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PRIVATE AND CONFIDENTIAL
SUBJECT TO FRE 408 AND ITS EQUIVALENTS
BY E-MAIL

May 7, 2016

Pacific Exploration & Production Corporation
333 Bay Street, Suite 1100
Toronto, Ontario, Canada
M5H 2R2
Attn: Board of Directors

PricewaterhouseCoopers Inc.
PwC Tower
18 York Street, Suite 2600
Toronto, Ontario, Canada
M5J 0B2
Attn: Greg Prince

Lazard Frères & Co. LLC
30 Rockefeller Plaza
New York, New York, USA 10112
Attention: Phoebe Clarke

Dear Sirs/Madames:

Re: Binding Proposal

EIG Management Company, LLC is pleased to submit this binding proposal, subject only to definitive documentation in the form of the EIG Agreements (as defined and described below), on behalf of one or more funds, accounts or companies that it manages, including Harbour Energy Ltd. (“**EIG**”) to acquire Pacific Exploration & Production Corporation (“**Pacific E&P**”) pursuant to formal restructuring proceedings under the laws of Canada, Colombia and the United States (the “**Proposed Transaction**”).

This binding proposal is being provided simultaneously to the Board of Directors of Pacific E&P, PricewaterhouseCoopers Inc. in its capacity as monitor of Pacific E&P (the “**Monitor**”) and Pacific E&P’s financial advisor, Lazard Frères & Co. LLC. Subject to the terms and conditions described herein, this binding proposal shall expire on May 31, 2016, at 5:00 p.m. (Toronto time) if not accepted before that time.

We kindly request that the Monitor make this binding proposal accessible to the public on its website at <http://www.pwc.com/ca/pacific>.

All references to “\$” herein mean the lawful currency of the United States.

Pacific E&P’s Ongoing Restructuring Proceedings with Catalyst

We are aware that Pacific E&P, as well as certain of its subsidiaries, are party to the following agreements (collectively, the “**Catalyst Agreements**”) with The Catalyst Capital Group Inc. (“**Catalyst**”), certain holders of Pacific E&P’s senior unsecured notes (“**Consenting**”).

Noteholders”) and certain bank lenders to Pacific E&P and/or its subsidiaries (“**Consenting Lenders**”):

- (a) binding proposal letter dated April 20, 2016 between Catalyst and Pacific E&P (the “**Catalyst Binding Letter**”), including the “Secured DIP and Exit Financing Facility” term sheet attached thereto (the “**Catalyst DIP/Exit Term Sheet**”); and
- (b) restructuring support agreement (with form of joinder) dated April 20, 2016 among Catalyst, Consenting Noteholders, Consenting Lenders, Pacific E&P and certain of Pacific E&P’s subsidiaries (the “**Catalyst RSA**”), including the Recapitalization Term Sheet attached thereto (the “**Catalyst Recapitalization Term Sheet**”).

We are also aware that Pacific E&P, as well as certain of its subsidiaries, are, in connection with the Catalyst Agreements, subject to orders of the Ontario Superior Court of Justice – Commercial List under the Companies’ Creditors Arrangement Act (the “**Catalyst Canadian Orders**”), orders of the United States Bankruptcy Court in the Southern District of New York (the “**Catalyst U.S. Orders**”) and resolutions and orders of Colombia’s Superintendencia de Sociedades (the “**Catalyst Colombian Orders**”).

Binding Offer to Pursue the Proposed Transaction

EIG hereby offers to enter into enter into agreements (the “**EIG Agreements**”) with Pacific E&P that are identical to the Catalyst Binding Letter (including the Catalyst DIP/Exit Term Sheet) and the Catalyst RSA (including the Catalyst Recapitalization Term Sheet) as publicly disclosed in connection with the Catalyst Canadian Orders, subject only to the following revised terms and conditions, which are superior (to all parties other than EIG) to the terms and conditions of the Catalyst Agreements:

- The Plan Sponsor Notes (as defined in the Catalyst Recapitalization Term Sheet) will convert into 12.5% of the Reorganized Common Stock (as defined in the Catalyst Recapitalization Term Sheet) as opposed the 16.8% interest as provided for in the Catalyst Agreements. This additional 4.3% of available Reorganized Common Stock will be allocated to Affected Creditors (as defined in the Catalyst Recapitalization Term Sheet) as part of the Affected Creditor Equity Pool (as defined in the Catalyst Recapitalization Term Sheet).
- For no additional consideration, EIG, as plan sponsor will, in connection with the consummation of the Restructuring (as defined in the Catalyst RSA) contribute \$75 million cash to the Reorganized Company (as defined in the Catalyst Recapitalization Term Sheet). \$25 million of this contribution is intended to compensate the Reorganized Company for the break fee payable in connection with the Catalyst Agreements, while the additional \$50 million will constitute additional growth and operational capital for the Reorganized Company.
- Provided that the current Board of Directors of Pacific E&P reasonably determines in good faith, after having received the advice of outside counsel to

Pacific E&P and the recommendation of the Independent Committee of Pacific E&P, that it is in the best interests of Pacific E&P having regard to the reasonable expectations of the holders of Company Claims (as defined in the Catalyst RSA) and that the failure to pursue such would be inconsistent with the Board of Directors' fiduciary obligations having regard to the reasonable expectations of the holders of Company Claims:

- (i) at the sole option and discretion of the requisite majority of Affected Creditors, the Reorganized Company will issue new notes on the same terms and conditions as the Exit Notes (as defined in the Catalyst Recapitalization Term Sheet), with an aggregate principal amount of \$80 million to Affected Creditors on a pro rata basis, providing even further recovery for the Affected Creditors; and
 - (ii) such other revisions as agreed by Pacific E&P and EIG, each acting in their sole discretion.
- Covenants to the satisfaction of Pacific E&P in its reasonable discretion, providing for ongoing consultation with, and input by, applicable Colombian regulatory authorities, including Colombia's Superintendencia de Sociedades, in connection with the implementation of the Proposed Transaction.
- The Cash Out Offer (as defined in the Catalyst Recapitalization Term Sheet) will be increased to \$400 million (as opposed to \$200 million in the Catalyst Agreements) with \$200 million thereof backstopped by EIG and permitted participation in the funding of the first \$200 million by the Consenting Creditors (as defined in the Catalyst Recapitalization Term Sheet) on terms and conditions consistent with those set out in the Catalyst Agreements. Participation by shareholders of Pacific E&P in the funding of the certain amounts under the Cash Out Offer will be permitted to the extent that such participation rights do not adversely impact the rights of Consenting Creditors (as compared to the rights available to those Consenting Creditors under the Cash Out Offer in the Catalyst Agreements).
- With respect to governance matters as set out in Annex A to the Catalyst Recapitalization Term Sheet:
 - (i) in the paragraph titled "New Board Composition", the number of nominees selected by the Plan Sponsor shall be increased to four (as opposed to three in the Catalyst Agreements) and the number of independent nominees jointly selected by the Plan Sponsor and the Requisite Consenting Creditors is reduced to one (as opposed to two in the Catalyst Agreements) and such other conforming revisions as are required in connection with the foregoing;
 - (ii) the constating documents of Pacific E&P shall provide that the Plan Sponsor (i.e. EIG) has the ability to appoint a majority of the Board of Directors of Reorganized Pacific E&P so long as Plan Sponsor holds at least 22.5%

ownership interest in the Reorganized Company on a fully diluted basis (such as 22.5% interest representing the minimum equity ownership percentage of the Plan Sponsor upon consummation of the Restructuring as adjusted to take into account the 10% equity position available under the New Management Incentive Plan (as defined in the Catalyst Recapitalization Term Sheet) and such other conforming revisions as are required in connection with the foregoing; and

(iii) such minimal number of revisions as are required to the paragraph titled “Negative Control Rights” as to allow for a majority of the New Board to proceed with the matters outlined therein notwithstanding the veto rights currently set out therein with respect to: incurring new funded debt; compensation plans/management incentive plans; stock buybacks; equity raises; rights offerings; material changes to development and the business plan; and material asset sales.

- Conforming revisions to the Catalyst Agreements to reflect that the Catalyst Canadian Orders, the Catalyst U.S. Orders and the Catalyst Colombian Orders have been issued and related timing issues, which conforming revisions are, individually or in the aggregate, not adverse to Pacific E&P, the Consenting Noteholders or the Consenting Creditors, other than to a de minimis degree.
- Outside of the Restructuring but upon consummation of the Restructuring, including the bankruptcy proceedings in Colombia, it is the intention of EIG to create a Social Harmony Fund which will pay to holders of record of common shares of the company (as of the date hereof) that are properly domiciled in Colombia (but excluding any executives of the Company) a Social Harmony fee not to exceed the lesser of \$0.15 per share (comparable to the recovery on the bank debt) or \$4 million.

EIG plans to deliver to Pacific E&P and the Monitor and/or file with the Ontario court copies of the EIG Agreements described herein, as early as Monday, May 9, 2016. This binding proposal is not subject to the completion of any further diligence. EIG has previously confirmed to Pacific E&P, and hereby reconfirms, that it has the requisite financial support and funds to effect the Proposed Transaction.

We believe this binding letter represents a proposal that engages Pacific E&P’s “fiduciary out” as contemplated in Section 5.06(a) of the Catalyst RSA and as otherwise described to the Ontario court in materials and during proceedings on April 27, 2016. To this end, a summary of the comparative economic recoveries under the Proposed Transaction and the Catalyst Agreements is set out on the following page.

(Remainder of page left intentionally blank)

	Summary of Offers		EIG's Revised Offer \$ Premium to Catalyst Offer	EIG's Revised Offer % Premium to Catalyst Offer
	EIG's Revised Offer	Catalyst / Co- Chairman's Offer		
<i>(\$'s in millions unless noted)</i>				
Sponsor Ownership Post Equitization	25.0%	29.3%		
Creditor Ownership	62.5%	58.2%		
Funding Creditor Ownership	12.5%	12.5%		
Implied Equity Value	\$ 1,200	\$ 853	\$ 347	40.6%
Post Restructuring Debt	330	250		
Implied EV	\$ 1,530	\$ 1,103	\$ 427	38.7%
<i>Consideration:</i>				
Creditor Equity Recovery	\$ 750	\$ 497		
Creditor Note Recovery	80	-		
Total Creditor Recovery	\$ 830	\$ 497	\$ 333	67.1%
Implied Dollar Recovery	\$ 0.154	\$ 0.092	\$ 0.062	67.1%
Funding Creditor Equity Recovery	\$ 150	\$ 107		
Funding Creditor Note Recovery	250	250		
Total Funding Creditor Recovery	\$ 400	\$ 357	\$ 43	12.2%
Implied Dollar Recovery	\$ 1.600	\$ 1.427	\$ 0.173	12.2%
Sponsor Equity Contributed to Company	\$ 300	\$ 250	\$ 50	20.0%
Total Cash Contributed to Company	\$ 550	\$ 500	\$ 50	10.0%

(Signature page follows)

We wish to reiterate our full commitment to the Proposed Transaction and our strong belief that we are uniquely positioned to offer the best available combination of value, expediency and certainty of execution to Pacific E&P and all of its stakeholders. Accordingly, we hope you find this proposal acceptable and look forward to your favorable response and continuing to work closely with you to effect the Proposed Transaction. If you are in agreement with the terms and conditions of this binding proposal, please return a countersigned copy hereof to Linda Z. Cook at linda.cook@eigpartners.com.

Sincerely,

EIG MANAGEMENT COMPANY, LLC

By: 
Name: R. Blair Thomas
Title: Chairman and Chief Executive Officer

By: 
Name: Linda Z. Cook
Title: Managing Director and Chief Executive Officer of Harbour Energy Ltd.

Agreed and Accepted this _____ day of May, 2016

PACIFIC EXPLORATION & PRODUCTION CORPORATION

By: _____
Name:
Title