

Production Sharing Contract

Between

The Republic of Equatorial Guinea

And

Table of Contents

Section

Section I	-	Scope and Definitions
Section II	-	Term, Termination, and Cancellation
Section III	-	Exclusion of Areas
Section IV	-	Work Program and Expenditures
Section V	-	Conduct of Petroleum Operations by Contractor
Section VI	-	Rights and Obligations of the Parties, Determination of Production Levels
Section VII	-	Recovery of Operating Costs, Sharing of Production, and Handling of Production
Section VIII	-	Valuation of Crude Oil
Section IX	-	Bonuses and Surface Rentals
Section X	-	Payments
Section XI	-	Title to Equipment
Section XII	-	Unification
Section XIII	-	Consultation and Arbitration
Section XIV	-	Books and Accounts and Audits
Section XV	-	Notices
Section XVI	-	Laws and Regulations
Section XVII	-	Force Majeure
Section XVIII	-	Text
Section XIX	-	Effectiveness
Exhibit "C"	-	Accounting Procedure

EQUATORIAL GUINEA

1982 Model Contract 050282 For Petroleum
Exploration & Exploitation

PRODUCTION SHARING CONTRACT

between

THE REPUBLIC OF EQUATORIAL GUINEA

and

THIS CONTRACT, made and entered into on this _____ day of _____, 198_ by and between THE REPUBLIC OF EQUATORIAL GUINEA (hereinafter sometimes referred to as the "STATE"), represented for purposes of this Contract by THE MINISTRY OF INDUSTRY, MINES, AND ENERGY of the REPUBLIC OF EQUATORIAL GUINEA (hereinafter referred to as the "MINISTRY"), and _____, a corporation organized and existing under the laws of _____ (hereinafter referred to as "CONTRACTOR"), represented for purposes of this Contract by _____, its _____ GOVERNMENT and CONTRACTOR hereinafter are referred to either individually as "Party" or collectively as "Parties".

W I T N E S S E T H :

WHEREAS, all Hydrocarbons existing within the territory of the Republic of Equatorial Guinea, including adjacent submerged lands, are national resources owned by the Republic of Equatorial Guinea; and

WHEREAS, the STATE wishes to promote the development of Hydrocarbon deposits in and throughout the Contract Area and CONTRACTOR desires to join and assist the STATE in accelerating the exploration and development of the potential resources within the Contract Area; and

WHEREAS, CONTRACTOR has the financial ability, technical competence and professional skills necessary to carry out the Petroleum Operations hereinafter described; and

WHEREAS, in accordance with the Hydrocarbon Law of the Republic of Equatorial Guinea, agreements in the form of Production Sharing Contracts may be entered into between the STATE and foreign capital investors;

THEREFORE, in consideration of the undertakings and covenants herein contained, the Parties hereby agree as follows:

SECTION I

SCOPE AND DEFINITIONS

1.1 SCOPE

This Contract is a Production Sharing Contract. In accordance with the provisions herein contained, the

MINISTRY shall be responsible for managing the Petroleum Operations contemplated in this Contract.

CONTRACTOR shall:

- (a) be responsible to the STATE for the execution of the Petroleum Operations in accordance with the provisions of this Contract, and is hereby appointed and constituted the exclusive company to conduct Petroleum Operations in the Contract Area for the term hereof;
- (b) provide all necessary capital, machinery, equipment, technology and personnel necessary for the conduct of Petroleum Operations;
- (c) bear the risk of Petroleum Operations Costs required in carrying out Petroleum Operations and shall therefore have an economic interest in the rapid development of the hydrocarbon deposits in the Contract Area. Such costs shall be included in Petroleum Operations Costs recoverable as provided in Section VII.

During the term of this Contract the total production achieved in the conduct of the Petroleum Operations

shall be divided between the Parties in accordance with the provisions of Section VII of this Contract.

1.2. DEFINITIONS

In this Contract, words importing the singular include the plural and vice versa, and except where the context otherwise indicates, shall have the meanings set forth in this Section. Words that are not defined herein, but that are defined in the Hydrocarbon Law, shall have the meanings set forth in the Hydrocarbon Law.

- (a) Person means any individual, corporation, partnership, joint venture, association, trust, estate, unincorporated organization of government or any agency or political subdivision thereof.
- (b) Affiliated Company or Affiliate of any specified Person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct, administer and dictate policies of such Person, through the ownership of fifty percent (50%) or more of such

Person's voting securities; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

- (c) Crude Oil means Hydrocarbons which are produced at the wellhead in liquid state at atmospheric pressure, asphalt and ozokerites and the liquid Hydrocarbons known as condensate obtained from Natural Gas by condensation or extraction by means of field separation units.
- (d) Natural Gas means all Hydrocarbons that at atmospheric conditions of temperature and pressure are in a gaseous phase. Included in this definition are wet mineral gas, dry mineral gas, wet gas and residue gas remaining after the extraction processing or separation of liquid Hydrocarbons from wet gas, as well as non-hydrocarbon gas or gases produced in association with liquid or gaseous Hydrocarbons.
- (e) Exploration Operations include geological studies; geophysical studies; aerial mapping; investigations relating to the subsurface geology; stratigraphic test drilling; exploration wells; and related activities such as drillsite preparation, surveying, and all work necessarily connected

therewith, that is conducted in connection with exploration for Crude Oil and/or Natural Gas.

- (f) Development and Production Operations means all operations other than Exploration Operations conducted to facilitate extraction and the production of Crude Oil and Natural Gas.
- (g) Exploration Expenditures means direct expenditures on Exploration Operations and overhead expenses made in connection with exploration of the Contract Area. These expenditures shall be determined in accordance with the Accounting Procedure attached hereto as Exhibit "C", but expenditures made within the area of a Field after Commercial Discovery has been declared shall be excluded.
- (h) Development and Production Expenditures means direct expenditures on Development Operations and general expenses made in connection with the development of a Field, excluding expenditures made within the area of a Field before Commercial Discovery has been declared, all as determined in accordance with the Accounting Procedure attached hereto as Exhibit "C".
- (i) Petroleum Operations Expenditures means expenditures made and obligations incurred in carrying

out Petroleum Operations hereunder, determined in accordance with the Accounting Procedure attached hereto as Exhibit "C" and made a part hereof.

- (j) Barrel means a quantity or unit of Crude Oil equal to 158.9874 liters (forty-two (42) United States gallons) at a temperature of 15.56 degrees Centigrade (sixty (60) degrees Fahrenheit) under one atmosphere of pressure.
- (k) Field means an area within the Contract Area, as determined in accordance with 2.5.
- (l) Well means any opening in the ground or seabed made or being made by drilling or boring, or in any other manner, for the purpose of discovering and/or producing Crude Oil or Natural Gas, or for the injection of any fluid into an underground deposit, other than a seismic hole or a structure test hole or stratigraphic test hole.
- (m) Commercial Discovery means a discovery of Hydrocarbons that, in the judgment of the CONTRACTOR, can be produced commercially, based on consideration of all pertinent operating and financial data.

- (n) Work Program means an itemized statement of the Petroleum Operations to be carried out in the Contract Area as set forth in Section IV.
- (o) Budget of Petroleum Operations Costs means the estimate of the costs of all items included in the Work Program.
- (p) Calendar Year or Year means a period of twelve (12) months commencing January 1 and ending on the following December 31, according to the Gregorian Calendar.
- (q) Contract Year means a period of twelve (12) consecutive months according to the Gregorian Calendar, counted from the Effective Date of this Contract or from the anniversary of such Effective Date.
- (r) Gross Receipts means the sum of all proceeds of sales and the monetary equivalent of the value of other dispositions of Hydrocarbons from the Contract Area in any given Calendar Year.
- (s) Income Tax means that tax levied on net income of CONTRACTOR pursuant to the Income Tax of The Republic of Equatorial Guinea dated October 27, 1970, as amended.

- (t) Calendar Quarter means a period of three consecutive months beginning January 1, April 1, July 1, or October 1 and ending March 31, June 30, September 30 or December 31, respectively.
- (u) Effective Date means the date of the approval of this Contract by the STATE in accordance with the provisions of the applicable law.
- (v) Foreign Exchange means currency acceptable to the Parties other than that of the Republic of Equatorial Guinea.
- (w) Hydrocarbons Law means Decree-Law No. 7 of 16 June, 1981, as amended.
- (x) Contract Area means the geographic territory of the Republic of Equatorial Guinea the subject of this Contract. Such Contract Area is described in Annex "A" and delineated in Annex "B" attached hereto and incorporated herein.
- (y) Royalty means ten percent (10%) of all the Crude Oil, and ten percent (10%) of all the Natural Gas produced and saved and not otherwise utilized in Petroleum Operations from the Contract Area.
- (z) Maximum Efficient Rate means the maximum rate of production of Hydrocarbons in a Field, without

excessive decline or loss of reservoir pressure, and in accordance with the norms and practices of the petroleum industry and Section 6.4 of this Contract.

- (aa) Semester, as used in 7.8 means a period of six (6) consecutive months, commencing the first of January and the first of July of each Calendar Year.

SECTION II

TERM, TERMINATION, AND CANCELLATION

- 2.1 CONTRACTOR is authorized to conduct Exploration Operations during an initial exploration period of five (5) years, starting from the Effective Date. When CONTRACTOR has fulfilled its obligations hereunder for the initial exploration period and for each successive extension granted pursuant to Subsections (a), (b) and (c) of this Section 2.1, upon application of CONTRACTOR made not later than ninety (90) calendar days prior to the fifth, sixth, and seventh anniversary of the Effective Date, as the case may be, MINISTRY shall extend the period during which Petroleum Operations may be conducted as follows:

- (a) After the fifth (5th) Contract Year, for an additional period of one (1) Contract Year during

which year CONTRACTOR shall drill onshore or in areas covered by waters less than two hundred (200) meters deep at least one (1) exploration Well; and,

- (b) after the sixth (6th) Contract Year, for an additional period of one (1) Contract Year during which year CONTRACTOR shall drill at least one (1) exploration Well; and,
- (c) if after the fifth (5th) Contract Year, CONTRACTOR commits to drill at least one (1) exploration Well in an area covered by water deeper than two hundred (200) meters, for an additional period of two (2) Contract Years; and
- (d) if during the seventh (7th) Contract Year, CONTRACTOR encounters a show of Hydrocarbons which CONTRACTOR believes is sufficient to warrant further exploration drilling, for a period of one (1) Contract Year during which year CONTRACTOR shall drill one (1) evaluation Well in an area designated by mutual agreement of MINISTRY and CONTRACTOR.

2.2 If no Commercial Discovery has been made: (a) in the first five (5) Contract Years if CONTRACTOR does not

elect to extend the exploration period beyond the fifth (5th) Contract Year; or (b) the sixth (6th), seventh (7th) or eighth (8th) Contract Year if CONTRACTOR does elect to extend the Contract beyond the fifth (5th) Contract Year pursuant to 2.1, then this Contract shall terminate automatically in its entirety. However, an extension of six (6) months may be granted by the MINISTRY in order that CONTRACTOR may finish drilling and testing any Well actually being drilled or tested at the end of the seventh (7th) or if applicable, eighth (8th) Contract Year.

- 2.3 Upon encountering indications of a substantial accumulation of Hydrocarbons in the Contract Area, the CONTRACTOR as soon as practicable will notify the MINISTRY of this fact, indicating in the notice the particular details of the location, nature and indicated size of the accumulation. After giving such notification to the MINISTRY the CONTRACTOR as soon as practicable will present to the MINISTRY a report of the results of any preliminary production tests carried out, including in the report, when necessary, the estimate of the accumulation and the approximate extension of said discovery in the Contract Area

(hereinafter referred to as the "Area of Provisional Discovery").

2.4 Within each Area of Provisional Discovery the CONTRACTOR shall carry out appropriate evaluation work, including seismic work and drilling. As soon as possible, but in any case not later than the end of the seventh (7th) or eighth (8th) Contract Year, if applicable, CONTRACTOR will determine whether the discovery is a Commercial Discovery.

2.5 When it is determined that the discovery of Hydrocarbons is a Commercial Discovery in accordance with 2.4, CONTRACTOR will notify MINISTRY, and CONTRACTOR will present to MINISTRY for MINISTRY's written approval, which approval will not be withheld unreasonably:

- (a) a report including a map showing the extension of the area of Commercial Discovery within the Contract Area, which area when said report is accepted by MINISTRY will constitute a Field;
- (b) a Work Program for development of the Field, including an estimate of the Development and Production Expenditures necessary for the development of the Field;
- (c) the Maximum Efficient Rate of Production at which the CONTRACTOR intends to produce the Field; and,
- (d) the schedule of

the most accelerated program consistent with good international petroleum industry practice for implementation of CONTRACTOR's Work Program.

- 2.6 This Contract will continue in existence with respect to each Field for a period of thirty (30) years from the date on which CONTRACTOR, in accordance with the provisions of Section 2.5, notifies the MINISTRY that the discovery in said Field is a Commercial Discovery. In case of new Commercial Discoveries as a result of new exploratory drilling on formations which underlie or overlie each other or in other deposits which may be encountered within the extension of the area of the Commercial Discovery, such formations and deposits will constitute only one Field, and the Field will be defined or redefined as may be necessary, to incorporate all of the underlying and overlying formations and all the deposits located within the extension of the area of the original Commercial Discovery and the provisions of 2.5 shall apply mutatis mutandis to any such new Commercial Discovery.

2.7 CONTRACTOR shall have the right to terminate this Contract totally or partially:

- (a) with respect to any part of the Contract Area other than a Field then producing or that prior thereto had produced Crude Oil or Natural Gas upon giving ninety (90) calendar days' written notice of its intention to do so; and
- (b) with respect to any Field then producing or that prior thereto had produced Crude Oil or Natural Gas, upon giving one hundred eighty (180) calendar days' written notice of its intention to do so.

2.8 The STATE shall have the right to cancel this Contract upon giving thirty (30) calendar days' written notice of its intention to do so, if CONTRACTOR:

- (a) fails to make any monetary payment required by law or under this Contract for a period of thirty (30) calendar days after the due date for such payment;
- (b) fails to comply with any other material obligation that it has assumed under this Contract;

- (c) fails to comply with any acts, regulations, orders or instructions issued in conformance with this Contract by the MINISTRY, or any governmental department or agency of the Republic of Equatorial Guinea;
- (d) suspends its payments under this Contract, becomes bankrupt, or goes into liquidation because of insolvency or makes a composition with its creditors; or
- (e) has not commenced production from a Field within the period of time specified in the development Work Program according to the terms and conditions specified in 2.5.

2.9 If the circumstance or circumstances that result in cancellation under 2.8(a), (b), (c) or (e) are remedied by CONTRACTOR within the thirty (30) calendar day period following the notice of termination as aforesaid, then such termination shall not become effective.

2.10 If the circumstance or circumstances that would otherwise result in cancellation under 2.8(a), (b), (c) or (e) are the result of Force Majeure, then cancellation

shall not take place so long as Force Majeure continues and for such period thereafter as MINISTRY may determine reasonable.

2.11 The termination or cancellation of this Contract, for whatever reason, shall be without prejudice to the obligations incurred and not discharged by CONTRACTOR before the termination of this Contract.

2.12 In the event of cancellation pursuant to 2.8, the MINISTRY may require CONTRACTOR to continue for the account of the STATE Crude Oil or Natural Gas production activities until the right to continue such production has been transferred to another Person.

2.13 Within ninety (90) calendar days after the termination of this Contract, unless the MINISTRY has required an extension of this period, CONTRACTOR shall have the obligation to take any reasonably necessary action as directed by the MINISTRY, including the cessation or continuation of Petroleum Operations to prevent pollution, environmental damage or a hazard to human life or third party property.

SECTION III

EXCLUSION OF AREAS

- 3.1 Subject to 3.3. on or before the end of the third Contract Year, CONTRACTOR shall surrender forty percent (40%) of the original Contract Area.
- 3.2 Subject to 3.3. on or before the end of the fifth Contract Year, if CONTRACTOR elects to extend the exploration period pursuant to 2.1 above, CONTRACTOR shall surrender an additional area equal to twenty percent (20%) of the original total Contract Area.
- 3.3 CONTRACTOR shall not be obligated to surrender any portion of the original Contract Area which is declared an Area of Provisional Discovery or a Field. CONTRACTOR'S surrender obligations under 3.1 and 3.2 shall apply to the area remaining after excluding from the original Contract Area areas declared to be an Area of Provisional Discovery or a Field and areas previously surrendered by CONTRACTOR.
- 3.4 With regard to the remaining portion of the Contract Area left after the mandatory surrenders as set forth

in this Section III, CONTRACTOR shall maintain a reasonable exploration effort.

- 3.5 Upon at least thirty (30) days' written notice to the MINISTRY prior to the end of the first Contract Year and similarly prior to the end of any succeeding Contract Year, CONTRACTOR may surrender any portion of the Contract Area, and such portion shall then be credited against that portion of the Contract Area which CONTRACTOR is next required to surrender under the provisions of Subsections 3.1 and 3.2 hereof.
- 3.6 CONTRACTOR shall notify the MINISTRY sixty (60) days prior to the date of surrender of the description and area of the portion to be surrendered. The individual portions of the areas being surrendered, whenever possible, shall be rectangular in shape and contiguous, and the boundaries of such areas shall be delineated in even degrees and minutes of longitude and latitude.
- 3.7 CONTRACTOR shall plug and abandon all Wells on the area to be surrendered in accordance with generally accepted oilfield practices.

3.8 No surrender made in accordance with this Section III shall relieve CONTRACTOR or its surety of the obligation to pay surface rentals accrued, or making payments due and payable as a result of exploration and development activities conducted through the date of surrender.

SECTION IV

WORK PROGRAM AND EXPENDITURES

- 4.1 CONTRACTOR shall commence Petroleum Operations hereunder not later than ninety (90) calendar days after the Effective Date.
- 4.2 CONTRACTOR shall be entitled to employ any person qualified in the judgment of CONTRACTOR to undertake on its behalf such geological and geophysical surveys, drillings or similar investigations as it may decide to undertake. Any subcontractor retained by CONTRACTOR shall have the necessary professional experience to perform the task to be assigned and shall be required, by written agreement with CONTRACTOR, to abide by all relevant terms of this Contract and all applicable laws and regulations of the Republic of Equatorial Guinea. CONTRACTOR within thirty (30) calendar days shall

advise the MINISTRY of the name and address of any subcontractor retained.

4.3 CONTRACTOR shall undertake during the first five (5) Contract Years to carry out the following minimum Work Program:

FIRST THREE CONTRACT YEARS: _____.

FOURTH AND FIFTH CONTRACT YEARS: _____.

4.4 As a condition precedent to the effectiveness of this Contract CONTRACTOR shall provide a security by means of a bank guarantee acceptable to the MINISTRY corresponding to _____ United States Dollars (U.S. \$ _____) for each Well CONTRACTOR obligates itself to drill and _____ United States Dollars (U.S. \$ _____) for other Petroleum Operations CONTRACTOR obligates itself to conduct during the first three (3) Contract Years. If CONTRACTOR extends

the period for Exploration Operations pursuant to Section 2.1 hereof, then CONTRACTOR on or before the date any such extension becomes effective shall provide a security by means of a bank guarantee acceptable to the MINISTRY corresponding to _____ United States Dollars (U.S. \$ _____) for each Well CONTRACTOR obligates itself to drill and _____ United States Dollars (U.S. \$ _____) for other Petroleum Operations CONTRACTOR obligates itself to conduct during the period of any such extension. If at the end of the period of the phases for Exploration Operations, including any extension thereof made pursuant to Section 2.1 hereof, or upon the date of termination of this Contract, whichever first occurs, CONTRACTOR has not expended sums at least equal to the respective total minimum expenditures for Petroleum Operations required in this 4.4, or has not drilled any Well it is obligated to drill, the balance of the security corresponding to the unexpended minimum expenditures for Petroleum Operations and the entirety of the security corresponding to the Well automatically shall be paid to the STATE.

- 4.5 Ninety (90) calendar days prior to the beginning of each Calendar Year or at such other time as otherwise mutually agreed by the Parties, CONTRACTOR shall prepare and submit for approval to the MINISTRY a Work Program and Budget of Petroleum Operations Costs for the Contract Area setting forth the Petroleum Operations CONTRACTOR proposes to carry out during the ensuing Calendar Year. Approval by the MINISTRY of the proposed Work Program and Budget of Petroleum Operations Costs will not be unreasonably withheld or delayed.
- 4.6 It is recognized by the Parties that the details of a Work Program may require changes in the light of unforeseen circumstances and nothing herein contained shall limit the right of CONTRACTOR to make such changes, provided such changes do not alter the general objectives of the Work Program.
- 4.7 The Parties further recognize that in the event of an emergency or extraordinary circumstances requiring immediate action, either Party may take all actions it deems proper or advisable to protect its interests and those of its employees and any costs so incurred by

CONTRACTOR shall be included in the Petroleum Operations Costs. Costs incurred by CONTRACTOR related to cleaning up pollution or damage caused by CONTRACTOR shall not be included in Petroleum Operations Costs.

- 4.8 Within ninety (90) calendar days after the expiration of a Calendar Year, CONTRACTOR shall submit to the MINISTRY detailed accounts showing the Petroleum Operations Expenditures CONTRACTOR has incurred during the past Calendar Year. The accounts shall be certified by an independent outside accountant acceptable to both Parties. It is understood that the MINISTRY retains the authority to review and audit occasionally CONTRACTOR's books with respect to Petroleum Operations conducted hereunder. Such audit right will terminate two (2) years after closure of the subject year's accounts. Any exceptions to CONTRACTOR's accounts must be officially communicated to the CONTRACTOR within three (3) years of the closure of the subject year's accounts.

SECTION V

CONDUCT OF PETROLEUM OPERATIONS BY CONTRACTOR

- 5.1 CONTRACTOR shall conduct the Petroleum Operations diligently and in accordance with generally accepted

standards of the petroleum industry designed to enable production at the Maximum Efficient Rate of Crude Oil and at the level of production of Natural Gas specified in 6.3. CONTRACTOR shall ensure that all equipment, plant and installations used by CONTRACTOR comply with generally accepted engineering norms and are of proper and accepted construction and are kept in optimal working order.

5.2 CONTRACTOR shall in particular take all steps necessary:

- (a) To ensure that Crude Oil or Natural Gas discovered and produced within the Contract Area does not escape or is not in any other way wasted.
- (b) to prevent damage to adjoining or adjacent Crude Oil or Natural Gas-bearing strata,
- (c) to prevent the unintentional entrance of water through Wells to Crude Oil or Natural Gas-bearing strata,
- (d) to prevent damage to adjoining or adjacent water-bearing strata.
- (e) to conduct all Petroleum Operations under this Contract in accordance with applicable law and regulations and in a manner that does not conflict

with obligations imposed on the Republic of Equatorial Guinea by international law.

- (f) to take necessary precautions for protection of navigation and fishing and to prevent pollution of the sea or rivers.
- (g) to indemnify, defend and save the STATE harmless against all claims, losses and damage of any nature whatever, including without limitation, claims for loss or damage to property or injury to persons caused by, or resulting from, any operation in the Contract Area conducted by or on behalf of CONTRACTOR; provided that the CONTRACTOR shall not be held responsible to the STATE under this subsection for any loss, claim, damage, or injury caused by, or resulting from any negligent action of personnel of the STATE.
- (h) to drill diligently and produce a Field in order to protect the interests of the Republic of Equatorial Guinea against losses of production which result from producing said Field from outside the Contract Area or, in lieu thereof, with the consent of the MINISTRY, to pay a sum to the STATE as adequate compensation to the Republic of Equatorial

Guinea for the loss or lack of production from said Field.

5.3 Natural Gas which CONTRACTOR does not utilize in its own operations in the Contract Area, or sell, shall be reinjected into the subsurface structure. The MINISTRY may, nevertheless, authorize the flaring of Natural Gas for periods of relatively short duration during production tests, and in cases in which the flaring of relatively small quantities of Natural Gas as a necessary part of Crude Oil production is in accordance with good practice within the petroleum industry, or when the existing technical and financial circumstances require the flaring of Natural Gas.

5.4 If the MINISTRY reasonably determines that any works or installations erected by CONTRACTOR or any operations undertaken by CONTRACTOR endanger persons or third party property or cause pollution or harm marine life to an unacceptable degree, the MINISTRY will order the CONTRACTOR to take opportune remedial measures within a reasonable period established by the MINISTRY and to repair any damage to the environment. If the MINISTRY deems it necessary, it also will order CONTRACTOR to

discontinue the Petroleum Operations in whole or in part until CONTRACTOR has taken such remedial measures or has repaired any damage.

5.5 To ensure that CONTRACTOR shall meet its obligations to third parties or to government agencies that might arise in the event of damage or injury (including environmental damage or injury) caused by Petroleum Operations, notwithstanding the damage is accidental, CONTRACTOR shall maintain in force a third party liability insurance policy, the issue, coverages and terms of which are approved in writing by the MINISTRY prior to the Effective Date. To the extent such third party liability insurance is unavailable, or is not obtained, or does not cover part or all of any claim or damage caused by or resulting from Petroleum Operations, CONTRACTOR shall remain wholly responsible and shall defend, indemnify and hold harmless the MINISTRY and the STATE.

5.6 If, after the Effective Date of this Contract, others are granted permits or licenses within the Contract Area concerning the exploration/production of any minerals or other substances other than Crude Oil or

Natural Gas, CONTRACTOR shall use his best efforts to avoid obstruction or interference with such licensees' operations within the Contract Area. The MINISTRY shall use its best efforts to ensure that operations of third parties do not obstruct CONTRACTOR's Petroleum Operations within the Contract Area.

5.7 CONTRACTOR shall provide acceptable working conditions, living accommodations on offshore installations, and access to medical attention and nursing care for all personnel employed by it or its subcontractors in Petroleum Operations.

5.8 CONTRACTOR's Well design and conduct of drilling, including but not limited to CONTRACTOR's casing, cementing and drilling programs shall be in accordance with generally accepted industry practice.

5.9 Every Well shall be identified by a number, which number shall be shown on maps, plans and similar records that CONTRACTOR is required to keep. The MINISTRY shall at once be notified of any change of the identification numbers.

5.10 No Well shall be drilled through any vertical boundary of the Contract Area. A directional Well drilled under the Contract Area from a surface location on nearby land not covered by the Contract shall be deemed to have the same effect for all purposes of the Contract as a Well drilled from a surface location on the Contract Area. In such circumstances and for purposes of this Contract, production of Crude Oil or Natural Gas from the Contract Area through a directional Well surfaced on nearby land, or drilling or reworking of any such directional Well, shall be considered production or drilling or reworking operations (as the case may be) on the Contract Area for all purposes of this Contract. Nothing contained in this paragraph is intended or shall be construed as granting to the CONTRACTOR any leasehold interests, licenses, easements, or other rights which the CONTRACTOR may have to acquire lawfully under the Hydrocarbon Law or from the MINISTRY or third parties.

5.11 Before commencing any work on drilling of any Well covered by a Work Program and Budget of Operating Costs or recommencing work on any Well on which work has been

discontinued for more than six (6) months, CONTRACTOR shall give the MINISTRY seven (7) days' written notice.

5.12 Subject to the provisions of Subsection 2.10, before abandoning any prior Commercial Discovery CONTRACTOR shall give ninety (90) days' notice to the MINISTRY of its intention to abandon. Upon receipt of such notice, the MINISTRY may elect to assume operation of the Well or Wells proposed for abandonment. Failure to so elect by notice to the CONTRACTOR in writing within the aforementioned ninety (90) day period shall be deemed approval of the CONTRACTOR's proposal to abandon.

5.13 CONTRACTOR shall securely plug any Well that it intends to abandon to prevent pollution, subsea damage and possible damage to the deposit.

SECTION VI

RIGHTS AND OBLIGATIONS OF THE PARTIES, DETERMINATION OF PRODUCTION LEVELS

6.1 Subject to the provisions of paragraphs (e) and (f) of this 6.1, CONTRACTOR shall:

- (a) advance all necessary funds and purchase or lease all material, equipment and supplies required to

- be purchased or leased in connection with the Petroleum Operations;
- (b) furnish all technical aid, including foreign personnel, required for the performance of the Petroleum Operations;
 - (c) furnish all such other funds for the performance of the Petroleum Operations as may be required, including payment to foreign entities that perform services as subcontractors;
 - (d) retain control to all leased property paid for with Foreign Exchange and brought into the Republic of Equatorial Guinea under the rules of temporary importation, and as such, shall be entitled to freely remove same from the Republic of Equatorial Guinea in accordance with the law of Hydrocarbons;
 - (e) have the right to sell, assign, transfer, convey or otherwise dispose of any part or all of the rights and interests under this Contract to any Affiliated Company with the prior written consent of the MINISTRY, which consent shall not be unreasonably withheld;
 - (f) have the right to sell, assign, transfer, convey or otherwise dispose of all or any part of its

rights and interests under this Contract to parties other than Affiliated Companies with the prior written consent of the STATE;

- (g) have the right at all times of ingress and egress from the Contract Area and any facilities used in the Petroleum Operations, wherever located;
- (h) have the right to use and have access to, and the MINISTRY shall furnish to CONTRACTOR, all geological, geophysical, drilling, Well, production and other information held by the MINISTRY or by any other governmental agency or enterprise, or enterprise in which the STATE participates, relating to the Contract Area, including Well location maps;
- (i) submit in suitable form to the MINISTRY copies of all such original geological, geophysical, drilling, Well, production and other data, reports, interpretations and maps, and cuttings of all samples that have been obtained or compiled during the term hereof;
- (j) make all reasonable efforts to employ and train citizens of the Republic of Equatorial Guinea in Petroleum Operations. CONTRACTOR may employ non-citizens if no Equatorial Guinean citizens can be found with sufficient skill and technical

qualifications. CONTRACTOR shall make similar requirements of any subcontractor. At intervals of not more than one year CONTRACTOR shall submit to the MINISTRY reports detailing the personnel employed and their residence when employed. The MINISTRY may require that CONTRACTOR establish a program to train personnel of the MINISTRY and citizens of the Republic of Equatorial Guinea to undertake skilled and technical jobs in the Petroleum Operations. Costs and expenses of training citizens of Equatorial Guinea for employment in CONTRACTOR's operations, as well as costs and expenses for a program of training for the MINISTRY's personnel, shall be included in Operating Costs.

- (k) appoint an authorized representative for the Republic of Equatorial Guinea with respect to this Contract, who shall have an office in Malabo;
- (l) give preference to goods and services that are produced in the Republic of Equatorial Guinea or rendered by citizens of the Republic of Equatorial Guinea, provided such goods and services are offered at equally advantageous conditions with

- regard to quality, price, and immediate availability in the quantities required;
- (m) pay to the STATE the Income Taxes imposed on it pursuant to the Income Tax Laws of the Republic of Equatorial Guinea;
 - (n) pay to the STATE the Royalty imposed upon it pursuant to the terms and conditions of this Contract;
 - (o) except as provided in Section 7.10 hereof, have the right during the term hereof to freely lift, dispose of and export its share of Crude Oil, and retain abroad the Foreign Exchange proceeds obtained therefrom.
 - (p) notify MINISTRY at least forty-eight (48) hours before the abandonment of any Well.

6.2 The MINISTRY shall:

- (a) except with respect to CONTRACTOR's obligation to pay Income Tax as set forth at paragraph 6.1(m) of this Section VI, assume and discharge other taxes to which CONTRACTOR would otherwise be subject, including transfer tax, import and export duties on materials, equipment and supplies brought into the Republic of Equatorial Guinea by CONTRACTOR,

its contractors and subcontractors; exactions in respect of property, capital, net worth, operations, remittances or transactions (whether exacted directly or by the requirement of stamp taxes on documents or the use of sealed paper), including any tax or levy on or in connection with operations performed hereunder by CONTRACTOR. The MINISTRY shall not be obliged to pay CONTRACTOR's Royalty, Income Tax, nor taxes on tobaccos, liquor and personnel income tax; nor shall it be obliged to pay the Income Tax and other taxes not listed in the preceding sentence payable by contractors and subcontractors. The obligations of the MINISTRY hereunder shall be deemed to have been complied with by the delivery to CONTRACTOR within one hundred and twenty (120) calendar days after the end of each Calendar Year, of documentary proof in accordance with fiscal laws of the Republic of Equatorial Guinea that liability for the above mentioned taxes has been satisfied, except that with respect to any of such liabilities that CONTRACTOR may be obliged to pay directly, the MINISTRY shall reimburse it within sixty (60) calendar days after receipt of invoice therefor.

The MINISTRY shall be consulted prior to payment of such taxes by CONTRACTOR or by any other party on CONTRACTOR's behalf;

- (b) otherwise assist and expedite CONTRACTOR's execution of the Work Program by supplying or otherwise making available all necessary visas, work permits, import licenses, and rights of way and easements as may be required by CONTRACTOR or its subcontractors and made available from the resources under the MINISTRY's control;
- (c) have title to all original data resulting from the Petroleum Operations including but not limited to geological, geophysical, petrophysical, engineering, Well logs and completion, status reports, samples and any other data that CONTRACTOR may compile or obtain during the term hereof; provided, however, that CONTRACTOR may retain copies of such data and further provided that such data shall not be disclosed to third parties without the consent of CONTRACTOR while this Contract remains in force. However, for the purpose of obtaining new offers, the MINISTRY may show any other party geophysical and geological data with

respect to that part or parts of the Contract Area adjacent to the area of such new offers;

- (d) have the right at all reasonable times to inspect CONTRACTOR'S Petroleum Operations, Hydrocarbon measuring devices, logs, plans, maps, and records relating to Petroleum Operations and surveys or investigations on or with regard to the Contract Area. MINISTRY shall make every effort to coordinate inspection activities to avoid interference with Petroleum Operations.

6.3 CONTRACTOR shall produce Crude Oil from the Contract Area at the Maximum Efficient Rate. CONTRACTOR and MINISTRY shall conduct a review of CONTRACTOR's production programs prior to the commencement of production from any Field and establish at that time by agreement the Maximum Efficient Rate and the production rate for Natural Gas and the dates on which the Maximum Efficient Rate and the production rate for Natural Gas will be reviewed and established in the future. In the case of Natural Gas, the production level shall not be less than that required to satisfy any contracts then in existence for the sale of Natural Gas.

SECTION VII

RECOVERY OF OPERATING COSTS, SHARING OF PRODUCTION, AND HANDLING OF PRODUCTION

(The percentages designated as rates of return and respective production shares of the Parties in this Section VII are given only as examples. The percentages applicable in any specific Contract shall be those presented by the CONTRACTOR.)

- 7.1 The respective production shares of the STATE and the CONTRACTOR of Crude Oil produced and saved shall be determined in accordance with the definitions and procedures set forth in this Section VII.
- 7.2 After making Royalty payments to the STATE, CONTRACTOR shall be entitled to recover all Petroleum-Operations Costs out of the sales proceeds or other disposition of Crude Oil produced and saved hereunder and not used in Petroleum Operations. Any Crude Oil remaining after making the Royalty payments to the STATE and after all Petroleum Operations Costs are recovered by CONTRACTOR shall be referred to hereinafter as "Net Crude Oil." Net Crude Oil shall be shared between the STATE and the

CONTRACTOR in accordance with the procedures outlined below, which are designed to ensure total cost recovery by CONTRACTOR, followed by an escalation of the STATE's share based on increases in the CONTRACTOR's pre-tax rate of return, as illustrated in the following table:

<u>CONTRACTOR's Pre-Tax Rate of Return</u>	<u>Total STATE Share (% of Net Crude Oil)</u>	<u>Total CONTRACTOR Share (% of Net Crude Oil)</u>
Up to 30%	0%	100%
Greater than 30% to 40%	40%	60%
Greater than 40% to 50%	60%	40%
Greater than 50%	80%	20%

7.3 In order to determine STATE's share of Net Crude Oil, it shall first be necessary to calculate Net Cash Flow from Petroleum Operations ("Net Cash Flow"). Net Cash Flow for any given Calendar Year shall be determined by subtracting Royalty Payments and Petroleum Operations Costs from Gross Receipts.

7.4 In order to calculate the STATE's Share of Net Crude Oil produced from the Contract Area, there are hereby established three (3) accounts: First Share Account

("FSA"); Second Share Account ("SSA"); and Third Share Account ("TSA").

7.4.1 First Share Account

- a. For purposes of the calculation to be made for the First Share Account, the following formula shall be used:

$$FSA(Y) = FSA(Y-1) (1 + .30 + i) + NCF(Y)$$

Where: FSA = First Share Account

Y = the Calendar Year in question

NCF = Net Cash Flow

i = the percentage change for the Calendar Year in question in the index of U.S. Consumer prices as reported for the first time in the monthly publication "International Financial Statistics" of the International Monetary Fund.

- b. In any Calendar Year in which FSA(Y) is negative, the STATE's share of Net Crude Oil determined with reference to the First Share Account shall be zero.
- c. In any Calendar Year in which FSA(Y) becomes positive, the CONTRACTOR for purposes of this

section shall be deemed to have earned a pre-tax rate of return that is equal to or greater than thirty percent (30%), and the STATE's share of Net Crude Oil determined with reference to the First Share Account shall be an amount of Net Crude Oil the value of which is equal to forty percent (40%) of FSA(Y).

- d. In any Calendar Year immediately subsequent to a Calendar Year in which FSA(Y) becomes positive, for purposes of applying the formula set forth in subsection a. of this Section 7.4.1, FSA(Y-1) shall be equal to zero.

7.4.2 Second Share Account

- a. For purposes of the calculation to be made for the Second Share Account, the following formula shall be used:

$$SSA(Y) = SSA(Y-1)(1+.40 + i) + (NCF(Y) - GS I(Y))$$

Where: SSA = Second Share Account

Y = the Calendar Year in question

NCF = Net Cash Flow

GS I = STATE Share of Net Crude Oil determined with reference to the First Share Account

i = the percentage change for the Calendar Year in question in the index of U.S. consumer prices as reported for the first time in the monthly publication "International Financial Statistics" of the International Monetary Fund.

- b. In any Calendar Year in which SSA(Y) is negative, the STATE's share of Net Crude Oil determined with reference to the Second Share Account shall be zero.
- c. In any Calendar Year in which SSA(Y) becomes positive, the CONTRACTOR for purposes of this section shall be deemed to have earned a pre-tax rate of return that is equal to or greater than forty percent (40%), and the STATE's share of Net Crude Oil determined with reference to the Second Share Account shall be an amount of Net Crude Oil the value of which is equal to thirty-three and one-third percent (33-1/3%) of SSA(Y).
- d. In any Calendar Year immediately subsequent to a Calendar Year in which SSA(Y) becomes

positive, for purposes of applying the formula set forth in subsection a. of this Section 7.4.2, SSA(Y-1) shall be equal to zero.

7.4.3 Third Share Account

- a. For purposes of the calculation to be made for the Third Share Account, the following formula shall be used:

$$\text{TSA}(Y) = \text{TSA}(Y-1) (1 + .50 + i) + (\text{NCF}(Y) - \text{GS I}(Y) - \text{GS II}(Y))$$

Where: TSA = Third Share Account

Y = the Calendar Year in question

NCF = Net Cash Flow

GS I = STATE share of Net Crude Oil determined with reference to the First Share Account.

GS II = STATE Share of Net Crude Oil determined with reference to the Second Share Account

i = the percentage change for the Calendar Year in question in the index of U.S. consumer prices as reported for the first time in the monthly publication "International Financial Statistics" of the International Monetary Fund.

- b. In any Calendar Year in which TSA(Y) is negative, the STATE's share of Net Crude Oil

determined with reference to the Third Share Account shall be zero.

- c. In any Calendar Year in which $TSA(Y)$ becomes positive, the CONTRACTOR for purposes of this section shall be deemed to have earned a pre-tax rate of return that is equal to or greater than fifty percent (50%), and the STATE's share of Net Crude Oil determined with reference to the Third Share Account shall be an amount of Net Crude Oil the value of which is equal to fifty percent (50%) of $TSA(Y)$.
- d. In any Calendar Year immediately subsequent to a Calendar Year in which $TSA(Y)$ becomes positive, for purposes of applying the formula set forth in subsection a. of this Section 7.4.3, $TSA(Y-1)$ shall be equal to zero.

7.4.4 Total STATE Share.

The total STATE Share of Net Crude Oil in any Calendar Year shall be the sum of the STATE Share

of Net Crude Oil determined with reference to the First Share Account, the Second Share Account and the Third Share Account for such Calendar Year.

- 7.5 CONTRACTOR, if so directed by the STATE, shall be obligated to market all Crude Oil produced and saved from the Contract Area subject to the provisions hereinafter set forth.
- 7.6 Except as provided in paragraph 7.10, CONTRACTOR shall be entitled to take and receive and freely export its share of Net Crude Oil.
- 7.7 Title to the CONTRACTOR's share of Crude Oil under this Section VII, as well as to that portion of Crude Oil exported and sold to recover Operating Costs, shall pass to CONTRACTOR at the wellhead.
- 7.8 If the STATE elects to take any of its share of Crude Oil in kind, it shall so notify CONTRACTOR in writing not less than ninety (90) days prior to the commencement of each semester of each Calendar Year specifying the quantity that it elects to take in kind, such notice to be effective for the ensuing semester of that

Calendar Year (provided, however, that such election shall not interfere with the proper performance of any Crude Oil sales agreement for Crude Oil produced within the Contract Area that CONTRACTOR has executed prior to the notice of such election). Failure to give such notice shall be conclusively deemed to evidence the election not to take in kind. Any sale of the STATE's portion of Crude Oil shall not be for a term of more than one Calendar Year without the STATE's consent.

- 7.9 If the STATE elects not to take and receive in kind the STATE's share of Crude Oil, then the STATE may direct the CONTRACTOR to market or itself buy the STATE's share of production, whichever CONTRACTOR shall elect to do; provided, however, the price paid the STATE for its share of production shall not be less than the market price determined in accordance with Section VIII hereof. CONTRACTOR shall pay the STATE for the STATE's share of the production produced and saved for each Calendar Quarter, such payment to be made within thirty (30) calendar days of the end of the Calendar Quarter in which the production occurred.

7.10 In addition to the STATE's production share in accordance with the terms of this Contract, CONTRACTOR is obligated to sell to the STATE, if requested in writing, a portion of CONTRACTOR'S share of Crude Oil for the internal consumption of the country in accordance with Article 15 of the Hydrocarbons Law.

7.11 Should the STATE and CONTRACTOR consider that the processing and utilization of Natural Gas is economical and choose to participate in the processing and utilization thereof, in addition to that used in secondary recovery operations, then the construction and installation of facilities for such processing and utilization shall be carried out pursuant to an approved Work Program. The recovery of operating costs, sharing of production, and handling of production shall be effected according to the same general framework as that utilized for Crude Oil, except that STATE and CONTRACTOR shall agree upon the sharing of production, levels of pre-tax rate of return, and the method of valuing Natural Gas before CONTRACTOR initiates any such operations.

7.12 In the event that CONTRACTOR considers that the processing and utilization of Natural Gas is not economical, the STATE may choose to take and utilize such Natural Gas that would otherwise be flared in accordance with the provisions of Section 5.3; all costs of taking and handling will be for the sole account and risk of the STATE.

SECTION VIII
VALUATION OF CRUDE OIL

8.1 Crude Oil sold to third parties shall be valued as follows:

- (a) All Crude Oil taken by CONTRACTOR, including its share and the share for the recovery of Petroleum Operations Costs, and sold to third parties shall be valued at the net realized price f.o.b. Republic of Equatorial Guinea received by CONTRACTOR for such Crude Oil.
- (b) All of the STATE's Crude Oil taken by CONTRACTOR and sold to third parties shall be valued at the net realized price f.o.b. Republic of Equatorial Guinea received by CONTRACTOR for such Crude Oil.
- (c) The MINISTRY shall be duly advised before the sales referred to in paragraphs (a) and (b) of

this subsection are made, except for sale of CONTRACTOR's share of Crude Oil.

- (d) Subject to any existing Crude Oil sales agreement, if a more favorable net realized price is available to the STATE for the Crude Oil referred to in paragraphs (a) and (b) of this subsection, except CONTRACTOR's share of Crude Oil, then the MINISTRY shall so advise CONTRACTOR in writing not less than ninety (90) calendar days prior to the commencement of the deliveries under the STATE's proposed sales contract. Forty-five (45) calendar days prior to the start of such deliveries, CONTRACTOR shall notify the MINISTRY regarding CONTRACTOR's intention to meet the more favorable net realized price in relation to the quantity and period of delivery concerned in said proposed sales contract. In the absence of such notice the STATE shall market said Crude Oil.
- (e) The STATES's marketing of such Crude Oil as referred to in paragraph (d) of this subsection shall continue until forty-five (45) calendar days after the STATE's net realized price on said Crude Oil becomes less favorable. CONTRACTOR's obligation to market said Crude Oil shall not apply until

after the MINISTRY has given CONTRACTOR at least forty-five (45) calendar days advance notice that the STATE does not desire to continue such sales. As long as the STATE is marketing the Crude Oil referred to above it shall account to CONTRACTOR, on the basis of the more favorable net realized price.

8.2 Crude Oil sold to other than third parties shall be valued as follows:

- (a) by using the weighted average per unit price received by CONTRACTOR and the STATE from sales to third parties, net of commissions and brokerages paid in relation to such third party sales, during the three (3) months preceding such sale, adjusted as necessary for quality, grade and gravity, and taking into consideration any special circumstances with respect to such sales.
- (b) if no such third party sales have been made during such period of time, then on the basis used to value Crude Oil of similar quality, grade and gravity and taking into consideration any special

circumstances with respect to sales of such similar Crude Oil.

- 8.3 Third party sales referred to in this section shall mean sales by CONTRACTOR to purchasers independent of CONTRACTOR, that is purchasers with whom (at the time the sale is made) CONTRACTOR has no contractual interest involving directly or indirectly any joint interest.
- 8.4 Commissions or brokerages incurred in connection with sales to third parties, if any, shall not exceed the customary and prevailing rate.
- 8.5 During any given Calendar Year, the handling of production (i.e. the implementation of the provisions of Section VII hereof) and the proceeds thereof shall be provisionally dealt with on the basis of the relevant Work Program and Budget of Petroleum Operations Costs based upon estimates of quantities of Crude Oil to be produced, of internal consumption in the Republic of Equatorial Guinea, of marketing possibilities, of prices and other sale conditions as well as of any other relevant factors. Within thirty (30) calendar

days after the end of said given Calendar Year, adjustments and cash settlements between the Parties shall be made on the basis of the actual quantities, amounts and prices involved, in order to comply with the provisions of this Contract.

8.6 In the event the Petroleum Operations involve the segregation of Crude Oils of different quality and/or grade and if the Parties do not otherwise mutually agree:

(a) any and all provisions of this Contract concerning valuation of Crude Oil shall separately apply to each segregated Crude Oil;

(b) each Crude Oil produced and segregated in a given year shall contribute to:

(i) the "required quantity" destined in such year to the recovery of all Petroleum Operations Costs pursuant to Section VII;

(ii) the "required quantity" of Crude Oil to which a Party is entitled in such Year pursuant to Section VII;

with quantities, each of which shall bear to the respective "required quantity" (referred to in (i) or (ii) above) the same proportion as the quantity

of such Crude Oil produced and segregated in such given Year bears to the total quantity of Crude Oil produced in such Year from the Contract Area.

SECTION IX

BONUSES AND SURFACE RENTALS

- 9.1 On the Effective Date, CONTRACTOR shall pay the STATE the sum of _____ U.S. Dollars (U.S. \$ _____) as a signature bonus.
- 9.2 On the date CONTRACTOR notifies MINISTRY it has made a Commercial Discovery, CONTRACTOR shall pay the STATE the sum of Two Million United States Dollars (U.S. \$2,000,000). This Commercial Discovery bonus shall not be included in Petroleum Operations Costs.
- 9.3 CONTRACTOR shall pay the STATE the sum of Five Million United States Dollars (U.S. \$5,000,000) after daily production from the Contract Area averages twenty thousand (20,000) Barrels per day for a period of sixty (60) consecutive days; and CONTRACTOR shall also pay the STATE the sum of Twenty Million United States Dollars (U.S. \$20,000,000) after daily production from the Contract Area averages fifty thousand (50,000)

Barrels per day for a period of sixty (60) consecutive days. Such payments shall be made within thirty (30) calendar days following the last day of the respective sixty (60) calendar days' period.

- 9.3 From the Effective Date and throughout the period during which CONTRACTOR is conducting Exploration Operations, CONTRACTOR shall pay to the STATE an annual surface rental of One United States Dollar (U.S. \$1.00) per hectare for all parts of the Contract Area onshore or covered by less than two hundred (200) meters of water, and Fifty United States Cents (U.S. \$.50) per hectare for all parts of the Contract Area covered by two hundred (200) meters or more of water within which CONTRACTOR is authorized to conduct Exploration Operations. For the year in which this Contract is signed, the surface rentals shall be prorated from the Effective Date through December 31 of that year, and shall be paid within thirty (30) calendar days after the Effective Date. For succeeding years the surface rentals shall be paid in advance, thirty (30) calendar days before the beginning of each Calendar Year.

9.4 The signature bonus and production bonus payments required by Sections 9.1 and 9.3 hereof shall be included in Petroleum Operations Costs.

SECTION X

PAYMENTS

10.1 All payments that this Contract obligates CONTRACTOR to make to the STATE shall be made to the Treasury of the STATE in United States Dollars currency, or at CONTRACTOR's election, other currency acceptable to the STATE.

10.2 All payments due to CONTRACTOR shall be made in United States Dollars currency, or at the STATE's election, other currencies acceptable to CONTRACTOR, at a bank to be designated by the CONTRACTOR.

10.3 Unless otherwise specifically provided herein, any payments required to be made pursuant to this Contract shall be made within thirty (30) calendar days following the end of the month in which the obligation to make such payments occurs.

SECTION XI

TITLE TO EQUIPMENT

- 11.1 Fixed installations acquired by CONTRACTOR or any of its subcontractors for use in Development and Production Operations will be the property of the STATE at the end of the term of this Contract.
- 11.2 The provisions of subsection 11.1 of this Section XI shall not apply to equipment of CONTRACTOR or equipment of any of its subcontractors which is not essential for the production of Hydrocarbons. Said equipment may be freely exported from the Republic of Equatorial Guinea.

SECTION XII

UNIFICATION

- 12.1 If a Field is designated within the Contract Area and such Field extends to other parts of the Republic of Equatorial Guinea in which other parties have obtained a Contract for exploration and production of Crude Oil or Natural Gas, or in which another Contract has been granted to the CONTRACTOR, the MINISTRY may demand that the production of Crude Oil and Natural Gas be carried out in collaboration with the other contractors. The

same rule shall be applicable if deposits of Crude Oil or Natural Gas, within the Contract Area, which are not commercially recoverable are deemed as commercially exploitable if the production includes those parts of the deposits which extend to areas controlled by other contractors.

12.2 If the MINISTRY so orders, the CONTRACTOR shall collaborate with other contractors in preparing a collective proposal for common production of the deposits of Crude Oil or Natural Gas for approval by the MINISTRY.

12.3 If the proposal for common production has not been presented within the time period established, or if the MINISTRY does not approve that proposal, the MINISTRY may prepare or cause to be prepared for the account of the parties involved, a plan for common production. If the MINISTRY adopts such plan, the CONTRACTOR shall comply with all the conditions established in such plan.

12.4 This Section XII shall also be applicable to discoveries of deposits of Crude Oil or Natural Gas within the Contract Area that extend to areas that are not within

the dominion of the Republic of Equatorial Guinea; provided that in these cases, the MINISTRY shall be empowered to impose the special rules and conditions which may be necessary to satisfy obligations under an agreement with international organizations or adjacent states, with respect to the production of such deposits of Crude Oil or Natural Gas.

12.5 Within one hundred eighty (180) calendar days following a request by the MINISTRY, CONTRACTOR shall agree and proceed to operate under any cooperative or unitary plan for the development and operation of the area, Field or pool, or a part of the same, which includes areas covered by this Contract, which the MINISTRY deems feasible and necessary or advisable for purposes of conservation. If a clause of a cooperative or unitary development plan which has been approved by the MINISTRY and which by its terms affects the Contract Area or a part of the same, contradicts a clause of this Contract, the clause of the cooperative or unitary plan shall prevail.

SECTION XIII

CONSULTATION AND ARBITRATION

13.1 The STATE and CONTRACTOR hereby consent to submit to the jurisdiction of the International Centre for Settlement of Investment Disputes (hereinafter the "CENTRE") for all disputes arising out of this Agreement or relating to any investment made under it, for settlement by conciliation followed, if the dispute remains unresolved within three (3) months of the communication of the report of the Conciliation Commission to the Party, by arbitration, pursuant to the Convention of the Settlement of Investment Disputes between States and Nationals of Other States (hereinafter the "Convention").

13.2 The MINISTRY is a government agency of the Republic of Equatorial Guinea, that has been designated to the CENTRE by the STATE, in accordance with Article 25(1) of the Convention. In accordance with Article 25(3) of the Convention, the Republic of Equatorial Guinea has notified the CENTRE that no approval of consent agreements by the MINISTRY is required [has given its approval to this Consent Agreement in decree _____].

13.3 It is hereby stipulated by the Parties that CONTRACTOR is a national of _____.

13.4 It is hereby agreed that the consent to the jurisdiction of the CENTRE expressed above shall equally bind any successor in interest to the present Government of the Republic of Equatorial Guinea and to CONTRACTOR to the extent that the CENTRE can assume jurisdiction over a dispute between such successor and the other Party.

13.5 It is hereby agreed that the right of CONTRACTOR to request the settlement of a dispute by the CENTRE or to take any step as a party to a proceeding pursuant to this Agreement shall not be affected by the fact that CONTRACTOR has received partial compensation on the conditional or an absolute basis, from any third party (whether a private person, a state, a government agency or an international organization), with respect to any loss or injury that is the subject of the dispute; provided that the Republic of Equatorial Guinea may require evidence that such third party agrees to the exercise of those rights by the CONTRACTOR.

13.6 Since the Republic of Equatorial Guinea [and/or CONTRACTOR's State] is not yet a party to the Convention, it is hereby specified that this Section XIII shall enter into force on the date on which the Convention comes into effect for that [both those] State, and that date shall be considered to be the date on which the Parties consented to submit disputes to the CENTRE. Until the procedure for the settlement of disputes provided for in this Section can be implemented thirty (30) calendar days after the ratification of the Convention by the Republic of Equatorial Guinea [and/or by CONTRACTOR's State], all disputes shall be settled by procedures analogous to those that would be applicable under the Convention, except that the proceeding shall be initiated by a direct communication from either Party to the other, and that if the Arbitral Tribunal is not constituted within ninety (90) calendar days after the receipt of such communication, either Party may request the Secretary General of the CENTRE to appoint any arbitrators not yet appointed.

Any Arbitral Tribunal constituted in relation to a dispute submitted to the CENTRE pursuant to this Section shall consist of one arbitrator appointed by each

Party, and of an arbitrator appointed by the Chairman of the Administrative Council of the CENTRE, which arbitrator shall be President of the Tribunal.

13.7 Any Arbitral Tribunal constituted pursuant to this Contract shall apply the law of the Republic of Equatorial Guinea. Such Arbitral Tribunal constituted pursuant to this Contract shall have the power to decide a dispute ex aequo et bono.

SECTION XIV

BOOKS AND ACCOUNTS AND AUDITS

14.1 BOOKS AND ACCOUNTS

CONTRACTOR shall be responsible for keeping complete books and accounts reflecting all Petroleum Operations Costs as well as monies received from the sale of Crude Oil and Natural Gas, consistent with modern petroleum industry practices and proceedings as described in Exhibit "C" attached hereto. Such books and accounts shall be maintained in United States Dollars. Should there be any inconsistency between the provisions of this Contract and the provisions of Exhibit "C", then the provisions of this Contract shall prevail.

14.2 AUDITS

The STATE shall have the right to inspect and audit CONTRACTOR's books and accounts relating to this Contract in accordance with Section 4.8 hereof. In addition, the STATE may require CONTRACTOR to engage CONTRACTOR's independent accountants to examine, in accordance with generally accepted auditing standards, the CONTRACTOR's books and accounts relating to this Contract for any Calendar Year or perform such auditing procedures as deemed appropriate by the STATE. A copy of the independent accountant's report or any exceptions shall be forwarded to the STATE within sixty (60) calendar days following the completion of such audit.

SECTION XV

NOTICES

15.1 Any notices required or given by either Party to the other shall be deemed to have been delivered when properly acknowledged for receipt by the receiving Party. All such notices shall be addressed to:
MINISTRY OF INDUSTRY, MINES AND ENERGY

CONTRACTOR

Either party may substitute or change such address on written notice thereof to the other.

SECTION XVI

LAWS AND REGULATIONS

16.1 For purposes of this Contract the laws of the Republic of Equatorial Guinea shall govern.

SECTION XVII

FORCE MAJEURE

17.1 Except as otherwise provided in this Subsection 17.1, each Party shall be excused from complying with the terms of this Contract, except for the payment of monies then due, if any, for so long as such compliance is hindered or prevented by riots, strikes, wars (declared or undeclared), insurrections, rebellions, terrorist acts, civil disturbances, dispositions or orders of governmental authority, whether such authority be actual or assumed, acts of God, or by act or cause that is reasonably beyond the control of such Party, such cases being herein sometimes called "Force Majeure;" provided, however, inability to obtain equipment, supplies, or fuel shall not be a cause of Force

Majeure. If any failure to comply is occasioned by a governmental law, rule, regulation, disposition or order of the Government of the Republic of Equatorial Guinea as aforesaid and the affected Party is operating in accordance with good petroleum industry practice in the Contract Area and is making reasonable efforts to comply with such law, rule, regulation, disposition or order, the matter shall be deemed beyond the control of the affected Party. In the event that either Party hereto is rendered unable, wholly or in part, by any of these causes to carry out its obligations under this Contract, it is agreed that such Party shall give notice and details of Force Majeure in writing to the other Party within seven (7) calendar days after its occurrence. In such cases, the obligations of the Party giving the notice shall be suspended during the continuance of any inability so caused. Both parties shall do all reasonably within their power to remove such cause.

SECTION XVIII

TEXT

18.1 This Contract is drawn up in the _____ and Spanish languages. If any question regarding the interpretation

of the two texts arises, then the Spanish text shall prevail.

SECTION XIX

EFFECTIVENESS

19.1 This Contract shall come into effect on the Effective Date.

19.2 This Contract shall not be annulled, amended or modified in any respect, except by the mutual consent in writing of the Parties hereto.

19.3 IN WITNESS WHEREOF, the Parties hereto have executed this Contract, in triplicate and in the _____ and Spanish languages, as of the day and year first above written.

MINISTRY OF INDUSTRY, MINES AND ENERGY
OF THE REPUBLIC OF EQUATORIAL GUINEA

By _____

CONTRACTOR

By _____

SUPREME MILITARY COUNCIL OF
THE REPUBLIC OF EQUATORIAL GUINEA

By _____ Date _____

EXHIBIT "C"

Attached to and made an integral part of the Production Sharing Contract (the "Contract") between the STATE of the REPUBLIC OF EQUATORIAL GUINEA and _____, CONTRACTOR, dated the _____ day of _____, 198_.

ACCOUNTING PROCEDURE

Article 1

General Provisions

1. Purpose

The accounting procedure herein provided for is to be followed and observed in the performance of either Party's obligations under the Contract to which this Exhibit is attached.

2. Accounts and Statements

CONTRACTOR's accounting records and books will be kept in accordance with generally accepted and recognized accounting systems, consistent with modern petroleum industry practices and procedures. Books and reports will be maintained and prepared in accordance with

methods established by the MINISTRY. The chart of accounts and related account definitions will be prescribed by the MINISTRY. Reports will be organized for the use of the MINISTRY in carrying out its management responsibilities under the Contract.

Article II

Petroleum Operations Costs

1. Definition for Purposes of the Recovery of Costs and Calculation of the Income Taxes

For any year in which commercial production occurs, Petroleum Operations Costs consist of a) current year's non-capital costs, b) current year's capital costs and c) current year allowed recovery of prior year's unrecovered Petroleum Operations Costs.

2. Non-capital Costs

Non-capital costs means those Petroleum Operations Costs incurred that relate to current year's operations. In addition to costs relating only to current operations, the costs of surveys and the intangible costs of drilling exploration and development Wells, as described in paragraph (c), (d) and (e) below, will be

classified as non-capital costs. Non-capital costs include, but are not limited to the following:

- (a) Labor, materials and services used in day to day Crude Oil Well operations, Crude Oil Field production facilities operations, secondary recovery operations, storage, handling, transportation, and delivery operations, Natural Gas Well operations, Natural Gas Field production facilities operations, Natural Gas transportation, and delivery operations, Natural Gas processing auxiliaries and utilities, and other operating activities, including repairs and maintenance.
- (b) Office, services and general administration - General services including technical and related services, material services, transportation, rental of specialized and heavy engineering equipment, site rentals and other rentals of services and property, personnel expenses, public relations, and other expenses abroad.
- (c) Development and Production drilling - Labor, materials and services used in drilling Wells with the object of penetrating a proven reservoir, including the drilling of delineation Wells as well as re-drilling, deepening or recompleting

Wells, and access roads, if any, leading directly to Wells.

- (d) Exploratory Drilling - Labor, materials and services used in the drilling of Wells with the object of finding unproven reservoirs of Crude Oil and Natural Gas, and access roads, if any, leading directly to Wells.
- (e) Surveys - Labor, materials and services used in aerial, geological, topographical, geophysical and seismic surveys, and core hole drilling.
- (f) Other exploration expenditures - Auxiliary or temporary facilities having lives of one year or less used in exploration and purchased geological and geophysical information.
- (g) The signature bonus and production bonuses payable in accordance with 9.1 and 9.3 of the Contract.

3. Capital Costs

Capital Costs means expenditures made for items that normally have a useful life beyond the year incurred. Capital costs include, but are not limited to, the following:

- (a) Construction utilities and auxiliaries - Work shops, power and water facilities, warehouses, and

field roads other than the access roads mentioned in paragraphs 2(c) and 2(d) above. Cost of Crude Oil jetties and anchorages, treating plants and equipment, secondary recovery systems, gas plants and steam systems.

- (b) Construction housing and welfare - Housing, recreational facilities and other tangible property incidental to construction.
- (c) Production Facilities - Offshore platforms (including the costs of labor, fuel, hauling and supplies for both the offsite fabrication and onsite installation of platforms, and other construction costs in erecting platforms and installing submarine pipelines), wellhead equipment, subsurface lifting equipment, production tubing, sucker rods, surface pumps, flow lines, gathering equipment, delivery lines and storage facilities.
- (d) Movable - Surface and subsurface drilling and production tools, equipment and instruments, barges, floating craft, automotive equipment, aircraft, construction equipment, furniture and office equipment and miscellaneous equipment.

Article III

Accounting Methods To Be Used to Calculate Recovery of Petroleum Operations Costs and Income Taxes

1. Depreciation

Depreciation will be calculated from the year in which the asset is placed into service, with a full year's depreciation allowed the initial year. Depreciation of capital costs for purposes of Income Tax Calculation will be calculated over four (4) years. The method used to calculate each year's allowable recovery of capital costs is the straight line method.

The lives to be used for items for which Capital Costs are incurred shall be four (4) years. The undepreciated balance of assets taken out of service will not be charged to Petroleum Operations Costs but will continue to depreciate based upon the lives described above, except where such assets have been subjected to unanticipated destruction, for example, by fire or accident.

2. Overhead Allocation

General and administrative costs, other than direct charges, allocable to this operation should be determined by a detailed study, and the method determined by such study shall be applied each year consistently. The method selected must be approved by the MINISTRY, and such approval can be reviewed periodically by the MINISTRY and the CONTRACTOR.

3. Interest Recovery

Interest on loans obtained by a Party from Affiliates or parent companies or from third party non-affiliates at rates not exceeding prevailing commercial rates for investments in Petroleum Operations may not be recoverable as Petroleum Operations Costs but may be deducted from income when calculating CONTRACTOR's Income Tax liability. Details of any financing plan and amounts shall be included in each year's Budget of Petroleum Operations Costs for the prior approval of the MINISTRY. All other financing must also be approved by the MINISTRY.

4. Natural Gas Costs

Petroleum Operations Costs directly associated with the production of Natural Gas will be directly chargeable against Natural Gas revenues in the manner agreed by the Parties. Petroleum Operations Costs incurred for production of both Natural Gas and Crude Oil will be allocated to Natural Gas and Crude Oil as agreed by both Parties.

5. Inventory Accounting

The costs of non-capital items purchased for inventory will be recoverable in the year in which the items have been landed in the Republic of Equatorial Guinea.

6. Insurance and Claims

Petroleum Operations Costs shall include premiums paid for insurance normally required to be carried for the operations relating to CONTRACTOR's obligations conducted under the Contract, but shall not include expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including monies relating to CONTRACTOR's obligations under the Contract.