents or by any applicable law or regulation or otherwise as a consequence of such Event of Default.

24 CHANGES TO THE PARTIES

24.1 Assignment by the Borrower

24.1.1 No Assignment by the Borrower

- a) The Borrower may not assign, transfer, novate, dispose or have assumed any part of, or any interest in, its rights and/or obligations under the Finance Documents.

24.2 Assignments and transfers by the Lenders

- a) A Lender (the "**Existing Lender**") may, upon prior written consent of the Borrower (such consent is not required in case an Event of Default has occurred and is continuing), at any time assign, transfer or have assumed its rights or obligations under the Finance Documents (a "**Transfer**") to another bank or financial institution or to a trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the "**New Lender**").
- b) A Lender may at any time transfer a participation to another bank or financial institution or to a trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets.

24.3 Limitations of responsibility of Existing Lenders

24.3.1 Borrower's performance, etc

Unless expressly agreed to the contrary, an Existing Lender makes no representation or warranty and assumes no responsibility to the New Lender for:

- a) the legality, validity, effectiveness, adequacy or enforceability of the Finance Documents or any other documents;
- b) the financial condition of the Borrower;
- c) the performance and observance by the Borrower of its obligations under the Finance Documents or any other documents; or

d) the accuracy of any statements (whether written or oral) made in or in connection with the Finance Documents or any other document.

24.3.2 New Lender's own credit appraisal, etc

Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- a) has made (and will continue to make) its own independent investigation and assessment of the financial condition and affairs of the Borrower and its related entities in connection with its participation in this Agreement and has not relied exclusively on any information provided to it by the Existing Lender in connection with any Finance Document; and
- b) will continue to make its own independent appraisal of the creditworthiness of the Borrower and its related entities whilst any amount is or may be outstanding under the Finance Documents or any Commitment is in force.

24.3.3 Re-transfer to an Existing Lender, etc

Nothing in any Finance Document obliges an Existing Lender to:

- a) accept a re-transfer from a New Lender of any of the rights and obligations assigned or transferred under this Clause 24; or
- b) support any losses directly or indirectly incurred by the New Lender by reason of the non-performance by the Borrower of its obligations under the Finance Documents or otherwise.

24.4 Procedure for transfer

Any Transfer shall be effected as follows:

- a) the Existing Lender must notify the Agent of its intention to Transfer all or part of its rights and obligations by delivering a duly completed Transfer Certificate to the Agent duly executed by the Existing Lender and the New Lender;
- b) subject to Clause 24.2 (Assignments and transfers by the Lenders), the Agent shall as soon as reasonable possible after receipt of a Transfer Certificate execute the Transfer Certificate and deliver a copy of the same to each of the Existing Lender and the New Lender; and
- c) subject to Clause 24.2 (Assignments and transfers by the Lenders), the Transfer shall become effective on the Transfer Date.

24.5 Effects of the Transfer

On the Transfer Date:

- a) to the extent that in the Transfer Certificate the Existing Lender seeks to transfer its rights and obligations under the Finance Documents, the Borrower and the Existing Lender shall be released from further obligations to one another under the Finance Documents and their respective rights against one another under the Finance Documents shall be cancelled (the "**Discharged Rights and Obligations**");
- b) the Borrower and the New Lender shall assume obligations towards one another and/or acquire rights against one another which differ from the Discharged Rights and Obligations only insofar as the Borrower and the New Lender have assumed and/or acquired the same in place of the Borrower and the Existing Lender;

- c) the Agent, the Arranger, the New Lender and the other Lenders shall acquire the same rights and assume the same obligations between themselves as they would have acquired and assumed had the New Lender been an original Lender hereunder with the rights and/or obligations acquired or assumed by it as a result of the Transfer and to that extent the Agent, the Arranger and the Existing Lender shall each be released from further obligations to each other under the Finance Documents; and
- d) the New Lender shall become a Party as a "Lender".

24.6 Further assurances

The Borrower undertakes to procure that in relation to any Transfer, the Borrower shall (at its own cost provided that an Event of Default has occurred at such time) at the request of the Agent execute such documents as may in the discretion of the Agent be necessary to ensure that the New Lender attains the benefit of the Finance Documents.

24.7 Disclosure of information

Any Lender may disclose:

- a) to any of its affiliates and a potential assignee;
- b) to whom that Lender enters into (or may potentially enter into) any sub-participation in relation to, or any other transaction under which payments are to be made by reference to, this Agreement or the Borrower; and
- c) to whom, to the extent that, information is required to be disclosed by any applicable law,

such information about the Borrower and the Finance Documents as that Lender shall consider appropriate, provided that such disclosure shall be subject to the prior written approval by the Borrower and the signing by such potential assignee of a separate confidentiality agreement prior to the disclosure of any such information, if such potential assignee is not an affiliate of any of the Lenders.

25 ROLE OF THE AGENT AND THE ARRANGER

25.1 Appointment and authorisation of the Agent

- a) Each other Finance Party and the Swap Bank appoints the Agent to act as its agent under and in connection with the Finance Documents.
- b) Each other Finance Party and the Swap Bank authorises the Agent to exercise the rights, powers, authorities and discretions specifically given to the Agent under or in connection with the Finance Documents together with any other incidental rights, powers, authorities and discretions.

25.2 Duties of the Agent

The Agent shall not have any duties or responsibilities except those expressly set forth in the Finance Documents, and the Agent's duties under the Finance Documents are solely mechanical and administrative in nature. The Agent shall:

- a) promptly forward to a Party the original or a copy of any document which is delivered to it in its capacity as Agent for the attention of that Party by another Party;

- b) supply the other Finance Parties with all material information which the Agent receives from the Borrower;
- c) if it receives notice from a Party referring to this Agreement, describing an Event of Default and stating that the circumstance is an Event of Default, promptly notify the Finance Parties; and
- d) from it receives sufficient information; promptly notify the Lenders of the occurrence of any Event of Default arising under Clause 23 (Events of Default).

25.3 Role of the Arranger

Except as specifically provided in the Finance Documents, the Arranger has no obligations of any kind to any other Party under or in connection with any Finance Document.

25.4 Relationship

The relationship between the Agent and the other Finance Parties is that of agent and principal only. Nothing in this Agreement shall be construed as to constitute the Agent or the Finance Parties as trustee or fiduciary for any other person, and neither the Agent nor the Finance Parties shall be bound to account to any Finance Party for any sum or the profit element of any sum received by it for its own account.

25.5 Business with the Borrower

The Agent and the Arranger may accept deposits from, lend money to and generally engage in any kind of banking or other business with the Borrower.

25.6 Rights and discretions of the Agent

- a) The Agent may rely on:
 - (i) any representation, notice or document believed by it to be genuine, correct and appropriately authorised; and
 - (ii) any statement made by a director, authorised signatory or employee of any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify.
- b) The Agent may assume (unless it has received notice to the contrary in its capacity as Agent for the Majority Lenders) that:
 - (i) no Event of Default has occurred (unless it has actual knowledge of an Event of Default under Clause 23.1 (Non-payment)); and
 - (ii) any right, power, authority or discretion vested in any Party or the Lenders have not been exercised.
- c) The Agent may engage, pay for and rely on the advise or services of any lawyers, accountants, surveyors or other experts.
- d) The Agent may act in relation to the Finance Documents through its personnel and agents.
- e) The Agent may disclose to any other Party any information it reasonably believes it has received as agent under this Agreement.

- f) Notwithstanding any other provision of any Finance Document to the contrary, neither the Agent nor the Arranger is obliged to do or omit to do anything if it would or might in its reasonable opinion constitute a breach of any law or regulation or a breach of duty of confidentiality or render it liable to any person.

25.7 Majority Lenders' instructions

- a) Unless a contrary indication appears in a Finance Document, the Agent shall (i) exercise any right, power, authority or discretion vested in it as Agent in accordance with any instructions given to it by the Majority Lenders (or, if so instructed by the Lenders, refrain from exercising any right, power, authority or discretion vested in it as Agent) and (ii) not be liable for any act (or omission) if it acts in accordance with an instruction of the Majority Lenders.
- b) Unless a contrary indication appears in a Finance Document, any instructions given by the Majority Lenders will be binding on all the Finance Parties.
- c) The Agent may refrain from acting in accordance with the instructions of the Majority Lenders (or, if appropriate, the Lenders) until it has received such security as it may require for any cost, loss or liability (together with any associated VAT) which it may incur in complying with the instructions.
- d) In the absence of instructions from the Majority Lenders (or, if appropriate, the Lenders) the Agent may act (or refrain from acting) as it considers to be in the best interest of the Lenders.
- e) The Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings relating to any Finance Document.

25.8 Responsibility for documentation

Neither the Agent nor the Arranger:

- a) is responsible for the adequacy, accuracy and/or completeness of any information (whether oral or written) supplied by the Agent, the Arranger, the Borrower or any other person in or in connection with any Finance Document; or
- b) is responsible for the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or any other agreement, arrangement or document entered into, made in anticipation of or in connection with any Finance Document.

25.9 Exclusion of liability

- a) Without limiting *litra b)* below, the Agent will not be liable for any action taken by it under or in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
- b) No Party (other than the Agent) may take any proceedings against any officer, employee or agent of the Agent in respect of any claim it might have against the Agent or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document and any officer, employee and agent of the Agent may rely on this Clause.
- c) The Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Agent if

the Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Agent for that purpose.

- d) Nothing in this Agreement shall oblige the Agent or the Arranger to carry out any "know your customer" or other checks in relation to any person on behalf of any Lender and each Lender confirms to the Agent and the Arranger that it is solely responsible for any such checks it is required to carry out and that it may not rely on any statement in relation to such checks made by the Agent or the Arranger.

25.10 Lenders' indemnity to the Agent

Each Lender shall (in proportion to its share of the Total Commitments or, if the Total Commitments are then reduced to zero, to its share of the Total Commitments immediately prior to their reduction to zero) indemnify the Agent, within three (3) Business Days of demand, against any cost, loss or liability incurred by the Agent (otherwise than by reason of the Agent's gross negligence or wilful misconduct) in acting as Agent under the Finance Documents (unless the Agent has been reimbursed by the Borrower pursuant to a Finance Document).

25.11 Resignation of the Agent

- a) The Agent may resign and appoint one of its affiliates as successor by giving notice to the other Finance Parties and the Borrower.
- b) Alternatively the Agent may resign by giving notice to the other Finance Parties and the Borrower in which case the Majority Lenders (after consultation with the Borrower) may appoint a successor Agent.
- c) If the Majority Lenders have not appointed a successor Agent in accordance with litra b) above within thirty (30) days after notice of resignation was given, the Agent (after consultation with the Borrower) may appoint a successor Agent.
- d) The retiring Agent shall, at its own cost, make available to the successor Agent such documents and records and provide such assistance as the successor Agent may reasonably request for the purposes of performing its functions as Agent under the Finance Documents.
- e) The Agent's resignation notice shall only take effect upon appointment of a successor.
- f) Upon the appointment of a successor, the retiring Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 25. Its successor and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.
- g) After consultation with the Borrower, the Majority Lenders may, by notice to the Agent, require it to resign in accordance with litra b) above. In this event, the Agent shall resign in accordance with litra b) above.

25.12 Confidentiality

- a) In acting as agent for the Finance Parties, the Agent shall be regarded as acting through its agency division which shall be treated as a separate entity from any other of its divisions or departments.

- b) If information is received by another division or department of the Agent, it may be treated as confidential to that division or department and the Agent shall not be deemed to have notice of it.

25.13 Credit appraisal by the Lenders

Without affecting the responsibility of the Borrower for information supplied by it or on its behalf in connection with any Finance Document, each Lender confirms to the Agent and the Arranger that it has been, and will continue to be, solely responsible for making its own independent appraisal and investigation of all risks arising under or in connection with any Finance Document, including (without limitation):

- a) the financial condition, status and nature of the Borrower;
- b) the legality, validity, effectiveness, adequacy or enforceability of any Finance Document and any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; and
- c) whether that Lender has recourse, and the nature and extent of that recourse, against any Party or any of its respective assets under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document, entered into, made or executed in anticipation of, under or in connection with any Finance Document.

25.14 Conduct of business of the Finance Parties

No provision of this Agreement will:

- a) interfere with the right of any Finance Party to arrange its affairs (tax or otherwise) in whatever manner it thinks fit;
- b) oblige any Finance Party to investigate or claim any credit, relief, remission or repayment available to it or to the extent, order or manner of any claim; or
- c) oblige any Finance Party to disclose any information relating to its affairs (tax or otherwise) or any computations in respect of Tax.

26 SHARING AMONG THE FINANCE PARTIES

26.1 Payment to Finance Parties

If a Finance Party (a "**Recovering Finance Party**") receives or recovers any amount from the Borrower other than in accordance with Clause 27 (Payment mechanics) and applies that amount to a payment due under the Finance Documents then:

- a) the Recovering Finance Party shall promptly, within three (3) Business Days, notify details of the receipt or recovery to the Agent;
- b) the Agent shall determine whether the receipt or recovery is in excess of the amount the Recovering Finance Party would have been paid had the receipt or recovery been received by or made by the Agent and distributed in accordance with Clause 27 (Payment mechanics), without taking account of Tax which would be imposed on the Agent in relation to the receipt, recovery or distribution; and

- c) the Recovering Finance Party shall, within three (3) Business Days of demand by the Agent, pay to the Agent an amount (the “**Sharing Payment**”) equal to such receipt or recovery less any amount which the Agent determines may be retained by the Recovering Finance Party as its share of any payment to be made, in accordance with Clause 27.5 (Partial payments).

26.2 Redistribution of payments

The Agent shall treat the Sharing Payment as if it had been paid by the Borrower and distribute it between the Finance Parties (other than the Recovering Finance Party) in accordance with Clause 27.5 (Partial payments).

26.3 Recovering Finance Party’s rights

- a) On a distribution by the Agent under Clause 26.2 (Redistribution of payments), the Recovering Finance Party will be subrogated to the rights of the Finance Parties which have shared in the redistribution.
- b) If and to the extent that the Recovering Finance Party is not able to rely on its rights under litra a) above, the Borrower shall be liable to the Recovering Finance Party for a debt equal to the Sharing Payment which is immediately due and payable.

26.4 Reversal of redistribution

If any part of the Sharing Payment received or recovered by a Recovering Finance Party becomes repayable and is repaid by that Recovering Finance Party, then:

- a) each Finance Party which has received a share of the relevant Sharing Payment pursuant to Clause 26.2 (Redistribution of payments) shall, upon request of the Agent, pay to the Agent for the account of that Recovering Finance Party an amount equal to the appropriate part of its share of the Sharing Payment (together with an amount as is necessary to reimburse that Recovering Finance Party for its proportion of any interest on the Sharing Payment which that Recovering Finance Party is required to pay); and
- b) that Recovering Finance Party’s rights of subrogation in respect of any reimbursement shall be cancelled and the Borrower will be liable to the reimbursing Finance Party for the amount so reimbursed.

26.5 Exceptions

- a) This Clause 26 shall not apply to the extent that the Recovering Finance Party would not, after making any payment pursuant to this Clause, have a valid and enforceable claim against the Borrower.
- b) A Recovering Finance Party is not obliged to share with any other Finance Party any amount which the Recovering Finance Party has received or recovered as a result of taking legal proceedings, if:
- (i) it notified that other Finance Party of the legal proceedings; and
 - (ii) that other Finance Party had an opportunity to participate in those legal or arbitration proceedings but did do so as reasonably practicable having received notice and did not take separate legal or arbitration proceedings.

27 PAYMENT MECHANICS

27.1 Payments to the Agent

All payments by the Borrower or a Lender under the Finance Documents shall be made:

- a) to the Agent to its account with such office or bank as the Agent may from time to time designate in writing to the Borrower or a Lender for this purpose; and
- b) for value on the due date at such times and in such funds as the Agent may specify to the Party concerned as being customary at the time for settlement of transactions in the relevant currency in the place of payment.

27.2 Distributions by the Agent

Each payment received by the Agent under the Finance Documents for another Party shall, subject to Clause 27.3 (Distributions to the Borrower) and 27.4 (Clawback), be made available by the Agent as soon as practicable after receipt to the Party entitled to receive payment in accordance with this Agreement, to such account as that Party may notify to the Agent by not less than five (5) Business Days' notice.

27.3 Distributions to the Borrower

The Agent may (with the consent of the Borrower or in accordance with Clause 28 (Set-off)), apply any amount received by it for the Borrower in or towards payment (on the date and in the currency and funds of receipt) of any amount due from the Borrower under the Finance Documents or in or towards purchase of any amount of currency to be so applied.

27.4 Clawback

- a) Where a sum is to be paid to the Agent under the Finance Documents for distribution to another Party, the Agent is not obliged to pay that sum to that other Party until it has been able to establish to its satisfaction that it has actually received that sum.
- b) If the Agent pays an amount to another Party and it proves to be the case that the Agent had not actually received that amount, then the Party to whom that amount was paid by the Agent shall on demand refund the same amount to the Agent, together with interest on that amount from the date of payment to the date of receipt by the Agent, calculated by the Agent to reflect its cost of funds.

27.5 Partial payments

If the Agent receives a payment that is insufficient to discharge all the amounts then due and payable by the Borrower under the Finance Documents, the Agent shall apply that payment towards the obligations of the Borrower under the Finance Documents in the following order:

- a) firstly, in or towards payment pro rata of any unpaid fees, costs and expenses of the Agent under the Finance Documents;
- b) secondly, in or towards payment pro rata of any accrued interest (including default interest), fee or commissions due but unpaid under this Agreement;
- c) thirdly, in or towards payment pro rata of any principal due but unpaid under this Agreement; and
- d) fourthly, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.

27.6 Application following an Event of Default

On either (i) the completion of a sale of the Vessel, either by forced auction or private treaty, or (ii) the receipt of any monies by the Agent pursuant to the sale proceeds of the Vessel (as the case may be), such monies shall be applied in the following order:

- a) firstly, in respect of all costs and expenses whatsoever incurred in connection with or about incidental to the said sale;
- b) secondly, in or towards satisfaction of all prior claims (being any claims, liabilities or debts owed or taking priority in respect of such proceeds over the Security Interests constituted by the Security Documents) secured on the Vessel;
- c) thirdly, in or towards payment pro rata of all sums owed to the Finance Parties under the Finance Documents; and
- d) fourthly, the balance, if any to the Borrower or to its order.

27.7 No set-off by the Borrower

All payments to be made by the Borrower under the Finance Documents shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

27.8 Payment on non-Business Days

- a) Any payment which is due to be made on a day that is not a Business Day shall be made on the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not).
- b) During any extension of the due date for payment of any principal or Unpaid Sum under this Agreement interest is payable on the principal or Unpaid Sum at the rate payable on the original due date.

27.9 Currency of account

The Borrower shall pay:

- a) any amount payable under this Agreement, except as otherwise provided for herein, in USD; and
- b) all payments of Costs and Taxes in the currency in which the same were incurred.

28 SET-OFF

A Finance Party may, to the extent permitted by applicable law, set off any matured obligation due from the Borrower under the Finance Documents (to the extent beneficially owned by that Finance Party) against any matured obligations owed by that Finance Party to the Borrower, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

29 NOTICES

29.1 Communication in writing

Any communication to be made under or in connection with the Finance Documents shall be made in writing and, unless otherwise stated, may be made by fax or letter. Any such notice or

communication addressed as provided in Clause 29.2 (Addresses) will be deemed to be given or made as follows:

- a) if by letter, when delivered at the address of the relevant Party;
- b) if by fax, when received.

However, a notice given in accordance with the above but received on a day which is not a Business Day or after 16:00 hours in the place of receipt will only be deemed to be given at 9:00 hours on the next Business Day in that place.

29.2 Addresses

Any communication or document to be made under or in connection with the Finance Documents shall be made or delivered to the address, fax number or e-mail address of each Party and marked for the attention of the department or persons set out below and, in case of any New Lender, to the address notified to the Agent:

If to the Agent: Nordea Bank Norge ASA
Middelthunsgate 17, N-0368 Oslo, Norway
P.O. Box 1166 Sentrum, N-0107 Oslo, Norway
Att: Shipping, Offshore and Oil Services
Fax No: +47 22 48 66 68
E-mail: oddbjorn.warpe@nordea.com

If to the Borrower: Kommandor LLC
400 N. Sam Houston Parkway East, Suite 400
Houston, Texas 77060
USA
Fax No: +1 281 618 0505
E-mail: cbuster@helixesg.com

With a copy to:

Kromann Reumert
Sundkrogsgade 5
DK-2100 København Ø
Denmark
Fax No: + 45 70 12 13 11
E-mail: jbe@kromannreumert.com

or any substitute address and/or fax number and/or e-mail address and/or marked for such other attention as the Party may notify to the other Agent (or the Agent may notify the other Parties if a change is made by the Agent) by not less than five (5) Business Days' prior notice.

29.3 Communication with the Borrower

All communication from or to the Borrower shall be sent through the Agent.

29.4 Language

Communication to be given by one Party to another under the Finance Documents shall be given in the English language or, if not in English and if so required by the Agent, be accompanied by a

certified English translation and, in this case, the English translation shall prevail unless the document is a statutory or other official document.

30 CALCULATIONS

All sums falling due by way of interest, fees and commissions under the Finance Documents accrue from day-to-day and shall be calculated on the basis of the actual number of days elapsed and a calendar year of 360 days.

31 MISCELLANEOUS

31.1 Partial invalidity

If, at any time, any provision of the Finance Documents is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provisions under any law of any other jurisdiction will in any way be affected or impaired.

31.2 Remedies and waivers

No failure to exercise, nor any delay in exercising on the part of any Finance Party, any right or remedy under the Finance Documents shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

31.3 Amendments and waivers

31.3.1 Required consents

- a) Subject to Clause 31.3.2 (Exceptions), any term of the Finance Documents may be amended or waived only with the written consent of the Majority Lenders and the Borrower and any such amendment will be binding on all Parties.
- b) The Agent may effect, on behalf of any Finance Party, any amendment or waiver permitted by this Clause.

31.3.2 Exceptions

An amendment to or waiver that has the effect of changing or which relates to:

- a) The definition of "Majority Lenders";
- b) an extension of the date of any payment of any amount under the Finance Documents;
- c) a reduction in Margin or a reduction in the amount of any payment of principal, interest, fees or commission payable;
- d) an increase in or extension of any Commitment;
- e) a term of the Finance Documents which expressly requires the consent of all the Lenders;
- f) a proposed substitution or replacement of the Borrower; or
- g) a change of Clauses 2.2 (Finance parties' rights and obligations), 17 (Security), 22.1 (Insurance), 24 (Changes to the Parties) and this Clause 31,

shall not be made without the prior written consent of all the Lenders.

An amendment or waiver which relates to the rights or obligations of the Agent or the Arranger may not be effected without the consent of the Agent or the Arranger.

31.4 Disclosure of information and confidentiality

Each of the Finance Parties may disclose to each other or to their professional advisers any kind of information which the Finance Parties have acquired under or in connection with any Finance Document. The Parties are obliged to keep confidential all information in respect of the terms and conditions of this Agreement. This confidentiality obligation shall not apply to any information which:

- a) is publicised by a Party as required by applicable laws and regulations;
- b) has entered the public domain or is publicly known, provided that such information is not made publicly known by the receiving Party of such information; or
- c) was or becomes, as the Party is able to demonstrate by supporting documents, available to the such Party on a non-confidential basis prior to the disclosure thereof.

31.5 Conflicting provisions

In case of conflict between this Agreement and the terms of any of the Security Documents, the terms and conditions of this Agreement shall prevail.

32 GOVERNING LAW AND ENFORCEMENT

32.1 Governing law

This Agreement shall be governed by Norwegian law.

32.2 Jurisdiction

- a) For the benefit of each Finance Party, the Borrower agrees that the courts of Oslo, Norway, have jurisdiction to settle any disputes arising out of or in connection with the Finance Documents including a dispute regarding the existence, validity or termination of this Agreement, and the Borrower accordingly submits to the non-exclusive jurisdiction of the Oslo District Court (*Oslo tingrett*).
- b) Nothing in this Clause 32.2 shall limit the right of the Finance Parties to commence proceedings against the Borrower in any other court of competent jurisdiction. To the extent permitted by law, the Finance Parties may take concurrent proceedings in any number of jurisdictions.

32.3 Service of process

Without prejudice to any other mode of service, the Borrower:

- a) irrevocably appoints Marinelaw AS of Olav Kyrresgt. 11, P.O. Box 1233, N-5811 Bergen, Norway (att.: Mona Hausvik) as its agent for service of process relating to any proceedings before Norwegian courts in connection with the Finance Documents to which it is a party; and
- b) agrees that failure by its process agent to notify it of the process will not invalidate the proceedings concerned.

* * *

SCHEDULE 1
LENDERS AND COMMITMENTS

| <u>Lender:</u> | <u>Total Commitment:</u> | <u>Per cent:</u> |
|-----------------------|--------------------------|------------------------|
| Nordea Bank Norge ASA | USD 45,000,000 | 100.00 per cent |
| Total | USD 45,000,000 | 100.00 per cent |

SCHEDULE 2
CONDITIONS PRECEDENT
PART I – AT SIGNING

1 CORPORATE AUTHORISATION

1.1 In respect of the Borrower:

- a) Certificate of Formation;
- b) Operating Agreement;
- c) Resolutions passed by the Managers of the Borrower evidencing:
 - (i) the approval of the terms of, and the transactions contemplated by, the Transaction Documents to which it is a party and the registration the Mortgage; and
 - (ii) the authorisation of its appropriate officer or officers or other representatives to execute the Transaction Documents to which it is a party and any other documents necessary for the transactions contemplated by the Transaction Documents to which it is a party, on its behalf;
- d) Resolution by the members of the Borrower evidencing approval of the Finance Documents in accordance with Clause 3.8 of the Operating Agreement;
- e) Secretary's Certificate; and
- f) Power of Attorney (notarised and legalised if requested by the Agent).

SCHEDULE 2
CONDITIONS PRECEDENT
PART II – AT DRAWDOWN

1 CORPORATE AUTHORISATION

1.1 In respect of the Borrower:

- a) A Director's Certificate stating *inter alia* that all corporate documents and resolutions provided to the Agent (on behalf of the Finance Parties and Swap Bank) at the time of signing of this Agreement remain in full force and effect and that no amendments, supplements or waivers have been made thereto.

1.2 In respect of the Bareboat Charterer:

- a) Articles of Incorporation;
- b) Bylaws;
- c) Resolutions passed at a board meeting of the Bareboat Charterer evidencing:
 - (i) the approval of the terms of, and the transactions contemplated by, the Transaction Documents to which it is a party; and

- (ii) the authorisation of its appropriate officer or officers or other representatives to executed the Transaction Documents to which it is a party and any other documents necessary for the transactions contemplated by the Transaction Documents to which it is a party, on its behalf; and

d) Power of Attorney.

2 AUTHORISATIONS

All approvals, authorisations and consents required by any government or other authorities for the Borrower and/or the Bareboat Charterer to enter into and perform their obligations under this Agreement and/or any of the Transaction Documents to which they are respective parties.

3 THE VESSEL

In respect of the Vessel:

- a) Evidence (by way of transcript of registry) that the Vessel is, or will be, registered in the name of the Borrower in the Ship Registry, that the Mortgage has been, or will in connection with the utilisation of the Loan be, executed and recorded with its intended first priority against the Vessel and that no other encumbrances, maritime liens, mortgages or debts whatsoever are registered against the Vessel;
- b) An updated interim class certificate related to the Vessel from the relevant classification society, confirming that the Vessel is classed with the class notation (at the relevant Drawdown Date): OI 100A(1), Floating Production Unit, Multipurpose Support Unit, OIWS, PC LI LMC, UMS, DP(AA), PCR in accordance with Clause 22.2 (Classification and repairs), free of extensions and overdue recommendations;
- c) Copies of insurance policies/cover notes documenting that insurance cover has been taken out in respect of the Vessel in accordance with Clause 22.1 (Insurance), and evidencing that the Agent's (on behalf of the Finance Parties and the Swap Bank) Security Interest in the insurance policies have been noted in accordance with the relevant notices as required under the Assignment Agreement;
- d) The SMC;
- e) The DOC;
- f) The ISPS Code Certificate; and
- g) The Builder's Certificate (related to the conversion) from the Yard.

4 FINANCE DOCUMENTS

- a) The Agreement;
- b) The Assignment Agreement;
- c) Notice of Assignment of Earnings and the Bareboat Charterer's acknowledgement thereof;
- d) Notice of Assignment of Insurances and the insurers' acknowledgement thereof;
- e) The Bareboat Charterparty Assignment;

- f) Notice of Assignment of the Bareboat Charterparty and the Bareboat Charterer's acknowledgment thereof;
- g) The Mortgage (including the deed of covenants (if applicable));
- h) The Account Pledge;
- i) The Share Pledge (and any documents related thereto);
- j) The Intercreditor Agreement; and
- k) The Bareboat Charterer Undertaking.

5 TRANSACTION DOCUMENTS

- a) The Technical Management Agreement (if any);
- b) the Conversion Contract;
- c) the Bareboat Charterparty;
- d) the Subordinated Loan Agreement;
- e) the Operating Agreement;
- f) the Bareboat Charterer Share Pledge;
- g) the UCCI Charge;
- h) the Second Mortgage; and
- i) the Swap Agreement.

6 MISCELLANEOUS

- a) The Drawdown Notice at least three (3) Business Days prior to the Drawdown Date;
- b) Evidence that all fees referred to in Clause 11 (Fees), as are payable on or prior to the Drawdown Date, have or will be paid on its due date;
- c) Evidence of all of the Bareboat Charterer's external Financial Indebtedness including documentation of all financial covenants thereto;
- d) Evidence that the Borrower has been capitalized with a minimum of USD 30,000,000 in equity contributions and pre-delivery financing in the form of (i) the subordinated loan under the Subordinated Loan Agreement and (i) the Bareboat Facility;
- e) A Compliance Certificate confirming that the Borrower is in compliance with the financial covenants set out in Clause 20.1 (Free Cash);
- f) The effective interest letter; and
- g) Any other documents as reasonably requested by the Agent.

7 LEGAL OPINIONS

- a) A legal opinion from Higgs & Johnson relating to Bahamas law issues;
- b) A legal opinion from legal counsel acceptable to the Agent relating to Delaware law issues;
- c) A legal opinion from legal counsel acceptable to the Agent relating to English law issues;
- d) A legal opinion from Thommessen Krefting Greve Lund AS relating to Norwegian law issues; and
- e) Any such other favourable legal opinions in form and substance satisfactory to the Agent from lawyers appointed by the Agent on matters concerning all relevant jurisdictions.

SCHEDULE 3
FORM OF DRAWDOWN NOTICE

To: Nordea Bank Norge, as Agent

From: Kommandor LLC

Date: [•]

KOMMANDOR LLC – USD 45,000,000 TERM LOAN AGREEMENT DATED 13 JUNE 2007 (THE “AGREEMENT”)

We refer to Clause 5.1 (Delivery of the Drawdown Notice) of the Agreement. Terms defined in the Agreement shall have the same meaning when used in this Drawdown Notice.

a) You are hereby irrevocably notified that we wish to make the following drawdown of the Loan:

Proposed Drawdown Date: []

Principal Amount: []

Interest Period: []

b) The proceeds of the Loan shall be credited to [•] [*insert name and number of account*].

c) We confirm that, as of the date hereof (i) each condition specified in Clause 4 (Conditions Precedent) of the Agreement is satisfied; (ii) each of the representations and warranties set out in Clause 18 (Representations and warranties) of the Agreement deemed to be repeated on the date hereof is true and correct; and (iii) no event or circumstance has occurred and is continuing which constitutes or would constitute an Event of Default with the passage of time.

Yours sincerely
for and on behalf of
Kommandor LLC

By: _____

Name:

Title: [authorised officer]

**SCHEDULE 4
FORM OF SELECTION NOTICE**

To: Nordea Bank Norge ASA, as Agent

From: Kommandor LLC

Date: [•]

KOMMANDOR LLC – USD 45,000,000 TERM LOAN AGREEMENT DATED 13 JUNE 2007 (THE “AGREEMENT”)

We refer to the Agreement. Terms defined in the Agreement shall have the same meaning when used in this Selection Notice.

- a) We refer to the amount outstanding under the Loan with an Interest Period ending on [•].
- b) We request that the next Interest Period for the Loan is [•].

This Selection Notice is irrevocable.

Yours sincerely
for and on behalf of
Kommandor LLC

By: _____

Name:

Title:

SCHEDULE 5
FORM OF COMPLIANCE CERTIFICATE

To: Nordea Bank Norge ASA, as Agent

From: Kommandor LLC

Date: [•] *[To be delivered no later than [one hundred and fifty (150)]/ninety (90) days after each reporting date]*

KOMMANDOR LLC – USD 45,000,000 TERM LOAN AGREEMENT DATED 13 JUNE 2007 (THE “AGREEMENT”)

We refer to the Agreement. Terms defined in the Agreement shall have the same meaning when used in this Compliance Certificate. With reference to Clauses 19.2 (Compliance certificate) and 20.1 (Free Cash Balance) of the Agreement, we confirm that as at [•] [insert relevant reporting date]:

a) **Free Cash.** The Free Cash was USD [•].

The Borrower shall at all times ensure that it has Free Cash of at least USD 250,000. The covenant set out in Clause 20.1 (Minimum cash balance) is thus [not] satisfied.

b) We confirm that, as of the date hereof (i) each of the representations and warranties set out in Clause 18 (Representations and warranties) of the Agreement deemed to be repeated on the date hereof is true and correct, and (ii) no event or circumstances has occurred and is continuing which constitute or would constitute and Event of Default with the passage of time.

Yours sincerely
for and on behalf of
Kommandor LLC

By: _____
Name:
Title:

SCHEDULE 6
FORM OF
TRANSFER CERTIFICATE

To: Nordea Bank Norge ASA, as Agent

From: [•] (the "Existing Lender" and [•] (the "New Lender")

Date: [•]

KOMMANDOR LLC – USD 45,000,000 TERM LOAN AGREEMENT DATED 13 JUNE 2007 (THE "AGREEMENT")

We refer to the Agreement. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.

With reference to Clause 24 (Changes to the Parties):

- a) The Existing Lender, in its capacity as Lender under the Agreement, confirms that it participates with [] per cent of the Total Commitments.
- b) The Existing Lender hereby transfers to the New Lender [] per cent of the Total Commitments as specified in the Schedule hereto, and of the equivalent rights and interest in all Finance Documents, and the New Lender hereby accepts such transfer from the Existing Lender in accordance with the terms set out herein and Clause 24 (Changes to the Parties) of the Agreement and assumes the same obligations to the other Finance Parties as it would have been under if it was an original Lender.
- c) The proposed Transfer Date is [], as from which date the Transfer of such portion of the Total Commitments shall take full legal effect.
- d) The New Lender confirms that it has received a copy of the Agreement, together with such other information as it has required in connection with this transaction. The New Lender expressly acknowledges and agrees to the limitations on the Existing Lender's responsibility set out in Clause 24.3 (Limitations of responsibility of Existing Lenders) of the Agreement.
- e) The New Lender hereby undertakes to the Existing Lender and the Borrower that it will perform in accordance with the terms and conditions of the Agreement all those obligations which will be assumed by it upon execution of this Transfer Certificate.
- f) The address, fax number and attention details for notices, as well as the account details of the New Lender, are set out in the Schedule.
- g) This Transfer Certificate is governed by Norwegian law, with Oslo City Court (*Oslo tingrett*) as legal venue.

The Schedule
Commitments/rights and obligations to be transferred

| | | |
|------------|--|---------|
| I | Existing Lender: | [] |
| II | New Lender: | [] |
| III | Total Commitments of Existing Lender: | USD [] |
| IV | Aggregate amount transferred: | USD [] |
| V | Total Commitments of New Lender: | USD [] |
| VI | Transfer Date: | [] |

Administrative Details / Payment Instructions of New Lender

Notices to New Lender:

[]
[]
Att: []
Fax no: + []

[Insert relevant office address, fax number and attention details for notices and payments to the New Lender.]

Account details of New Lender: [Insert relevant account details of the New Lender.]

Existing Lender:
[•]

By: _____
Name:
Title:

New Lender:
[•]

By: _____
Name:
Title:

This Transfer Certificate is accepted and agreed by the Agent and the Borrower and the Transfer Date is confirmed as [].

Agent:
Nordea Bank Norge ASA

By: _____
Name:
Title:

Borrower:
Kommandor LLC

By: _____
Name:
Title:

SCHEDULE 7

FORM OF ASSIGNMENT AGREEMENT

THIS ASSIGNMENT AGREEMENT (the "**Assignment Agreement**") is made on [] between:

- (1) **Kommandor LLC** of [•], as borrower (the "**Borrower**"); and
- (2) **Nordea Bank Norge ASA** of Middelthunsgate 17, N-0368 Oslo, Norway, organisation number 911 044 110 as agent on behalf of the Finance Parties and the Swap Bank (each as defined in the Agreement as referred to below) (the "**Agent**").

Background:

- (A) Pursuant to the terms and conditions of a term loan agreement dated 13 June 2007 (as the same may be amended, supplemented and restated from time to time, the "**Agreement**") between the Borrower as borrower, the banks and financial institutions listed in schedule 1 thereto as lenders (the "**Lenders**") and Nordea Bank Norge ASA as agent for the Lenders (the "**Agent**"), the Lenders have agreed to make available to the Borrower a term loan facility in the aggregate amount of up to USD 45,000,000 (the "**Loan**"); and
- (B) it is a condition precedent to the Lenders making the Loan available to the Borrower that the Borrower executes and delivers, inter alia, this Assignment Agreement and grants the Security Interests set out herein as security for its obligations towards the Finance Parties under the Agreement.

NOW THEREFORE:

1 INTERPRETATION

1.1 Definitions

In this Assignment Agreement, including the preamble hereto (unless the context otherwise requires), any term or expression defined in the preamble shall have the meanings ascribed to it therein. In addition, terms and expressions not defined herein but whose meanings are defined in the Agreement shall have the meanings set out therein.

1.2 Construction

In this Assignment Agreement, unless the context otherwise requires:

- a) reference to Clauses or Appendices are to be construed as references to clauses or appendices of this Assignment Agreement unless otherwise stated;
- b) references to (or to any specified provision of) this Assignment Agreement or any other document shall be construed as references to this Assignment Agreement, that provision or that document as from time to time amended; and
- c) words importing the plural shall include the singular and vice versa.

2 ASSIGNMENT OF EARNINGS AND INSURANCES

2.1 Assignment

To secure the payment and the discharge of the Borrower's obligations under the Agreement and the payment of all sums which from time to time may become due thereunder, and to secure the performance and observance of and compliance with all the covenants, terms and conditions contained in the Agreement, the Borrower hereby assigns to the Agent (on behalf of the Finance Parties and the Swap Bank) with first priority:

- a) the Earnings; and
- b) the Insurances.

Subject to no Event of Default having occurred and which is continuing (unremedied and unwaived), any insurance proceeds received by the Agent resulting from a casualty (other than a Total Loss) in excess of USD 1,000,000 per incident shall be released to the Borrower for application against the repaid and/or replacement of the casualty causing the insurance payment. Upon completion, such repairs and/or replacements shall be verified by an independent surveyor in writing to the Agent.

2.2 Notice and acknowledgement, etc.

- a) The Borrower undertakes promptly to give notice of the assignment of the Earnings to the Bareboat Charterer and any other third party from which any of the Earnings or amounts may become payable substantially in the form set out in Appendix 1A hereto and procure that any recipient of such notice acknowledges receipt of the notice as set out therein substantially in the form set out in Appendix 1B.
- b) In the event that the Insurances, or any one of them, have been taken out on conditions other than the Norwegian Marine Insurance Plan of 1996, version 2003 (as amended from time to time) (the "**Plan**"), to give all the relevant insurers notice substantially in the form of Appendix 2(A) hereto, and procure that the said insurers acknowledge receipt of such notice in the form of Appendix 2(B) hereto or give such other form of notice and procure such other form of acknowledgement as the Agent shall require in writing to the Borrower and/or the Bareboat Charterer; and
- c) In the event that the Insurances, or any one of them, have been taken out according to the Plan, to procure written statements from all the relevant insurers and/or approved brokers confirming that the Agent (on behalf of the Finance Parties and the Swap Bank) has been duly registered as co-insured first priority mortgagee on all such insurance policies taken out for the Vessel and that notice according to the Plan has been duly received by all the relevant insurers.

2.3 Loss Payable

Claims related to the Insurances in respect of an actual or constructive or agreed or arranged or compromised total loss or requisition for title or other compulsory acquisition of the Vessel and claims payable in respect of a major casualty, that is to say any claim (or the aggregate of which) exceeding USD 1,000,000, shall be payable to the Agent. Subject thereto all other claims, unless and until the insurers have received notice from the Agent of an Event of Default which is unremedied under the Agreement in which event all claims shall be payable directly to the Agent up to the Lenders' mortgage interest, shall be released directly for the repair, salvage or other charges involved or to the Borrower as reimbursement if it has fully repaired the damage and paid all of the salvage or other charges or otherwise in respect of Borrower's actual costs in connection with repair,

salvage and/or other charges. Any amounts paid to the Borrower directly shall be paid to the Earnings Account.

3 PERFECTION

The Borrower agrees that at any time and from time to time upon the written request of the Agent, it will promptly and duly execute and deliver to the Agent any and all such further instruments and documents as the Agent (on behalf of the Finance Parties and the Swap Bank) may reasonably deem necessary or desirable to register this Assignment Agreement in any applicable registry, and to maintain and/or perfect the Security Interest created by this Assignment Agreement and the rights and powers herein granted.

4 ASSIGNMENT

The Agent may assign or transfer its rights hereunder to any person to whom the rights and obligations of the Agent and the Lenders under the Agreement are wholly or partially assigned in accordance with Clause 24 (Changes to the Parties) of the Agreement.

5 NO FURTHER ASSIGNMENT OR PLEDGE

The Borrower shall not, unless prior written consent has been obtained from the Agent, be entitled to further assign or pledge the Earnings and the Insurances.

6 ADDITIONAL AND CONTINUING SECURITY

The Security Interest contemplated by this Assignment Agreement shall be in addition to any other Security Interest granted in accordance with the Agreement, and shall be a continuing security in full force and effect as long as any obligations are outstanding under the Agreement.

7 NOTICES

Any notice, demand or other communication to be made or delivered by any party pursuant to this Assignment Agreement shall (unless the addressee has by five (5) Business Days' written notice to that party specified another address) be made or delivered as set out in Clause 29 (Notices) of the Agreement.

8 GOVERNING LAW – JURISDICTION

- a) This Assignment Agreement shall be governed by and construed in accordance with the laws of Norway.
- b) The Borrower and the Finance Parties accept Oslo City Court (*Oslo tingrett*) as non-exclusive venue, but this choice shall not prevent the Agent (on behalf of the Finance Parties and the Swap Bank) to enforce any of the Finance Documents against the Vessel or other assets of the Borrower wherever they may be found.

Borrower:
Kommandor LLC

Agent:
Nordea Bank Norge ASA

By: _____
Name:
Title:

By: _____
Name:
Title:

[•], ____2007

We, Helix Energy Solutions Corp., Inc., being the bareboat charterer of the Vessel and being responsible for insuring the Vessel as per the Bareboat Charterparty, hereby confirm that we have full knowledge of the assignment of insurances as set out in this Assignment of Insurances and that we will notify any insurers of the Vessel of such assignment.

Helix Energy Solutions Corp., Inc.

By: _____
Name:
Title:

FORM OF NOTICE OF ASSIGNMENT
(Assignment of Earnings)

To: Helix Energy Solutions Corp, Inc

M/V "HELIX PRODUCER 1"

We refer to the bareboat charter party dated [•], (the "**Bareboat Charterparty**") made between you and us, whereby we agreed to let and you agreed to take on bareboat charter for the period and upon the terms and conditions therein mentioned M/V "Helix Producer 1" (the "**Vessel**").

We hereby give you notice that:

- a) by an agreement dated [] 2007 (as the same may be amended, supplemented or restated from time to time, the "**Assignment Agreement**") made between us and Nordea Bank Norge, Middelthunsgate 17, N-0368 Oslo, Norway, acting as agent on behalf of certain other banks (the "**Agent**"), related to a loan agreement dated [•] (as the same may be amended, supplemented or restated from time to time, the "**Agreement**"), we have assigned absolutely and have agreed to assign absolutely to and in favour of the Agent all our rights, title and interest, present and future, to all payments to be made to us under the Bareboat Charterparty, including in respect of any breach by you thereunder;
- b) you are hereby irrevocably authorised and instructed to make all payments under the Bareboat Charterparty to our USD account with Nordea Bank Finland Plc, New York Branch account no 6004.04.43099 (free of any set-off or other deduction) until such time as the Agent shall direct to the contrary whereupon all instructions or demands for actions shall be made by the Agent and payments are due to the Agent or as it may direct; and
- c) the Agreement includes provisions that no amendments, termination or cancellation shall be made to the Bareboat Charterparty (nor shall you be released from any of your obligations thereunder without the prior written consent of the Agent) and that we shall remain liable to perform all our obligations under the Bareboat Charterparty and that the Agent shall be under no obligations of any kind whatsoever in respect thereof.

The authority and instructions herein contained cannot be revoked or varied by us without the written consent of the Agent. The provisions of this notice shall be governed by Norwegian law.

[Place and date:] [•], [•]

Yours sincerely
for and on behalf of
Kommandor LLC

By: _____

Name:

Title: [authorised officer]

FORM OF ACKNOWLEDGEMENT
(Assignment of Earnings)

To: Nordea Bank Norge ASA
N-0368 Oslo, Norway
Att: Shipping, Offshore and Oil Services
Fax No: +47 22 48 66 68

MV "HELIX PRODUCER 1"

We acknowledge receipt of the above Notice of Assignment dated [•] from Kommandor LLC. Terms used herein shall have the same meaning as defined therein.

We agree to the assignment set out therein and undertake to be bound by the terms thereof. We confirm that we have received no notice of any previous assignment or pledge of all or any part of the charter hire and any monies payable thereunder.

We further confirm that all written statements containing instructions or demanding actions or payments under the Bareboat Charterparty may until further notice from the Agent to the contrary be made by Kommandor LLC and after such notice these instructions shall be given or demands shall be made by the Agent.

This acknowledgement and confirmation shall be governed by Norwegian law.

Place and date: [•]

Yours sincerely
for and on behalf of
HELIX ENERGY SOLUTIONS CORP, INC

By: _____
Name:
Title: [authorised officer]

**FORM OF NOTICE OF ASSIGNMENT
(Assignment of Insurances)**

To: The Insurers

M/V "HELIX PRODUCER 1"

Kommandor LLC as owner (the "Owner") of M/V "[]" (the "Vessel") hereby gives you notice that all payments due to any of us from you in respect of the Vessel have been (by way of security) assigned to Nordea Bank Norge ASA, Middelthunsgate 17, N-0368 Oslo, Norway, as Agent for certain other banks (the "Mortgagee") according to an Assignment of Insurances dated [] 2007 (as amended, supplemented or restated from time to time, the "Assignment Agreement") related to a loan agreement dated [•] (as amended, supplemented or restated from time to time, the "Agreement"), and that all payments due to us under our policy(-ies) with yourselves must be made in accordance with the instruction, from time to time, of the Mortgagee.

Please note that all claims related to the insurances in respect of claims payable in respect of a major casualty, that is to say any claim (or the aggregate of which) exceeding USD 1,000,000, shall be payable to the Mortgagee and be applied by the Mortgagee in accordance with the terms of the Agreement. Subject thereto all other claims, unless and until the insurers have received notice from the Mortgagee of a default which is unremedied under the Agreement in which event all claims shall be payable directly to the Mortgagee up to its mortgage interest, shall be released directly for the repair or other charges involved or to the Owner as reimbursement if any of them has fully repaired the damage and paid all of the charges or otherwise in respect of the Owner's actual costs in connection with repair and/or other charges. Any amounts paid to the Owner directly shall be paid to USD account no 6004.04.43099 with Nordea Bank Finland Plc, New York Branch.

Please note that this instruction may not be varied except with the prior written consent of the Mortgagee.

Please confirm your acknowledgement of the terms of this notice by completing the Acknowledgement attached hereto. Please return the signed and dated Acknowledgement to the Mortgagee at the address set out above.

Place and date: [•], [•]

Owner:

Kommandor LLC

Helix Energy Solutions Corp., Inc.

By: _____

By: _____

Name:

Name:

Title: [authorised officer]

Title:

FORM OF ACKNOWLEDGEMENT
(Assignment of Insurances)

To: Nordea Bank Norge ASA
Middelthunsgate 17
N-0368 Oslo, Norway
Att: Shipping, Offshore and Oil Services
Fax No: +47 22 48 66 68

MV "HELIX PRODUCER 1"

We hereby acknowledge receipt of a Notice of Assignment (the "Notice") from Kommandor LLC (the "Owner") dated [•] related to MV "Helix Producer 1" (the "Vessel").

We have duly noted and do accept that our payments due to the Owner under the insurance policy(-ies) taken out for the Vessel as an Owners' Entry pursuant to our rules, shall be made in accordance with the instructions set out in the Notice, including the Loss Payable clause therein, and payment due to the mortgagees will be made to such account as from time to time instructed by Nordea Bank Norge ASA, Middelthunsgate 17, N-0368 Oslo, Norway, which bank has been duly noted by ourselves as the first priority mortgagee of the said Vessel on its own behalf and on behalf of certain other banks as agent therefore.

Further, we will give the Mortgagee notice in case of any variation, termination or cancellation of the insurances and any non-payment of any insurance premium. We will give the Mortgagee fourteen (14) Business Days to remedy such an event.

Place and date: [•]

Yours sincerely
for and on behalf of
[INSURERS]

By: _____
Name:
Title: [authorised officer]

SIGNATORIES

Borrower:
Kommandor LLC

By: /s/ Bart H. Heijermans _____
Name: Bart H. Heijermans
Title: President

Lenders:
Nordea Bank Norge ASA

By: /s/ Siri Wennevik _____
Name: Siri Wennevik
Title: Attorney-in-Fact

Agent:
Nordea Bank Norge ASA

By: /s/ Siri Wennevik _____
Name: Siri Wennevik
Title: Attorney-in-Fact

Arranger:
Nordea Bank Norge ASA

By: /s/ Siri Wennevik _____
Name: Siri Wennevik
Title: Attorney-in-Fact

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S ACKNOWLEDGEMENT LETTER

August 2, 2007

To the Board of Directors and Shareholders
of Helix Energy Solutions Group, Inc.

We are aware of the incorporation by reference in the Registration Statement Forms S-3 (Nos. 333-103451 and 333-125276) and Forms S-8 (Nos. 333-126248, 333-58817, 333-50289 and 333-50205) of Helix Energy Solutions Group, Inc. and subsidiaries of our report dated August 2, 2007 relating to the unaudited condensed consolidated interim financial statements of Helix Energy Solutions Group, Inc. and subsidiaries that are included in its Form 10-Q for the quarter ended June 30, 2007.

Very truly yours,

/s/ ERNST & YOUNG LLP

Houston, Texas

SECTION 302 CERTIFICATION

I, Owen Kratz, the Executive Chairman of Helix Energy Solutions Group, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Helix Energy Solutions Group, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
-

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2007

/s/ OWEN KRATZ

Owen Kratz
Executive Chairman

SECTION 302 CERTIFICATION

I, A. Wade Pursell, the Executive Vice President and Chief Financial Officer of Helix Energy Solutions Group, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Helix Energy Solutions Group, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
-

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2007

/s/ A. WADE PURSELL

A. Wade Pursell
Executive Vice President and
Chief Financial Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
§906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report of Helix Energy Solutions Group, Inc., a Minnesota corporation ("Helix"), on Form 10-Q for the period ended June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Owen Kratz, Executive Chairman of Helix, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Helix.

Date: August 3, 2007

/s/ OWEN KRATZ

Owen Kratz
Executive Chairman

A signed original of this written statement required by Section 906 has been provided to Helix and will be retained by Helix and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
§906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report of Helix Energy Solutions Group, Inc., a Minnesota corporation ("Helix"), on Form 10-Q for the period ended June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, A. Wade Pursell, Executive Vice President and Chief Financial Officer of Helix, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Helix.

Date: August 3, 2007

/s/ A. WADE PURSELL

A. Wade Pursell
Executive Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Helix and will be retained by Helix and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Helix Energy Solutions Group, Inc.

We have reviewed the condensed consolidated balance sheet of Helix Energy Solutions Group, Inc. and subsidiaries as of June 30, 2007, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2007 and 2006, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2007 and 2006. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Helix Energy Solutions Group, Inc. and subsidiaries as of December 31, 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated February 28, 2007, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph for the Company's adoption of Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment," effective January 1, 2006. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2006, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Houston, Texas
August 2, 2007