

PRODUCTION SHARING CONTRACT
BETWEEN
THE REPUBLIC OF EQUATORIAL GUINEA
AND
UNITED MERIDIAN INTERNATIONAL CORPORATION
(AREA A - OFFSHORE NE BIOCO) *ck*

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PRODUCTION SHARING CONTRACT

THIS Contract, made and entered into on this 18th day of August, 1992 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 Mines and Hydrocarbons of The Republic of Equatorial Guinea (hereinafter referred to as the "Ministry") and United Meridian International Corporation, a corporation organized and existing under the laws of the State of Delaware, U.S.A., having its registered office at 1201 Louisiana Street, Suite 1400, Houston, Texas, U.S.A., hereinafter referred to as the "Contractor", and represented for purposes of this Contract by Coy H. Squyres, its President. The State and the Contractor hereinafter are referred to either individually as "Party" or collectively as "Parties".

WITNESSETH:

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 the Contractor desires to join and assist the State in accelerating the exploration and development of the potential resources within the Contract Area; and

WHEREAS, the 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 Hydrocarbons 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:

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Section 1

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.

The Contractor shall:

- (a) be responsible to the State as an independent contractor 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 7.

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 7.

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 used but not defined herein, but that are defined in the Hydrocarbons Law, shall have the meanings set forth in the Hydrocarbons 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, crude mineral oil, asphalt and ozokerites and the liquid Hydrocarbons known as condensate and Natural Gas Liquids obtained from Natural Gas.
- (d) Natural Gas means all Hydrocarbons that at atmospheric conditions of temperature and pressure are in a gaseous phase except for Natural Gas Liquids as defined in Section 1.2(e). 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) Natural Gas Liquids means those portions of Natural Gas which are liquified at the surface in field separators, field facilities or Natural Gas processing plants; Natural Gas Liquids include but are not limited to ethane, propane, butane and pentane.
- (f) Exploration Operations include geological studies; geophysical studies; aerial mapping; investigations relating to the subsurface geology; stratigraphic test drilling; exploration wells and appraisal 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.

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Exhibit "A" and delineated in Exhibit "B" attached hereto and incorporated herein.

- (z) Royalty means ten percent (10%) of all the Crude Oil, and ten percent (10%) of all the Natural Gas produced and saved and sold from the Contract Area and not otherwise utilized in Petroleum Operations.
- (aa) 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 international petroleum industry practice and Section 6.3.
- (ab) Semester, as used in Section 7.8 means a period of six (6) consecutive months, commencing the first of January and the first of July of each Calendar Year.
- (ac) Arm's-Length Third-Parties Sales means sales by either Party under Hydrocarbon sales contracts with third parties which are not Affiliates of the selling Party and excluding sales involving all forms of total or partial non-cash consideration such as, without limitation, barter, Hydrocarbon exchanges, government-to-government deals, or restricted or distress transactions.
- (ad) Contractor's Share of Hydrocarbons means the aggregate of the Contractor's share of Net Hydrocarbons (as defined under Section 7.2) and that portion of Hydrocarbons for the recovery of the Petroleum Operations Costs.
- (ae) Delivery Point means (i) with respect to export sales of Crude Oil or Natural Gas Liquids the point f.o.b. Equatorial Guinean facility at which such Hydrocarbons reach the inlet flange of the lifting tankship's intake pipe, (ii) with respect to other sales of Hydrocarbons the point f.o.b. the Contractor's Equatorial Guinean facility at which the transfer to the purchaser of such Hydrocarbons takes place pursuant to the terms of the applicable sales contract, or (iii) such other point which may be agreed upon by the Ministry and the Contractor.
- (af) Date of First Commercial Production means the date on which the first regular sales of Hydrocarbons are made from a Field.

- (ag) Residential Use means Natural Gas delivered in gaseous state to the domiciles of residents of The Republic of Equatorial Guinea.
- (ah) First Subperiod has the meaning ascribed thereto in Section 2.1(a).
- (ai) Second Subperiod has the meaning ascribed thereto in Section 2.1(a).
- (aj) Third Subperiod has the meaning ascribed thereto in Section 2.1(a).
- (ak) Area of Provisional Discovery has the meaning ascribed thereto in Section 2.3.
- (al) Section means a Section in this Contract unless the context provides otherwise.
- (am) Initial Exploration Period means the period of six (6) consecutive Contract Years commencing with the Effective Date.
- (an) Facility Rules has the meaning ascribed thereto in Section 13.1.
- (ao) Center has the meaning ascribed thereto in Section 13.1.
- (ap) Convention has the meaning ascribed thereto in Section 13.1.
- (aq) Tax Law means Decree - Law No. 1/1986 as amended by Decree - Law No. 7/1988.
- (ar) Area of Commercial Discovery means an area designated by Contractor under Section 2.5 which may contain one or more discoveries of Hydrocarbons.

Section 2

TERM, TERMINATION, AND CANCELLATION

2.1 The Contractor is authorized to conduct Exploration Operations during the term of this Contract as hereinafter provided:

- (a) During the Initial Exploration Period, the Contractor is authorized to conduct Exploration Operations. The Initial Exploration Period shall be divided into three (3) subperiods. The First Subperiod shall have a term of one (1) Contract Year commencing with the Effective Date and shall be called the "First Subperiod". The Second Subperiod shall have a term of three (3) Contract Years commencing with the termination of the First Subperiod and shall be called the "Second Subperiod". The Third Subperiod shall have a

term of two (2) Contract Years commencing with the termination of the Second Subperiod and shall be called the "Third Subperiod".

(b)(i) If the Contractor has fulfilled its obligations for the First Subperiod, the Contractor may elect to proceed into the Second Subperiod by filing an application to so proceed with the Ministry not less than ninety (90) days prior to the termination of the First Subperiod. If the Contractor files the application in accordance with this Section 2.1(b)(i), the Ministry shall grant to the Contractor the right to proceed into the Second Subperiod. In the event the Contractor does not file such application in accordance with this Section 2.1(b)(i), this Contract shall terminate and the Contractor shall surrender the Contract Area.

(ii) If the Contractor has fulfilled its obligations for the Second Subperiod, the Contractor may elect to proceed into the Third Subperiod by filing an application to so proceed with the Ministry not less than ninety (90) days prior to the termination of the Second Subperiod. If the Contractor files the application in accordance with this Section 2.1(b)(ii), the Ministry shall grant to the Contractor the right to proceed into the Third Subperiod. In the event the Contractor does not file such application in accordance with this Section 2.1(b)(ii), this Contract shall terminate upon the termination of the Second Subperiod and the Contractor shall surrender the Contract Area; Provided, if the Contractor has declared an Area of Provisional Discovery or if the Contractor has declared a Commercial Discovery or a Field has been approved, this Contract shall not terminate on the termination of the Second Subperiod and the Contractor shall retain that portion of the Contract Area covered by any Area of Provisional Discovery, the Area of Commercial Discovery and the area covered by a Field.

(c) If the Contractor has fulfilled its obligations during the Initial Exploration Period, the Contractor may elect to extend the Initial Exploration Period by filing an application for extension with the Ministry. The Initial Exploration Period may be extended as hereinafter provided:

- (i) The Contractor may extend the Initial Exploration Period for one (1) Contract Year after the Third Subperiod upon filing an application for extension with the Ministry not less than ninety (90) days prior to the termination of the Third Subperiod and agreeing to drill at least one (1) exploration Well during such one (1) Year extension in a portion of the Contract Area in which the water depth at the location of the well is less than two hundred (200) meters deep;
- (ii) If the Contractor has elected under Section 2.1(c)(i) to extend the Initial Exploration Period for one (1) Contract Year and has drilled at least one (1) exploration Well in accordance with said Section, the Contractor may extend the Initial Exploration Period for a second Contract Year after the Third Subperiod upon filing an application for extension with the Ministry not less than thirty (30) days prior to the termination of the one (1) Year extension granted under (i) above and agreeing to drill at least one (1) exploration Well during such second extension Year in a portion of the Contract Area;
- (iii) The Contractor may extend the Initial Exploration Period for two (2) Contract Years after the Third Subperiod upon filing an application for extension with the Ministry not less than ninety (90) days prior to the termination of the Third Subperiod and agreeing to drill at least one (1) exploratory Well during such two (2) Year extension in a portion of the Contract Area in which the water depth at the location of the Well is two hundred (200) meters or greater;
- ~~(iv) The Contractor may extend the Initial Exploration Period for three (3) Contract Years after the Third Subperiod upon filing an application for extension with the Ministry not less than ninety (90) days prior to the termination of the Third Subperiod and if during the Initial Exploration Period the Contractor has given the Ministry notice that the Contractor has encountered indications of a substantial accumulation of Hydrocarbons and designated an Area of Provisional~~

Discovery in accordance with Section 2.3, but such extension shall apply only to the Area of Provisional Discovery;

- (v) The Contractor may extend the Initial Exploration Period for two (2) Contract Years commencing on the termination of an extension granted under Section 2.1(c)(i), Section 2.1(c)(ii) or Section 2.1(c)(iii), as the case may be, upon filing an application for extension with the Ministry not less than thirty (30) days prior to the termination of an extension granted under Section 2.1(c)(i), Section 2.1(c)(ii) or Section 2.1(c)(iii), as the case may be, if the Contractor has encountered, in a Well drilled during such extension, indications of a substantial accumulation of Hydrocarbons and designated an Area of Provisional Discovery in accordance with Section 2.3, but such extension shall apply only to the Area of Provisional Discovery;
- (vi) The Contractor may extend the Initial Exploration Period for one (1) Contract Year commencing on the termination of an extension granted under Section 2.1(c)(i), Section 2.1(c)(ii) or Section 2.1(c)(iii), as the case may be, if the Contractor has encountered, in a Well drilled during any such extension, a show of Hydrocarbons which the Contractor believes is sufficient to warrant further exploration drilling and the Contractor agrees to drill one (1) evaluation Well at a location mutually acceptable to the Contractor and the Ministry.

2.2 If no Commercial Discovery has been made:

- (a) During the Initial Exploration Period if the Contractor has not elected to extend the Initial Exploration Period in accordance with Section 2.1(c); or
- (b) During any extension of the Initial Exploration Period exercised by Contractor in accordance with Section 2.1(c);

this Contract shall terminate automatically in its entirety at the end of the Initial Exploration Period or at the end of the extension of the Initial Exploration Period which is the last to terminate, as the case may be. However, upon the submission of a request in accordance with the following sentence, an extension of six (6) months

shall be granted by the Ministry in order that the Contractor may finish drilling and testing any Well actually being drilled or tested at the termination of this Initial Exploration Period or at the termination of any extension of the Initial Exploration Period, as the case may be. The Contractor shall submit to the Ministry not less than five (5) days prior to any such termination a request for extension if the Contractor believes that an operation which will qualify for an extension will be continuing on the date of termination.

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 such indications, indicating in the notice the particular details of the location and the nature and indicated size of the accumulation. After giving such notification to the Ministry, the Contractor shall as soon as reasonably possible provide the Ministry a report of the results of any preliminary production tests carried out, including in the report, when appropriate, an estimate of the accumulation and the estimated extension of said discovery in the Contract Area. The estimated area shall be referred to as an "Area of Provisional Discovery".

2.4 Within each Area of Provisional Discovery the Contractor shall carry out evaluation work, including seismic work and drilling, as may be deemed appropriate by the Contractor. As soon as possible, but in any case not later than the termination of the Initial Exploration Period or the termination of the last extension under Section 2.1(c) to terminate, as the case may be, the Contractor will determine whether the discovery is a Commercial Discovery or whether ~~two (2) or more~~ of such discoveries may be included together to form one (1) Commercial Discovery.

~~2.5~~ When it is determined that a discovery of Hydrocarbons is a Commercial Discovery in accordance with Section 2.4, the Contractor will notify the Ministry and the Contractor will present to the Ministry for the Ministry's written approval, which approval will not be withheld unreasonably: (a) a report including a map showing the extent of the Area of Commercial Discovery within the Contract Area, which area, when said report is accepted by the Ministry, will constitute a Field notwithstanding that the Field may include one or more discoveries; (b) a Work Program, for

- 2.11 The termination or cancellation of this Contract, for whatever reason, shall be without prejudice to the obligations incurred and not discharged by either Party before the termination of this Contract.
- 2.12 In the event of cancellation pursuant to Section 2.8, the Ministry may require the Contractor to continue for the account of the State Crude Oil or Natural Gas production activities under the terms of this Contract 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 Parties have agreed to an extension of this period, the 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.
- 2.14 As regards operations of appraisal, development and/or production in water depth in excess of two hundred (200) meters and if the Contractor has notified the Ministry that in its opinion and in accordance with accepted international petroleum industry practice, technological know-how or adequate equipment or material are not economically available for the carrying out of said operations at a cost acceptable to the Contractor, then the term of this Contract and each of the periods prescribed hereunder shall be extended with respect to that part of the Contract Area lying in water depth in excess of two hundred (200) meters by a period of three (3) Years commencing on the expiry date of the Initial Exploration Period of this Contract and of each of the extensions provided for in this Contract unless a longer extension period is mutually agreed between the Parties.
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Section 3

EXCLUSION OF AREAS

- 3.1 Subject to Section 3.3, on or before the end of the Second Subperiod of the Initial Exploration Period, the Contractor shall surrender forty percent (40%) of the original Contract Area.
- 3.2 Subject to Section 3.3, on or before the end of the Third Subperiod, if the Contractor elects to extend the Initial Exploration Period pursuant to Section 2.1(c), the Contractor shall surrender an additional area equal to twenty-five percent (25%) of the original Contract Area.
- 3.3 The Contractor shall not be obligated to surrender any portion of the original Contract Area which is included in an Area of Provisional Discovery or an Area of Commercial Discovery or a Field. The Contractor's surrender obligations under Section 3.1 and Section 3.2 shall apply to the area remaining after excluding from the original Contract Area the areas declared to be an Area of Provisional Discovery, an Area of Commercial Discovery and the area of a Field and, for the purpose of Section 3.2, areas previously surrendered by the Contractor pursuant to Section 3.1.
- 3.4 That portion of the Contract Area which is not included in an Area of Provisional Discovery, an Area of Commercial Discovery or an area of a Field which is remaining after the mandatory surrenders as set forth in this Section 3, shall remain subject to this Contract so long as the Contractor maintains a reasonable exploration effort in respect of such remaining area.
- 3.5 Upon at least thirty (30) calendar 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, the Contractor may surrender any portion of the Contract Area, and such portion shall then be credited against that portion of the Contract Area which the Contractor is next required to surrender under the provisions of Sections 3.1 and 3.2.
- 3.6 The Contractor shall notify the Ministry at least sixty (60) calendar days prior to the date of surrender of the description and area to be surrendered. Each surrender shall be constituted of no more than two (2) areas of a simple geometrical shape



accounts shall be certified by an independent outside accountant acceptable to both Parties. It is understood that the Ministry at its own cost retains the authority to review and audit occasionally the 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 the Contractor's accounts must be officially communicated to the Contractor within three (3) Years of the closure of the subject Year's accounts.

Section 5

CONDUCT OF PETROLEUM OPERATIONS BY CONTRACTOR

5.1 The Contractor shall conduct the Petroleum Operations diligently and in accordance with accepted international petroleum industry practices designed to enable production of Crude Oil at the Maximum Efficient Rate and production of Natural Gas as specified in Section 6.3. The Contractor shall have the right to set with the agreement of the Ministry the minimum production level for any Field which the Contractor has or plans to develop giving due consideration to the economic factors involved in Field development and in accordance with this Section 5.1 and Sections 5.2 and 6.3. The Contractor shall ensure that all equipment, plant and installations used by the Contractor comply with generally accepted engineering norms and are of proper and accepted construction and are kept in optimal working order.

5.2 The Contractor shall in particular take all reasonable steps necessary:

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- (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; except as specified in Section 5.3;
 - (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 waterbearing strata;
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- (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 the Contractor and any costs so incurred by the Contractor shall be included in the Petroleum Operations Costs less any costs recovered by the Contractor by way of insurance settlement; 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 Ministry and/or the State; and
- (h) (i) to drill wells in accordance with good international petroleum industry practice and, (ii) to produce each Field at the Maximum Efficient Rate in order to protect the interest of the State against the drainage of Hydrocarbons which may occur as a result of the production of Hydrocarbons by third parties from the portion of a reservoir of a Field which extends outside the Contract Area.

5.3
In the event the Contractor makes a Commercial Discovery of Natural Gas, the Contractor shall undertake a feasibility study to ascertain the possible commercial uses of such Natural Gas. All the costs and expenses in respect of such feasibility study shall be included in Petroleum Operations Costs. The Ministry shall approve flaring of Natural Gas as a necessary part of Crude Oil production in accordance with good international petroleum industry practice or when existing technical and financial circumstances require the flaring of Natural Gas. All amounts of Crude Oil

and Natural Gas Liquids required by Article 15 of Decree Law 7/1981 to be sold to the State by the Contractor shall be priced in accordance with Section 8.2(a).

5.4 If the Ministry reasonably determines that any works or installations erected by the Contractor or any operations undertaken by the 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 the Contractor to discontinue the Petroleum Operations in whole or in part until the Contractor has taken such remedial measures or has repaired any damage.

5.5 To ensure that the Contractor shall meet its obligations to third parties or to State 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, the Contractor shall maintain in force a third-party liability insurance policy, the issue, coverage 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, the Contractor shall defend, indemnify and hold harmless the Ministry and the State except for loss, claim, damage or injury caused by, or resulting from, any negligent action of personnel of the Ministry and/or the State. Any costs so incurred by the Contractor shall be included in the Petroleum Operations Costs less any costs recovered by the Contractor by way of insurance settlement.


 5.6 If, after the Effective Date, 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, the Contractor shall use its reasonable 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 the Contractor's Petroleum Operations within the Contract Area.

5.7 The Contractor shall provide acceptable working conditions and living accommodations in accordance with generally accepted petroleum industry practice and access to medical attention and nursing care for all personnel employed by it or its subcontractors in Petroleum Operations.

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

5.9 Every Well shall be identified by a number, which number shall be shown on maps, plans and similar records that the 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 without the consent of the Ministry. 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 Hydrocarbons Law or from the Ministry or third parties.

 5.11 Before commencing any work on the drilling of any Well covered by a Work Program and Budget of Petroleum Operating Costs or recommencing work on any Well on which work has been discontinued for more than six (6) calendar months, the Contractor shall give the Ministry not less than seven (7) calendar days' written notice.

5.12 Subject to the provisions of Section 2.10, before abandoning any producing or previously producing Field, the Contractor shall give not less than ninety (90)

calendar days' notice to the Ministry of its intention to abandon. Upon receipt of such notice, the Ministry may elect at any time within the notice period 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 period shall be deemed approval of the Contractor's proposal to abandon.

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

Section 6

RIGHTS AND OBLIGATIONS OF THE PARTIES AND DETERMINATION OF PRODUCTION LEVELS

- 6.1 Subject to the provisions of Sections 6.1(e) and (f) which shall apply to each Person constituting the Contractor, the 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 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 of 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 freely sell, assign, transfer, convey or otherwise dispose of any part or all of the rights and interest under this Contract to any Affiliated Company;
 - (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 Persons other than

Affiliated Companies with the prior written consent of the Ministry which consent shall not be unreasonably withheld or delayed;

- (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) jointly own with the Ministry all data resulting from Petroleum Operations;
- (i) submit in suitable form to the Ministry copies of all 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. The Contractor may employ non-citizens if no Equatorial Guinea citizens can be found with sufficient skill and technical qualifications to perform a particular task or job. The Contractor shall make similar requirements of any subcontractor. At intervals of not more than one (1) Year the Contractor shall submit to the Ministry reports detailing the personnel employed and their residence when employed. After the Effective Date, the Ministry may require that the 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 provided that the costs of such required programs shall not exceed Fifty Thousand United States Dollars (US \$50,000.00) annually. *Monies not used may be carried forward.* When a Commercial Discovery has been determined by the Contractor, the sum of money to be expended for training may be increased by the mutual agreement in writing of the Parties. All costs and expenses of training citizens of Equatorial Guinea for employment in the Contractor's operations, as well as costs and expenses for a program of training for the Ministry's personnel, shall be included in Petroleum Operations 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 Tax imposed on it pursuant to the Tax Law existing and in force on the Effective Date;
- (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, 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) have the right to make direct payments from its offices for the purchase of goods and services to be imported into Equatorial Guinea for Petroleum Operations carried out by the Contractor as well as for the needs of the Contractor's expatriate employees and foreign subcontractors;
- (q) have the right to borrow money outside of Equatorial Guinea and to open bank accounts in foreign currencies outside of Equatorial Guinea for the deposit of its sales and all other proceeds and to keep, utilize and freely dispose of funds deposited in such bank accounts; funds transferred by the Contractor between Equatorial Guinea and other countries shall not be subject to the charges on remittances abroad as provided in the Tax Law, and to the corresponding commissions; and
- (r) any subcontractor of the Contractor and any of the expatriate personnel of the Contractor or of any of its subcontractors, shall be entitled to receive in any currency other than Equato-Guinean currency the whole or any part of its compensation outside The Republic of Equatorial Guinea.

The provisions of Sections 6.1(p) and 6.1(q) shall also apply to Affiliates of the Contractor and to the Contractor's subcontractors whose place of business is located outside of Equatorial Guinea and who are not permanently established in Equatorial

Guinea or do not have established residence in Equatorial Guinea for providing services to the Contractor as well as to Persons trading any Crude Oil produced from the Contract Area.

6.2 The Ministry shall:

- (a) except with respect to the Contractor's obligation to pay Income Tax as set forth in Section 6.1(m), assume and discharge all other taxes to which the 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 the Contractor, its contractors and subcontractors; and exactions in respect of property, capital, net worth, operations, remittances or transactions under the Tax Law whether payable by the Contractor or its subcontractors (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 the Contractor and its subcontractors. The Ministry shall not be obliged to pay the 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 the Contractor's subcontractors. The obligations of the Ministry hereunder shall be deemed to have been complied with by the delivery to the Contractor within one hundred 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 the Contractor may be obliged to pay directly, which the Ministry shall reimburse to Contractor within sixty (60) calendar days after the receipt of an invoice therefor. The Ministry shall be consulted prior to payment of such taxes by the Contractor or by any other party on the Contractor's behalf. Subject to the exceptions set forth in this Contract, the Contractor's subcontractors shall

be individually liable to The Republic of Equatorial Guinea for the payment of their tax obligations;


- (b) otherwise assist and expedite the 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 the Contractor or its subcontractors and made available from the resources under the Ministry's control;
- (c) have title jointly with the Contractor to all original data resulting from the Petroleum Operations including but not limited to geological, geophysical, petrophysical, engineering, Well logs, completion logs, status reports, samples and any other data that the Contractor may compile or obtain during the term hereof; Provided, however, that the Contractor may retain copies of such data and further provided that such data shall not be disclosed to third parties without the consent of the Contractor while this Contract remains in force. However, for the purpose of obtaining new offers, the Ministry may show any other Person 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 the 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. The Ministry shall make every effort to coordinate inspection activities to avoid interference with Petroleum Operations;
- (e) provide the Contractor with State land for shore facilities free of charge if such land is available. Such land will remain in State's ownership; and
- (f) furnish to Contractor all geological, geophysical, drilling, Well (including Well location maps), production and other information held or contractually or otherwise owned by the Ministry or by any other State agency or enterprise, or enterprise in which the State participates, relating to the Contract Area.

- 6.3 The Contractor shall produce Crude Oil from the Contract Area at the Maximum Efficient Rate. The Contractor and the Ministry shall conduct a review of the 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 or that required by the Contractor in accordance with Section 5.1.
- 6.4 Each of the Persons constituting the Contractor shall have the right to assign all or any portion of its interest under this Contract to an Affiliate, and each of the Persons constituting the Contractor shall have the right to assign all or any portion of its interest under this Contract to a third party with the prior written consent of the Ministry which shall not be withheld unreasonably

Section 7

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

- 7.1 The respective production shares of the State and the Contractor of Hydrocarbons produced and saved shall be determined in accordance with the definitions and procedures set forth in this Section 7.

-  7.2 After making Royalty payments to the State, the Contractor shall be entitled to recover all Petroleum Operations Costs out of the sales proceeds or other disposition of Hydrocarbons produced and saved hereunder and not used in Petroleum Operations. Any Hydrocarbons remaining after making the Royalty payments to the State and after all Petroleum Operations Costs are recovered by the Contractor shall be referred to hereinafter as "Net Hydrocarbons." Net Hydrocarbons 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 the Contractor, followed

by an escalation of the State's share based on increases in the Contractor's pre-tax rate of return, as set forth in the following tables:

- (a) With respect to wellheads located in water depths less than two hundred (200) meters and production is from a reservoir all of which is located less than four thousand (4,000) meters below sea level:

<u>Contractor's Pre-Tax Rate of Return</u>	<u>State's Share of (Net Hydrocarbons)</u>	<u>Contractor's Share of (Net Hydrocarbons)</u>
Up to 30%	0%	100%
Greater than 30% up to 40%	25%	75%
Greater than 40% up to 50%	60%	40%
Greater than 50%	80%	20%

- (b) With respect to wellheads located in water depths less than two hundred (200) meters and production is from a reservoir of which all or a portion thereof is located four thousand (4,000) meters or more below sea level:

<u>Contractor's Pre-Tax Rate of Return</u>	<u>State's Share of (Net Hydrocarbons)</u>	<u>Contractor's Share of (Net Hydrocarbons)</u>
Up to 30%	0%	100%
Greater than 30% up to 40%	20%	80%
Greater than 40% up to 50%	40%	60%
Greater than 50%	70%	30%

(c) With respect to wellheads located in water depths two hundred (200) meters or greater:

<u>Contractor's Pre-Tax Rate of Return</u>	<u>State's Share of (Net Hydrocarbons)</u>	<u>Contractor's Share of (Net Hydrocarbons)</u>
Up to 30%	0%	100%
Greater than 30% up to 40%	20%	80%
Greater than 40% up to 50%	40%	60%
Greater than 50%	60%	40%

7.3 In order to determine the State's share of Net Hydrocarbons, 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 made during such Calendar Year and all Petroleum Operations Costs incurred in such Calendar Year from Gross Receipts.

7.4 In order to calculate the State's share of Net Hydrocarbons 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:

$$\text{FSA}(Y) = \text{FSA}(Y-1) \times (1 + .30 + i) + \text{NCF}(Y)$$

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 Hydrocarbons determined with reference to the First Share Account shall be zero.
- (c) In any Calendar Year in which FSA(Y) is 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 Hydrocarbons in respect of the First Share Account shall be an amount of Net Hydrocarbons, the portion of which shall be determined by first allocating FSA(Y) to Sections 7.2(a), 7.2(b) and 7.2(c) by multiplying the FSA(Y) times a fraction for each applicable Section, the numerator of which is the amount of production of Hydrocarbons in the Calendar Year attributable to the applicable Section 7.2(a), 7.2(b) and 7.2(c), as the case may be, and the denominator of which is the total production of

Hydrocarbons in the Calendar Year from the Contract Area. The resulting portion of FSA(Y) allocated to each applicable Section shall be multiplied by the applicable percentage necessary to yield the State its share of Net Hydrocarbons provided for in each Section. The applicable percentages are 25%, 20% and 20% for Sections 7.2(a), 7.2(b) and 7.2(c) respectively.

- (d) In the first Calendar Year and in any Calendar Year immediately subsequent to a Calendar Year in which FSA(Y) is 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:

$$SSA(Y) = SSA(Y-1) \times (1 + .40 + i) + (NCF(Y) - GAS I(Y))$$

Where: SSA = Second Share Account
 Y = the Calendar Year in question

NCF = Net Cash Flow

GAS I = Value of State Share of Net Hydrocarbons 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 Hydrocarbons determined with reference to the Second Share Account shall be zero.
- (c) In any Calendar Year in which $SSA(Y)$ is 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 Hydrocarbons in respect of the Second Share Account shall be an amount of Net Hydrocarbons, the portion of which shall be determined by first allocating $SSA(Y)$ to Sections 7.2(a), 7.2(b) and 7.2(c) by multiplying the $SSA(Y)$ times a fraction for each applicable Section, the numerator of which is the amount of production of Hydrocarbons in the Calendar Year attributable to the applicable Section 7.2(a), 7.2(b) and 7.2(c), as the case may be, and the denominator of which is the total production of Hydrocarbons in the Calendar Year from the Contract Area. The resulting portion of $SSA(Y)$ allocated to each applicable Section shall be multiplied by the applicable percentage necessary to yield the State its share of Net Hydrocarbons provided for in each Section. The applicable percentages are 46.6666%, 25% and 25% for Sections 7.2(a), 7.2(b) and 7.2(c) respectively.
- (d) In the first Calendar Year and in any Calendar Year immediately subsequent to a Calendar Year in which $SSA(Y)$ is 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:

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

- Where: TSA = Third Share Account
Y = the Calendar Year in question
NCF = Net Cash Flow
GAS I = Value of State Share of Net Hydrocarbons determined with reference to the First Share Account
GAS II = Value of State Share of Net Hydrocarbons 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 Hydrocarbons determined with reference to the Third Share Account shall be zero.
- (c) In any Calendar Year in which TSA(Y) is 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 Hydrocarbons in respect of the Third Share Account shall be an amount of Net Hydrocarbons, the portion of which shall be determined by



first allocating TSA(Y) to Sections 7.2(a), 7.2(b) and 7.2(c) by multiplying the TSA(Y) times a fraction for each applicable Section, the numerator of which is the amount of production of Hydrocarbons in the Calendar Year attributable to the applicable Section 7.2(a), 7.2(b) and 7.2(c), as the case may be, and the denominator of which is the total production of Hydrocarbons in the Calendar Year from the Contract Area. The resulting portion of TSA(Y) allocated to each applicable Section shall be multiplied by the applicable percentage necessary to yield the State its share of Net Hydrocarbons provided for in each Section. The applicable percentages are 50%, 50% and 33.3333% for Sections 7.2(a), 7.2(b) and 7.2(c) respectively.

- (d) In the first Calendar Year and in any Calendar Year immediately subsequent to a Calendar Year in which TSA(Y) is 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 Hydrocarbons in any Calendar Year shall be the sum of the State Share of Net Hydrocarbons determined with reference to the First Share Account, the Second Share Account and the Third Share Account for such Calendar Year.

7.4.5 Conversion of Natural Gas

For the sole purpose of making the computation in Sections 7.4.1(c), 7.4.2(c) and 7.4.3(c) based upon the production of Hydrocarbons, the quantities of Natural Gas included in such total production shall be expressed as Barrels of Crude Oil by converting Natural Gas to Crude Oil using a formula under which six thousand cubic feet of Natural Gas measured at a temperature of

60°F and at an atmospheric pressure of 14.65 psi are deemed to equal one (1) Barrel of Crude Oil, unless otherwise agreed in writing by the Parties.

- 7.5 The 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 Section 7.10, the Contractor shall be entitled to take and receive and freely export the Contractor's Share of Hydrocarbons.
- 7.7 Title to the Contractor's Share of Hydrocarbons under this Section 7 shall pass to and absolutely rest in the Contractor at the Delivery Point.
- 7.8 If the State elects to take any of its share of Hydrocarbons in kind, it shall so notify the Contractor in writing not less than ninety (90) calendar 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 Hydrocarbons sales agreement for Hydrocarbons produced within the Contract Area that the 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 buy the State's share of production, whichever the Contractor shall elect to do; Provided, however, the price paid the State for its share of production shall be the market price determined in accordance with Section 8. It being understood that expenses for selling Hydrocarbons will be shared by the State and the Contractor. If the Contractor acts as the State's selling agent, the Contractor will pay the State for production sold on the State's behalf within thirty (30) days after receipt of payment from the purchaser of the State's production.

7.10 In addition to the State's production share in accordance with the terms of this Contract, the Contractor is obligated to sell to the State, if requested in writing, a portion of the Contractor's share of Net Crude Oil for the final internal consumption in The Republic of Equatorial Guinea in accordance with Article 15 of the Hydrocarbons Law. The price paid the Contractor for such portion of Crude Oil for final internal consumption in The Republic of Equatorial Guinea shall be the market price determined in accordance with Section 8. Detailed procedures governing sales contemplated in this Section 7.10 shall be established at a later stage by way of a separate general agreement between the Parties.

7.11 The Contractor and State shall endeavor to promote and develop a market for Natural Gas discovered in the Contract Area. Should a Natural Gas discovery be developed and exploited pursuant to Section 7.11(a), all sales of Natural Gas, excluding those covered in Section 5.3, shall be equivalent to Arm's-Length Third-Parties Sales. Natural Gas pricing will be agreed upon by Parties pursuant to Section 8.4, and revenues from such Natural Gas Sales will be included in Gross Receipts and divided between State and the Contractor in accordance with Section 7.4.

(a) In the event that the State and the Contractor consider a Natural Gas discovery is capable of being exploited commercially, the State and the Contractor shall, taking into account all pertinent operating and financial data, use all reasonable endeavors to reach agreement on the terms and conditions whereupon the Contractor will carry out development and exploitation operations on such discovery. The basis upon which such development and exploitation will be carried out, including the method of valuing and pricing Natural Gas shall be agreed between the State and the Contractor before the Contractor initiates the operations contemplated by the foregoing.

(b) In no case shall the Contractor be under the obligation to carry out appraisal operations of a Natural Gas Discovery.



7.12 In the event that the 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 8.4(b). All costs and risk of taking and handling will be for the sole account and risk of the State.

Section 8

VALUATION OF HYDROCARBONS

8.1 For the purposes of determining the quantity of the Contractor's Share of Hydrocarbons, such Hydrocarbons shall be valued at the realized price f.o.b. Delivery Point. The same market price, which reflects sale realizations, shall also be used in determining the Royalty and the Contractor's Income Tax.

8.2 Crude Oil sold in Arm's-Length Third-Parties Sales shall be valued as follows:

(a) All Crude Oil taken by the Contractor, including its share and the share for the recovery of Petroleum Operations Costs, and sold in Arm's-Length Third-Parties Sales shall be valued at the net realized price f.o.b. Republic of Equatorial Guinea received by the Contractor for such Crude Oil.

(b) All of the State's Crude Oil taken by the Contractor and sold to third parties shall be valued at the net realized price f.o.b. Republic of Equatorial Guinea received by the Contractor for such Crude Oil.

8.3 Crude Oil sold other than in Arm's-Length Third-Parties Sales shall be valued as follows:

(a) By using the weighted average per unit price received by the Contractor and the State in Arm's-Length Third-Parties Sales, net of commissions and brokerages paid in relation to such Arm's-Length Third-Parties Sales, during the three (3) calendar months preceding such sale, adjusted as necessary for quality, grade and gravity, and taking into consideration any special circumstances with respect to such sales; and

(b) If no Arm's-Length Third-Parties 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.

8.4 Natural Gas shall be valued as follows:

- (a) Sales to Third Parties - Price of Natural Gas sold in Arm's-Length Third-Parties Sales shall be agreed upon by all Parties giving due consideration to economic, developmental and financial data as well as the intrinsic fuel value represented by the Natural Gas. Such Natural Gas shall be valued at the net realized price at the Delivery Point received by the Contractor for such Natural Gas.
- (b) The State may take at the Delivery Point any Natural Gas which would otherwise be flared using the following schedule and pricing:
- (i) Royalty Natural Gas (already belonging to the State);
 - (ii) Natural Gas used for generation of electricity for municipal and residential usage, if available, can then be taken free of charge;
 - (iii) Natural Gas used for generation of electricity for industrial purposes and projects will be priced equal to fifty percent (50%) of the equivalent fuel oil value based on import price of fuel oil f.o.b. Equatorial Guinea, unless otherwise mutually agreed to by the Contractor and the State. The use of this Natural Gas, however, should not reduce or interfere with any higher priced Arm's-Length Third-Parties Sales. All Arm's-Length Third-Party Sales of Natural Gas will be conducted by the Contractor.

8.5 Commissions or brokerages incurred in connection with Arm's-Length Third-Parties Sales, if any, shall not exceed the customary and prevailing rate.

8.6 During any given Calendar Year, the handling of production (i.e., the implementation of the provisions of Section 7. 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 sixty (60) 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.

- 8.7 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 7;
 - (ii) the "required quantity" of Crude Oil to which a Party is entitled in such Year pursuant to Section 7;

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.


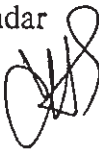
- 8.8 The Contractor shall give the Ministry notice as soon as reasonably possible after each sale by the Contractor of Crude Oil referred to in Section 8.2(a) and Section 8.2(b) excluding all sales of the Contractor's Share of Hydrocarbons.

- 8.9 The State may direct the Contractor to market all the Crude Oil produced and saved under this Contract in accordance with Section 7.5. Under Section 7.7 the State may elect to take a share of its Hydrocarbons in kind; and if the State elects to not take any Crude Oil in kind, the State may direct the Contractor to market or buy the State's share of production in accordance with Section 7.9. If the State directs the Contractor to dispose of the State's share of Crude Oil under this Contract, the Contractor shall (i) advise the State of the price, terms and conditions of any Crude Oil sales agreement it is prepared to enter into covering the State's share of Crude Oil under this Contract and (ii) advise the State of the period of time during which the State may reply to the Contractor concerning such proposed Crude Oil sales

agreement. During the period of time for reply specified by the Contractor, the State shall either agree that the State's Crude Oil is to be sold under the proposed sales agreement or it shall notify the Contractor that its share of Crude Oil is not to be sold under such price, terms and conditions and that the State will dispose of its share notwithstanding the prior notice under Section 7.9 that the Contractor should dispose of the State's share. A failure of the State to give notice to the Contractor within the stated time period shall be deemed to be an election by the State that the Contractor is to sell the State's share of Crude Oil under the notified price, terms and conditions.

Section 9

BONUSES AND SURFACE RENTALS

- 9.1 On the Effective Date, the Contractor shall pay the State the sum of Seventy-Five Thousand United States Dollars (U.S. \$75,000.00) as a signature bonus.
- 9.2 If the Contractor elects to proceed into the Second Subperiod and the Ministry grants to the Contractor the right to proceed into the Second Subperiod, the Contractor shall pay to the State on or before the commencement of the Second Subperiod the sum of Two Hundred Twenty-Five Thousand United States Dollars (U.S. \$225,000.00).
- 9.3 Within ten (10) days after the Ministry gives its written approval to a Commercial Discovery and to the items submitted to the Ministry in accordance with Section 2.5, the Contractor shall pay the State the sum of One Million United States Dollars (U.S. \$1,000,000.00).
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-  9.4 The Contractor shall pay the State the sum of Two Million United States Dollars (U.S. \$2,000,000.00) after daily production of Crude Oil from the Contract Area averages 20,000 Barrels per day for a period of sixty (60) consecutive calendar days; and the Contractor shall also pay the State the sum of Five Million United States Dollars (U.S. \$5,000,000.00) after daily production of Crude Oil from the Contract Area averages 50,000 Barrels per day for a period of sixty (60) consecutive calendar
- 

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

9.5 Within thirty (30) days after the Effective Date, the Contractor shall pay to the State the sum of Forty-Four Thousand Three Hundred Nineteen United States Dollars (U.S. \$44,319.00) as a surface rental for the portion of the first Calendar Year remaining after the Effective Date being deemed to cover the first six (6) months of the First Subperiod. On or before January 31st of the second Calendar Year, Contractor shall pay to the State the sum of Forty-Four Thousand Three Hundred Nineteen United States Dollars (U.S. \$44,319.00) as a surface rental for the remaining six (6) months of the First Subperiod. Thereafter, commencing with the remaining portion of the second Calendar Year and on each subsequent Calendar Year thereafter during which the Contractor is conducting Exploration Operations, the 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 located in water depths less than two hundred (200) meters and Fifty United States Cents (U.S. \$0.50) per hectare for all parts of the Contract Area located in water depths two hundred (200) meters or greater within which the Contractor is authorized to conduct Exploration Operations. For the remaining portion of the second Calendar Year the surface rentals shall be prorated from the end of the First Subperiod through December 31st of that year and shall be paid within thirty (30) calendar days after the end of the First Subperiod. For the purposes of this Section 9.5, it is agreed that the original Contract Area contains 150,094 hectares in which the water depth is less than Two Hundred (200) meters and 27,182 hectares in which the water depth is Two Hundred (200) meters or greater. After the second Calendar Year, the surface rental shall be paid in advance, not less than thirty (30) calendar days before the beginning of each Calendar Year.

9.6 All payments required by this Section 9 shall be included in Petroleum Operations Costs, except those costs defined in Section 9.3 and 9.5.

Section 10

PAYMENTS

- 10.1 All payments that this Contract obligates the Contractor to make to the State shall be made to the Treasury of the State in United States Dollars currency, or at the Contractor's election, other currency acceptable to the State.
- 10.2 All payments due to the Contractor shall be made in United States Dollars currency, or at the State's election, other currencies acceptable to the 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 11

TITLE TO EQUIPMENT


- 11.1 Fixed installations purchased by the 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 and title thereto and risk thereof shall pass to and absolutely vest in the State at the end of the term of this Contract.
- 11.2 The provisions of Section 11.1 shall not apply to equipment of the Contractor or equipment of any of its subcontractors which is not essential for the production of Hydrocarbons or any equipment which is leased. Said equipment may be freely exported from The Republic of Equatorial Guinea.
- 11.3 Notwithstanding anything to the contrary which may be contained or implied in this Article 11, the Contractor shall not less than three (3) Years prior to the anticipated date of any abandonment of a Field, submit a plan of abandonment of the area concerned. Such plan shall contain Contractor's estimate of the costs for such abandonment and the State and the Contractor shall meet and agree on such abandonment plan and estimated costs as well as the reserve account into which the money for estimated abandonment costs shall be deposited. Such account shall be established as an escrow account in a bank acceptable to the State and the

Contractor. All funds deposited into the reserve account by the Contractor shall be deemed to be Petroleum Operations Costs incurred during the Calendar Year in which the deposit was made. In the event the actual cost of abandonment is less than the reserve account balance, the remaining funds shall be deemed to be income received in the Calendar Year during which abandonment was completed.

Section 12

UNIFICATION

- 12.1 (a) 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 Persons 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/or Natural Gas be carried out in collaboration with the other the Contractors which own the interests in the other area.
- (b) If the Contractor discovers deposits of Crude Oil and/or Natural Gas within the Contract Area which are not economically recoverable but which may be declared commercially exploitable by the Contractor and other contractors of the State controlling areas in which other deposits have been found if the production includes those parts of the deposits which extend to areas controlled by such other contractors of the State, then the Ministry shall be entitled to request that the Contractor consult with such other contractors of the State with a view to determining in their sole discretion whether common production of Crude Oil and/or Natural Gas may be carried out.

-  12.2 If the Contractor and the other contractors of the State determine common commercial production may be carried out, the Contractor shall collaborate with the other contractors of the State in preparing a collective proposal for common commercial production of the deposits of Crude Oil and/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 Persons involved, a plan for common production. If the Ministry adopts such plan, and the Contractor and other Persons involved reach agreement on such plan, the Contractor shall comply with all such conditions as agreed upon in such plan.
- 12.4 This Section 12 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 those 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, the 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 13

ARBITRATION

- 13.1 The Parties agree to submit any dispute, controversy, claim or difference arising out of or in connection with this Contract to arbitration under and in accordance with the Arbitration (Additional Facility) Rules in force on the Effective Date ("Facility Rules") of the International Center for Settlement of Investment Disputes ("Center"). As of the Effective Date, the State is not a Contracting State as that term is defined in the Convention on the Settlement of Investment Disputes between States and

Nationals of Other States which entered into force on October 14, 1966 ("Convention"). Under this Contract, the Parties waive all exemptions with respect to arbitration and to all proceedings and actions that enforce the arbitral award.

- 13.2 Each of the Parties agrees to and hereby gives its consent to the jurisdiction of the Center under Article 25 of the Convention in the event that the jurisdictional requirements "ratione personae" of this Article shall have been met at the time when arbitration proceedings are instituted under this Contract. In such event, the Parties agree to submit any dispute, controversy, claim or difference arising out of or in connection with this Contract to the Center in accordance with the Arbitration Rules in force on the Effective Date set forth by the Convention.
- 13.3 In the event of any dispute, controversy, claim or difference arising out of or in connection with this Contract, the Parties shall endeavor to settle such dispute amicably. If within three (3) months after a notice of such a dispute the Parties have not reached a settlement, the dispute shall at the request of either Party be referred to arbitration in accordance with this Section 13.
- 13.4 It is hereby stipulated by the Parties that the Contractor is a national of United States of America.
- 13.5 It is hereby agreed that the consent to the jurisdiction of the Center expressed above shall equally bind, any successor in interest to the present Government of The Republic of Equatorial Guinea and to the Contractor to the extent that the Center can assume jurisdiction over a dispute between such successor and the other Party.
- 13.6 It is hereby agreed that the right of the Contractor to request the settlement of a dispute by the Center or to take any step as a party to a proceeding pursuant to this Agreement shall not be affected by the fact that the 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.

- 13.7 Any arbitral tribunal constituted pursuant to this Contract shall apply the law of The Republic of Equatorial Guinea and generally accepted principles of international law. Such arbitral tribunal constituted pursuant to this Contract shall have the power to decide a dispute ex aequo et bono.
- 13.8 Any arbitration under this Section 13 shall be conducted by a tribunal constituted by three (3) arbitrators who shall not have the same nationality as the Parties. The arbitration shall be held at a mutually agreeable location using the Spanish language.

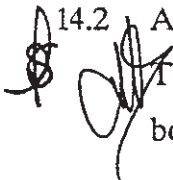
Section 14


BOOKS AND ACCOUNTS AND AUDITS


14.1 BOOKS AND ACCOUNTS

The 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 ~~at its sole cost~~ shall have the right to inspect and audit the Contractor's books and accounts relating to this Contract in accordance with Section 4.7. In addition, the State may require the Contractor to engage the 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. Any costs incurred by the Contractor in complying with the provisions of this Section 14.2 shall be included in Petroleum Operations Costs.





Section 15

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:

The Ministry of Mines and Hydrocarbons:

With Offices at: Malabo at the
Republic of Equatorial Guinea

Telephone #: 3405
Telex #: 9395405 EG
Facsimile #: _____

The Contractor:

With Offices at: 1201 Louisiana, Suite 1400
Houston, Texas, U.S.A. 77002

Telephone #: (713) 654-9110
Facsimile #: (713) 653-5098

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

Section 16

LAWS AND REGULATIONS

- 16.1 For purposes of this Contract the laws of The Republic of Equatorial Guinea as existing and in force on the Effective Date shall govern as well as generally accepted principles of international law.

Section 17

FORCE MAJEURE

- 17.1 Except as otherwise provided in this Section 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, inability to obtain labor, equipment, supplies or fuel, shortages of or delays in transportation or by act or cause that is reasonably beyond the control of such Party, such cases being herein sometimes called "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 accepted international 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 except that the State cannot claim Force Majeure because of such act of the State. 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 things reasonably within their power to remove such cause.

Section 18

TEXT

- 18.1 This Contract embodies the entire agreement and understanding between the Contractor and the State relative to the subject matter hereof, and supersedes and replaces any provisions on the same subject in any other agreement, whether written or oral, between the Parties, made prior to the date of signature of this Contract.
- 18.2 This Contract is drawn up in the English and Spanish languages. If any question regarding the interpretation of the two texts arises, then the Spanish text shall prevail.

Section 19

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 The State shall promptly take all measures necessary to effect the approval of this Contract by an act having the force of law thereby providing that this Contract shall have force of law.



IN WITNESS WHEREOF, the Parties hereto have executed this Contract, in four (4) originals and in the English and Spanish languages, as of the day and year first above written.

THE MINISTRY OF MINES AND
HYDROCARBONS OF THE REPUBLIC
OF EQUATORIAL GUINEA



[Handwritten signature]

Name Oslo RUBA NGING JUAN

Title Ministro Minas e Hidrocarburos

[Handwritten mark]
THE CONTRACTOR:

UNITED MERIDIAN INTERNATIONAL
CORPORATION

By *[Handwritten signature]*
Coy H. Squyres
President

[Handwritten date]
August 18, 1992

[Handwritten mark]

Exhibit "A"

Description of Contract Area

OFFSHORE AREA ONLY OF BLOCKS A-14, B-14, B-15, C-14, C-15 & C-16

Block A-14 (Triangle)

SW Corner Long. 8° 45' E; Lat. 4° 00' N

NW Corner Long. 8° 45' E; Lat. International Border*

SE Corner Long. International Border*; Lat. 4° 00' N

Block B-14

SW Corner Long. 8° 45' E; Lat. 3° 45' N

NW Corner Long. 8° 45' E; Lat. 4° 00' N

NE Corner Long. 9° 00' E; Lat. International Border*

SE Corner Long. 9° 00' E; Lat. 3° 45' N

Block B-15 (Triangle)

SW Corner Long. 9° 00' E; Lat. 3° 45' N

NW Corner Long. 9° 00' E; Lat. International Border*

SE Corner Long. International Border*; Lat. 3° 45' N

Block C-14

SW Corner Long. 8° 45' E; Lat. 3° 30' N

NW Corner Long. 8° 45' E; Lat. 3° 45' N

NE Corner Long. 9° 00' E; Lat. 3° 45' N

SE Corner Long. 9° 00' E; Lat. 3° 30' N

Block C-15 (Would Include Block C-16 If Present)

SW Corner Long. 9° 00' E; Lat. 3° 30' N

NW Corner Long. 9° 00' E; Lat. 3° 45' N

NE Corner Long. International Border*; Lat. 3° 45' N

SE Corner Long. International Border*; Lat. 3° 30' N

*The northern and/or eastern boundaries of Blocks A-14, B-14, B-15 and C-15 coincide with the International Boundary.



EQUATORIAL GUINEA
MAP OF
CONTRACT AREA

CAMEROON

NIGERIA



CONTRACT AREA

BLOCK	HECTARES	ACRES
A-14	394.2	974.17
B-14	67,442.7	141,941.03
B-15	16,422.9	40,556.31
C-14	29,317.1	72,442.66
C-15	73,708.8	182,134.56
TOTAL	177,276.7	436,046.74

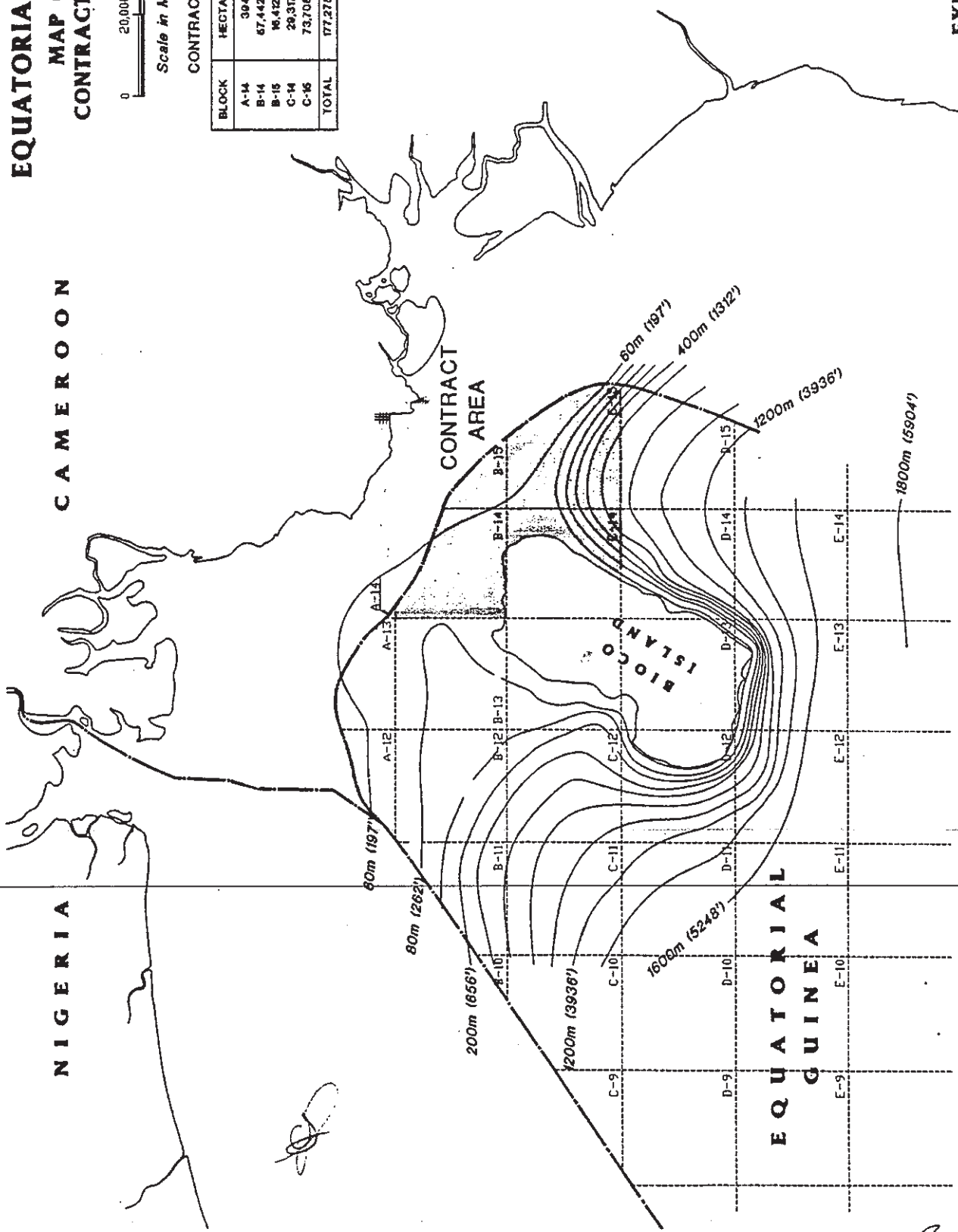


EXHIBIT "B"

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
ON THE ONE PART AND
UNITED MERIDIAN INTERNATIONAL CORPORATION, THE CONTRACTOR,
on the other part,
dated the 18 day of Aug, 1992

ACCOUNTING PROCEDURE

Section 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

The Contractor's accounting records and books will be kept in accordance with generally accepted and recognized accounting systems, consistent with accepted international 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.

Section 2

Petroleum Operations Costs

1. Definition of Petroleum Operations Costs for Purposes of Recovery

For any Calendar Year in which commercial production occurs, Petroleum Operations Costs for recovery pursuant Section 7.2 of the Production Sharing Contract consist of:



- (a) current Calendar Year's non-capital costs,
- (b) current Calendar Year's capital costs,
- (c) interest as set forth in Section 3.3 below, and
- (d) all prior Year's unrecovered Petroleum Operations Costs.

2. Definition of Non-capital Costs

Non-capital costs means those Petroleum Operations Costs incurred that relate to current Calendar Year's operations. In addition to costs relating only to current operations, the cost of surveys and the intangible costs of drilling exploration and development Wells, as described in Sections 2(c), 2(d) and 2(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 (1) year or less used in exploration and purchased geological and geophysical information.
- (g) The signature bonus and production bonuses payable in accordance with Sections 9.1 and 9.3 of the Production Sharing Contract.

3. Definition of 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 Sections 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) Movables--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.

Section 3

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

1. Depreciation

Depreciation will be calculated from the Calendar Year in which the asset is placed into service, with a full Year's depreciation allowed the initial Calendar Year. Depreciation of capital costs only for purposes of Income Tax Calculation will be calculated over four (4) Calendar Years using the straight line method.

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 Calendar 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 Affiliated 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 the Contractor's Income Tax liability.



4. Inventory Accounting

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

5. Insurance and Claims

Petroleum Operations Costs shall include premiums paid for insurance normally required to be carried for the operations relating to the Contractor's obligations conducted under the Contract. All expenditures incurred and paid by the Contractor in settlement of any and all losses, claims, damages, judgments, and other expenses, including monies relating to the Contractor's obligations under the Contract shall be included in Petroleum Operations Costs less any costs recovered by the Contractor by way of insurance settlement provided that such expenditures do not arise or result from the Contractor's proven gross negligence.

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