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CENTRAL INDEX KEY: 0000312340
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STATE: CA
ZIP: 93455
BUSINESS PHONE: 8053478700

MAIL ADDRESS:

STREET 1: 3201 AIRPARK DR
STREET 2: STE 201
CITY: SANTA MARIA
STATE: CA
ZIP: 93455

FORMER COMPANY:

FORMER CONFORMED NAME: BORDEAUX PETROLEUM CO
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FORMER CONFORMED NAME: BORDEAUX TRADING CO
DATE OF NAME CHANGE: 19800716

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U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended
September 30, 1997

Commission File Number 1-12322

SABA PETROLEUM COMPANY

(Exact name of registrant as specified in its charter)

Delaware

47-0617589

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

3201 Airpark Drive, Suite 201

Santa Maria, CA 93455

(Address of principal executive offices)

Registrant's telephone number, including area code: (805) 347-8700

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

YES X

NO _____

At November 3, 1997, 10,775,115 shares of common stock, \$.001 par value, were outstanding.

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SABA PETROLEUM COMPANY

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September 30	December 31	
1996		
ASSETS		
(Unaudited)		
Current assets:		
Cash and cash equivalents		\$
227,396 \$	734,036	
Accounts receivable, net of allowance for doubtful accounts of \$74,000 (1997) and \$65,000 (1996)		
10,616,055	7,361,326	
Other current assets		
4,281,979	3,485,924	

Total current assets		
15,125,430	11,581,286	

Property and equipment (Note 3):		
Oil and gas properties (full cost method)		
71,224,084	44,494,387	
Land, plant and equipment		
8,038,510	5,687,885	

79,262,594	50,182,272	
Less accumulated depletion and depreciation (20,159,770)	(15,323,780)	

Total property and equipment		
59,102,824	34,858,492	

Other assets		
3,243,912	2,677,108	

77,472,166 \$	49,116,886	\$

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued liabilities		\$
14,302,956 \$	7,358,201	
Current portion of long-term debt		
18,087,907	1,805,556	

Total current liabilities		
32,390,863	9,163,757	

Long-term debt, net of current portion (Note 3)		
20,258,983	20,811,980	
Other liabilities and deferred taxes		
1,350,963	698,580	

Minority interest in consolidated subsidiary

814,404 727,359

Total liabilities

54,815,213 31,401,676

Commitments and contingencies (Note 6)

Stockholders' equity:

Preferred stock - \$.001 par value, authorized
50,000,000 shares; none issued

Common stock - \$.001 par value, authorized
150,000,000 shares; issued and outstanding
10,775,115 (1997) and 10,081,026 (1996) shares

Capital in excess of par value

Retained earnings

Cumulative translation adjustment

Total stockholders' equity

77,472,166 \$ 49,116,886

\$

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

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SABA PETROLEUM COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

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Three Months Ended September 30
Nine Months Ended September 30

1996	1997	1996	1997
Revenues:			
Oil and gas sales		\$	25,282,361 \$
22,075,612 \$	7,918,697 \$	7,471,924	
Other			1,495,839
1,077,428	1,024,076	290,998	

	Total revenues		26,778,200
23,153,040	8,942,773	7,762,922	

Expenses:			
Production costs			12,249,901
10,955,455	3,816,812	3,774,679	
General and administrative			3,467,984
2,659,998	1,369,451	992,037	
Depletion, depreciation and amortization			5,011,562
3,615,631	1,778,275	1,247,226	

Total expenses			20,729,447
17,231,084	6,964,538	6,013,942	

Operating income			6,048,753
5,921,956	1,978,235	1,748,980	

Other income (expense):			
Other			(190,308)
234,810	(463,848)	318,036	
Interest expense			(1,421,144)
(1,795,113)	(590,359)	(597,373)	

Total other income (expense)			(1,611,452)
(1,560,303)	(1,054,207)	(279,337)	

Income before income taxes			4,437,301
4,361,653	924,028	1,469,643	
Provision for taxes on income			(1,799,807)
(1,962,900)	(329,807)	(661,400)	
Minority interest in (earnings) loss of consolidated subsidiary			(89,994)
(178,021)	4,397	(77,374)	
Net income			\$ 2,547,500 \$
2,220,732	\$ 598,618	\$ 730,869	
=====			
Net earnings per common share:			
Primary			\$ 0.23 \$
0.24 \$	0.05 \$	0.08	
=====			
Fully-diluted			\$ 0.22 \$
0.24 \$	0.05 \$	0.08	
=====			
Weighted average common and common equivalent shares outstanding:			
Primary			11,192,408
9,223,994	11,272,241	9,454,968	
=====			
Fully-diluted			12,229,478

11,971,802	12,223,623	12,075,000	=====
=====	=====	=====	=====

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

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SABA PETROLEUM COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH

FLOWES
 For the Nine Months Ended September 30, 1997 and
 1996
 (Unaudited)

<S>
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1997 1996

Cash flows from operating activities:

Net income	
\$ 2,547,500	\$ 2,220,732
Adjustments to reconcile net income to net cash provided by operations:	
Depletion, depreciation and amortization	
5,011,562	3,615,631
Amortization of unearned compensation	
-	8,500
Deferred tax provision	
654,000	-
Compensation expense attributable to non-employee option	
-	91,600
Minority interest in earnings of consolidated subsidiary	
89,994	178,021
Gain on issuance of shares of subsidiary	
(5,533)	(6,336)
Changes in:	
Accounts receivable	
(3,260,779)	(1,821,046)
Other assets	
35,929	371,576
Accounts payable and accrued liabilities	
6,934,575	(457,682)

-----	-----
Net cash provided by operating activities	
12,007,248	4,200,996
-----	-----

Cash flows from investing activities:

Refund on restricted certificate of deposit	
-	875,000
Expenditures for property and equipment	

(29,074,023)	(5,630,697)	

	Net cash used in investing activities	
(29,074,023)	(4,755,697)	

Cash flows from financing activities:		
	Proceeds from notes payable and long-term debt	
28,649,983	9,700,712	
	Principal payments on notes payable and long-term debt	
(10,546,557)	(9,589,794)	
	(Increase) decrease in notes receivable	
(1,738,513)	(272,040)	
	Increase in deferred loan costs	
-	(165,777)	

	Net change in accounts with affiliated companies	
(30,725)	(12,250)	

	Net proceeds from issuance of common stock	
227,500	422,375	
	Capital subscription of minority interest	
-	10,963	
	Net cash provided by financing activities	
16,561,688	94,189	
Effect of exchange rate changes on cash and cash equivalents		
(1,553)	241	

	Net decrease in cash	
(506,640)	(460,271)	
	Cash at beginning of period	
734,036	640,287	

	Cash at end of period	
\$ 227,396	\$ 180,016	
=====		

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

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1. General

The accompanying unaudited condensed consolidated financial statements have been prepared on a basis consistent with the accounting principles and policies reflected in the financial statements for the year ended December 31, 1996 and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 1996 Form 10-KSB. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals only) necessary to present fairly the Company's consolidated financial position as of September 30, 1997, and the consolidated results of operations for the nine and three month periods ended September 30, 1997 and 1996 and the consolidated cash flows for the nine month periods ended September 30, 1997 and 1996.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share." Statement of Financial Accounting Standards No. 128 specifies the computation, presentation, and disclosure requirements for earnings per share and is effective for financial statements issued for periods ending after December 15, 1997. Management has not yet determined the impact that adoption of Statement of Financial Accounting Standard No. 128 is expected to have on the financial statements of the Company.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" and Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information." Both Statements are effective for fiscal years beginning after December 15, 1997. Management has not yet determined the impact that adoption of the Statements is expected to have on the financial statements of the Company.

2. Statements of Cash Flows

Following is certain supplemental information regarding cash flows for the nine month periods ended September 30, 1997 and 1996:

	1997	1996
Interest paid	\$ 1,428,974	\$ 1,517,532
	=====	=====
Income taxes paid	\$ 2,479,832	\$ 998,978
	=====	=====

Non-cash investing and financing transactions:

Debentures in the principal amount of \$2,363,000 were converted into 540,087 shares of Common Stock during the nine months ended September 30, 1997.

Cumulative foreign currency translation gains (losses) in the amount of (\$17,620) and \$4,253 were recorded during the nine month periods ended September 30, 1997 and 1996, respectively.

In February 1996, the Company issued 14,000 shares of Common Stock to a director of the Company in settlement of an obligation in the amount of \$42,000.

Debentures in the principal amount of \$1,605,000 were converted into 366,840 shares of Common Stock during the nine months ended September 30, 1996.

SABA PETROLEUM COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company incurred a charge to operations, and a credit to Stockholders' Equity, in the amount of \$91,600 resulting from the issuance of stock options to a consultant during the nine months ended September 30, 1996.

3. Long-Term Debt

Long-term debt consists of the following at September 30, 1997:

		9% convertible senior subordinated debentures - due 2005	
\$	4,075,000		
		Revolving loan agreement with a bank	
	18,700,000		
		Demand revolving loan agreement with a bank	
	2,642,821		
		Term loan agreements with a bank	
	12,477,769		
		Capital lease obligations	
	451,300		

	38,346,890		
		Less current portion	
	18,087,907		
=====			
\$	20,258,983		
=====			

On December 26, 1995, the Company issued \$11,000,000 of 9% convertible senior subordinated debentures ("Debentures") due December 15, 2005. On February 7, 1996, the Company issued an additional \$1,650,000 of Debentures pursuant to the exercise of an over-allotment option by the underwriting group. The Debentures are convertible into Common Stock of the Company, at the option of the holders of the Debentures, at any time prior to maturity at a conversion price of \$4.38 per share, subject to adjustment in certain events. The Company has reserved 3,000,000 shares of its Common Stock for the conversion of the Debentures. The principal use of proceeds from the sale of the Debentures was to retire short-term indebtedness incurred by the Company in connection with its acquisitions of producing oil and gas properties in Colombia. A portion of the proceeds was used to reduce the balance outstanding under the Company's revolving credit agreement.

Debentures in the amount of \$6,212,000 were converted into 1,419,846 shares of Common Stock during the year ended December 31, 1996. An additional \$2,363,000 of Debentures were converted into 540,087 shares of Common Stock during the nine month period ended September 30, 1997.

The revolving loan ("Agreement") is subject to semi-annual redeterminations and will be converted to a three-year term loan on July 1, 1999. Funds

advanced under the facility are collateralized by substantially all of the Company's U.S. oil and gas producing properties and the common stock of its principal U.S. subsidiaries. The Agreement also provides for a second borrowing base term loan of as much as \$3.4 million which may be borrowed for the purpose of funding development of oil and gas properties in California. Funds advanced under this credit facility are to be repaid no later than April 30, 1998. At September 30, 1997, the borrowing bases for the two loans were \$18.7 million and \$3.4 million, respectively. Interest on the two loans is payable at the prime rate plus 0.25%, or LIBOR rate pricing options plus 2.25%. The weighted average interest rate for borrowings outstanding under the loans at September 30, 1997 was 8.3%. In accordance with the terms of the Agreement, and after giving effect to the Company's anticipated capital requirements, \$7.6 million of the loan balances is classified as currently payable at September 30, 1997. The Agreement requires, among other things, that the Company maintain at least a 1 to 1 working capital ratio, stockholders' equity of \$18.0 million, a ratio of cash flow to debt service of not less than 1.25 to 1.0 and general and administrative expenses at a level not greater than 20% of revenue, all as defined in the Agreement. Additionally, the Company is restricted from paying dividends, advancing funds in

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SABA PETROLEUM COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

excess of specified limits to affiliates and expending funds on non oil and gas activities in excess of specified limits. The Company was in compliance with the terms of the Agreement at September 30, 1997.

In September 1997, the Company borrowed \$9,687,769 from its principal commercial lender to finance the acquisition cost of a producing oil and gas property. Interest is payable at the prime rate (8.5% at September 30, 1997) plus 1.0% until December 1, 1997, and the prime rate plus 2.0% thereafter. The loan is due to be repaid no later than December 31, 1997, and, accordingly, is classified as currently payable at September 30, 1997.

The Company's Canadian subsidiary has available a demand revolving reducing loan in the face amount of \$2.8 million. Interest is payable at a variable rate equal to the Canadian prime rate plus 0.75% per annum (5.5% at September 30, 1997). The loan is collateralized by the subsidiary's oil and gas producing properties, and a first and fixed floating charge debenture in the principal amount of \$3.6 million over all assets of the company. The borrowing base reduces at the rate of \$58,000 per month. In accordance with the terms of the loan agreement, \$695,000 of the loan balance is classified as currently payable at September 30, 1997. Although the bank can demand payment in full of the loan at any time, it has provided a written commitment not to do so except in the event of default.

The Company leases certain equipment under agreements which are classified as capital leases. Lease payment terms vary from three to four years. The effective interest rate on the total amount of capitalized leases at September 30, 1997 was 8.8%.

4. Common Stock and Stock Options

As of September 30, 1997, the Company had outstanding options to certain employees of the Company for the purchase of 588,000 shares of Common Stock. These options become exercisable over a period of five years from the date

of issue. The exercise price of the options is the fair market value of the Common Stock at the date of grant. Options to acquire 154,000 shares of Common Stock were exercised during the nine month period ended September 30, 1997. Options to acquire 284,000 shares of Common Stock were exercisable at September 30, 1997.

On May 30, 1997, the Company issued options to acquire 595,000 shares of Common Stock to certain officers and employees in accordance with the provisions of the 1996 Incentive Equity Plan. The options have an exercise price equal to the market value at date of grant and become exercisable over various periods ranging from two to five years from the date of grant. No options were exercised during the period ended September 30, 1997.

On May 30, 1997, the Company's Board of Directors authorized, on a deferred basis, the issuance of 200,000 shares of Common Stock to the Company's President, the issuance of such shares being contingent upon the officer remaining in the employ of the Company for a period of two years succeeding the expiration of his existing employment contract at December 31, 1999, with such shares to be issued in two equal installments of 100,000 shares each at the end of each of the two succeeding years.

Additionally, the Board of Directors authorized the issuance of 100,000 shares of performance shares to the Company's President, issuable at the end of calendar year 1997 provided that certain operating results are reported by the Company at the end of the year.

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5. Contingencies

The Company is subject to extensive Federal, state, and local environmental laws and regulations. These requirements, which change frequently, regulate the discharge of materials into the environment. The Company believes that it is in compliance with existing laws and regulations.

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SABA PETROLEUM COMPANY AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Environmental Contingencies

Pursuant to the purchase and sale agreement of an asphalt refinery in Santa Maria, California, the sellers agreed to perform certain remediation and other environmental activities on portions of the refinery property through June 1999. Because the purchase and sale agreement contemplates that the Company might also incur remediation obligations with respect to the refinery, the Company engaged an independent consultant to perform an environmental compliance survey for the refinery. The survey did not disclose required remediation in areas other than those where the seller is responsible for remediation, but did disclose that it was possible that all of the required remediation may not be completed in the five-year period. The Company, however, believes that all required remediation will be completed by the seller within the five-year period. Environmental compliance surveys such as those the Company has had performed are limited in their scope and should not be expected to disclose all environmental

contamination as may exist. Pursuant to the purchase and sale agreement of an asphalt refinery in Santa Maria, California, the sellers agreed to perform certain remediation and other environmental activities on portions of the refinery property through June 1999. Because the purchase and sale agreement contemplates that the Company might also incur remediation obligations with respect to the refinery, the Company engaged an independent consultant to perform an environmental compliance survey for the refinery. The survey did not disclose required remediation in areas other than those where the seller is responsible for remediation, but did disclose that it was possible that all of the required remediation may not be completed in the five-year period. The Company, however, believes that all required remediation will be completed by the seller within the five year period. Environmental compliance surveys such as those the Company has had performed are limited in their scope and should not be expected to disclose all environmental contamination as may exist.

In accordance with the Articles of Association for the Cocorna Concession in Colombia, the Concession expired in February 1997 and the property interest reverted to Ecopetrol. The property is presently under operation by Ecopetrol. Under the terms of the acquisition of the Concession, the Company and the operator were required to perform various environmental remedial operations, which the operator advises have been substantially, if not wholly, completed. The Company and the operator are awaiting an inspection of the Concession area by Colombian officials to determine whether the government concurs with the operator's conclusions. Based upon the advice of the operator, the Company does not anticipate any significant future expenditures associated with the environmental requirements for the Cocorna Concession.

In 1993, the Company acquired a producing mineral interest in California from a major oil company ("Seller"). At the time of acquisition, the Company's investigation revealed that the Seller had suffered a discharge of diluent (a light oil based fluid which is often mixed with heavier grade crudes). The purchase agreement required the Seller to remediate the area of the diluent spill. After the Company assumed operation of the property, the Company became aware of the fact that diluent was seeping into a drainage area, which traverses the property. The Company took action to eliminate the fluvial contamination and requested that the Seller bear the cost of remediation. The Seller has taken the position that its obligation is limited to the specified contaminated area and that the source of the contamination is not within the area that the Seller has agreed to remediate. The Company has commenced an investigation into the source of the contamination to ascertain whether it is physically part of the area which the Seller agreed to remediate or is a separate spill area. Investigation and discussions with the Seller are ongoing. Should the Company be required to remediate the area itself, the cost to the Company could be significant. The Company has spent approximately \$240,000 to date in remediation activities, and present estimates are that the cost of complete remediation could approach \$1 million. Since the investigation is not complete, an accurate estimate of cost cannot be made.

In 1995, the Company agreed to acquire, for less than \$50,000, an oil and gas interest in California on which a number of oil wells had been drilled by the seller. None of the wells were in production at the time of acquisition. The acquisition agreement required that the Company assume the obligation to abandon any wells that the Company did not return to production, irrespective of whether certain consents of third parties necessary to transfer the property to the Company would be obtained. The Company has been unable to secure all of the requisite consents to transfer the property but nevertheless may have the obligation to abandon the wells. The Company is evaluating its drilling options and is considering whether to continue to attempt to secure the transfer consents. A preliminary estimate of the cost of abandoning the wells and restoring the well sites is approximately \$800,000. The Company is currently unable to assess its exposure to third parties if the Company elects to plug such wells without

first obtaining necessary consent.

The Company, as is customary in the industry, is required to plug and abandon wells and remediate facility sites on its properties after production operations are completed. The cost of such operation will be significant and will occur, from time to time, as properties are abandoned.

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SABA PETROLEUM COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

There can be no assurance that material costs for remediation or other environmental compliance will not be incurred in the future. The incurrence of such environmental compliance costs could be materially adverse to the Company. No assurance can be given that the costs of closure of any of the Company's other oil and gas properties would not have a material adverse effect on the Company.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the condensed consolidated financial statements of the Company and notes thereto, included elsewhere herein.

Overview

The Company is an independent energy company engaged in the acquisition, exploration and development of oil and gas properties. To date, the Company has grown primarily through the acquisition of producing properties with significant exploration and development potential in the United States, Colombia and Canada.

This strategy has enabled the Company to assemble a significant inventory of properties over the past five years. The Company's strategy has expanded to emphasize growth through exploration and development drilling.

The Company's revenues are primarily comprised of oil and gas sales attributable to properties in which the Company owns a majority or substantial interest. The Company accounts for its oil and gas producing activities under the full cost method of accounting. Accordingly, the Company capitalizes, in separate cost centers, all costs incurred in connection with the acquisition of oil and gas properties and the exploration for and development of oil and gas reserves. The Company's financial statements have been consolidated to reflect the operations of its subsidiaries, including the Company's approximate 74% ownership interest in Beaver Lake Resources Corporation, a Canadian public company.

The Company's operating performance is influenced by several factors, the most significant of which are the price received for its oil and gas and the Company's production volumes. The price received by the Company for its oil produced in North America is influenced by the world price for crude oil, as adjusted for the particular grade of oil. The oil produced from the Company's California properties is predominantly a heavy grade of oil, which is typically sold at a discount to lighter oil. Heavy oil producers, however, have benefited from a decline in the price differential between light and heavy oil and the rise in heavy oil prices generally. The oil produced from the Company's Colombian properties is predominantly a heavy grade of oil. The prices received by the Company for its Colombian produced oil are determined based on formulas set by Ecopetrol. Additional factors influencing operating performance include production expenses, overhead requirements, the Company's method of depleting reserves, and cost of capital.

Acquisition, Exploration and Development

On September 9, 1997, the Company acquired an 80.0% working interest (approximately 66.4% net revenue interest) in a producing property in Louisiana and assumed operations at that time. Funding for the acquisition cost of approximately \$8.0 million was provided under the terms of the Company's credit agreement with its principal commercial lender. The property consists of approximately 3,400 gross acres. At the time of acquisition, daily gross production averaged 160 barrels of oil and 5,700 mcf of gas. Remedial operations are currently in process in an effort to increase oil and gas production. Further work to enhance the value of the property may include recompletions, reworks, equipment installations and additional drilling based on the results of a planned 3-D seismic program.

On September 22, 1997, the Company signed a production sharing contract-joint operating agreement with Pertamina, the Indonesian state oil company, for the Jatiluhur Block. This exploratory prospect covers approximately 1.7 million acres and is located on the island of Java, 25 miles southeast of the city of Jakarta. The Company owns a 75% interest in the property and Pertamina owns the remaining 25%. Under terms of the production sharing contract, the minimum exploration commitment over the next three years is \$17.1 million. Currently, the Company is formulating its investigatory efforts preparatory to conducting seismic studies and drilling operations. The Company is also seeking working interest partners to reduce its exploratory risk under this contract. Initial efforts have resulted in the Company's belief that it will be able to obtain industry partners on a satisfactory basis.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Drilling activity during the quarter ended September 30, 1997, consisted of the drilling and completion of one gross (.5 net) oil well on the Southwest

Tatum Prospect in Lea County, New Mexico, the drilling and completion of five gross (5.0 net) horizontal oil wells in California, the drilling of one gross (1.0 net) well in California that was determined to be nonproductive, the drilling of two gross (2.0 net) horizontal oil wells in California that were in progress at the end of the quarter, the completion of one gross (.25 net) oil well in Colombia that was in progress at the beginning of the quarter, the drilling and completion of two gross (.5 net) oil wells in Colombia, and the drilling of one gross (.25 net) oil well that was in progress at the end of the quarter. In Alberta, Canada, a second re-entry horizontal well was unsuccessful in an attempt to produce oil in commercial quantities. Recompletion activities on three gross (2.1 net) wells in Louisiana, Texas and New Mexico resulted in production increases; a fourth recompletion attempt on one gross (.84 net) well in Texas was unsuccessful. In addition, recompletions were successfully attempted on six gross (1.5 net) oil wells in Colombia.

The two horizontal oil wells in California that were in progress at the end of the quarter were completed in October. Another horizontal well was drilled and completed in October 1997. Inclusive of these wells, a total of thirteen gross (13.0 net) oil wells have been drilled in California as part of the Company's 1997 drilling program. Eight of the wells are currently in production, two wells have encountered formation problems which the Company is seeking to remediate, one well was determined to be noncommercial and two wells (one pair) are Steam Assisted Gravity Drainage horizontal wells that are shut-in awaiting completion of the permitting process with regulatory authorities. Four horizontal wells were drilled in a previous waterflood area and high water cuts are inhibiting oil production rates. Although this situation was not unexpected, the dewatering process is occurring at lower rates than anticipated. Based on the results obtained to date, the Company has limited its 1997 horizontal drilling program to the wells currently drilled. Combined geologic-reservoir engineering and production engineering studies are currently underway to determine the nature and extent of the 1998 horizontal drilling program. In Colombia, a total of eight gross (2.0 net) wells have been drilled to date on the Teca/Nare property. Six wells are now producing under "huff and puff" steam injection. Additional drilling on this property will continue during the fourth quarter. The operator has made an application to obtain a global environmental permit in order to more rapidly develop the entire field. At the Velasquez field, three gross (.75 net) wells were recompleted in a different formation to establish additional reserves and increase production. Subsequent to quarter-end, the operator recompleted two gross (.50 net) wells and received regulatory approval to conduct operations on six additional locations.

Results of Oil and Gas Producing Operations

Results of the Company's oil and gas producing activities for the nine and three month periods ended September 30, 1997 and 1996 are as follows:

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Nine Months Ended September 30, 1997			Total
U.S.A.	Canada	Colombia	

Oil and gas sales:

Oil		\$	21,836,723	\$	12,683,915
\$	1,192,388	\$	7,960,420		
Gas		\$	3,445,640	\$	2,900,862
\$	544,778	\$	-		
Production costs		\$	12,249,901	\$	7,702,619
\$	792,506	\$	3,754,775		
Depletion		\$	4,541,631	\$	2,868,000
\$	236,471	\$	1,437,160		

General and administrative expenses		\$		3,317,972	\$	2,796,882
\$	348,419	\$	172,671			
Oil volume (Bbls)				1,580,981		838,662
76,824	665,495					
Gas volume (Mcf)				1,766,538		1,219,945
546,593	-					
Barrels of oil equivalent (BOE)				1,875,404		1,041,986
167,923	665,495					
Average per unit:						
Sales price-oil (Bbls)		\$		13.81	\$	15.12
\$	15.52	\$	11.96			
Sales price-gas (Mcf)		\$		1.95	\$	2.38
\$	1.00	\$	-			
Production costs (BOE)		\$		6.53	\$	7.39
\$	4.72	\$	5.64			
Depletion (BOE)		\$		2.42	\$	2.75
\$	1.41	\$	2.16			
General and administrative (BOE)		\$		1.77	\$	2.68
\$	2.07	\$	0.26			

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

-----				-----	
-----				-----	
Nine Months Ended September 30, 1996				Total	
U.S.A.	Canada		Colombia		
-----				-----	
-----				-----	
Oil and gas sales:					
Oil			\$	20,038,328	\$
8,966,764	\$	1,724,687	\$	9,346,877	
Gas			\$	2,037,284	\$
1,612,998	\$	424,286	\$	-	
Production costs			\$	10,955,455	\$
5,924,608	\$	814,068	\$	4,216,779	
Depletion			\$	3,207,500	\$
1,502,160	\$	214,240	\$	1,491,100	
General and administrative expenses			\$	2,643,390	\$
2,117,116	\$	408,834	\$	117,440	
Oil volume (Bbls)				1,454,821	
570,963	101,392		782,466		
Gas volume (Mcf)				1,183,609	
743,410	440,199	-			
Barrels of oil equivalent (BOE)				1,652,089	
694,864	174,759		782,466		
Average per unit:					
Sales price-oil (Bbls)			\$	13.77	\$
15.70	\$	17.01	\$	11.95	
Sales price-gas (Mcf)			\$	1.72	\$
2.17	\$	0.96	\$	-	
Production costs (BOE)			\$	6.63	\$
8.53	\$	4.66	\$	5.39	
Depletion (BOE)			\$	1.94	\$
2.16	\$	1.23	\$	1.91	
General and administrative (BOE)			\$	1.60	\$
3.05	\$	2.34	\$	0.15	

Three Months Ended September 30, 1997				Total	
U.S.A.	Canada	Colombia			
Oil and gas sales:					
Oil			\$	6,619,509	\$
3,897,299	\$ 321,387	\$ 2,400,823			
Gas			\$	1,299,188	\$
1,132,520	\$ 166,668	-			
Production costs			\$	3,816,812	\$
2,621,107	\$ 288,890	\$ 906,815			
Depletion			\$	1,603,491	\$
1,076,000	\$ 80,666	\$ 446,825			
General and administrative expenses			\$	1,278,437	\$
1,073,094	\$ 131,631	\$ 73,712			
Oil volume (Bbls)				514,574	
282,878	22,002	209,694			
Gas volume (Mcf)				669,909	
487,723	182,186	-			
Barrels of oil equivalent (BOE)				626,225	
364,165	52,366	209,694			
Average per unit:					
Sales price-oil (Bbls)			\$	12.86	\$
13.78	\$ 14.61	\$ 11.45			
Sales price-gas (Mcf)			\$	1.93	\$
2.32	\$ 0.91	-			
Production costs (BOE)			\$	6.09	\$
7.20	\$ 5.52	\$ 4.32			
Depletion (BOE)			\$	2.56	\$
2.95	\$ 1.54	\$ 2.13			
General and administrative (BOE)			\$	2.04	\$
2.95	\$ 2.51	\$ 0.35			

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Three Months Ended September 30, 1996				Total	
U.S.A.	Canada	Colombia			

Oil and gas sales:

Oil			\$	6,737,626	\$
3,129,007	\$	672,578	\$	2,936,041	
Gas			\$	734,298	\$
591,548	\$	142,750	\$	-	
Production costs			\$	3,774,697	\$
1,997,120	\$	337,307	\$	1,440,252	
Depletion			\$	1,108,275	\$
510,855	\$	81,400	\$	516,020	
General and administrative expenses			\$	988,260	\$
840,635	\$	119,623	\$	28,002	

Oil volume (Bbls)				483,454
193,889		38,795		250,770
Gas volume (Mcf)				377,574
248,106		129,468		-
Barrels of oil equivalent (BOE)				546,382
235,239		60,373		250,770

Average per unit:					
Sales price-oil (Bbls)			\$	13.93	\$
16.13	\$	17.33	\$	11.70	
Sales price-gas (Mcf)			\$	1.94	\$
2.38	\$	1.10	\$	11.70	
Production costs (BOE)			\$	6.91	\$
8.48	\$	5.58	\$	5.74	
Depletion (BOE)			\$	2.03	\$
2.17	\$	1.34	\$	2.05	
General and administrative (BOE)			\$	1.81	\$
3.57	\$	1.98	\$	0.11	

</TABLE>

Results of Refining Operations

In June 1995, the Company entered into a processing agreement with an unaffiliated company pursuant to which the latter company purchases crude (including that produced by the Company), delivers the crude to the refinery, reimburses the Company's out of pocket costs for refining, then markets the asphalt and other refinery products. Profits from the refinery operations (computed after recovery of crude costs and other costs of operations) are generally shared equally by the Company and the unaffiliated company. The processing agreement has a term which ends December 31, 1998.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Processing operations for the nine and three month periods ended September 30, 1997 and 1996 are as follows:

<TABLE>			
<S>		<C>	<C>
<C>	<C>		
	Nine Months		Three
Months	Ended September 30		Ended
September 30	1997	1996	1997

1996

Crude oil throughput (Bbls) 337,481	1,074,114	880,826	414,225
Production:			
Asphalt (tons) 36,812	120,268	100,766	47,413
Other products (Bbls) 129,960	397,890	316,266	148,410
Sales:			
Asphalt (tons) 52,497	135,491	82,433	64,645
Other products (Bbls) 139,422	381,437	312,586	154,504
Processing fee income \$103,224	\$871,279	\$215,590	\$658,476

</TABLE>

24.

The asphalt refining business is seasonal in nature, and is influenced by several factors, including weather conditions in the marketing area. A majority of the Company's processing fee income is attributable to asphalt sales which are recorded during the period April to October.

1997 compared to 1996

Oil and Gas Sales

Oil and gas sales increased \$3.2 million (14.5%) and \$447,000 (6.0%) for the nine and three month periods ended September 30, 1997, respectively, from \$22.1 million and \$7.5 million for the same periods of 1996. Average sales price per BOE increases (decreases) of \$0.12 and (\$1.03) for the nine and three month periods ended September 30, 1997, respectively, from \$13.36 and \$13.68 for the same periods of 1996, resulted in increased (decreased) oil and gas sales of \$223,000 and (\$645,000), respectively.

Production increases of 223,000 BOE (13.5%) and 80,000 BOE (14.7%), for the nine and three month periods ended September 30, 1997, respectively, from 1,652,000 BOE and 546,000 BOE for the same periods of 1996 resulted in increased oil and gas sales of \$3.0 million and \$1.1 million, respectively. The increase in oil and gas production was primarily attributable to the Company's property acquisitions in Louisiana in November 1996 and September 1997 and the horizontal drilling program that began in California in June 1996. The production increases include declines in Colombia of 117,000 BOE and 41,000 BOE for the nine and three month periods ended September 30, 1997, respectively, from the same periods of 1996 which resulted from the reversion of the Cocorna Concession property interest in February 1997 and normal production declines. The drilling program in Colombia, which began in the second quarter of 1997, contributed a [marginal] quantity of production during the quarter that helped to reduce the production declines.

Other Revenues

Other revenues increased \$400,000 (36.4%) and \$733,000 (251.9%) for the nine and three month periods ended September 30, 1997, respectively, from \$1.1 million and \$291,000 for the same periods in 1996. The increase for the nine month period was due primarily to additional processing fee income of \$723,000 realized from the Company's asphalt refinery and additional operator's overhead recoveries of \$96,000 on operated oil and gas properties, reduced by excess Velasquez-Galan Pipeline operating expenses in the amount of \$414,000 which were invoiced to the Company by the facility's

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

operator in the first quarter of the year. An increase of \$555,000 in processing fee income from the Company's asphalt refinery and an increase of \$102,000 of net pipeline tariff income were the principal source of the change for the three month period.

Production Costs

Production costs increased \$1.2 million (10.9%) and nil (0.0%) for the nine and three month periods ended September 30, 1997, respectively, from \$11.0 million and \$3.8 million for the same periods in 1996. Average production cost per BOE decreases of \$0.10 and \$0.81 for the nine and three month periods ended September 30, 1997, respectively, from \$6.63 and \$6.91 for the same periods in 1996, resulted in decreased production costs of \$186,000 and \$509,000.

Production increases of 223,000 BOE and 80,000 BOE for the nine and three month periods ended September 30, 1997, respectively, from 1,652,000 BOE and 546,000 BOE for the same periods of 1996 resulted in increased production costs of \$1.5 million and \$552,000, respectively. In comparison with the nine and three month periods of the prior year, production volume changes for the same periods in 1997 were increases of 347,000 BOE and 129,000 BOE, respectively, in the United States and decreases of 117,000 BOE and 41,000 BOE, respectively, in Colombia. The increases in the United States were primarily attributable to the Company's property acquisitions in Louisiana in November 1996 and September 1997 and the horizontal drilling program that began in California in June 1996. Approximately one-half of the production declines in Colombia resulted from the reversion of the Cocorna Concession property interest in February 1997; the balance of the decrease was due to normal production declines. The drilling program in Colombia, which began in the second quarter of 1997, provided a [marginal] quantity of production that helped to reduce the production declines.

General and Administrative Expenses

General and administrative expenses increased \$800,000 (29.6%) and \$400,000 (40.0%) for the nine and three month periods ended September 30, 1997, respectively, from \$2.7 million and \$1.0 million for the same periods of 1996. The overall increase in general and administrative expenses was due principally to the increase in employment in the Company's domestic offices to support its oil and gas property development programs in California, New Mexico and Louisiana.

Depletion, Depreciation and Amortization

Depletion, depreciation and amortization expenses increased \$1.4 million (38.9%) and \$600,000 (50.0%) for the nine and three month periods ended September 30, 1997, respectively, from \$3.6 million and \$1.2 million for the same periods of 1996. Depletion expense increased \$1.3 million (40.6%) and \$500,000 (45.5%) for the nine and three month periods ended September 30, 1997, respectively, from \$3.2 million and \$1.1 million for the same periods of 1996. The increases were primarily attributable to domestic production volume increases for the nine and three month periods ended September 30, 1997 of 347,000 BOE and 129,000 BOE, respectively, in comparison with the same periods of 1996, and capital costs recorded by the Company in its full cost pools beginning in the second quarter of 1996 and the anticipated future development and abandonment costs to be incurred in connection with the management of its oil and gas properties.

Depreciation and amortization expenses increased \$62,000 and \$36,000 for the nine and three month periods ended September 30, 1997, respectively, from \$408,000 and \$139,000 for the same periods of 1996.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Other Income (Expense)

Other income (expense) decreased to expense of \$190,000 and \$464,000 for the nine and three month periods ended September 30, 1997, respectively, from income of \$235,000 and \$318,000 for the same periods of 1996. The changes were primarily due to foreign currency translation losses of \$354,000 and \$345,000 realized by the Company's Colombia operations for the nine and three month periods ended September 30, 1997, respectively. During the three months ended September 30, 1997, the Company also recognized expenses in the amount of \$181,000 on prospective oil and gas prospects that the Company abandoned.

Interest Expense

Interest expense decreased \$400,000 (22.2%) and \$7,000 (1.2%) for the nine and three month periods ended September 30, 1997, respectively, from \$1.8 million and \$597,000 for the same periods of 1996. The decreases were due primarily to the conversion of \$8.6 million of Debentures to Common Stock occurring since April 1, 1996. Interest expense attributable to the Company's revolving line of credit increased \$262,000 and \$185,000 for the nine and three month periods ended September 30, 1997, respectively, from the same periods of 1996. The average debt balance outstanding under this credit facility increased \$5.8 million (66.7%) and \$9.8 million (119.5%) for the nine and three month periods ended September 30, 1997, respectively, from \$8.7 million and \$8.2 million for the same periods of 1996, due principally to the use of loan proceeds to fund property acquisitions and development drilling activities. The weighted average interest rate for the revolving line of credit decreased 56 basis points (6.0%) and 99 basis points (10.7%) for the nine and three month periods ended September 30, 1997, respectively, from 9.28% and 9.25% for the same periods of 1996.

Provision for Taxes on Income

Provision for taxes on income decreased \$163,000 (8.3%) and \$331,000 (50.1%) for the nine and three month periods ended September 30, 1997, respectively, from the same periods of 1996. The Company's estimated effective tax rates were 43.0% in 1997 and 46.0% in 1996.

Net Income

Net income increased \$327,000 (14.7%) and decreased \$132,000 (18.1%) for the nine and three month periods ended September 30, 1997, respectively, from the same periods of 1996. The changes in net income reflect the changes in oil and gas sales, other revenues, production costs, general and administrative expenses, depletion, depreciation and amortization expenses, interest expense, other income (expense) and provision for taxes on income discussed above.

The Company's oil and gas producing business is not seasonal in nature.

Liquidity and Capital Resources

Since 1991, the Company's strategy has emphasized growth through the acquisition of producing properties with significant exploration and development potential. The Company recently expanded its focus to emphasize drilling, enhanced recovery methods and increased production efficiencies. During the past five years, the Company financed its acquisitions and other capital expenditures primarily through secured bank financing, the creation of joint interest operations and production payment obligations, and sales of Common Stock and the Debentures.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Supplemental cash and working capital are provided through internally generated cash flows, secured bank financing and debt and equity financing.

During 1997 and 1996, the Company used a combination of secured bank financing, the proceeds from the sale of the Debentures and internally generated cash flow to fund its acquisitions and other capital expenditures.

Summary cash flow information for the nine month periods ended September 30, 1997 and 1996 is as follows:

<TABLE>

	<S>	<C>	1997
1996			
	Net cash provided by operating activities		
\$12,007,248	\$4,200,996		
	Net cash used in investing activities		
(\$29,074,023)	(\$4,755,697)		
	Net cash provided by financing activities		
\$16,561,688	\$94,189		

</TABLE>

Working Capital

The Company's working capital decreased in 1997 from \$2.4 million at December 31, 1996 to a deficit of \$17.2 million at September 30, 1997. This decrease was primarily due to the classification as a current liability of \$8.3 million of borrowing base indebtedness that may become payable during the next twelve months, depending on the Company's future capital requirements and available funding sources. In addition, the Company borrowed \$9.7 million in September to fund the acquisition of a producing property under a term loan due December 31, 1997, which is classified as a current liability. A net increase of \$3.7 million in accounts payable in excess of a corresponding increase in accounts receivable due to the Company's drilling expenditures during the third quarter also contributed to the decrease in working capital.

Operating Activities

The Company's operating activities during 1997 provided net cash flow of \$12.0 million. Changes in the non-cash components of working capital were responsible for \$5.8 million of this amount. Cash flows from operating activities provided net cash flow of \$4.2 million in 1996.

Investing Activities

Investing activities during 1997, consisting of oil and gas property acquisition, development and exploration expenditures, resulted in a net cash outflow of \$16.6 million.

Investing activities during 1996, consisting principally of oil and gas property acquisition, development and exploration expenditures, reduced by the receipt of a refund of \$875,000 on a certificate of deposit, resulted in a net cash outflow of \$4.8 million.

Financing Activities

Financing activities during 1997 resulted in net cash flow of \$16.6 million. Borrowings under the Company's bank credit facilities provided \$17.6 million of inflow. Proceeds from the exercise of options provided cash inflows in the amount of \$227,000 during 1997.

Financing activities during 1996, which provided net cash flow of \$94,000, consisted principally of activity on the Company's revolving line of credit and proceeds from the issuance of Debentures, net of related financing costs, in the amount of \$1.4 million.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Credit Facilities

In September 1993, the Company established a reducing, revolving line of credit with Bank One, Texas, N.A. to provide funds for the retirement of a production note payable, the retirement of other short-term fixed rate indebtedness and for working capital. At September 30, 1997, the borrowing base under the revolving loan was \$18.7 million, subject to a monthly reduction of \$400,000, of which \$18.7 million was outstanding.

The Company has a second borrowing base credit facility in the face amount of \$3.4 million to fund development projects in California. The borrowing base for this facility reduces at the rate of \$142,000 per month, beginning November 1, 1997. At September 30, 1997, \$2.8 million was outstanding.

In November 1997, the Company secured a short term loan in the face amount of \$3.0 million with Bank One, Texas, N.A. to be advanced in a series of tranches as needed to fund working capital requirements. Amounts outstanding under the loan will bear interest at the rate of prime plus 2%, and mature for payment on January 2, 1998.

The Company's Canadian subsidiary has available a demand revolving reducing loan in the face amount of \$2.8 million. The maximum principal amount available under the loan reduces at the rate of \$58,000 per month. At September 30, 1997, the loan was fully advanced with an outstanding balance of \$2.6 million.

The Company's budget for capital expenditures for the last quarter of 1997 is estimated at \$6.0 million. The expenditures will be made primarily to complete development projects on existing properties, including recompletions. Additional capital expenditures may be made for acquisitions of producing properties, both domestically and internationally. The amount of capital expenditures will change during future periods depending on market conditions, results of the Company's development drilling program and other related economic factors, including the price of oil and natural gas. The funds available (including those from credit lines) for anticipated capital expenditures will be affected by prices for oil

and natural gas, results of the Company's development drilling program and other factors beyond the control of the Company.

The Company expended approximately \$26.7 million for its acquisition and drilling activities during the nine month period ended September 30, 1997. The expenditures were funded principally by cash flow from operations and borrowings under bank credit facilities. The producing property acquisition in September 1997 was funded in total by short-term mezzanine financing. Under the terms of its bank credit agreements, \$18.0 million has been classified as currently payable at September 30, 1997, as this amount may become payable over the next twelve month period. Management is in discussion with several banking groups in an attempt to secure either replacement long-term financing or equity. Although no definitive agreement has been secured at this time it is expected that such arrangements will be finalized either in the fourth quarter of 1997 or first quarter of 1998.

Should the Company be unable to obtain equity and/or debt financing in amounts sufficient to fund projected activities, it may be constrained in its ability to acquire and/or develop additional oil and gas properties.

New Accounting Standards

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share." Statement of Financial Accounting Standards No. 128 specifies the computation, presentation, and disclosure requirements for earnings per share and is effective for financial statements issued for periods ending after December 15, 1997. Management has not yet determined the impact that adoption of Statement of Financial Accounting Standard No. 128 is expected to have on the financial statements of the Company.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" and Statement of Financial Accounting Standards No. 131, "Disclosure

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

About Segments of an Enterprise and Related Information." Both Statements are effective for fiscal years beginning after December 15, 1997. Management has not yet determined the impact that adoption of the Statements is expected to have on the financial statements of the Company.

Safe Harbor for Forward-Looking Statements

Except for historical information contained herein, the statements in this report are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks and uncertainties which may cause the Company's actual results in future periods to differ materially from forecasted results. These risks and uncertainties include, among other things, volatility of oil prices, product demand, market competition,

risks inherent in the Company's international operations, including future prices paid for oil produced at the Colombian oil properties, imprecision of reserve estimates, and the Company's ability to replace and expand oil and gas reserves. These and other risks are described elsewhere herein and in the Company's other filings with the Securities and Exchange Commission.

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ITEM 5. OTHER EVENTS

On September 22, 1997, the Company entered into a Production Sharing Contract-Joint Operating Agreement for the Jatiluhur Block in Indonesia with

Pertamina, the state-owned oil company. The Company owns a 75% interest in the block and Pertamina has a 25% ownership interest. Revenue sharing varies with the type of production. In general, the Company recovers its allowable costs from production plus incentive payments, and thereafter revenues are divided between Pertamina, as to the greater share, and the Company. The exploratory Jatiluhur Block covers approximately 1.7 million acres and is located on the Island of Java 25 miles southeast of the city of Jakarta. It is adjacent to the Northwest Java basin which contains a number of major oil and gas fields. The minimum exploration commitment over the next three years is \$17.1 million. No relationship exists between Pertamina and any of the affiliates or associates of the Company. Concerning the exploration of the block, the Company analyzed available technical data provided by Pertamina and other publicly available sources. The Company intends to further evaluate such data and to conduct seismic and geological investigations prior to drilling to confirm the reserves.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits filed for the quarter ended September 30, 1997 are as follows:

EXHIBIT NUMBER	DESCRIPTION
10.1	Second Amendment to First Amended and Restated Loan Agreement between the Company and Bank One, Texas N.A.
10.2	Third Amendment to First Amended and Restated Loan Agreement between the Company and Bank One, Texas N.A.
10.3	A report was filed under Form 8-K during the quarter ended September 30, 1997, filed as Exhibit 10 to the Company's Current Report on Form 8-K dated September 24, and incorporated herein by reference.
10.4	Corrections to Second and Fourth Amendment to First Amended and Restated Loan Agreement between the Company and BNK One, Texas N.A.
10.5	Production Sharing Contract between Perusahaan Pertambangan Minyak Dan Gas Bumi Negara (Pertamina) and Saba Jatiluhur Limited.
11.1	Computation of Earnings per Common Share

Saba Petroleum Company

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SIGNATURES

In accordance with the requirements of the Exchange Act, the issuer caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SABA PETROLEUM COMPANY

Date: November 14, 1997

By: _____
Ilyas Chaudhary
President
(Principal Executive

Date: November 14, 1997

By: _____
Walton C. Vance
Chief Financial Officer
(Principal Financial and
Accounting Officer)

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<TYPE>EX-10
<SEQUENCE>2
<DESCRIPTION>SECOND AMENDMENT
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Exhibit 10.1
SECOND AMENDMENT
TO

FIRST AMENDED AND RESTATED LOAN AGREEMENT DATED SEPTEMBER 23, 1996 BY AND BETWEEN SABA PETROLEUM COMPANY, ET AL. AND BANK ONE, TEXAS, N.A.

This Second Amendment to the First Amended and Restated Loan Agreement dated September 23, 1996 (this "Second Amendment") by and between SABA PETROLEUM COMPANY, a Delaware corporation, successor by merger to Saba Petroleum Company, a Colorado corporation (the "Borrower") et al., and BANK ONE, TEXAS, N.A., a national banking association (the "Bank"), is entered into on this day of August 1997, effective as of May 1, 1997.

W I T N E S S E T H:

Borrower and Bank have entered into a First Amended and Restated Loan Agreement dated September 23, 1996, as amended by the First Amendment thereto dated November 5, 1996 (collectively, the "Loan Agreement").

Borrower has requested that Bank amend certain provisions of the Loan Agreement, and the Bank has agreed to such amendments to the extent expressly set forth herein.

NOW, THEREFORE, in consideration of the promises herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged by the Borrower and the Bank, and each intending to be legally bound hereby, the parties agree as follows:

I. Specific Amendments to Loan Agreement.

Article I is hereby amended by adding or replacing, as applicable, the following definitions:

"Borrowing Base II" means the maximum amount that will be made available to Borrower for the development of Oil and Gas Properties of Guarantors existing on the date of this Agreement, which is initially \$2,000,000.00 as of the date of this Agreement, and as redetermined at the discretion of the Bank from time to time in accordance with Section 2.03 of this Agreement; provided, however, that from and after the effective date of the Second Amendment, Borrowing Base II shall be \$0.00.

"Conversion Date" means July 1, 1999.

"Floating Rate" means the Bank's Base Rate in effect from time to time plus twenty-five hundredths of one percent (0.25%).

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"LIBOR Rate" means a rate per annum equal to the sum of LIBOR for the Interest Period for which interest is to be determined at the LIBOR Rate, plus two and twenty-five hundredths percent (2.25%) per annum.

"Revolving Commitment Limit" means \$18,600,000.00 as of the date of the Second Amendment, and such different amounts as are subsequently established, from time to time, pursuant to Section 2.19 hereof.

"Second Amendment" means the Second Amendment to this Agreement executed by Borrower and Bank on August , 1997.

"Termination Date" means July 1, 2002.

Section 2.01 is amended by adding the following text after the first sentence of the second grammatical paragraph thereof:

Following the date of the Second Amendment, the Borrower shall not be entitled to request and the Bank shall not be obligated to advance any additional Borrowing Base II Loans.

Section 2.03 is amended by deleting the first grammatical paragraph thereof in its entirety, and inserting the following text in its place:

As of May 1, 1997, Borrowing Base I is redetermined to be Eighteen Million Six Hundred Thousand and No/100 Dollars (\$18,600,000.00), which shall thereafter decline in the amount of \$435,000.00, monthly, beginning on June 1, 1997, and continuing on the first day of each successive month thereafter until the effective date of the next redetermination of the Borrowing Base as set forth in this Section. As of the effective date of the Second Amendment, Borrowing Base II is redetermined to be \$0.00, and Borrowing Base II shall remain at \$0.00 and shall not be redetermined throughout the remaining term of this Agreement.

Article III is hereby amended by adding the following new Section 3.14 thereto:

3.14 Closing of Second Amendment. Prior to the funding of any Loans that are based on the availability resulting from the increase in the Borrowing Base pursuant to the Second Amendment, in addition to Borrower satisfying the requirements of the other applicable Sections of Article III, the Bank shall have received:

(a) a certificate of the secretary or assistant secretary of Borrower and of Saba Petroleum, Inc. attesting to the adoption of resolutions by Borrower and Saba Petroleum, Inc. authorizing the transactions evidenced by the Second Amendment.

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(b) a Compliance Certificate executed by Borrower.

(c) a mortgage of the Oil and Gas Properties of Saba Petroleum, Inc., that are described on Exhibit "A" to the Second Amendment, pursuant to which such properties are mortgaged to secure the obligations of Borrower to the Bank and Saba Petroleum, Inc.'s obligations under its Guaranty to the Bank.

(d) a WCC-1 Financing Statement, in form and substance satisfactory to the Bank, relating to the instruments identified in clause (c), above.

(e) Transfer Order Letters, in form and substance satisfactory to the Bank, from Saba Petroleum, Inc. to the Bank covering Saba Petroleum, Inc.'s interest in production from the Oil and Gas Properties described on Exhibit "A" to the Second Amendment.

(f) such other documents and instruments as Bank may reasonably request.

The terms "satisfactory evidence" or "evidence satisfactory to the Bank," as used in this Section 3.14, means evidence satisfactory to the Bank, in its sole discretion.

Article V is hereby amended by deleting Section 5.32 thereof in its entirety.

Section 6.11 is hereby amended in its entirety to read as follows:

6.11 Intercompany Investments. Make any loans, advances or investments to any Subsidiary or Affiliate of Borrower who is not a Guarantor exceeding \$2,000,000.00 per year, on a tolling four-quarter basis, net of any cash equity raised through sales of shares of Borrower.

Section 6.14 is hereby amended by replacing "\$200,000.00" with of "\$300,000.00".

II. Reaffirmation of Representations and Warranties. To induce the Bank to enter into this Second Amendment, the Borrower and each Guarantor hereby reaffirms, as of the date hereof, its representations and warranties contained in Article IV of the Loan Agreement and in all other documents executed pursuant thereto, and additionally represents and warrants as follows:

A. The execution and delivery of this Second Amendment and the performance by the Borrower and each Guarantor of its obligations under this Second Amendment are within the Borrower's and each Guarantor's power, have been duly authorized by all necessary corporate action, have received 3

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all necessary governmental approval (if any shall be required), and do not and will not contravene or conflict with any provision of law or of the charter or by-laws of the Borrower or any Guarantor or of any agreement binding upon the Borrower or any Guarantor.

B. The Loan Agreement as amended by this Second Amendment represents the legal, valid and binding obligations of the Borrower and each Guarantor, enforceable against each in accordance with their respective terms subject as to enforcement only to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally.

C. No Event of Default or Unmatured Event of Default has occurred and is continuing as of the date hereof.

III. Defined Terms. Except as amended hereby, terms used herein that are defined in the Loan Agreement shall have the same meanings herein.

IV. Reaffirmation of Loan Agreement. This Second Amendment shall be deemed to be an amendment to the Loan Agreement, and the Loan Agreement, as further amended hereby, is hereby ratified, approved and confirmed in each and every respect. All references to the Loan Agreement herein and in any other document, instrument, agreement or writing shall hereafter be deemed to refer to the Loan Agreement as amended hereby.

V. Entire Agreement. The Loan Agreement, as hereby further amended, embodies the entire agreement between the Borrower, the Guarantors and the Bank and supersedes all prior proposals, agreements and understandings relating to the subject matter hereof. The Borrower and each Guarantor certifies that it is relying on no representation, warranty, covenant or agreement except for those set forth in the Loan Agreement as hereby further amended and the other documents previously executed or executed of even date herewith.

VI. Governing Law. THIS SECOND AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. This Second Amendment has been entered into in Harris County, Texas, and it shall be performable for all purposes in Harris County, Texas. Courts within the State of Texas shall have jurisdiction over any and all disputes between the Borrower and the Bank, whether in law or equity, including, but not limited to, any and all disputes arising out of or relating to this Second Amendment or any other Loan Document; and venue in any such dispute whether in federal or state court shall be laid in Harris County, Texas.

VII. Severability. Whenever possible each provision of this Second Amendment shall be interpreted in such manner as to be

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effective and valid under applicable law, but if any provision of this Second Amendment shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Second Amendment.

VIII. Execution in counterparts. This Second Amendment may be executed in any number of counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument, and any signed counterpart shall be deemed delivered by the party executing such counterpart if sent to any other party hereto by electronic facsimile transmission.

IX. Section Captions. Section captions used in this Second Amendment are for convenience of reference only, and shall not affect the construction of this Second Amendment.

X. Successors and Assigns. This Second Amendment shall be binding upon the Borrower, each Guarantor and the Bank and their respective successors and assigns, and shall inure to the benefit of the Borrower, each Guarantor and the Bank and the respective successors and assigns of the Bank.

XI Non-Application of Chapter 15 of Texas Credit Codes. The provisions of Chapter 15 of the Texas Credit Code (Vernon's Texas Civil Statutes, Article 5069-15) are specifically declared by the parties hereto not to be applicable to the Loan Agreement as hereby further amended or any of the other Loan Documents

or to the transactions contemplated hereby. XII Notice. THIS SECOND AMENDMENT TOGETHER WITH THE LOAN AGREEMENT, AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be duly executed as of the day and year first above written.

BORROWER
SABA PETROLEUM COMPANY

By: /s/
Walton C. Vance
Chief Financial Officer

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BANK
BANK ONE, TEXAS, N.A.

By: /s/ Linda F. Masera
Vice President

GUARANTORS:

SABA ENERGY OF TEXAS, INCORPORATED

By: /s/ Bradley T. Katzung
President

SABA PETROLEUM, INC.

By: /s/ Herb Miller
President

SABA PETROLEUM OF MICHIGAN, INC.

By: /s/ Bradley T. Katzung
President

MV VENTURES, G.P.

By: Saba Energy of Texas, Incorporated,
Managing Partner

By: /s/ Bradley T. Katzung
President

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EXHIBIT "A"

PROPERTY DESCRIPTION
Casmalia Area
Santa Barbara, California

Lease/Unit	WI	NRI
Producing Wells		
Arellanes:		
Arellanes 82	1.0000	.8318750
Arellanes 103		
Bonetti:		
Bonetti 1	1.0000	.8333333
Bonetti 2		
Bonetti 4		
Morganti:		
Morganti 1	1.0000	.8318750
Morganti 3		
Morganti 4		
Morganti 11		
Morganti 25		
Morganti 33		
Morganti 56		
Morganti 61		
Morganti 62		
Morganti 63		
Morganti 64		
Morganti 65		
Morganti 67		
Morganti 68		
Morganti 71		
Morganti 73		
Morganti 75		
Musico:		
Musico 1	1.0000	.8333333
Musico 2		
Righetti:		
Righetti 4	1.0000	.8068750
Escolle:		
	1.0000	.8333333
Lospe:		
A1	1.0000	.8333333

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Oil and Gas Lease Descriptions
Casmalia Area
Santa Barbara, California

I. Arellanes Lease

A. SUBJECT ACREAGE: Portion of Punta de la Laguna Rancho, located in Section 13, Township 9 North, Range 35 West, and Sections 7 and 18 of Township 9 North, Range 34 West, containing 434.64 acres, more or less, all as more fully described in said leases.

- B. SUBJECT LEASES:
1. Oil and Gas Lease dated August 16, 1930 by and between Charles T. Arellanes, et al, as Lessor, and O.C. Field, as Lessee, and recorded in Volume 220, Page 421 of the Records of Santa Barbara County, California, as amended;
 2. Oil and Gas Lease dated April 18, 1945 by and between Edward Bonetti, et al, as Lessor, and Fullerton Oil Company, as Lessee, and recorded in Volume 649, Page 176 of the Records of Santa Barbara County, California, as amended;

II. Bonetti Lease

A. SUBJECT ACREAGE: Portion of Punta de la Laguna, located in Sections 12 and 13 of Township 9 North, Range 35 West, and Sections 7 and 18 of Township 9 North, Range 34 West, containing 184.00 acres, more or less.

- B. SUBJECT LEASE:
1. Oil and Gas Lease dated November 1, 1964 by

and between T.R. Bonetti, et al, as Lessor, and Union Oil Company of California, as Lessee, and recorded in Volume 2104, Page 1188 of the Records of Santa Barbara County, California, as amended;

III. Escolle Lease

A. SUBJECT ACREAGE:

Parcel I - Commencing at the Northeast corner of the Escolle property being the terminous of the eighth course in the lands described in Oil and Gas Lease dated January 7, 1980 between Escolle Tenants-In-Common, as Lessor, and Union Oil Company of California, as Lessee, a Memorandum of which was recorded May 29, 1980 in Book 80, Page 21450, Official Records of Santa Barbara County, California, from which corner No. 13 of Rancho Todos Santos, marked T.S. No. 13, bears North Westerly 64.00 chains to a point on the section line between Sections twenty-one (21) and twenty-eight (28), Township 9 North, Range 34

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West, S.B.B. & M., 22.72 chains westerly from the common corner to Sections 21, 22, 27 and 28, T9N., R34W., S.B.B. & M., thence West, 25.51 chains to a station; thence North, 35.28 chains to said Corner No. 13; thence from said point of commencement, North 85 (degree) 17' 4" West, 2770.0 feet to the true point of beginning; thence from said true point of beginning the following courses and distances: West, 1591.4 feet; South, 710.5 feet; West, 414.9 feet; South, 829.0 feet; East, 658.2 feet; South, 626.9 feet; East, 1278.9 feet; South, 654.8 feet; to a point on the southernly line of Block II of said Escolle lease; thence East, along said south line 805.8 feet; thence North, 2093.0 feet; thence West, 736.7 feet; thence North, 728.2 feet to the true point of beginning and containing 120 acres, more or less.

Parcel II - Commencing at corner No. 13 of Rancho Todos Santos marked T.S. No. 13 from which a live oak 15 inches in diameter bears South 37(degree) West, 6.30 chains distant; thence along the north line of said Rancho North 83(degree) 43' West, 103.25 chains to a station; thence South, 77.96 chains to a station; thence East, 70.40 chains to the true point of beginning from which the one-quarter (1/4) section corners between Sections 28 and 29, T9N., R34W., S.B.B. & M. bears South, 8.70 chains distant; thence from said true point of beginning the following courses and distances; North, 718.2 feet; West, 646.6 feet; North, 900.4 feet; West, 884.0 feet; South, 1106.2 feet; East, 299.6 feet; South, 512.4 feet to a point on the southernly line of Block I of said Escolle Lease; thence East along said south line 1231.1 feet to the true point of beginning and containing 40 acres, more or less.

Parcell III- Commencing at corner No. 13 of Rancho Todos Santos marked T.S. No. 13 from which a live oak 15 inches in diameter bears South 37(degree) West, 6.30 chains distant; thence along the north line of said Rancho North 83(degree) 43' West, 103.25 chains to a station; thence South, 77.96 chains to a station; thence East, 70.40 chains to a station from which the one-quarter (1/4) Section corners between Sections 28 and 29, T9N., R34W., S.B.B. & M. bears South, 8.70 chains distant; thence South, 176.8 feet to a point "on" the east line of Block II of said Escolle Lease and the true point of beginning; thence continuing South through said one-quarter (1/4) section corners and along said east line 934.0 feet; thence East, 934.0 feet; thence North, 934.0 feet; thence West, 934.0 feet to the true point of beginning and

containing 20 acres, more or less.

B. SUBJECT LEASES:

1. Oil and Gas Lease dated September 25, 1947 by and between Escolle Estate Company, as Lessor, and Union Oil Company of California, as Lessee, and recorded in Volume 736, Page 290 of the O.R. of Santa Barbara County, California, as amended;
2. Oil and Gas Lease dated January 7, 1980 by and between Escolle Tenants in-Common, as Lessors and Union Oil Company of California, as Lessee, a memorandum of which is recorded as Document #80-21450 of the O.R. of Santa Barbara, California, as amended;

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IV. Muscio Lease

- A. SUBJECT ACREAGE: Portion of Subdivision No. 16 of the Rancho Punta de la Laguna, located in Section 24 of Township 9 North, Range 35 West, containing 30.00 acres, more or less.

SUBJECT LEASE:

1. Oil and Gas Lease dated November 19, 1971 by and between Ted H. Muscio, et al, as Lessor, and Union Oil Company of California, as Lessee, and recorded in Volume 2386, Page 581 of the O.R. of Santa Barbara County, California, as amended;

V. Morganti Lease

- A. SUBJECT ACREAGE: Portion of Rancho Punta de la Laguna, located in Sections 13 and 24 of Township 9 North, Range 35 West, and Sections 18 and 19 of Township 9 North, Range 34 West, containing 491.00 acres, more or less; and Those portions of Subdivision No. 15 of the Rancho Punta de la Laguna, in the County of Santa Barbara, State of California, according to the Final Decree of Partition of said Rancho dated November 5, 1880, a certified copy of said Decree having been recorded in Book "W" of Deeds at page 333, record of said County. Containing in the aggregate, 62.86 acres, more or less.

B. SUBJECT LEASE:

1. Oil and Gas Lease dated August 18, 1930 by and between Guiseppe Morganti, as Lessor and O.C. Field, as Lessee, and recorded in Volume 222, Page 538 of the O.R. of Santa Barbara County, California, as amended;
2. Oil and Gas Lease evidenced by Memorandum of Oil and Gas Lease dated November 20, 1995 by and between Morganti Ranch, a Limited Partnership and Saba Petroleum, Inc., Counterpart #1 of which has been recorded February 1, 1996 under File No. 96-006527 in the Official Records of Santa

Barbara County, California; Counterpart #2 of which has been recorded February 1, 1996 under File No. 96-006528 in the Official Records of Santa Barbara County, California; and Counterpart #3 of which has been recorded February 1, 1996 under File No. 96-006529 in the Official Records of Santa Barbara County, California.

VI. Righetti Lease

- A. SUBJECT ACREAGE: Portion of Lot or Subdivision No. 13 of the Rancho Punta de la Laguna, located in Section 13 of Township 9 North, Range 35 West, containing 40.00 acres, more or less, INsofar AND ONLY INsofar as it covers rights to a depth of 4,500'.

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SUBJECT LEASE:

1. Oil and Gas Lease dated February 8, 1934 by and between E. Righetti, et al, as Lessor, and William W.Porter, II, as Lessee, and recorded in Volume 301, Page 59 of the O.R. of Santa Barbara County, California, as amended;

VII. Righetti "B" Lease

- A. SUBJECT ACREAGE: Portion of Lot or Subdivision No. 13 of the Rancho Punta de la Laguna, located in Sections 13 and 14 of Township 9 North, Range 35 West, containing 40.00 acres, more or less, INsofar AND ONLY INsofar as it covers rights lying below 4,500'.

SUBJECT LEASE:

1. Oil and Gas Lease dated June 24, 1965 by and between Ernest Righetti, et al, as Lessor, and Union Oil Company of California, as Lessee, and recorded in Volume 2112, Page 677 of the O.R. of Santa Barbara County, California, as amended.

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<SEQUENCE>3
<DESCRIPTION>THIRD AMENDMENT
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1 Exhibit 10.2

THIRD AMENDMENT

TO

FIRST AMENDED AND RESTATED LOAN AGREEMENT DATED SEPTEMBER 23, 1996 BY AND BETWEEN SABA PETROLEUM COMPANY, ET AL.

AND BANK ONE, TEXAS, N.A.

This Third Amendment to the First Amended and Restated Loan Agreement dated September 23, 1996 (this "Third Amendment") by and between SABA PETROLEUM COMPANY, a Delaware corporation, successor by merger to Saba Petroleum Company, a Colorado corporation (the "Borrower") et al., and BANK ONE, TEXAS, N.A., a

national banking association (the "Bank"), is entered into on this 5th day of September 1997. W I T N E S S E T H: Borrower and Bank have entered into a First Amended and Restated Loan Agreement dated September 23, 1996, as amended by the First Amendment thereto dated November 5, 1996, and as further amended by the Second Amendment thereto dated August 28, 1997 (collectively, the "Loan Agreement"). Borrower has requested that Bank amend certain provisions of the Loan Agreement, and the Bank has agreed to such amendments to the extent expressly set forth herein. NOW, THEREFORE, in consideration of the promises herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged by the Borrower and the Bank, and each intending to be legally bound hereby, the parties agree as follows: I. Specific Amendments to Loan Agreement. Article I is hereby amended by adding or replacing, as applicable, the following definitions: "Borrowing Base II" means the maximum amount that will be made available to Borrower for the development of Oil and Gas Properties of Saba Petroleum, Inc. existing on the date of the Third Amendment, as redetermined at the discretion of the Bank from time to time in accordance with Section 2.03 of this Agreement. "Borrowing Base II Loans" means Loans advanced to Borrower for purposes of developing Oil and Gas Properties of Saba Petroleum, Inc. existing on the date of the Third Amendment, not to exceed at any one time outstanding the amount of Borrowing Base II, as established from time to time hereunder. -. "Revolving Commitment Limit" means \$22,500,000.00 as of the date of the Third Amendment, and such different amounts as

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are subsequently established, from time to time, pursuant to Section 2.19 hereof. "Third Amendment" means the Third Amendment to this Agreement executed by Borrower and Bank on September 5, 1997. "Termination Date" means July 1, 2002; provided that solely with respect to Borrowing Base II Loans, "Termination Date" means September 1, 1999. Article I is further amended by deleting therefrom the definitions of "Tranche 1 Loan(s)" and "Tranche 2 Loan(s)." Section 2.01 is amended by deleting therefrom the sentence that was added after the first sentence of the second grammatical paragraph thereof, pursuant to the Second Amendment. Section 2.03 is amended by deleting the first grammatical paragraph thereof in its entirety, and inserting the following text in its place: As of August 1, 1997, Borrowing Base I is redetermined to be Nineteen Million One Hundred Thousand and No/100 Dollars (\$19,100,000.00), which shall thereafter decline in the amount of \$400,000.00, monthly, beginning on September 1, 1997, and continuing on the first day of each successive month thereafter until the effective date of the next redetermination of the Borrowing Base as set forth in this Section. As of the effective date of the Third Amendment, Borrowing Base II is redetermined to be \$3,400,000.00, which shall thereafter decline by \$142,000.00 monthly beginning on November 1, 1997, and continuing on the first day of each successive month thereafter until the effective date of the next redetermination of the Borrowing Base as set forth in this Section. Section 2:13 is hereby amended to add the following sentence at the end of such Section. Upon execution of the Third Amendment, the preceding provisions of this Section shall no longer be in effect, and at that time, Borrower shall contemporaneously pay to Bank an additional facility fee of \$34,000.00. Section 2.16 is amended to replace the term "Revolving Commitment," each place it appears in such Section with the term "Borrowing Base I." Article III is hereby amended by adding the following new Section 3.15 thereto: 3.15 Closing of Third Amendment. Prior to the funding of any Loans that are based on the availability resulting from the increase in the Borrowing Base pursuant to the Third Amendment, in addition to Borrower satisfying the requirements

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of the other applicable Sections of Article III, the Bank shall have received: (a) a certificate of the secretary or assistant secretary of Borrower and of Saba Petroleum, Inc. attesting to the adoption of resolutions by Borrower and Saba Petroleum, Inc. authorizing the transactions evidenced by the Third Amendment. (b) a Compliance Certificate executed by Borrower. (c) such other documents and instruments as Bank may reasonably request. Section 5.20 is amended to replace the dollar amount "\$6,250,000.00" that appears therein with the dollar amount "\$18,000,000.00", and to replace the date "June 30, 1995," that appears three times therein with the date "June 30, 1997," in each place.

Section 6.09 is hereby amended in its entirety to read as follows: 6.09 Investments and Certain Capital Expenditure. Make Investments in, or purchase or otherwise acquire all or substantially all of the assets of any Person (including Affiliates of Borrower), or any shares of stock of, or similar interest in, any Person (including the Affiliates of Borrower), or make capital expenditures for items other than for the exploration, development or purchase of Oil and Gas Properties located in the United States or for the purchase of equipment to facilitate the production of oil or gas owned by Borrower or any of its subsidiaries, exceeding in the aggregate, in any one-year period, determined on a rolling four-quarter basis, twenty percent (20%) of Borrower's tangible net worth (as determined pursuant to Section 5.20) as of the end of -the last quarter included in such one year period . Section 6.11 is hereby amended in its entirety to read as 6.11 THIS SECTION IS INTENTIONALLY LEFT BLANK. Section 6.13 is hereby amended in its entirety to read as 6.13 THIS SECTION IS INTENTIONALLY LEFT BLANK. II. Reaffirmation of Representations and Warranties. To induce the Bank to enter into this Third Amendment, the Borrower and each Guarantor hereby reaffirms, as of the date hereof, its representations and warranties contained in Article IV of the Loan Agreement and in all other documents executed pursuant thereto, and additionally represents and warrants as follows:

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A. The execution and delivery of this Third Amendment and the performance by the Borrower and each Guarantor of its obligations under this Third Amendment are within the Borrower's and each Guarantor's power, have been duly authorized by all necessary corporate action, have received all necessary governmental approval (if any shall be required), and do not and will not contravene or conflict with any provision of law or of the charter or by-laws of the Borrower or any Guarantor or of any agreement binding upon the Borrower or any Guarantor. B. The Loan Agreement as amended by this Third Amendment represents the legal, valid and binding obligations of the Borrower and each Guarantor, enforceable against each in accordance with their respective terms subject as to enforcement only to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally. C. No Event of Default or Unmatured Event of Default has occurred and is continuing as of the date hereof. III. Defined Terms. Except as amended hereby, terms used herein that are

defined in the Loan Agreement shall have the same meanings herein. IV. Reaffirmation of Loan Agreement. This Third Amendment shall be deemed to be an amendment to the Loan Agreement, and the Loan Agreement, as further amended hereby, is hereby ratified, approved and confirmed in each and every respect. All references to the Loan Agreement herein and in any other document, instrument, agreement or writing shall hereafter be deemed to refer to the Loan Agreement as amended hereby. V. Entire Agreement. The Loan Agreement, as hereby further amended, embodies the entire agreement between the Borrower, the Guarantors and the Bank and supersedes all prior proposals, agreements and understandings relating to the subject matter hereof. The Borrower and each Guarantor certifies that it is relying on no representation, warranty, covenant or agreement except for those set forth in the Loan Agreement as hereby further amended and the other documents previously executed or executed of even date herewith. VI. Governing Law. THIS THIRD AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. This Third Amendment has been entered into in Harris County, Texas, and it shall be performable for all purposes in Harris County, Texas. Courts within the State of Texas shall have jurisdiction over any and all disputes between the Borrower and the Bank, whether in law or equity, including, but not limited to, any and all disputes arising out of or relating to this Third Amendment or any other Loan Document; and venue in any such dispute whether in federal or state court shall be laid in Harris County, Texas.

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VII. Severability. Whenever possible each provision of this Third Amendment shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Third Amendment shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Third Amendment.

VIII. Execution in Counterparts. This Third Amendment may be executed in any number of counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument, and any signed counterpart shall be deemed delivered by the party executing such counterpart if sent to any other party hereto by electronic facsimile transmission.

IX. Section Captions. Section captions used in this Third Amendment are for convenience of reference only, and shall not affect the construction of this Third Amendment.

X. Successors and Assigns. This Third Amendment shall be binding upon the Borrower, each Guarantor and the Bank and their respective successors and assigns, and shall inure to the benefit of the Borrower, each Guarantor and the Bank, and the respective successors and assigns of the Bank.

XI. Non-Application of Chapter 15 of Texas Credit Codes. The provisions of Chapter 15 of the Texas Credit Code (Vernon's Texas Civil Statutes, Article 5069-15) are specifically declared by the parties hereto not to be applicable to the Loan Agreement as hereby further amended or any of the other Loan Documents or to the transactions contemplated hereby.

XII. Notice. THIS THIRD AMENDMENT TOGETHER WITH THE LOAN AGREEMENT, AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to be

duly executed as of the day and year first above written.

BORROWER

SABA PETROLEUM COMPANY

By: /s/ Walton C. Vance Chief Financial Officer

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BANK

BANK ONE, TEXAS, N.A.

By:/s/ Linda F. Masera
Vice President

SABA ENERGY OF TEXAS, INCORPORATED

By:/s/Bradley T. Katzung, President

SABA PETROLEUM, INC.

By:/s/Walton C. Vance,
Secretary

SABA PETROLEUM OF MICHIGAN, INC.

By:/s/Bradley T. Katzung
President

MV VENTURES, G. P.

By: Saba Energy of Texas, Incorporated,
Managing Partner

By:/s/ Bradley T. Katzung
President

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<TYPE>EX-10

<SEQUENCE>4

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<TEXT>

Exhibit 10.4

Linda F. Masera Vice President Energy Group

Bank One, Texas,

PO Box 2629

910 Travis

Houston TX 77252 2629

Tel 713-751-3458 Fax 713 751-3544

September 18, 1997

Saba Petroleum Company

3201 Airpark Drive, Suite 201

Santa Maria, California 93455

Attn: Mr. Walton C. Vance

Saba Energy of Texas, Incorporated
1603 S.E. 19th Street, Suite 202
Edmond, Oklahoma 73013

Attn: Mr. Bradley T. Katzung

RE: Corrections relating to Second Amendment dated August 28, 1997, and Fourth Amendment dated September 9, 1997, to First Amended and Restated Loan Agreement among Saba Petroleum Company, et al. and Bank One, Texas, N.A.

Dear Messrs. Vance and Katzung:

Prior to the execution of the captioned Fourth Amendment by Saba Petroleum Company, as Borrower, several of its subsidiaries, as Guarantors, and Bank One, Texas, N.A., all of such parties understood and agreed that if Saba Petroleum Company subsequently closed a public offering of any its stock prior to the Term Loan Maturity Date, as defined therein, then the proceeds raised from such public offering, net of the costs of the offering, would be used to pay off the outstanding balance of the Term Note plus accrued, unpaid interest thereon. We inadvertently failed to include such a provision in the Fourth Amendment. Accordingly, I propose that the following text be added to the end of Section 2.25 of the Loan Agreement, as such section was added by the Fourth Amendment:

Notwithstanding the foregoing, however, if Borrower should close a public offering of shares of stock in Borrower prior to the Term Loan Maturity Date, then the cash proceeds received by Borrower as the result of such public offering, net of all reasonable, substantiated third party costs and expenses incurred by Borrower in connection with documenting, conducting and closing such public offering, not to exceed the then-outstanding principal balance of the Term Loan and accrued, unpaid interest thereon, shall be paid to Bank to be credited against the unpaid balance of the Term Loan and accrued, unpaid interest thereon. Such payment shall be made to Bank within thirty (30) days after the closing and funding of such public offering.

Also, the Notice of Final Agreement dated September 9, 1997, executed in connection with the Fourth Amendment contained certain erroneous numbers in the first paragraph thereof. Accordingly, I propose that the following text be substituted in place of the first paragraph that appeared in such Notice of Final Agreement:

As of the effective date of this Notice, Borrower and BANK ONE, TEXAS, N.A. ("Bank") have consummated a transaction pursuant to which Bank has agreed to make a loan or loans to Borrower, or to renew and amend an existing loan or loans to Borrower, in an aggregate amount of up to \$31,787,769.00, which is comprised of a revolving loan of up to \$22,100,000.00 and a term loan in the amount of \$9,687,769.00.

The final correction with respect to the Fourth Amendment relates to the definition of "Term Note," as added to the Loan Agreement by the Fourth Amendment. The reference in that definition to "First Amendment" is hereby corrected to refer to the "Fourth Amendment".

Finally, pursuant to the captioned Second Amendment, the "Conversion Date" was revised to be July 1, 1999, and the "Termination Date" was revised to be July 1, 2002. Conforming changes, however, were not made to Section 2.22 of the Loan Agreement. Accordingly, the words "on August 1, 1998" that appear in the third line of Section 2.22 are hereby deleted and replaced with: "with the month following the Conversion Date". Likewise, the reference to "July 31, 1998" that appears in the eighth line of Section 2.22 is hereby deleted and replaced with "the Conversion Date".

If the foregoing proposed corrections are acceptable to you, please have

authorized officers of Saba Petroleum Company and each of the Guarantors execute this letter and the accompanying Notice of Final Agreement in the spaces provided, and return them to me. For your convenience, this letter and the Notice of Final Agreement may be executed and returned to me in multiple counterparts.

Yours very truly,

BANK ONE, TEXAS, N.A.

By:

/s/Linda F. Masera

SABA PETROLEUM COMPANY

By:

/s/BRADLEY T. KATZUNG,
Vice President

Guarantors:

SABA PETROLEUM OF MICHIGAN, INC.

By:

/s/BRADLEY T. KATZUNG
President

SABA PETROLEUM, INC.

By:

/s/WALTON C. VANCE
Secretary

<PAGE>

MV VENTURES, G.P.

By: Saba Energy of Texas, Incorporated
Managing Partner

By: /s/ Bradley T. Katzung
President

SABACOL, INC.

By: /s/ WALTON C. VANCE
Secretary

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<SEQUENCE>5
<DESCRIPTION>PRODUCTION SHARING
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C-

PRODUCTION SHARING CONTRACT

between

PERUSAHAAN PERTAMBANGAN MINYAK DAN GAS BUMI NEGERA
(PERTAMINA)

and

SABA JATILUHUR LIMITED

CONTRACT AREA: JATILUHUR, ONSHORE, W.JAVA.

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between

PERUSAHAAN PERTAMBANGAN MINYAK DAN GAS BUMI NEGARA

(PERTAMINA)

and

SABA JATILUHUR LIMITED

THIS CONTRACT, made and entered into on this _____ day of _____, 19 _____, by and between PERUSAHAAN PERTAMBANGAN MINYAK DAN GAS BUMI NEGARA, a State Enterprise, established on the basis of Law No. 8./1971 hereinafter called "PERTAMINA", party of the first part, and SABA JATILUHUR LIMITED a corporation organized and existing under the laws of CAYMAN ISLANDS, hereinafter called "CONTRACTOR", party of the second part, both hereinafter sometimes referred to either individually as the "Party" or collectively as the "Parties".

WITNESSETH

WHEREAS, all mineral oil and gas existing within the statutory mining territory of Indonesia, are national riches controlled by the State; and

WHEREAS, PERTAMINA has an exclusive "Authority to Mine" for mineral oil and gas throughout the area described in Exhibit "A" and outlined on the map which is Exhibit "B" both attached hereto and made a part hereof, which area is hereinafter referred to as the "Contract Area" ; and

WHEREAS, PERTAMINA wishes to promote the development of Contract Area and CONTRACTOR desires to join and assist PERTAMINA in accelerating the exploration and development of the resources within the Contract Area; and

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

WHEREAS, in accordance with Law No.44 Prp/1960 Law No.8/1971 cooperative agreements in the form of a Production Sharing Contract may be entered into in the sector of oil and gas between PERTAMINA and foreign contractors; and

WHEREAS the parties will carry out operations on the Contract Area as a Joint Operation, the participating interest of CONTRACTOR being subject to a regime of Production Sharing, and for this purpose have entered into an Operating Agreement, annexed hereto as Exhibit "D";

NOW THEREFORE, in consideration of the mutual covenants herein contained, it is hereby agreed as follows:

SECTION I

SCOPE AND DEFINITIONS

1.1 SCOPE

This Contract is a Production Sharing Contract in accordance with the provisions herein contained. PERTAMINA shall have and be responsible for the management of the operations contemplated hereunder. PERTAMINA, assisted by CONTRACTOR, will be responsible for conducting the Petroleum Operations and the Parties shall establish a Joint Operating Body which shall conduct and execute the Petroleum Operations in accordance with the provisions of this Contract. The Parties shall, subject to the provisions

herein contained, provide all the financial and technical assistance required for such operations and shall carry the risk of Operating Cost in carrying out operations and CONTRACTOR shall therefore have an economic interest in the development of the Petroleum deposits in the Contract Area. The costs accruing therefrom shall be included in Operating Costs recoverable as provided in Section VI. Except as may otherwise be provided in this Contract, in the Accounting Procedures attached hereto or by written agreement of PERTAMINA, CONTRACTOR will not incur interest expenses to finance its operations hereunder.

During the term of this Contract, CONTRACTOR participating interest share of the total production achieved in the conduct of such operations shall be divided in accordance with the provisions of Section VI hereof.

1.2. DEFINITIONS

In the text of this Contract, words and terms defined in Article 1 of Law No. 44 Prp/1960 shall have the same meaning in accordance with such definitions.

- 1.2.1. Affiliated Company or "Affiliate" means a company or other entity that controls, or is controlled by a party to this Contract, or a company or other entity which controls or is controlled by a company or other entity which controls a party to this Contract, it is being understood that control shall mean ownership by one company or entity of at least 50% of (a) the voting stock, if the other company is a corporation issuing stock, of (b) the controlling rights or interests, if the other entity is not a corporation.
- 1.2.2. Barrel means a quantity or unit of oil, forty two (42) United States gallons at the temperature of sixty (60) ----- degrees Fahrenheit.
- 1.2.3. Barrel of Oil Equivalent (BOE) means six thousand (6,000) standard Cubic feet of Natural Gas based on the gas having a calorific value of one thousand (1,000) British Thermal Unit per cubic foot (BTU/ft³).
- 1.2.4. Budget of Operating Costs means costs estimates of all items included in the Work Program.
- 1.2.5. Calendar Year or "Year", means a period of twelve (12) months Commencing with January 1 and ending on the following December 31, according to the Gregorian Calendar.
- 1.2.6. Contract Area means the area within statutory mining territory of Indonesia covered by the "Authority to Mine" which is the subject of this Contract, which Contract Area is described and outlined in Exhibit "A" and "B" attached hereto and made a part hereof.
- 1.2.7. 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.
- 1.2.8. Crude Oil means crude mineral oil, asphalt, ozokerite and all kinds of hydrocarbons and bitumens, both in solid and in liquid form, in their natural state or obtained from Natural Gas by condensation or extraction.
- 1.2.9. Effective Date means the date of the approval of this Contract by the Government of Indonesia in accordance with the

provisions of the applicable law.

- 1.2.10. Force Majeure means delays or defaults in Performance under this Contract caused by circumstances beyond the control and without the fault or negligence of PERTAMINA and/or CONTRACTOR that may affect economically or otherwise the continuing of operations under this Contract, including but not restricted to acts of God or the public enemy, perils of navigation, fire, hostilities, war (declared or undeclared), blockade, labor disturbances, strikes, riots, insurrections, civil commotion, quarantine restrictions, epidemics, storms, earthquakes, or accidents.
- 1.2.11. Foreign Exchange means currency other than that of the Republic of Indonesia but acceptable to PERTAMINA and to the Republic of Indonesia and to CONTRACTOR.
- 1.2.12. Indonesian Income Tax Law means the current Tax Code including all appropriate regulations.
- 1.2.13. JOB means the Joint Operating Body established for the purpose provided for in Article 3 of the Operating Agreement.
- 1.2.14. Natural Gas means all gaseous hydrocarbons from wells, including wet mineral gas, dry mineral gas, casing head gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas.
- 1.2.15. Operating Agreement means the Operating Agreement attached hereto as Exhibit "D" and made a part hereof.
- 1.2.16. Operating Costs means expenditures made and obligations incurred in carrying out Petroleum Operations hereunder determined in accordance with the Accounting Procedures attached hereto as Exhibit "C" and made a part hereof.
- 1.2.17. Operator means the Operator appointed pursuant to Article 3 of the Operating Agreement.
- 1.2.18. Petroleum means mineral oil and gas, hereinafter called Crude Oil and Natural Gas as defined in Law No.44 Prp/1960.
- 1.2.19. Petroleum Operations means all exploration, development, extraction, producing, transportation, marketing, abandonment and site restoration operations authorized or contemplated under this Contract.
- 1.2.20. Point of Export means the outlet flange of the loading arm after final sales meter at the export terminal, or some other point (s) mutually agreed by the Parties.
- 1.2.21. Work Program means a statement itemizing the Petroleum Operations to be carried out in the Contract Area as set forth in Section IV.

SECTION II

TERM

- 2.1. The term of this Contract shall be thirty (30) years as from the Effective Date.
- 2.2. At the end of the initial six (6) years as from the Effective Date CONTRACTOR shall have the option to request PERTAMINA for a four (4) years extension, the approval of such request shall not be unreasonably withheld.
- 2.3. If at the end of the initial six (6) years as from the Effective Date or the extension thereto, no Petroleum is discovered in commercial quantities in the Contract Area, then without prejudice to Section XIII, this Contract shall automatically terminate in its entirety.
- 2.4. If Petroleum is discovered in any portion of the Contract Area within six (6) year period, or the extension thereto, which in the judgement of PERTAMINA and CONTRACTOR can be produced commercially, based on consideration of all pertinent operating and financial data, then as to that particular portion of the Contract Area development will commence.

In other portions of the Contract Area exploration may continue concurrently without prejudice to the provisions of Section III regarding the exclusion of areas.

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SECTION III

EXCLUSION OF AREAS

- 3.1.1. On or before the end of the initial three (3) years' period as from the Effective Date, (CONTRACTOR) shall relinquish twenty-five percent (25%) of the original Contract Area.
- 3.1.2. On or before the end of the sixth (6th) Contract Area, (CONTRACTOR) shall relinquish an additional area equal to twenty-five percent (25%) of the original Contract Area.
- 3.1.3. On or before the end of the tenth (10) Contract years, (CONTRACTOR) shall relinquish an additional area so that area retained thereafter shall not be in excess of 1,347 square kilometers, or twenty percent (20%) of the original total Contract Area, whichever is less.
- 3.1.4. (CONTRACTOR's) obligation to relinquish part of the original Contract Area under the preceding provisions shall not apply to any part of the Contract Area corresponding to the surface area of any field in which Petroleum has been discovered.
- 3.1.5. With regard to the remaining portion of the Contract Area left after the mandatory relinquishment as set forth in subsection 3.1.2. above, the parties shall maintain a reasonable exploration effort. In respect of any part of such remaining unexplored portion of the Contract Area for which JOB does not during two (2) consecutive Years submit an exploration program, PERTAMINA may by written notice to (CONTRACTOR) require them either to submit an exploration program or to relinquish such part of the Contract Area.
- 3.1.6. Upon (30) days written notice to PERTAMINA prior to the end of the second Contract Year and prior to the end of any succeeding Contract Year, (CONTRACTOR) shall have the right to relinquish any portion of the Area, and such portion shall then be credited against that portion of the Contract Area which (CONTRACTOR) is next required to relinquish under the provisions of subsections 3.1.1. and 3.1.2. hereof.
- 3.1.7. (CONTRACTOR) shall advise PERTAMINA in advance of the date of relinquishment of the portion to be relinquished. For the purpose of such relinquishments, (CONTRACTOR) and PERTAMINA shall consult with each other regarding the shape and size of each individual portion of the area being relinquished, provided, however, that so far as reasonably possible, such portion shall each be of sufficient size and convenient shape to enable Petroleum Operations to be conducted thereon.

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SECTION IV

WORK PROGRAM AND EXPENDITURES

- 4.1. The Parties shall Commence Petroleum Operations hereunder not later than six (6) months after the Effective Date.
- 4.2. The amount to be spent and the program to be carried out by the Parties in conducting Petroleum Operations pursuant to the terms of this Contract during the first six (6) Contract Years and in conducting Petroleum Operations pursuant to the terms of this Contract during the next four (4) Contract Years following the Effective Date shall in the aggregate be not less than hereafter specified for each of the Contract Year as follows:

<TABLE>

	Work Program	Amount
2,650,000	geological & geophysical study and 300 Km seismic.	US\$
7,200,000	2200 Km seismic/CSMAT	US\$
7,250,000	drilling two (2) wells.	US\$
US\$ 2,100,000	geological & geophysical work.	
US\$ 6,800,000	seismic survey & G&G.	
7,300,000	drilling two (2) wells	US\$
US\$ 4,300,000	geological & geophysical work.	
7,800,000	seismic survey and drilling one(1)well.	US\$
5,800,000	drilling one (1) well	US\$
9,300,000	drilling two (2) wells	US\$

The Parties shall have the option to transfer the work requirement from one category to the other with prior approval of PERTAMINA.

Notwithstanding any provisions to the contrary as may elsewhere herein contained, it is specifically agreed that during the first three (3) Contract Years CONTRACTOR shall provide at least seventeen million and one hundred thousand United States Dollars (US\$17,100,000) for all expenditures for operations as provided under subsection 4.2, or up to the approval of the plan of development by PERTAMINA, whichever is less, to match PERTAMINA's deemed prior expenditures.

Thereafter:

- a) Funds equal to PERTAMINA's participating interest share for exploration operations and the drilling of appraisal wells shall be provided by CONTRACTOR;
- b) Before the first commercial production has commenced, funds equal to PERTAMINA's participating interest share for development, production, processing and transportation (to the point of delivery or export) shall be provided by the CONTRACTOR;
- c) After commercial production has commenced, the funds for development, production, processing and transportation (to the point of delivery or export) shall be provided by the Parties according to their respective participating interest share;

- d) At PERTAMINA's request, funds equal to PERTAMINA's participating interest share for any development after the first commercial production has commenced shall be provided by the CONTRACTOR;

Always provided that PERTAMINA shall repay CONTRACTOR funds provided by CONTRACTOR for the PERTAMINA's participating interest share thereof, in accordance with subsection 6.1.8 of section VI hereof but limited to Article 2 Exhibit "D".

If during any of the first three Contract Years, the Parties should spend less than the amount of money as specified hereinabove, an amount equal to such under expenditure may be carried forward and added to the amount to be expended in the following Contract Year, however, if at the end of the third Contract Year, the Parties shall have been prevented from expending the above specified amount for the first three (3) Contract Years due to reasons beyond their control, the amount equal to such under expenditure may be carried over and added to the following Contract Year, otherwise the amount equal to the under expenditure will be payable to PERTAMINA. Furthermore, any under expenditure in fourth and subsequent Contract Year may be carried forward and added to the following Contract Year. If during any Contract Year or Contract Years the Parties should expend more than the amount of money required to be so expended as specified hereinabove, the excess may be subtracted from the amount of money as specified hereinabove, for the succeeding Contract Years.

- 4.4. At least three (3) months prior to the beginning of each Calendar Year or at such other time as may otherwise be mutually agreed to by the parties, JOB shall prepare and submit to the Operating Committee for the Parties' decision a Work Program and Budget of Operating Costs for the Contract Area setting forth the Petroleum Operations which the Parties propose to carry out during the ensuing Calendar Year, and after having reached a decision, JOB shall submit such Work Program and Budget of Operating Costs for approval to PERTAMINA.
- 4.5. It is recognized by the Parties that the details of a Work Program may require changes in the light of existing circumstances and nothing herein contained shall limit the right of JOB to make such changes, provided they do not change the general objectives of the Work Program, nor increase the expenditure in the approved Budget of Operating Costs.
- 4.6. It is further recognized that in the event of emergency or extraordinary circumstances requiring immediate actions, either Party and JOB may take all actions it deems proper or advisable to protect their interests and those of their respective employers and any cost so incurred shall be included in the Operating Costs.
- 4.7. PERTAMINA agrees that the approval of a proposed Work Program and Budget of Operating Costs will not be unreasonably withheld.

SECTION V

RIGHTS AND OBLIGATIONS OF THE PARTIES

5.1. The Parties shall, subject to Section 4.2. and 4.3. hereinabove,

5.1.1. furnish all necessary funds to purchase or lease all material, equipment and supplies required to be purchased or leased with Foreign Exchange pursuant to the Work Program;

5.1.2. furnish such other funds for the performance of the Work Program that requires payment in Foreign Exchange, including payment to third parties who perform services as a contractor.

5.2. JOB shall:

5.2.1. furnish all technical aid, including foreign personnel, required for the performance of the Work Program, payment whereof requires Foreign Exchange;

5.2.2. be responsible for the preparation and execution of the Work Program, which shall be implemented in a workmanlike manner and by appropriate scientific methods;

5.2.3. (a) conduct an environmental baseline assessment at the beginning of CONTRACTOR's activities, such assessment to be done in stages coincident with agreed Work Program;

(b) take the necessary precautions for protection of ecological systems, navigation and fishing and shall prevent extensive pollution of the area, sea or rivers and other as the result of operations undertaken under the Work Program;

(c) After the Contract expiration or termination, or relinquishment of part of the Contract Area, or abandonment of any field, remove all equipment and installations from the area in a manner acceptable to PERTAMINA, and perform all necessary site restoration activities in accordance with the applicable Government regulations to prevent hazards to human life and property of others or environment;

provided however, if PERTAMINA takes over any area or field prior to its abandonment, CONTRACTOR shall be released from its obligation to remove the equipment and installations and perform the necessary site restoration activities of the field in such area. In such event all the accumulated funds reserved for the removal and restoration operations shall be transferred to PERTAMINA;

- (d) include in the annual budget of Operating Costs, estimates of the anticipated abandonment and site restoration costs for each exploratory well in the Work Program. All expenditures incurred by the CONTRACTOR in the abandonment of all such wells and restoration of their drillsites shall be treated as Operating Costs in accordance with the Accounting Procedure attached hereto as Exhibit "C";
- (e) include with requisite plan of development for each commercial discovery, an abandonment and site restoration program together with a funding procedure for such program. The amount of monies estimated to be required for this program shall be determined each year in conjunction with the Budget of Operating Costs for the plan of development and all such estimates shall be treated as Operating Costs in accordance with the Accounting Procedure attached hereto as Exhibit "C".

- 5.2.4. retain control to all leased property paid for with Foreign Exchange and caused to be brought into Indonesia, and be entitled to freely remove the same therefrom;
- 5.2.5. have right of ingress to and egress from the Contract Area and to and from facilities wherever located at all times;
- 5.2.6. have the right to use and have access to, and PERTAMINA shall make available, so far as possible, all geological, geophysical, drilling, well, production and other information held by PERTAMINA or by any other governmental agency relating to the Contract Area including well location maps;
- 5.2.7. submit to PERTAMINA copies of all such original geological, geophysical, drilling, well, production and other data and reports as it may compile during the term hereof;
- 5.2.8. prepare and carry out plans and programs for industrial training and education of Indonesians for all job classifications with respect to operations contemplated hereunder;
- 5.2.9. give preference to such goods and services which are produced in Indonesia or rendered by Indonesian nationals, provided such goods and services are offered at equally advantageous conditions with regard to quality, price, availability at the time and in the quantities required.

5.3 CONTRACTOR shall :

- 5.3.1 have the right during the term hereof to freely lift, dispose of and export its share of Crude Oil and retain abroad the proceeds obtained therefrom;
- 5.3.2. appoint an authorized representative for Indonesia with

respect to this Contract, who shall have an office in Jakarta;

5.3.3. after Commercial production commences, fulfill its obligations towards the supply of the domestic market in Indonesia. CONTRACTOR agrees to sell and deliver to PERTAMINA a portion of the share of the Crude Oil to which it is entitled pursuant to subsections 6.1.3. and 6.3.1 of Section VI calculated for each Year as follows ;

- (a) multiply its Participating Interest share of Crude Oil produced from the Contract Area by a fraction the numerator of which is the total quantity of Crude Oil to be supplied for domestic market and the denominator is the entire Indonesian production of Crude Oil of all petroleum companies;
- (b) compute twenty-five percent(25%) of its Participating Interest share of Crude Oil produced from the Contract Area;
- (c) multiply the lower quantity computed, either under (a) or (b) by the resultant percentage of CONTRACTOR's entitlement provided as applicable under subsection 6.1.3 of Section VI hereof, from the Crude Oil remaining after deducting Operating costs.

The quantity of Crude Oil computed under (c) shall be the maximum quantity to be supplied by CONTRACTOR in any Year pursuant to this subsection 5.3.3 and deficiencies, if any, shall not be carried forward to any subsequent Year; provided that if for any Year the recoverable Operating Costs exceeds the difference of the total sales proceeds from Crude Oil produced and saved hereunder minus the First Tranche Petroleum, as provided under Section VI hereof, CONTRACTOR shall be relieved from this supply obligation for such Year.

The price at which such Crude Oil shall be delivered and sold under subsection 5.3.3 of this subsection shall be fifteen percent (15%) of the price as determined under subsection 6.1.2 of Section VI hereof.

CONTRACTOR shall not be obligated to transport such Crude Oil beyond the point of export but upon request CONTRACTOR shall assist in arranging transportation and such assistance shall be without cost or risk to CONTRACTOR.

Notwithstanding the foregoing, for a period of five (5) consecutive years (meaning sixty (60) months) starting the month of the first delivery of Crude Oil produced and saved from each new field in the Contract Area, the fee per barrel for the quantity of Crude Oil supplied to the domestic market from each such new field shall be equal to the price determined in accordance with Section VI hereof for Crude Oil from such field taken for the recovery of Operating Costs.

The proceeds in excess of the aforesaid fifteen percent (15%) shall preferably be used to assist financing of continued exploration efforts by CONTRACTOR in the Contract Area or in other areas of the Republic of Indonesia if such opportunity exist. In case no such opportunity can be demonstrated to exist in accordance with good oil field practice, CONTRACTOR shall be free to use such proceeds at its own discretion;

5.3.4. have the right to sell, assign, transfer, convey or otherwise dispose of all or any part of its rights and interest under

this Contract to any Affiliated Company without the prior written consent of PERTAMINA, provided that PERTAMINA shall be notified in writing of the same beforehand and further provided that any assignee whom such rights and interests are assigned to under any clause of this Contract shall not hold more than one Technical Assistance Contract or Production Sharing Contract at any given time ;

- 5.3.5. 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 PERTAMINA and the Government of the Republic of Indonesia, which consent shall not be unreasonably withheld; also provided that any assignee whom such rights and interests are assigned to under any clause of this Contract shall not hold more than one Technical Assistance Contract or Production Sharing Contract at any given time, except during the first three Contract Years CONTRACTOR shall hold more dominant participating interest than any other participant of this Contract.
- 5.3.6. severally be subject to and pay to the Government of the Republic of Indonesia the income tax and the final tax on profit after tax deduction imposed on it pursuant to the Indonesian Income Tax Law and its implementing regulations. CONTRACTOR shall comply with the requirements of the tax law in particular with respect to filing of returns, assessment of tax and keeping and showing of books and records;
- 5.3.7. have the right of ingress to and egress from the Contract Area and to and from facilities wherever located at all times;
- 5.3.8. have the right to use and have access to, and PERTAMINA shall furnish all geological, geophysical, drilling, well, production and other information held by PERTAMINA or by any other government agency relating to the Contract Area, including well locations maps;
- 5.3.9. not disclose geological, geophysical, petrophysical, engineering, well logs and completion, status reports and any other data as CONTRACTOR may compile during the term hereof to third parties without PERTAMINA's written consent. This clause shall survive after the termination of this Contract ;
- 5.3.10. the execution of the Work Program shall be exercised so as not to conflict with Government obligations imposed on the Government by international law.

5.4. PERTAMINA shall ;

- 5.4.1. except with respect to CONTRACTOR obligation to pay income tax and final tax on profits after tax deductions as set forth in subsection 5.3.6. of Section V hereinabove, assume and discharge other Indonesian taxes of CONTRACTOR or JOB including value added tax, transfer tax, import and export duties on materials, equipment and supplies brought into Indonesia by either Party through JOB, its contractors and subcontractors, exactions in respect of property capital, net worth, operations remittances or transactions including any tax or levy upon or in connection with operations performed hereunder by JOB.

PERTAMINA shall not be obliged to pay CONTRACTOR's income tax and the final tax on profits after tax deduction, nor taxes on tobaccos, liquor and personnel income tax, and income tax and

other taxes, not listed above of contractors and sub contractors.

The obligations of PERTAMINA hereunder shall be deemed to have been complied with by the delivery to CONTRACTOR within one hundred and twenty (120) days after the end of each Calendar Year, of documentary proof in accordance with the Indonesian fiscal laws that liability for the above mentioned taxes has been satisfied, except that with respect to any of such liabilities which CONTRACTOR or JOB may be obliged to pay directly, PERTAMINA shall reimburse CONTRACTOR only out of PERTAMINA's share of production within sixty (60) days after receipt of invoice therefor. PERTAMINA should be consulted prior to payment of such taxes by CONTRACTOR or JOB or by any other party on their behalf;

- 5.4.2. otherwise assist and expedite JOB's execution of the Work Program by providing facilities, supplies and personnel including, but not limited to, supplying or otherwise making available all necessary visas, work permits, transportation, security protection and rights of way and easements as may be requested by JOB or CONTRACTOR and make available from the resources under PERTAMINA's control. In the event such facilities, supplies or personnel are not readily available, then PERTAMINA shall promptly secure the use of such facilities, supplies and personnel from alternative sources. Expenses then incurred by PERTAMINA at JOB's or CONTRACTOR's request shall be reimbursed to PERTAMINA by JOB and the funds provided therefor shall be included in the Operating Costs.

Such reimbursement will be made in United States Dollars computed at the rate of exchange extended by the Indonesian Government at the time of conversion. CONTRACTOR shall advance to PERTAMINA through JOB before the beginning of each annual Work Program a minimum amount of seventy-five thousand United States Dollars (US\$ 75,000) for the purpose of enabling PERTAMINA to meet CONTRACTOR's Participating interest share of Rupiah expenditure incurred pursuant to this subsection

If at any time during the annual Work Program period the minimum amount advanced under this subsection 5.4.2. has been fully expended, separate additional advance payments as may be necessary to provide for CONTRACTOR's Participating interest share of Rupiah expense estimated to be incurred by PERTAMINA during the balance of such annual Work Program period will be made. If any amount advanced hereunder is not expended by PERTAMINA by the end of an annual Work Program period, such unexpended amount shall be credited against the minimum amount to be advanced pursuant to this subsection 5.4.2. for the succeeding annual Work Program period;

- 5.4.3. ensure that at all times during the term hereof sufficient Rupiah funds shall be available to cover the Rupiah expenditures necessary for the execution of the Work Program;
- 5.4.4. 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 and any other data JOB may compile during the terms hereof, provided, however, that all such data shall not be disclosed to third parties without informing CONTRACTOR and giving CONTRACTOR the opportunity to discuss the disclosure of such data if CONTRACTOR so desires and further provided that CONTRACTOR may retain copies of such

data;

- 5.4.5. to the extent that it does not interfere with performance of Petroleum Operations use the equipment which becomes its property by virtue of this Contract solely for Petroleum Operations envisaged under this Contract and if PERTAMINA wishes to use such equipment for any alternative purpose, then PERTAMINA shall first consult CONTRACTOR.

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SECTION VI

RECOVERY OF OPERATING COSTS AND HANDLING OF PRODUCTION

6.1 CRUDE OIL

The following shall apply to CONTRACTOR's participating interest share of Crude Oil produced and saved from the Contract Area.

6.1.1 CONTRACTOR is authorized by PERTAMINA and obligated to market its participating interest share of Crude Oil subject to the provisions hereinafter set forth.

6.1.2 CONTRACTOR will recover its participating interest share of all Operating Costs out of the sale proceeds or other disposition of the required quantity of its participating interest share of Crude Oil equal in value to such Operating Costs which is produced and saved hereunder and not used in Petroleum Operations except as provided in subsections 7.1.4 and 7.1.5 of Section VII, CONTRACTOR shall be entitled to take and receive and freely export such Crude Oil. For the purpose of determining the quantity of Crude Oil delivered to CONTRACTOR required to recover said Operating Costs, the weighted average price of all Crude Oil produced and sold from the Contract Area during the Calendar Year will be used, excluding however deliveries made pursuant to subsection 5.3.3 of Section V. If, in any Calendar Year CONTRACTOR's participating interest share of Operating Costs exceeds the value of its Participating Interest share of Crude Oil produced and saved hereunder and not used in Petroleum Operations, then the unrecovered excess shall be recovered in the succeeding years.

6.1.3 Of the CONTRACTOR's participating interest share of Crude Oil remaining after deducting Operating Costs the Parties shall be entitled to take each Year:

(a) If the first Crude Oil of this Contract Area is from a Marginal Field as described herein below, for such production the parties shall be entitled to take and receive each Year, respectively sixty-four point two eight five seven percent (64.2857%) for PERTAMINA and thirty-five point seven one four three percent (35.7143%) for CONTRACTOR over the life of such field.

A "Marginal Field" is the first field of the Contract Area proposed by CONTRACTOR for development and approved by PERTAMINA, capable of Crude Oil production not exceeding ten thousand (10.000) Barrels daily average projected for

the initial two (2) production years (24 consecutive production months).

Marginal Field production represents a separate segment from the others.

- (b) For Crude Oil production as a result of tertiary recovery of enhanced oil recovery (EOR) projects, the parties shall be entitled to take and receive each Year, respectively sixty-four point two eight five seven percent (64.2857%) for PERTAMINA and thirty five point seven one four three percent (35.7143%) for CONTRACTOR.

Tertiary recovery EOR production represents a separate segment from the others.

- (c) For Crude Oil production from pre-Tertiary reservoir rocks, the parties shall be entitled to take and receive each Year, respectively as follows

- (i) PERTAMINA sixty-four point two eight five seven percent (64.2857%) and CONTRACTOR thirty-five point seven one four three percent (35.7143%) for the segment of zero (0) to fifty thousand (50,000) Barrels daily average of all of such pre-Tertiary production of the Contract Area for the Calendar Year;
- (ii) PERTAMINA seventy-three point two one four three percent (73.2143%) and CONTRACTOR twenty-six point seven eight five seven percent (26.7857%) for the segment of fifty thousand and one (50,001) Barrels to one hundred and fifty thousand (150,000) Barrels daily average of all of such pre-Tertiary production of the Contract Area for the Calendar Year;
- (iii) PERTAMINA eighty-two point one four two nine percent (82.1429%) and CONTRACTOR seventeen point eight five seven one percent (17.8571%) for the segment of more than hundred fifty thousand (150,000) Barrels daily average of all of such pre-Tertiary production of the Contract Area for the Calendar Year;

Pre-Tertiary reservoir rocks mean petroleum reservoir rocks deposited or formed in pre-Tertiary times.

- (d) For Crude Oil production of the Contract Area other than those under paragraphs (a), (b), and (c) hereinabove, PERTAMINA and CONTRACTOR shall be entitled to take and receive each Year seventy three point two one four three percent (73.2143%) and twenty-six point seven eight five seven percent (26.7857%) respectively.

Each of the above segments represent separate production segment from the others. The deduction of investment credit and Operating Costs before the entitlements are taken by each respective Party as provided under this clause 6.1.3 shall be subject to the following proration method: for each, Calendar Year, the recoverable investment credit and Operating Costs shall be apportioned for deduction from the production of each of the segment as hereinabove defined, at the same ratios as the production from each such segment bears to the total production of such Year.

In the event that Crude Production from a field qualifies for

more than one of the definitions set out in (a), (b) and (c) of this clause 6.1.3, CONTRACTOR will have the option to elect which one of the clause shall be applied. Such election when made shall not be changed.

- 6.1.4 Title to CONTRACTOR's portion of Crude Oil under subsections 6.1.3, 6.1.7 and 6.3.1 of this Section VI as well as to such portion of Crude Oil exported and sold to recover its participating interest share of Operating Costs shall pass to CONTRACTOR at the point of export, or, in the case of Crude Oil delivered to PERTAMINA pursuant to subsection 5.3.3 of Section V, paragraph (c) or otherwise, at the point of delivery.
- 6.1.5 CONTRACTOR will use its best reasonable efforts to market such Crude Oil to the extent markets are available. Either Party shall be entitled to take and receive their respective portion in kind.
- 6.1.6 If PERTAMINA elects to take any of its portion of Crude Oil in kind, it shall so advise CONTRACTOR in writing not less than ninety (90) days prior to the commencement of each semester of each Calendar Year specifying the quantity which it elects to take in kind, such notice to be effective for the ensuing semester of each Calendar Year provided, however, that such election shall not interfere with the proper performance of any Crude Oil sales agreement for Petroleum produced within the Contract Area which 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 PERTAMINA's portion of Crude Oil shall not be for a term of more than one (1) Calendar Year without PERTAMINA's consent.
- 6.1.7. (a) CONTRACTOR may recover an investment credit amounting to fifteen decimal seven eight zero zero percent (15.7800%) of the capital investment cost directly required for developing Crude Oil production facilities as provided under clause 2.3.3 of Exhibit "C" hereof, of a new field producing from Tertiary reservoir rock out of deduction from gross production before recovering Operating Costs, commencing in the earliest production Year or Years before tax deduction (to be paid in advance in such production Year when taken).
- (b) CONTRACTOR may recover an investment credit amounting to one hundred and two point one four zero zero percent (102.1400%) of the capital investment cost directly required for developing Crude Oil production facilities as provided under clause 2.3.3 of Exhibit "C" hereof, of a new field producing from pre-Tertiary reservoir rock out of deduction from gross production before recovering Operating Costs, commencing in the earliest production Year or Years before tax deduction (to be paid in advance in such production Year when taken).

The investment credit referred to in paragraph (a) and (b) may be applied to new secondary recovery and tertiary recovery enhanced oil recovery project but are, however, not applicable to any interim production schemes nor further investment to enhance production and reservoir drainage in excess of what was contemplated in the original development program as approved by PERTAMINA.

6.1.8 PERTAMINA shall repay CONTRACTOR only out of PERTAMINA's participating interest share of Crude Oil produced each Year and saved hereunder and not used in Petroleum Operations an amount equal to the funds provided by CONTRACTOR for the PERTAMINA's participating interest share as provided under subsection 4.3 of Section IV, plus an uplift of fifty percent (50%) on PERTAMINA's participating interest share of the exploration and development funds as provided under subsection 4.3(a), 4.3(b) and 4.3(d) of Section IV hereof. If, in any Calendar Year, such repayment plus 50% uplift exceed the value of PERTAMINA's participating interest share of Crude Oil produced and saved hereunder and not used in Petroleum Operations, then the excess shall be repaid in the succeeding Year or Years.

The above repayment by PERTAMINA will be made after PERTAMINA has first deducted the amount from its participating interest share of annual production to finance its participating interest share in the annual operating expenses for the corresponding Year.

6.2 NATURAL GAS

6.2.1. Any Natural Gas produced from the Contract Area to the extent not used in Petroleum Operation hereunder, may be flared if the processing or utilization thereof is not economical. Such flaring shall be permitted to the extent that gas is not required to effectuate the maximum economic recovery of Petroleum by secondary recovery operations, including repressuring and recycling.

6.2.2. Should PERTAMINA 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. It is hereby agreed that all costs and revenues derived from such processing, utilization and sale of Natural Gas shall be treated on a basis equivalent to that provided for herein concerning Petroleum Operation and disposition of Crude Oil except of the Natural Gas, or the propane and butane fractions extracted from Natural Gas but not spiked in Crude Oil, of the CONTRACTOR's participating interest share of Natural Gas remaining after deducting Operating Costs associated with the Natural Gas Operations as stipulated in Exhibit "C", PERTAMINA shall be entitled to take and receive thirty seven point five zero zero percent (37.5000%) and CONTRACTOR shall be entitled to take and receive sixty two point five zero zero zero percent (62.5000%).

6.2.3 CONTRACTOR may recover an investment credit amounting to one hundred and two point one four zero zero percent (102.1400%) of the capital investment cost directly required for developing Natural Gas production facilities as provided under clause 2.3.3 of Exhibit "C" hereof of a new field producing from pre-Tertiary reservoir rocks out of deduction from gross production before recovering Operating Costs, commencing in the earliest production Year or Years before tax deduction (to be paid in advance in such production Year when taken).

6.2.4 In the event, however, CONTRACTOR considers that the

processing and utilization of Natural Gas is not economical, then PERTAMINA may choose to take and utilize such Natural Gas that would otherwise be flared, all costs of taking and handling to be for the sole account and risk of PERTAMINA.

6.3 FIRST TRANCHE PETROLEUM

- 6.3.1. Notwithstanding anything to the contrary elsewhere contained in this Contract, the Parties shall be entitled to first take and receive each Year a quantity of Petroleum of twenty percent (20%) of CONTRACTOR's participating interest share of the Petroleum Production for each such Year, called the "First Tranche Petroleum ", before any deduction for investment credit and recovery of Operating Costs and handling of production as provided under this Section VI.
- 6.3.2. Such First Tranche Petroleum for each Calendar Year is further shared for Crude Oil between PERTAMINA and CONTRACTOR in accordance with the sharing split provided under subsection 6.1.3 of this Section VI, by apportioning it as applicable, to the respective production segment as therein defined, at the same ratios as the production from each such segment over the total production of the year.
- 6.3.3. For Natural Gas, such First Tranche Petroleum is shared between PERTAMINA and CONTRACTOR in accordance with the sharing split provided under subsection 6.2.2 of this Section VI.

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SECTION VII

VALUATION OF CRUDE OIL

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

- 7.1.1. All Crude Oil taken by CONTRACTOR including its share and the share for the recovery of Operating Costs, and sold to third parties shall be valued at the net realized price F.O.B. Indonesia received by CONTRACTOR for such Crude Oil.
- 7.1.2. All of PERTAMINA's Crude Oil taken by CONTRACTOR and sold to third parties shall be valued at the net realized price F.O.B. Indonesia received by CONTRACTOR for such Crude Oil.
- 7.1.3. PERTAMINA shall be duly advised before the sales referred to in paragraphs 7.1.1 and 7.1.2 hereinabove are made.
- 7.1.4. Subject to any existing Crude Oil sales agreement, if more favorable terms are available to PERTAMINA for the Crude Oil referred to in paragraphs 7.1.1 and 7.1.2 hereinabove, except CONTRACTOR's share of Crude Oil, then PERTAMINA shall so advise CONTRACTOR in writing (with a copy to JOB) not less than ninety (90) days prior to the commencement of the deliveries under PERTAMINA's proposed sales contract. Forty five (45) days prior to the start of such deliveries, CONTRACTOR shall notify PERTAMINA (with copy to JOB) 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 PERTAMINA shall market said Crude Oil.
- 7.1.5. PERTAMINA's marketing of such Crude Oil as referred to in clause 7.1.4 herein above shall continue until forty five (45) days after PERTAMINA's net realized price on said Crude Oil

becomes less favorable. CONTRACTOR's obligation to market said Crude Oil shall not apply until after PERTAMINA has given CONTRACTOR at least forty five (45) days advance notice (with a copy to JOB) of its desire to discontinue such sales. As long as PERTAMINA is marketing the Crude Oil referred to above, it shall account to CONTRACTOR on the basis of the more favorable net realized price.

7.1.6 Without prejudice to any provisions of Section VI and Section VII, CONTRACTOR may at its option transfer to PERTAMINA during any Calendar Year the right to market any Crude Oil which is in excess of normal and contractual requirements provided that the price is not less than the net realized price from the Contract Area. PERTAMINA's request stating the quantity and expected loading date must be submitted in writing to JOB (with a copy to CONTRACTOR) at least thirty (30) days prior to lifting said Crude Oil. Such lifting must not interfere with CONTRACTOR's scheduled tanker movements. PERTAMINA shall account to CONTRACTOR in respect to any sale made by it hereunder.

7.1.7. PERTAMINA shall have the option, in any Year in which the quantity of Petroleum to which it is entitled pursuant to subsections 6.1.3 and 6.3.1 of Section VI hereof is less than fifty percent (50%) of CONTRACTOR's participating interest share of production by ninety (90) days written notice in advance of that Year, to market for the account of CONTRACTOR, at the price provided for in Section VII hereof for the recovery of Operating Costs, a quantity of Crude Oil which together with PERTAMINA's entitlement under subsections 6.1.3 and 6.3.1 of Section VI hereof equals fifty percent (50%) of CONTRACTOR's participating interest share of Crude Oil produced and saved from the Contract Area.

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

7.2.1. By using the weighted average per unit price received by CONTRACTOR and PERTAMINA from sales to third parties excluding, however, 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.

7.2.2. If no such third party sales have been made during such period of time, then on the basis used to value Indonesian Crude Oil of similar quality, grade and gravity and taking into consideration any special circumstances with respect to sales of such Indonesian Crude Oil.

7.3. Third party sales referred to in Section VII shall mean sales by CONTRACTOR to purchasers independent of CONTRACTOR with whom (at the time sale is made) CONTRACTOR has no contractual interest involving directly or indirectly any joint interest.

7.4. Commission or brokerages incurred in connection with sales to third parties, if any, shall not exceed the customary and prevailing rate.

7.5. During any given Calendar Year, the handling of production (i.e. the implementation of the provisions of Section VI hereof)and the proceeds thereof shall be provisionally dealt with on the basis of the relevant Work Program and Budget of Operating Costs based upon estimates of quantities of Crude Oil to be produced, of internal consumption in Indonesia, of marketing possibilities, of prices and other sale conditions as well as of any other relevant factor. Within thirty (30) days after the end of the said given 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.

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

7.6.1 any and all provisions of this Contract concerning evaluation of the Crude Oil shall separately apply to each segregated Crude Oil;

7.6.2 each Crude Oil produced and segregated in a given Year shall contribute to;

(a) the "required quantity" destined in such Year to the recovery of all investment credit and Operating Costs pursuant to subsections 6.1.2 and 6.1.7 of the Sections VI hereof;

(b) the "required quantity" of Crude Oil to which a Party is entitled in such Year pursuant to subsections 6.1.3 and 6.3.1 of Section VI hereof;

(c) the "required quantity" of Crude Oil which CONTRACTOR agrees to sell and deliver in such Year for domestic consumption in Indonesia pursuant to paragraph (c) of subsection 5.3.3 of Section V hereof, out of the share of Crude Oil to which it is entitled pursuant to subsections 6.1.3 and 6.3.1 of Section VI;

with quantities, each of which shall bear to the respective "required quantity" (referred to in (a) or (b) or (c) 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.

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SECTION VIII

COMPENSATION, ASSISTANCE, AND PRODUCTION BONUS

8.1 CONTRACTOR shall pay to PERTAMINA as compensation for Information now held by PERTAMINA the sum of One Million United States Dollars (US\$ 1,000,000), after approval of this Contract by the Government of The

Republic of Indonesia in accordance with the provisions of applicable law. Such payment shall be made within thirty (30) days after the Effective Date.

8.2 CONTRACTOR shall within thirty (30) days after PERTAMINA's request during the first Contract Year provide PERTAMINA with equipment or services in an amount not exceeding Two Hundred and Seventy Five Thousand United States Dollars (US\$ 275,000), for exploration and production activities in Indonesia's Petroleum Industry.

8.3 CONTRACTOR shall pay to PERTAMINA the sum of One Million United States Dollars (US\$ 1,000,000) within thirty (30) days after cumulative Petroleum production from the Contract Area has reached fifteen (15) million Barrels of Oil Equivalent (15 MMBOE); and

CONTRACTOR shall pay to PERTAMINA the sum of One Million United States Dollars (US\$ 1,000,000) within thirty (30) days after cumulative Petroleum production from the Contract Area has reached twenty (20) million Barrels of Oil Equivalent (20 MMBOE); and

CONTRACTOR shall pay to PERTAMINA the sum of One Million United States Dollars (US\$ 1,000,000) within thirty (30) days after cumulative Petroleum production from the Contract Area has reached twenty five (25) million Barrels of Oil Equivalent (25 MMBOE).

8.4 Such compensation and production bonus payments shall be solely borne by CONTRACTOR and not included in the Operating Costs.

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SECTION IX

PAYMENTS

9.1 All payments which this Contract obligates CONTRACTOR to make PERTAMINA or the Government of the Republic of Indonesia shall be made in United States dollar currency at a bank to be designated by each of them and agreed upon by Bank Indonesia or at CONTRACTOR's election, other currency acceptable to them, except that CONTRACTOR may make such payments in Indonesian Rupiah to the extent that such currencies are realized as a result of the domestic sales of Crude Oil or Natural Gas or Petroleum products, if any.

9.2 All payments due to CONTRACTOR shall be made in United States dollars or at PERTAMINA's election, other currencies acceptable to CONTRACTOR at a bank to be designated by CONTRACTOR.

9.3 Any payments required to be made pursuant to this Contract shall unless otherwise specified, be made within thirty (30) days following the end of the month in which the obligation to make such payment occurs.

SECTION X

TITLE TO EQUIPMENT

- 10.1 Equipment purchased by the Parties or through JOB pursuant to the Work Program becomes the property of PERTAMINA (in case of import, when landed at the Indonesian ports of import) and will be used in Petroleum Operations hereunder.
- 10.2 The provisions of subsection 10.1 of this Section X shall not apply to leased equipment belonging to third parties who perform services as a contractor which equipment may be freely exported from Indonesia, and to leased equipment belonging to Indonesian nationals.

SECTION XI

CONSULTATION AND ARBITRATION

- 11.1. Periodically, PERTAMINA and CONTRACTOR shall meet to discuss the conduct of the Petroleum Operations envisaged under this contract and will make every effort to settle amicably any problem arising therefrom.
- 11.2. Disputes, if any, arising between PERTAMINA and CONTRACTOR relating to this Contract or the interpretation and performance of any of the clauses of this Contract, and which cannot be settled amicably, shall be submitted to the decision of arbitration. PERTAMINA on the one hand and CONTRACTOR on the other hand shall each appoint one arbitrator and so advise the other Party and these two arbitrators will appoint a third. If either Party fails to appoint an arbitrator within thirty (30) days after receipt of a written request to do so such arbitrator shall, at the request of the other Party, if the Parties do not otherwise agree, be appointed by the President of the International Chamber of Commerce. If the first two arbitrators appointed as aforesaid fail to agree on a third within thirty (30) days following the appointment of the second arbitrator, the third arbitrator shall, if Parties do not otherwise agree, be appointed, at the request of either Party, by the President of the International Chamber of Commerce. If an arbitrator fails or is unable to act, his successor will be appointed in the same manner as the arbitrator whom he succeeds.
- 11.3. The decision of a majority of the arbitrators shall be final and binding upon the Parties.

Arbitration shall be conducted at a place to be agreed upon by both parties and in accordance with the Rules of Conciliation and Arbitration of the International Chamber of Commerce.

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SECTION XII

EMPLOYMENT AND TRAINING OF INDONESIAN PERSONNEL

- 12.1 JOB shall employ qualified Indonesian personnel in its operations and after commercial production commences will under-take the schooling and training of Indonesian personnel for labor and staff positions including administrative and executive management positions of JOB. At such time CONTRACTOR shall also consider with PERTAMINA a program of assistance for training of PERTAMINA's personnel.
- 12.2 Costs and expenses of training Indonesian personnel for operations hereunder shall be included in Operating Costs. Costs and expenses for a program of training for PERTAMINA `s personnel shall be borne on a basis to be agreed by PERTAMINA and CONTRACTOR.

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SECTION XIII

TERMINATION

- 13.1 This contract cannot be terminated during the first three (3) years as from the Effective Date, except by provisions as stipulated in subsection 13.3 of section XIII hereunder.
- 13.2 At any time following the end of the third Contract Year as from the effective Date, if in the opinion of CONTRACTOR, circumstances do not warrant continuation of the Petroleum Operations CONTRACTOR may, by giving written notice to that effect to PERTAMINA and after consultation with PERTAMINA, relinquish its rights and be relieved of its obligations pursuant to this Contract, except such rights and obligation as related

to the period prior to such relinquishment.

Without prejudice to the provisions stipulated in subsection 13.1 hereinabove, either Party shall be entitled to terminate this contract in its entirety by a ninety (90) days written notice if a major breach of Contract is committed by the other Party, provided that conclusive evidence thereof is proved by arbitration as stipulated in section XI.

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SECTION XIV

BOOKS AND ACCOUNTS, AND AUDITS

14.1 BOOKS AND ACCOUNTS

Subject to the requirements of subsection 5.3.6 of section V hereof, PERTAMINA shall be responsible for keeping complete books and accounts reflecting all Operating Costs as well as monies received from the sales of Crude Oil and Natural Gas, consistent with modern petroleum industry practices and proceedings as described in exhibit "C" attached hereto. 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. Until such time that commercial production commences, however, PERTAMINA delegates to JOB its obligations to keep books and accounts.

14.2 AUDITS

14.2.1 CONTRACTOR shall have the right to inspect and audit PERTAMINA's and JOB's books and accounts relating to this Contract, as the case may be, for any Calendar Year within the one (1) year period following the end of such Calendar Year. Any such audit will be satisfied within twelve (12) months after its commencement. Any exception must be made in writing within sixty (60) days following the end of such audit and failure to give such written exception within such time shall establish the correctness of PERTAMINA's and JOB's

books and accounts.

14.2.2 PERTAMINA and the Government of the Republic of Indonesia shall have the right to inspect and audit JOB's books and accounts relating to this Contract for any Calendar Year covered by this Contract . Any exception must be made in writing sixty (60) days following the completion of such audit.

In addition, PERTAMINA and the Government of the Republic of Indonesia may require JOB to engage independent accountants to examine, in accordance with generally accepted auditing standards, JOB's books and accounts relating to this Contract for any Calendar Year or perform such auditing procedures as deemed appropriate by PERTAMINA. A copy of the independent accountant's report or any exceptions shall be forwarded to PERTAMINA and CONTRACTOR within sixty (60) days following the completion of such audit. The cost related to the engagement of such independent accountants shall be included in the Operating Costs.

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SECTION XV

PARTICIPATION

15.1 PERTAMINA shall have the right to demand from CONTRACTOR that a seven and one half percent (7.5%) undivided interest in the total rights and obligations under this Contract be offered to either itself or a limited liability company to be designated by PERTAMINA the shareholders of which shall be Indonesian nationals (both hereinafter called "the Indonesian Participant").

15.2 The right referred to in subsection 15.1 of this section XV shall lapse unless exercised by PERTAMINA not later than three (3) months after CONTRACTOR's notification by registered letter to PERTAMINA of its first discovery of petroleum in the Contract area, which in the judgement of CONTRACTOR after consultation with PERTAMINA can be produced commercially. PERTAMINA shall make its demand known to CONTRACTOR by registered letter.

15.3 CONTRACTOR shall make its offer by registered letter to the Indonesian Participant within one (1) month after receipt of PERTAMINA's registered letter referred to in subsection 15.2 of this Section XV. CONTRACTOR's letter shall be accompanied by a copy of this Contract and a draft Operating Agreement embodying the manner in which CONTRACTOR and the Indonesian Participant shall cooperate. The main principles of the draft Operating Agreement are contained in Exhibit "F" to this Contract .

15.4 The offer by CONTRACTOR to the Indonesian Participant shall be effective for a period of six months. If the Indonesian Participant has not accepted this offer by registered letter to CONTRACTOR within the said period, CONTRACTOR shall be released from the obligation referred to in this Section XV.

15.5 In the event of acceptance by the Indonesian Participant of CONTRACTOR's offer. the Indonesian Participant shall be deemed to have acquired the undivided interest on the date of CONTRACTOR's notification to PERTAMINA referred to in subsection 15.2 in this Section XV and thereafter, the Indonesian Participant shall bear and pay its proportionate share of all Operating Costs .

15.6 For the acquisition of a seven and one half percent (7.5%) undivided interest in the total of the rights and obligations arising out of this Contract, the Indonesian Participant shall reimburse CONTRACTOR an amount equal to seven and one half percent (7.5%) of the sum of Operating Costs and seven and one half percent (7.5%) of the compensation paid to PERTAMINA for information and signature bonus referred to Section VIII to the extent such expenditures have been incurred by CONTRACTOR for and on behalf of its activities in the Contract Area up to the date of CONTRACTOR's notification to PERTAMINA mentioned in subsection 15.2 of this Section XV.

15.7 At the option of the Indonesian Participant the said amount shall be reimbursed ;

15.7.1 either by a transfer of the said amounts by the Indonesian Participant within three (3) months after the date of its acceptance of CONTRACTOR's offer referred to in subsection 15.3 of this section XV, to CONTRACTOR's account with the banking institution to be designated by it, in the currency in which the relevant costs have been financed; or

15.7.2 by way of a "payment out of production" of fifty percent (50%) of the Indonesian Participant 's production entitlements under this Contract, equal in total to one hundred and fifty percent (150%) of the said amount set forth in the preceding subsection 15.1 of this section XV and commencing as from the first sale of Petroleum produced and saved from the Contract Area

15.8 At the time of its acceptance of CONTRACTOR's offer, the Indonesian Participant shall state whether it wishes to reimburse in cash or out of production in the manner indicated under clauses 15.7.1 and 15.7.2 of this section XV.

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SECTION XVI

OTHER PROVISIONS

16.1 NOTICES

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:

PERUSAHAAN PERTAMBANGAN MINYAK DAN GAS BUMI NEGARA
Jalan Merdeka Timur 1-A
Jakarta, Indonesia

ATTN : Senior Vice President Director
Exploration and Production

SABA JATILUHUR LIMITED
Jl. PPN Karet No. 24B
Kalibata Timur
Jakarta 12510, Indonesia

ATTN: Chief Representative

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

16.2 LAWS AND REGULATIONS

16.2.1 The laws of the Republic of Indonesia shall apply to this Contract

16.2.2 No term or provision of this Contract, including the agreement of the Parties to submit to arbitration hereunder, shall prevent or limit the Government of the Republic of Indonesia from exercising its inalienable rights.

16.3 SUSPENSION OF OBLIGATIONS

16.3.1 Any failure or delay on the part of either Party or JOB in the performance of their obligation or duties hereunder shall be excused to the extent attributable to Force Majeure.

16.3.2 If operations are delayed, curtailed or prevented by such causes, then the time for carrying out the obligations thereby affected , the term of this Contract and all rights and obligations hereunder shall be extended for a period equal to the period thus involved.

16.3.3. The Party or JOB whose ability to perform its obligations is so affected shall notify the other Party (and JOB, it applicable) thereof in writing, stating the cause and the Parties and JOB shall do all reasonably within their power to remove such cause.

16.4 PROCESSING OF PRODUCTS

16.4.1 CONTRACTOR shall be willing to consider to come to another contract or loan agreement for the processing of products derived from the Petroleum Operations hereunder, on mutually agreeable terms.

16.4.2 Within the framework of the preceding principles CONTRACTOR would agree on the conditions stated below to have refined in Indonesia twenty eight decimal five seven percent (28.57%) of the share of crude oil to which it is entitled pursuant to Section 6.1.3 hereof, and should no refining capacity be available therefor to set up a corresponding refining capacity for that purpose . The conditions above referred to are that :

- (a) PERTAMINA has first requested CONTRACTOR thereto;
- (b) CONTRACTOR's share of crude oil pursuant to subsections 6.1.3 and 6.3.1 of section VI hereof be not less than one hundred thousand (100,000) Barrels per day, and;
- (c) if refining capacity has to be erected that setting up and use of such refining capacity be economical in the judgement of the Parties.

16.4.3 It is further agreed that CONTRACTOR may in lieu of setting up such refining capacity , but subject to the same conditions, make an equivalent investment in another project related to petroleum or petrochemical industries.

16.4.4 Petroleum to be delivered to such facilities would be sold by CONTRACTOR at the net realized price F.O.B Indonesia received by CONTRACTOR established pursuant to Section VII hereof or at another mutually agreed price.

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SECTION XVII

EFFECTIVENESS

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

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

IN WITNESS WHEREOF, the parties have executed this Contract, in quadruplicate and in the English language, as of the day and year first above written.

PERUSAHAAN PERTAMBANGAN
MINYAK DAN GAS BUMI NEGARA
(PERTAMINA)

SABA JATILUHUR
LIMITED

/s/

President Director and

/s/

President

APPROVED BY THE MINISTER OF MINING AND ENERGY

This __22nd__ day of September, 1997,

on behalf of the

GOVERNMENT OF THE REPUBLIC OF INDONESIA

/s/-----

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EXHIBIT - A

This Exhibit "A" is attached to and made an integral part of the Contract Between PERUSAHAAN PERTAMBANGAN MINYAK DAN GAS BUMI NEGARA and SABA JATILUHUR LIMITED dated the 22nd day of September 1997

<TABLE>
<CAPTION>

Coordinates of Contract Area:

<S> <C> <C>

Seri	Longitude	Latitude
A	106 (degree) 37' E	06 (degree) 48' S
B	106 (degree) 37' E	06 (degree) 40' S
C	106 (degree) 45' E	06 (degree) 22' S
D	106 (degree) 45' E	06 (degree) 22' S
E	106 (degree) 49' E	06 (degree) 27' S
F	106 (degree) 49' E	06 (degree) 27' S
G	107 (degree) 02' E	06 (degree) 27' S
H	107 (degree) 02' E	06 (degree) 26' S
I	107 (degree) 10' E	06 (degree) 26' S
J	107 (degree) 10' E	06 (degree) 29' S
K	107 (degree) 24' E	06 (degree) 29' S
L	107 (degree) 24' E	06 (degree) 33' S
M	107 (degree) 41' E	06 (degree) 33' S
N	107 (degree) 41' E	06 (degree) 39' S
O	107 (degree) 58' E	06 (degree) 39' S
P	107 (degree) 58' E	06 (degree) 49' S
Q	108 (degree) 30' E	06 (degree) 49' S
R	108 (degree) 30' E	07 (degree) 00' S

S 107(degree) 42' E
T 107(degree) 42' E

07(degree) 00' S
06(degree) 48' S

</TABLE>

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<PAGE>

EXHIBIT - B

This Exhibit "B" its attached to and made an integral part of the Contract Between PERUSAHAAN PERTAMBANGAN MINYAK DAN GAS BUMI NEGARA and SABA JATILUHUR LIMITED dated the 22nd day of September 1997

LOCATION MAP

[GRAPHIC OMITTED]

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<PAGE>

CONTRACT AREA: JATILUHUR, ONSHORE W.JAVA
EXHIBIT "C"

This Exhibit "C" is attached to and made an integral part of the Contract between PERUSAHAAN PERTAMBANGAN MINYAK DAN GAS BUMI NEGARA and SABA JATILUHUR LIMITED dated the 22nd day of September 1997

ACCOUNTING PROCEDURE

ARTICLE 1

General Provisions

1.1. Definitions

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. The definitions and terms appearing in this Exhibit "C" shall have the same meaning as those defined in said Contract.

1.2. Accounting and Statements

PERTAMINA's and JOB's, as the case may, 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 PERTAMINA. The chart of accounts and related account definitions will be prescribed by PERTAMINA. Reports will be organized for the use of PERTAMINA in carrying out its management responsibilities under this Contract.

ARTICLE II

Operating Costs

2.1. Definition

For any Year in which commercial production occurs, Operating Costs consists of (a) current Year non-capital costs, (b) current Year's depreciation for capital costs and (c) current Year allowed recovery of prior Year's unrecovered Operating Costs.

2.2. Non-Capital costs

Non-capital costs means those Operating 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 exploratory and development wells, as described in paragraphs 2.2.3, 2.2.4 and 2.2.5 below, will be classified as non-capital costs. Non-capital costs include, but are not limited to the following :

2.2.1. Operations

Labor, materials and services used in day to day oil well operations, oil field production facilities operations, secondary recovery operations, storage handling transportation, and delivery operations, gas well operations, gas field production facilities operations, gas

transportation, and delivery operations, gas processing auxiliaries and utilities, and other operating activities including repairs and maintenance;

2.2.2. 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 relation and expenses abroad;

2.2.3. Production drilling

Labor, materials and services used in drilling wells with the object of penetrating a proven reservoir, including the drilling of appraisal wells as well as redrilling, deepening or recompleting wells, and access roads leading directly to wells;

2.2.4. Exploratory drilling

Labor, materials and services used in drilling of wells with the object of finding unproven reservoirs of oil and gas, and access roads leading directly to wells;

2.2.5. Surveys

Labor, materials and services used in aerial, geological, topographical, geophysical and seismic surveys, and core hole drilling;

2.2.6. Other exploration expenditures

Auxiliary or temporary facilities having lives of one year or less used in exploration and purchased geological and geophysical information;

2.2.7. Training

Training of Indonesian personnel as set forth in Section XII of the Contract.

2.3. Capital Costs

Capital Costs means expenditures made for items which normally have a useful life beyond the year incurred. A reasonable annual allowance for depreciation of capital costs, computed as described in Article III Section 3.1. will be allowed as recoverable Operating Costs for the current year. Capital Costs include classification described herein but are not limited to the following specifications;

2.3.1. Construction utilities and auxiliaries

Workshops, power and water facilities, warehouses, cargo jetties and field roads except the access roads mentioned in paragraphs 2.2.3. and 2.2.4. above;

2.3.2. Construction housing and welfare

Housing, recreational facilities and other tangible property incidental to construction;

2.3.3. Production facilities

Wellhead equipment, subsurface lifting equipment, production

tubing, sucker rods, surface pumps, flow lines, gathering equipment, delivery lines and storage facilities. Costs of oil jetties and anchorages, treating plants and equipment, secondary recovery systems, gas plants and steam systems;

2.3.4. Movables

Surface and subsurface drilling and production tools, equipment and instruction, 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 Operating Costs

3.1. Depreciation

Depreciation will be calculated beginning the Year in which the asset is placed into service with a full year's depreciation allowed in the initial year. The method used to calculate each Year's allowable recovery of capital cost is the declining balance depreciation method. Calculation of each such Year's allowable recovery of capital costs should be based on the individual asset's capital costs at the beginning of each Year multiplied by the depreciation factor as follows, for :

Group 1 = 50% Group 2 = 25% Group 3 = 10%

For the Groups of capital assets for any Crude Oil project apply useful lives as follows:

GROUP 1:

Automobiles	1.5 years
Trucks - light (13,000 pounds or less) and tractor units	2 years
Trucks - heavy (more than 13,000 pounds)	3 years
Buses	4.5 years
Aircraft	3 years
Construction Equipment	3 years
Furniture and Office Equipment	5 years

GROUP 2:

Construction utilities and auxiliaries	5 years
Construction housing and welfare	10 years
Production facilities	5 years
Railroad cars and locomotives	7.5 years
Vessels, barges, tugs and similar water transportation equipment	9 years
Drilling and production tools, equipment and instruments	5 years

For the Groups of capital assets for Natural Gas projects, apply fifty percent (50%) of the following useful lives :

GROUP 1:

Automobiles	3 years
Trucks - light (13,000 pounds or less) and tractor units	4 years

Trucks - heavy (more than 13,000 pounds) and trailers 6 years

GROUP 2:

Aircraft	6 years
Vessels, barges, tugs and similar water transportation equipment	18 years
Drilling and production tools, equipment and instruments	8 years
Construction Equipment	6 years
Furniture and Office Equipment	10 years

GROUP 3:

Construction utilities and auxiliaries	8 years
Construction housing and welfare	20 years
Production facilities	8 years
Railroad cars and locomotives	15 years

Balance of unrecovered capital costs is eligible for full depreciation at the end of the individual asset's useful life.

The undepreciated balance of assets taken out of service will not be charged to Operating Costs but will continue depreciating based upon the lives described above except where such assets have been subjected to unanticipated destruction, for example, by fire or accident.

3.2. 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 PERTAMINA, and such approval can be reviewed periodically by PERTAMINA and CONTRACTOR.

3.3. 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 capital investments in petroleum operations may be recoverable as operating costs. Details of any financing plan and amount must be included in each Years budget of Operating Costs for the prior approval of PERTAMINA. All other financing must also be approved by PERTAMINA.

3.4. Gas Costs

Operating Costs directly associated with the production of Natural Gas will be directly chargeable against Natural Gas revenues in determining entitlements under Section VI subsection 6.2.2 of the Contract. Operating Costs incurred for production of both Natural Gas and Crude Oil will be allocated to Natural Gas and Crude Oil based on the relative value of the products produced for the current Year. Common support costs will be allocated on an equitable basis agreed to by both parties.

If after commencement of production the Natural Gas revenues do not permit full recovery of Natural Gas costs, as outlined above, then the excess costs shall be recovered from Crude Oil revenues. Likewise, if excess Crude Oil costs (Crude Oil costs less Crude Oil revenues) exists, this excess can be recovered from Natural Gas revenues.

If production of either Natural Gas or Crude Oil has commenced while

the other has not, the allocable production costs and common support cost shall be allocated in an equitable manner. Propane and butane factors extracted from Natural Gas but not spiked in Crude Oil to be deemed as Natural Gas for the purpose of accounting.

3.5. Inventory Accounting

The costs of non-capital items purchased for inventory will be recoverable at such time the items have landed in Indonesia.

3.6. Insurance and Claims

Operating Costs shall include premiums paid for insurance normally required to be carried for the Petroleum Operations relating to CONTRACTOR's obligations conducted under the Contract, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgement and other expenses, including fees relating to CONTRACTOR's obligations under the Contract.

3.7. Abandonment and Site Restoration

Operating Costs shall include all expenditures incurred in the abandonment of all exploratory wells and the restoration of their drillsites, together with all estimates of monies required for the funding of any abandonment and site restoration program established in conjunction with an approved plan of development for a commercial discovery.

Expenditures incurred in the abandonment of exploratory wells and the restoration of their drillsites shall be charged as Operating Cost in accordance with Article II of this Exhibit "C"

Estimates of monies required for the funding of any abandonment and site restoration program established pursuant to paragraph (e) of clause 5.2.3 of the Contract shall be charged as Operating Costs annually on the basis of accounting accruals beginning in the year of first production. The amount charged in each Year will be calculated by dividing the total estimated cost of abandonment and economic life of each discovery. The estimates of monies required for all abandonment and site restoration activities shall be reviewed on an annual basis and such estimates shall be adjusted each Year as required.

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CONTRACT AREA: JATILUHUR, ONSHORE W.JAVA

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EXHIBIT "D"

OPERATING AGREEMENT

PERUSAHAAN PERTAMBANGAN MINYAK DAN GAS BUMI NEGARA

(PERTAMINA)

and

SABA JATILUHUR LIMITED

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ARTICLE 2	WORK OBLIGATIONS	D-4
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EXHIBIT "D"

OPERATING AGREEMENT

Attached to and made a part of the Contract between:

PERUSAHAAN PERTAMBANGAN MINYAK DAN GAS BUMI NEGARA

and

SABA JATILUHUR LIMITED

dated the 22nd day of September, 1997

OPERATING AGREEMENT

ARTICLE 1-DEFINITIONS

- 1.1 In this Operating Agreement words and expressions used in the Production Sharing Contract shall have the meaning ascribed to them therein.
- 1.2 "Development Operations" shall mean creation or installation of facilities for purpose of producing, treating if necessary, transporting to an agreed point of delivery and delivering Petroleum from a commercial field, including development drilling operations.
- 1.3 "Exploratory Drilling Operations" shall mean unless the Parties otherwise mutually agree drilling operations for the purpose of prospecting for Petroleum conducted in the Contract Area at a distance not less than five (5) kilometers from a well already drilled hereunder or in the process of being drilled, or outside the agreed closing contour of a structure already drilled hereunder or in the process of being drilled or deeper horizons within that structure.
- 1.4 "Exploration Operations" shall mean geological, geophysical and Exploratory Drilling Operations conducted in the Contract Area.
- 1.5. "Appraisal Operations" shall mean operations conducted in the Contract Area for the purpose of determining whether a field discovered therein is a commercial field.
- 1.6. "Participating Interest" shall mean the respective undivided interest which a party owns at any particular time in and to the total rights and obligations under the Contract. Initially the Parties participating interests are as the follows:

PERTAMINA	25%
CONTRACTOR	75%

In the event a Party transfers all or part of its Participating Interest in the Contract in accordance with the provisions of this Agreement and

the Contract , the Participating Interest of the Parties shall be revised accordingly

1.7 "Contract " shall mean the Production Sharing Contract made and entered into between PERTAMINA and CONTRACTOR covering the Contract Area.

"Partyand Parties" means a Party or Parties to this Agreement and the Contract their assignees and/ or successors in interest.

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ARTICLE 2 - WORK OBLIGATIONS

2.1. Without prejudice to Sub.Article 8.1.1. of this Exhibit "D", CONTRACTOR shall bear the entire costs for exploration operation and the drilling of appraisal wells, and the costs for development operations up to commencement of first commercial production in the Contract Area.

2.2. After commencement of commercial production CONTRACTOR shall recover all of its Participating Interest Share of Operating Costs, and in addition, PERTAMINA shall repay CONTRACTOR out of PERTAMINA's Participating Interest Share of all funds provided by CONTRACTOR under subsection 4.3. of Section IV and in accordance with the provisions of Section VI of the Contract .

In the case no commercial discovery is made on the Contract Area, it is expressly agreed that PERTAMINA shall be under no obligation whatsoever to make the repayment provided for in this Article 2.

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ARTICLE 3 - OPERATOR

- 3.1. Petroleum Operations to be carried out pursuant to the Contract shall be conducted by PERTAMINA, Operator, assisted by CONTRACTOR through a Joint Operating Body, hereafter referred to as "JOB" in the Contract, Accounting Procedure and this Operating Agreement to be organized pursuant to Article 3.3. hereunder. JOB shall conduct Petroleum Operations in accordance with policies, programs and budgets approved by the Operating Committee. Such operations shall be conducted by JOB or by JOB's duly authorized agents or by independent contractors engaged by JOB.
- 3.2. In conducting Petroleum Operations on behalf of the Parties, JOB shall comply with the obligations under the Contract and with regard to any applicable laws or regulations of the Indonesian Government. All relations with PERTAMINA or the Indonesian Government with regard to the conduct of operations under the Contract shall be maintained through JOB, provided however each Party shall always have the right to have a representative present at any such meeting during negotiations on the subject matter of the Contract.
- 3.3. PERTAMINA, Operator, assisted by CONTRACTOR or any of its Affiliates to which its Participating Interest is assigned shall establish JOB as outlined in the Organization Chart annexed hereto as Exhibit "E" and PERTAMINA delegates the functions, rights and obligations of Operator to JOB during the term of the Contract. The Parties have agreed on the positions and the Party which would assign its secondees to fill such positions, all as indicated on the Organization Chart and any replacement will likewise be the responsibility of the Party as indicated thereon. Any change to the Organization Chart, if needed, shall be made by unanimous agreement of the Parties. The direct and indirect costs incurred by CONTRACTOR in so providing assistance to PERTAMINA, Operator, shall be charged to the Joint Account and shall be included in the Operating Costs.
- 3.4. Subject to the provisions of this Agreement, JOB shall have exclusive control of all operations, and :
 - 3.4.1. employ all personnel reasonably required therefor;

- 3.4.2. acquire on behalf of the Parties all assets including any equipment, materials and supplies necessary or desirable for carrying on operations hereunder;
- 3.4.3. keep full and adequate accounting and other records in accordance with the Contract and the Accounting Procedure, and establish the Joint Account for the said project;
- 3.4.4. furnish the Parties with all information acquired in relation to operations hereunder, including but not limited to technical data, daily and monthly operating report, monthly accounting statement and any other information which may be required by the Operating Committee;
- 3.4.5. allow the authorized representatives of the Parties full access to the operations, with the right to inspect the same;
- 3.4.6. prepare and submit to the Operating Committee programs and budgets as provided in Article 5, 6 and 7 hereof and once they have been approved by the Operating Committee, submit such programs and budgets to PERTAMINA in accordance with the Contract ;
- 3.4.7. shall semi-annually submit a forecast of operating expenses and capital expenditure (also called Budget of Operating Costs) to the Operating Committee. Should actual or anticipated operating expenses for any semi annual period be in excess of such forecast by ten percent (10%) , the matter shall be called to the attention of the Operating Committee as soon as such overrun occurs or is anticipated and the Operating Committee shall determine what actions, if any, should be taken in that regard;
- 3.4.8. shall submit to the Operating Committee for prior approval an Authorization for Expenditure (AFE) covering each individual project of the Petroleum Operations and requirements within the approved Budgets of Operating Costs, in the categories set out below.

(a) Drilling

- (i) Each exploratory well
- (ii) Each appraisal well
- (iii) Each development well or group of development wells.
- (iv) Deepening of any well below original total depth, involving exploratory footage.
- (v) Workovers in excess of fifty thousand United States Dollars (US\$50,000) for any well, including deepening into development zones.

(b) Exploration - Projects for Geological and Geophysical work, core drilling and overhead charges applicable to geological and geophysical operations shall be covered by an AFE (s) with respect to each project or group of project estimated to cost in excess of fifty thousand United States Dollars (US\$50,000) - these projects may be accumulated and included in quarterly AFE (s).

(c) Plant and Equipment

- (i) Individual construction projects and equipment purchases exceeding fifty thousand United States Dollars (US\$50,000) each.
- (ii) Equipping of wells exceeding fifty thousand United States Dollars (US\$50,000). Equipping wells includes generally the purchase and

installation of equipment and material for lifting, heating, storing and otherwise handling production.

(iii) Storehouse Commitments for purchases in excess of fifty thousand United States Dollars (\$US50,000).

(iv) Unusual Significant Commitment of any kind in excess of fifty thousand United States Dollars (US\$50,000);

3.4.9. shall maintain regular progress reporting to the Operating Committee on projects implementation, i.e., on the operational, technical and financial phases, to reflect progress of the approved Work Program Implementation;

3.4.10. enter into such Contracts as maybe required in connection with the operations under this Agreement and the Contract;

3.4.11. promptly pay from the Joint Account and discharge all costs and expenses incurred by it in connection with Petroleum Operations;

3.4.12. carry out Petroleum Operations hereunder in a workmanlike manner and in accordance with good oilfield and engineering practices and in accordance with the applicable laws and regulations;

3.4.13. deliver in kind to the Parties as the case may be their respective shares in accordance with the Contract of all Crude Oil produced in the Contract Area.

3.5. JOB undertakes to carry out the Work Programs adopted by the Operating Committee and approved by PERTAMINA within the limits of the approved Budget of Operating Costs and shall not undertake any operation not included in an approved Work Program, or make any expenditure in excess of the budgeted amounts except as follows:

3.5.1. If necessary to carry out an approved Work Program, JOB may make expenditure in excess of the corresponding budget up to but not exceeding ten percent (10%) of the amount specified for each category of such budget and such expenditure shall be reported promptly by JOB to the Parties, specifying such category.

3.5.2. In case of emergency, JOB may make such immediate expenditure necessary for the protection of life or property and such emergency expenditure shall be reported promptly by JOB to the Parties.

3.6. JOB shall not be liable to the Parties for any act or omission in the conduct of the operations under the Contract including gross negligence or willful misconduct on the part of JOB and the Parties shall be responsible for such act or omission of JOB and the obligations of the Contract in accordance with the provisions of the Contract.

In performing its obligations hereunder, it is not intended that either Party shall realize a profit or incur any loss in performing such obligations.

ARTICLE 4-OPERATING COMMITTEE

4.1. There shall be established an Operating Committee consisting of one representative of each PERTAMINA and CONTRACTOR.

Each PERTAMINA and CONTRACTOR shall designate its representative by notice to the other and each by the same notice may designate one or more alternate representatives, any one of them whom shall be authorized to represent said party in the absence of its representative. Each representative or alternate representative may be assisted by such advisers as he deems necessary at any meeting of the Operating Committee. PERTAMINA's representative shall be the Chairman of the Operating Committee.

The Operating Committee shall establish the policies, programs, and budgets under which Petroleum Operations shall be conducted. Without limiting the generality of the foregoing, its principal functions shall be:

4.1.1. To establish policies from time to time governing various aspects or activities of Petroleum Operations;

4.1.2. To review and adopt, and revise. annual Work Programs and Budgets of Operating Costs; and

4.1.3. To appoint such technical, financial, accounting, legal or other committee as the representatives may deem appropriate for studies, analysis, reports, etc. on matters pertaining to Petroleum Operations.

4.2. The Operating Committee shall meet whenever the representative of a Party shall require it by giving not less than ten (10) days notice to the other representative which notice shall specify the matter or matters to be considered at such meeting. More particularly, the Operating Committee shall be convened at least once a year by JOB to discuss and decide upon the Work Program and Budget of Operating Costs submitted to it by JOB and any other matters contemplated under the Contract and arising in connection therewith.

4.3. Except as otherwise provided herein all matters brought forth at any meetings of the Operating Committee shall be decided by the unanimous vote of the two representatives of the Parties.

4.4. Except as provided for in Article 4.5 hereof, all meetings of the Operating Committee shall be held in Jakarta, Indonesia, or elsewhere as may be agreed from time to time by the Parties.

4.5. Any matter relating to operations hereunder may be submitted to the Operating Committee for consideration and vote without holding a meeting provided that such matter is submitted in writing or by telegraph or telex to the representatives of the Operating Committee with a copy to JOB. In such event, each representative shall vote by giving written or telegraph or telex notice of such vote to JOB and the other representative and any decision so reached shall be binding on the Parties. JOB shall keep a written record of each such vote and of the outcome of such voting.

4.6. All decisions made by the Operating Committee including the decisions reached under Article 4.5 above, shall be set out in writing and the minutes thereof shall be signed by both representatives. Any decision so recorded and signed shall be final and binding upon the Parties.

Notwithstanding anything to the contrary herein, on all matters of termination, extension or exclusion, CONTRACTOR's representative shall have the determining vote at the Operating Committee.

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ARTICLE 5 - PROGRAMS AND BUDGETS

5.1 Exploration Programs and Budgets

Not later than one hundred and twenty (120) days prior to the commencement of each Calendar Year JOB shall submit to the Operating Committee a recommended Exploration Program and Budget of Operating Costs for such Calendar Year. An Exploration Program shall consist only of geological, geophysical and exploratory drilling operations.

Not later than ninety (90) days prior to the commencement of such Calendar Year the Operating Committee shall decide upon an Exploration Program and Budget of Operating Costs to be submitted to PERTAMINA in accordance with the Contract.

In no case shall an Exploration Program and Budget of Operating Costs be insufficient to comply with the obligations of the Parties in accordance with the Contract.

5.2. Appraisal Program and Budgets

Within six (6) months of each discovery of crude Oil and Natural Gas (except a discovery made pursuant to a Sole Risk Program), the Operating Committee shall decide whether such discovery requires the carrying out of Appraisal Operations in order to determine whether there exists a commercially exploitable field.

5.2.1. If the Operating Committee decides that said Appraisal Operations shall be carried out, JOB shall submit to it within sixty (60) days an Appraisal Program, and the corresponding Budget of Operating Costs for the remaining part of the current Calendar Year and for the next following Calendar Year.

Within forty five (45) days of the submission of such Appraisal Program and Budget of Operating Costs by JOB the Operating Committee shall approve the proposal submitted by JOB or may vary it.

5.2.2. If the Operating Committee does not decide that such Appraisal Operations shall be carried out, any Party shall have the option to have such Appraisal Operations carried out by JOB on its behalf and at its sole cost and expense as provided in Article 6 hereof.

5.3. Development Programs and Budget

As soon as the Parties consider that a field discovered and appraised is a commercially exploitable field, the Operating Committee shall seek PERTAMINA's approval to have such field development by JOB.

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ARTICLE 6-SOLE RISK OPERATIONS

6.1. In case any Party (Sole Risk Party) wishes to carry out Exploration and/ or Appraisal Operations not included in any Work and/ or Appraisal Program and Budget of Operating Costs it shall so notify JOB within fifteen (15) days of the adoption of the said Work and/ or Appraisal Program and Budget of Operating Costs. Such notice shall specify in detail the operations that the Sole Risk Party wishes to have carried out. JOB shall promptly prepare a program and budget covering the said operations (Sole Risk Operations) and shall submit the same to the Sole Risk Party. The Sole Risk Party shall upon its approval of the program and budget satisfy JOB as to his financial arrangements for carrying out such program and budget, thereafter the sole risk program and budget shall be included in the Work Program and Budget of Operating Costs to be submitted to PERTAMINA in accordance with subsection 4.4 of section IV of the Contract.

After approval of the Work Program And Budget of Operating Costs by PERTAMINA, any geophysical survey to be conducted under Sole Risk Operations shall be carried out by JOB on behalf of the Sole Risk Party at the Party's sole risk and expense. The Non Sole Risk Party shall have the right to be deemed to have participated in such survey by giving notice at any time to the Sole Risk Party of its intention to do so and paying to the said Sole Risk Party within thirty (30) days from the date of giving such notice twice its Participating Interest share of the total cost of such survey already incurred.

In respect of any well to be drilled on a location selected pursuant to a geophysical survey, a Party shall not be entitled to participate in such well unless either (1) the geophysical survey was carried out at that Party's Sole Risks or (2) that Party has elected to be deemed to have participated in such survey as provided for above.

6.3. If a Sole Risk Operation results in the completion of a well capable of commercial production, each Non Sole Risk Party shall compensate the Sole Risk Party, with respect to such Sole Risk Operation, by delivering to such Sole Risk Party a quantity of petroleum free from any liens and encumbrances subject to the obligation to supply domestic market. Such deliveries shall continue until such time as the value of all petroleum so delivered equals the amount due from such Non Sole Risk Party which shall be equal to the total cost of drilling, completing and equipping the sole risk well plus three hundred percent (300 %) (in the case of a Sole Risk Exploration well) or two hundred percent (200%) (in the case of a Sole Risk Appraisal well) of the Non Sole Risk Party's Participating Interest share of such total cost had Non Sole Risk Party participated in such well.

6.4. If the representatives of the Parties cannot agree on the drilling of a development well or wells, a Party desiring to have such development well or wells drilled at the sole risk expense of such Party, such Party may request JOB to carry out such Sole Risk Operations.

If the well(s) is a producer, the Non Sole Risk Party shall compensate the Sole Risk Party its entire participating interest share of production from said development well(s) until the value of petroleum delivered to the Sole Risk Party equals the total cost of drilling, completing and equipping the sole risk development well(s) plus three hundred percent (300 %) and two hundred percent (200 %) of the costs and expense for conducting the facilities for such development well(s), had such Non Sole Risk Party participated in such well(s). JOB shall follow the procedure, pursuant to Article 6.1 hereabove in obtaining the approval of PERTAMINA.

- 6.5. With respect to Sole Risk drilling, not more than two exploratory wells shall be drilled during one year unless otherwise agreed upon by the Parties. Two (2) Sole Risk wells or more shall not be drilled at the same time.
- 6.6. The Sole Risk provisions of this Article 6 shall also be applicable to deepening, side tracking and/or completion of an actively drilling well.
- 6.7. The provisions of this Article 6 shall not be applicable during the period which the Parties are complying with their minimum obligations under-subsection 4.2 of section IV of the Contract.
- Even if a Sole Risk Operation results in a dry hole, the Sole Risk Party shall be entitled to treat, as its Operating Costs, its total costs attributable to such Sole Risk Operation.

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ARTICLE 7-ALLOCATION OF CRUDE OIL LIFTINGS

- 7.1. Each Party shall be entitled to production in proportion to its Participating Interest, in accordance with the provisions of Section V, VI, and VII of the Contract and Article 2 of this Exhibit. CONTRACTOR's entitlement shall be obtained by deducting from its Participating Interest share of production PERTAMINA's share thereon calculated in accordance with the terms of the Contract.
- 7.2. The Parties will enter into an Offtake Agreement to provide for orderly lifting Crude Oil produced (including over/under lifting procedures) in accordance with good oil field practice and subject to the terms of the Contract

The Offtake Agreement Shall provide that for the purpose of calculating actual entitlements and tanker programming between the Parties, the Participating Interest of CONTRACTOR and any Party to which it assigned a Participating Interest shall be treated as one.

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ARTICLE 8-COSTS AND EXPENSES

- 8.1. The contribution of the Parties to expenditures incurred by JOB for the joint Account shall be made in accordance with the following rules.
- 8.1.1. All costs and expenses of whatsoever kind and nature incurred under approved budgets for Exploration Operations, the drilling of appraisal wells and Development Operations up to commencement of commercial production shall be provided by CONTRACTOR alone in accordance with Section IV of the Contract, subject to Section VI thereof.
- 8.1.2. All costs and expenses of whatsoever kind and nature incurred under approved budgets for Exploration Operations and the drilling of appraisal wells after commencement of first commercial production shall be provided by CONTRACTOR alone, twenty five percent (25%) of which PERTAMINA shall repay CONTRACTOR out of PERTAMINA's Participating Interest share of Crude Oil.
- 8.1.3. All costs and expenses of whatsoever kind and nature incurred under approved budgets for the carrying out of the feasibility and engineering studies of an appraisal area and/or Development Operations shall be borne and paid by the Parties pro rata to their respective Participating Interests.
- 8.1.4. All costs and expenses of whatsoever kind and nature incurred under approved budgets for the carrying out of Sole Risk Exploration or appraisal Operation shall be borne and paid by the Party having requested such Sole Risk Operations.
- 8.1.5. Operating expenses incurred in producing Crude Oil (other than expenses enumerated under Articles 8.1.1, 8.1.2, 8.1.3 and 8.1.4 above) shall be borne and paid by the parties pro rata to their respective Participating Interests.

8.2 In order to enable JOB to pay expenditures incurred or to be incurred by it under this Operating Agreement for the joint Account each Party shall make to it monthly advances of the sums required by JOB in accordance with such Party's share of estimated expenditures. JOB shall keep an account recording advances made to it by the Parties. Any balance outstanding shall be notified in the monthly accounting statements to be furnished in accordance with article 3.4.4 hereof.

Any surplus shall be carried forward to the following month. Any deficit shall be paid by the Parties within thirty (30) days of receipt of such statement. Requests for advances for any month made by JOB shall be sent to the Parties not later than five (5) days before the beginning of such month. Sums required to cover expenditure in relation to Exploration, Appraisal and/or Development Operations shall be requested separately from funds required for the Production operating expenses referred to in article 8.1.5 hereof. The amount of the advances requested shall be paid by each Party within twenty (20) days of receipt of such advance notice

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Any default of a Party in paying its share of any expenditures hereunder or of any advance requested from it hereunder shall have the following consequences.

9.1 If such default is a failure by a Party to pay its share of any expenditure or to pay advance requested by JOB for expenditures corresponding to Development Operations, the Participating Interest of the parties shall be recalculated in the manner set out below and the defaulting Party shall forfeit its right and execute such assignment as may be required to give effect to the recalculated interests. The recalculated Participating Interests shall become the equivalent of those fractions:

9.1.1 The numerators of which shall be the cumulative contribution of the respective Parties to the financing of Development Operations.

9.1.2 The denominators of which shall be the cumulative contribution of all the Parties to the same expenditures.

9.2 None of the recalculations and assignments of interests contemplated in article 9.1 above shall take place prior to the expiration of a delay period of six (6) months after the defaulting Party has been notified by JOB of the establishment of such default. If during such delay period the Party defaulting has paid the other Party the amount in default together with interest at the London Inter-Bank Offered Rate (LIBOR) plus two percent (2%) per annum such recalculation and assignment shall not take place.

9.3 If such default concerns an expenditure for a Sole Risk Exploration a Sole Risk Appraisal Program and if the debt has not been discharged within two (2) months of the notification by JOB of the establishment of such default the defaulting Party shall forfeit all its rights under Article 6.3 hereof and the non defaulting Party be considered as the Sole Risk Party under such Article 6.3 attributable to the carrying out of such program.

9.4 If such defaults is a failure by a Party to advance to JOB amounts requested in respect of that Party's share of operating expenses of Production, such Party's right to Production from the Contract Area until the debt owed by the defaulting Party together with interest at LIBOR plus two percent (2%) has been discharge shall be forfeited to the non defaulting Party.

9.5 The provisions of this article 9 requiring the assignment of interest or the forfeiture of rights by any defaulting Party shall in no way operate to discharge such Party from its obligation to pay any sum due to JOB as result of such default or the other Party with interest at LIBOR plus two percent (2%) from the date until paid.

Notwithstanding anything contained above the defaulting Party shall hold harmless the other Party or Parties from any prejudice resulting from its default.

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ARTICLE 10 - ACCOUNTING

10.1 JOB shall maintain accounts in accordance with good internationally accepted accounting practices consistent with the provisions of the Contract as contemplated by the Accounting Procedures.

10.2 So long as the keeping of books and accounts is delegated by PERTAMINA to JOB in accordance with subsection 14.1 of section XIV of the Contract JOB shall keep such books and accounts. The parties shall have the right to inspect and audit JOB's books and accounts, provided

however, any Party shall have the right to have its representative present during such inspection and audit. All Parties shall be promptly notified of the results thereof.

10.3 JOB shall maintain at all times the Joint Account recording the cumulative expenditure incurred in respect of operations under the Contract and giving details as to the allocation of such expenditures separately between :

10.3.1 Expenditure for exploration;

10.3.2 Expenditure for appraisal;

10.3.3 Expenditure for development;

10.3.4 Operating expenses of production; and,

10.3.5 Overhead costs as provided for under Exhibit "C", Accounting Procedures.

The Joint Account shall be kept in United States Dollars and shall reflect any difference of exchange resulting from operations effected in other currencies.

10.4 JOB shall also maintain and furnish to the Parties insofar as it is possible such date, records, accounts and statements on such forms as either Party may request for the purposes of its own internal requirements.

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ARTICLE 11-TEHNICAL INFORMATION

Each Party undertakes that it will treat as confidential and prevent disclosure to any third party in any way except to its Affiliates and any Indonesian Governmental Agency any geological, geophysical or other technical data and information pertaining to the Contract Area. This obligation shall be a continuing obligation which shall be observed by each Party during the term of this Contract notwithstanding that such Party may have ceased to be a Party to its termination.

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ARTICLE 12-NATURAL GAS

If a discovery of Natural Gas has been made and if the Parties or either of them wishes to produce such gas they shall enter into a special agreement to regulate their respective rights and obligation in accordance with subsection 6.2.2 of section VI of the Contract. Such special agreement shall be based on the principles adopted in this Operating Agreement.

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ARTICLE 13-ASSIGNMENT OF INTEREST

13.1 All assignments shall be in accordance with the provisions of the Contract.

13.2 Except for an assignment contemplated under Article 9 hereof, no assignment of Participating Interest be made which would result in a Party having a Participating Interest of less than five percent (5%).

All assignment of Participating Interest shall have the effect of making the assignee a Party to the Contract. No assignment shall be valid unless the assignee has agreed in writing to be bound by the provisions of the Contract.

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ARTICLE 14-INSURANCE

14.1 JOB shall carry, for the benefit and protection of the Parties to the Contract such insurance as the Operating Committee shall authorize and require. However, the Operating Committee shall not require JOB to carry physical damage insurance on jointly used property or interests. It is understood that each Party will be responsible for its own interest in such properties and will assume its portion of any loss that occurs. With respect to losses of jointly used property, it is agreed that no Party to the Contract shall have any right of recovery against any other Party, their agents, directors, officers or employees, or against their respective property or vessels, and such rights of recovery are respectively waived; any insurance policy covering the interest of a Party in jointly used property shall be appropriately endorsed so as to effectively waive all pertinent rights of subrogation.

14.2 In the absence of specific directions by the Operating Committee, JOB shall require all contractors engaged in operations under the Contract and this Agreement to maintain such insurance as JOB deems necessary (and economically feasible) to adequately protect and indemnify the Parties and JOB.

Notwithstanding any provisions to the contrary in the Contract and this Agreement, each Party shall indemnify and hold harmless the other Party from any claim, loss or damages as a result of injury or death of its officers, employees, servants and agents in the performance of Petroleum Operations.

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ARTICLE 15 - COMPLIANCE WITH OBLIGATIONS

The obligations imposed upon the parties by this Agreement or by the Contract or by the Laws of the Republic of Indonesia shall be several and not joint.

The parties undertake between themselves to comply with such obligations and to abstain from any act or omission capable of leading to the termination of the Contract.

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Exhibit E-1
[GRAPHIC OMITTED]

CONTRACT AREA: JATILUHUR, ONSHORE W.JAVA
Page F-1
EXHIBIT "F"

This Exhibit "F", THE MEMORANDUM OF PARTICIPATION, is attached to and made an integral part of the Contract between:

PERUSAHAAN PERTAMBANGAN MINYAK DAN GAS BUMI NEGARA

and

SABA JATILUHUR LIMITED

dated this 22nd day of September 1997

MEMORANDUM OF PARTICIPATION

The Operating Agreement between CONTRACTOR and the Indonesia Participant referred to in subsection 15.3 of Session XV of the Contract shall embody, inter alia, the following main principles:

1. PERTAMINA shall be the Operator of the venture under properly defined rights and obligations and PERTAMINA and SABA JATILUHUR LIMITED shall be the representatives of this venture to the JOB.
2. Authorized representatives of both parties shall meet periodically for the purpose of reviewing the venture's operations. All decisions shall be taken by majority vote except in case of terminating the Contract which decision shall require the unanimous consent of both parties. However, if either party wishes to withdraw from the venture it shall transfer without cost its undivided interest to the other party.
3. Both parties shall have the obligation to provide or cause to provide their respective proportions of such finance and such currencies as may be required from time to time by the Operator for the operations envisaged under the Contract. The effects of a Party's failure to meet calls for funds within the prescribed time limits shall be provided.
4. In respect of any Exploratory Drilling Operations, a "nonconsent" provision shall be made which assures the Indonesian Participant that it does not have to participate in such Operations in the Work Program and Budget and which, in case of success, adequately compensate the party participating in such operations for the costs and risks incurred by the latter.
5. Subject to adequate lifting tolerances, each party shall offtake at CONTRACTOR's point of export its production entitlement in its proportionate share of any portion of the Crude Oil which PERTAMINA elects not to take in kind, both as provided under the Contract. However, if the Indonesian Participant is not in a position to market such quantity wholly or partly, it shall in respect of the quantity which it cannot market itself have the option under an adequate notification procedure : either to require CONTRACTOR (or its associates if CONTRACTOR so desires) to purchase that quantity, or to lift that quantity at later date under an adequate procedure.
6. In respect of any quantity to be purchased from the Indonesian Participant by CONTRACTOR (or its associates) the price in respect of each quality

Crude Oil shall be :

- (i) For Crude Oil to be delivered for local consumption under the terms of the Contract fifteen percent (15%) of the price as provided in Section VII or as otherwise provided for in the Contract.
- (ii) For all other Crude Oil, the weighted average net realized price received by CONTRACTOR for comparable types and quantities sold by it during the Calendar Year involved minus five percent (5%).

If Natural Gas (associated gas and non-associated gas) is encountered in Commercial quantities, special provision shall be drawn up having due regard inter alia, to the long term character of Natural Gas Supply Contracts.

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Exhibit 11.1

Computation of Earnings per Common Share
 For the Nine and Three Months Ended September 30, 1997 and 1996
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			Nine Months	
			Ended September 30	
			1997	1996
1997	1996			
Primary Earnings				
Net income before minority interest				
in earnings of consolidated subsidiary				
2,398,753	594,221	808,243	2,637,494	
Minority interest in earnings of				
consolidated subsidiary				
(178,021)	4,397	(77,374)	(89,994)	
			-----	-----
--				
Net income available to Common				
2,220,732	598,618	730,869	2,547,500	
			=====	
			=====	

Primary Shares

Weighted average number of Common

Shares outstanding			10,515,499	
8,633,930	10,601,187	8,800,576		
Additional shares assuming issuance of shares underlying options			676,909	590,064
671,054	654,392		-----	-----
--	-----	-----		
			11,192,408	
9,223,994	11,272,241	9,454,968	=====	
=====	=====	=====		
Primary Earnings per Common Share				
Net income available to Common			0.23	
0.24	0.05	0.08	=====	
=====	=====	=====		
Fully Diluted Earnings				
Net income before minority interest in earnings of consolidated subsidiary			2,637,494	
2,398,753	594,221	808,243		
Minority interest in earnings of consolidated subsidiary			(89,994)	
(178,021)	4,397	(77,374)		
Plus interest expense attributable to Debentures, net of related income taxes			160,605	658,832
52,805	199,775		-----	-----
---	-----	-----		
Net income available to Common			2,708,105	
2,879,564	651,423	930,644	=====	
=====	=====	=====		
Fully Diluted Shares				
Weighted average number of Common Shares outstanding			10,515,499	
8,633,930	10,601,187	8,800,576		
Additional shares assuming issuance: of shares underlying options			676,909	590,064
671,054	654,392			
of convertible common shares @ \$4.375 per share underlying:				
	\$6,438,000 from 1/1/97		1,471,543	
1,471,543	0			
	\$11,000,000 from 1/1/96			
2,514,286		2,514,286		
	\$1,650,000 from 2/7/96			326,215
377,143				
Less shares actually issued upon conversions			(434,473)	
(92,692)	(520,161)	(271,396)	-----	-----
----	-----	-----		
Fully Diluted Shares			12,229,477	
11,971,803	12,223,623	12,075,001	=====	

Fully Diluted Earnings per Common Share

Net income \$0.22 \$0.24
 \$0.05 \$0.08

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This schedule contains summary financial information extracted from the company's condensed consolidated balance sheet at September 30, 1997 and condensed consolidated statement of income for the nine months ended September 30, 1997 and is qualified in its entirety by reference to such financial statements presented in quarterly report form 10-Q for the quarterly period ended September 30, 1997

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