

CENTRAL AFRICAN REPUBLIC

**1993 Model Contract For Exploration
And Production of Petroleum Between The
Government & International Oil Companies**

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CONTRACT

BETWEEN

- **the Central African Republic**, hereinafter referred to as "the State", hereby represented by the Minister of Defense, Veterans, Energy, Mines and Hydraulics,

on the one hand,

AND

- _____, a company organized under the laws in force in _____, having its headquarters in _____, hereinafter referred to as "the Company", hereby represented by _____, duly commissioned hereto,

(in the event the Contract is signed by other companies, the above should be filled in by such companies)

on the other hand,

WITNESSETH :

WHEREAS the discovery and exploitation of Petroleum in the territory of the Central African Republic would provide an economic benefit for the development of the country;

WHEREAS the Company represents that it has the technical competence and financial ability to perform the Petroleum Operations herein described;

CONSIDERING the Ordinance N° 93.007 of May 25, 1993 stating the Petroleum Code which governs the legal and fiscal regime applicable to Petroleum exploration, exploitation and transportation activities in the Central African Republic;

NOW THEREFORE, the Parties hereby agree as follows:

ARTICLE 1

DEFINITIONS

The terms used in this Contract shall have the following meaning:

- 1.1. **"Year"** or **"Calendar Year"** means a period of twelve (12) consecutive months starting January first (1st) and ending on the subsequent December thirty-first (31st).
- 1.2. **"Contract Year"** means a period of twelve (12) consecutive months starting on the Effective Date or the anniversary date of said Effective Date.
- 1.3. **"Petroleum Code"** means the Ordinance N° 93.007 of May 25, 1993, governing the legal and fiscal regime applicable to Petroleum exploration, exploitation and transportation activities, as well as the instruments establishing the implementation thereof.
- 1.4. **"Concession"** means a Petroleum exploitation concession with respect to a Commercial Field, as granted pursuant to the provisions of Article 6.
- 1.5. **"Contract"** means this instrument and its appendices, as well as any modification or extension hereto mutually agreed upon by the Parties pursuant to the provisions of Article 30.2.
- 1.6. **"Effective Date"** means the date of entry into effect of the Contract as defined in Article 2.3.
- 1.7. **"Discovery"** means the discovery of a Petroleum accumulation made during the drilling of a well carried out under this Contract, of which the commercial nature has not yet been established.
- 1.8. **"Department in charge of Petroleum"** means at any time the administrative department in charge of Petroleum.
- 1.9. **"Dollar"** means dollar of the United States of America.
- 1.10. **"State"** means the Central African Republic.
- 1.11. **"Appraisal"** means exploration activities, including, but not limited to, drilling which are performed pursuant to Article 5.2. after the declaration of a Discovery, the purpose of which is to confirm the commercial nature of said Discovery and to delineate, as the case may be, the extent of the Commercial Field so discovered.
- 1.12. **"Exploratory Well"** means any well drilled in view of making a Discovery, excluding inter alia an Appraisal well or a development well.

- 1.13. **"Franc CFA"** means franc of the Union of the State members of the Central African States' Bank (BEAC).
- 1.14. **"Natural Gas"** means the dry gas and wet gas produced alone or in association with Crude Oil, as well as any other gaseous products extracted from the wells.
- 1.15. **"Associated Natural Gas"** means the Natural Gas existing in a reservoir in solution with Crude Oil, or as gas cap in contact with Crude Oil, and which is or may be produced in association with Crude Oil.
- 1.16. **"Non Associated Natural Gas"** means Natural Gas other than Associated Natural Gas.
- 1.17. **"Commercial Field"** means a Petroleum-impregnated geological entity in one or several overlaying reservoirs in respect of which the Appraisal operations set forth in Article 5 have been carried out, and which, in accordance with good international petroleum industry practice and pursuant to the Contract, may be developed and exploited under economic conditions for the Company.
- 1.18. **"Petroleum"** means Crude Oil and Natural Gas.
- 1.19. **"Minister"** means at any time the Minister in charge of Petroleum or his duly qualified representative.
- 1.20. **"Operator"** means the operator designated by the Company for purposes of conducting the Petroleum Operations.
- 1.21. **"Petroleum Operations"** means Petroleum prospection, exploration, development, exploitation, separation, treatment, storage and transportation operations up to the Delivery Point, performed by the Company under this Contract, including the treatment of Natural Gas, but excluding refining operations and the marketing of petroleum products.
- 1.22. **"Parties"** means the State and the Company. **"Party"** means, as the case may be, the State or the Company.
- 1.23. **"Permit"** means the exclusive Petroleum exploration permit granted by the State pursuant to the provisions of Article 3.
- 1.24. **"Crude Oil"** means crude mineral oil, asphalt, ozokerite and all other petroleum which is liquid in its natural state or obtained from Natural Gas through condensation or extraction, including condensates and Natural Gas liquids.
- 1.25. **"Delivery Point"** means the F.O.B. Petroleum loading point at the export terminal or any other point mutually agreed upon by the Parties, inside or outside the Central African Republic. As the case may be, several Delivery Points may be agreed upon by the Parties for purposes of this Contract.

- 1.26. **"Annual Work Program"** means the detailed program for the Petroleum Operations which shall be performed during a Calendar Year, as approved pursuant to the provisions of Article 13.
- 1.27. **"Company"** means the Company, as well as any entity to which a participating interest may be assigned pursuant to Article 23. If the Company is composed of several entities, such entities shall be joint and several and the Company shall not be considered as a legal entity.
- 1.28. **"Affiliated Company"** means:
- a) any company or any other entity which directly or indirectly controls or is controlled by a company constituting a party hereto; or
 - b) any company or any other entity which directly or indirectly controls or is controlled by a company or entity which directly or indirectly controls a company constituting a party hereto.

For purposes of the foregoing definition, "control" means the direct or indirect ownership by a company or any other entity of a percentage of the shares or interest forming the capital of another company or entity, which are enough to hold a majority of voting rights exercisable at general meetings of that other company or entity, or to give a determining position in the management of that other company or entity.

- 1.29. **"Third Party"** means any person other than an Affiliated Company.
- 1.30. **"Quarter"** means a period of three (3) consecutive months starting on the first day of January, April, July or October.

ARTICLE 2

SCOPE AND DURATION OF THE CONTRACT

- 2.1. The scope of this Contract is, pursuant to the legislation in force in the Central African Republic, to define the rights and obligations of the Parties with respect to the activities of the Company related to the Permit set forth in Article 3.1. and to the Concessions set forth in Article 6 which may result therefrom.

This Contract establishes the conditions under which the Company shall proceed to exploration for Petroleum inside the Permit area and, if any, inside the Concessions.

It also establishes the conditions under which shall be performed the development and exploitation of the Petroleum Commercial Fields which have given rise to the granting of the Concessions set forth in Article 6, as well as the separation, treatment, storage, transportation, marketing of Petroleum so produced and any other Petroleum Operations which result therefrom up to the Delivery Point and which are authorized under said Contract.

- (c) the delimitation of the relinquished areas shall be subject to the approval of the Minister and shall accompany the application for the renewal of the term of validity of the Permit, to which shall be attached a report specifying the work performed over the relinquished areas from the Effective Date and the results obtained therefrom.

Depending on the surface area and the shape of the initial Permit area, specific relinquishment conditions may be specified in the Contract, in particular in the event the Permit has been divided into several zones, due to its surface area.

- 3.8. The Company may at any time notify the Minister, with at least three (3) months' prior notice, that it relinquishes its rights on all or part of the Permit. In the event of relinquishment in part, the provisions of Article 3.7. shall apply, mutatis mutandis, to the delimitation of the relinquished area. Any voluntary relinquishment during the term of validity of the Permit shall not reduce the exploration work commitments set forth in Article 4, nor the amount of the corresponding guarantee.

ARTICLE 4

EXPLORATION WORK OBLIGATIONS AND GUARANTEE

- 4.1. During the initial period of validity of the Permit, the Company shall:
- (a) carry out at least _____ (_____) kilometers of seismic survey; the work with respect to such seismic survey shall commence within _____ (_____) months from the Effective Date; and
 - (b) drill at least _____ (_____) Exploratory Wells; the first Well shall commence within _____ (_____) months from the Effective Date.
- 4.2. During the first renewal period of the Permit, the Company shall:
- (a) carry out at least _____ (_____) kilometers of seismic survey;
 - (b) drill at least _____ (_____) Exploratory Wells.
- 4.3. During the second renewal period of the Permit, the Company shall:
- (a) carry out at least _____ (_____) kilometers of seismic survey;
 - (b) drill at least _____ (_____) Exploratory Wells.

The minimum exploration program shall take into account the characteristics of each Permit. As priority is given to drilling, the obligations under paragraphs (a) above may be removed, as the case may be.

- 4.4. Each Exploratory Well set forth in Articles 4.1. to 4.3. shall be drilled to the minimum contractual depth of _____ (_____) meters, or to a lesser depth if discontinuing drilling according to good international petroleum industry practice is justified by one of the following reasons:
- (a) basement is encountered at a depth less than the above-mentioned minimum contractual depth;
 - (b) continued drilling is manifestly dangerous due to abnormal formation pressure;
 - (c) petroleum formations are encountered, requiring the installation of protective casings which prevent reaching the above-mentioned minimum contractual depth;
or
 - (d) the objective which was specified in the Exploratory Well location report at a depth deemed to be lower than the above-mentioned minimum contractual depth is reached before such depth.

In any of the above cases, the Company shall obtain prior approval of the Minister, prior to discontinuing drilling, which approval shall not be withheld without being duly justified, and the well in question shall be deemed to have been drilled to the minimum contractual depth.

- 4.5. If either during the initial period of the Permit or during the first renewal period the Company drills a number of Exploratory Wells greater than the minimum drilling obligations specified for said period, the excess wells may be carried forward to the following renewal period(s) and shall be deducted from the obligations specified for said period(s), provided that at least one Exploratory Well shall be drilled during each renewal period of the Permit.

For purposes of Articles 4.1. to 4.3., Appraisal wells drilled under an Appraisal program shall not be considered as Exploratory Wells and only one well per Discovery shall be deemed to be an Exploratory Well.

- 4.6. Upon the Effective Date, the Company shall provide an irrevocable bank guarantee acceptable to the Minister, guaranteeing its minimum work obligations for the first initial exploration period provided for in Article 4.1.

In the event of renewal of the Permit, the Company shall also provide a similar guarantee guaranteeing the minimum work obligations for that renewal period.

The amount of the guarantee shall be calculated by using the unit costs per km of seismic survey and per Exploratory Well set forth as follows:

- (a) Dollars ____ (____) per km of seismic survey to be carried out;
- (b) Dollars ____ (____) million per Exploratory Well to be drilled.

Three (3) months after completion of a seismic survey or an Exploratory Well drilled to the minimum contractual depth, the above-mentioned guarantee shall be adjusted in such a manner as to guarantee the outstanding balance of the minimum contractual work obligations for the current exploration period, as valued in accordance with the provisions of the previous paragraph.

If, upon expiry of any exploration period, or in the event of whole relinquishment or cancellation of the Permit, the exploration work has not reached the minimum commitments prescribed in this Article 4, the Minister shall have the right to call for the guarantee as a compensation for the non-performance of the work commitments undertaken by the Company.

After the payment has been made, the Company shall be deemed to have fulfilled its minimum exploration work obligations under Article 4 of this Contract; the Company may, except in the event of cancellation of the Permit due to a material breach of this Contract, continue to benefit from the provisions of said Contract and obtain the renewal of the Permit, subject to apply therefor in the appropriate manner.

ARTICLE 5

APPRAISAL OF A DISCOVERY

- 5.1. If the Company discovers Petroleum in the Permit, it shall notify the Minister thereof as soon as possible, and provide him with information and data related thereto, as well as perform, in accordance with good international oil industry practice, the tests necessary to the determination of the shows encountered during drilling.
- 5.2. If the Company wishes to appraise the above-mentioned Discovery, it shall diligently submit to the Minister an Appraisal work program and corresponding budget, no later than eighteen (18) months following the date on which the Discovery has been notified as set forth in Article 5.1. above. The Minister shall not reject such Appraisal program, unless he may justify the reason thereof.

The Company shall then diligently perform the Appraisal work with respect to that Discovery, in compliance with said program. Upon completion of said Appraisal work, which shall not extend beyond the term of validity of the Permit provided for in Article 3, including the possible extensions thereof, the Company shall provide the Minister with a report containing the technical and economic information with respect to the field so discovered and appraised, which shall establish, in the Company's opinion, whether said field is commercial or not. Such report shall include, inter alia, the

following information: geological and petrophysical characteristics of the field; estimated delimitation of the field; results of the drill stem tests and production tests performed; preliminary economic study with respect to the exploitation of the field.

If, upon completion of the Appraisal work program, the Company declares the Field as Commercial, it shall also submit to the Minister within six (6) months following completion of Appraisal work a development and production plan with respect to said Commercial Field, in accordance with the provisions of Article 6.2.

- 5.3. During the term of validity of the Permit, the Minister may, with at least six (6) months' prior notice, request the Company to relinquish all its rights over the area encompassing a Discovery, including Petroleum which may be produced from said Discovery, if the Company:
- (a) has not submitted an Appraisal work program with respect to said Discovery within eighteen (18) months following the date on which the Discovery has been notified to the Minister; or
 - (b) does not declare the Field as Commercial within two (2) years after completion of Appraisal work.

ARTICLE 6

GRANTING AND RENEWAL OF A CONCESSION

- 6.1. Each Commercial Field shall give the right of granting a Concession, under the following conditions:
- (a) If after completion of the Appraisal program with respect to a Discovery set forth in Article 5.2., such Discovery is declared as Commercial Field by the Company, it shall submit with the development and production plan provided for in Article 6.2. an application for a Concession, in accordance with the provisions of the Petroleum Code;
 - (b) The Concession shall be granted by decree, after approval of the development and production plan with respect to the Commercial Field in question, for an initial period of twenty-five (25) years from the date of granting thereof; it shall cover the extent of the Commercial Field located inside the Permit then in force;
 - (c) Upon expiry of the initial period specified in paragraph (b), the term of validity of the Concession shall be renewed by decree, under this Contract, for an additional period of no more than ten (10) years, in the event the Company apply therefor with supporting materials at least one (1) year prior to said expiry, provided that the Company has fulfilled all its obligations and gives evidence that a commercial production from the Concession in question may remain possible after the expiry of the initial period of the Concession;

(d) If, upon expiry of the renewal period of the Concession specified in paragraph (c), the exploitation of the Commercial Field remains possible, the Parties shall mutually agree upon the conditions applicable to the continuation of exploitation.

6.2. For each Commercial Field, the Company shall submit to the Minister a development and production plan, containing, inter alia, the following with respect to that Commercial Field:

- the delimitation of its extent as well as the corresponding technical supporting materials;
- an estimate of the recoverable reserves, both proven and probable, and of the corresponding production profile, as well as a study on the methods for recovery of Petroleum and utilization of Natural Gas;
- the description of facilities and work required for the exploitation of the Commercial Field, such as the number of wells, the facilities required for the production, treatment, storage and transportation of Petroleum, as well as the time schedule for the performance of those facilities and work;
- a study ("étude d'impact") on environment specifying the possible impacts of the planned work concerning the environment and how such work intend to take into account environmental concerns;
- the estimates of development capital expenditures and production costs, as well as an economic study which demonstrates the commercial nature of the Field;
- the delimitation and surface of the Concession applied for, inside the Permit in force, with respect to the Commercial Field.

Within ninety (90) days following receipt of the development and production plan, the Minister may propose revisions or modifications to said plan and to the Concession area applied for. The provisions of Article 14.2 of this Contract shall apply, mutatis mutandis, to said development and production plan as regards the approval thereof.

In the event the Minister has not notified any revision or modification within the above-mentioned time period of ninety (90) days, the development and production plan submitted by the Company shall be deemed to be approved on the date of expiry of said time period.

When the results obtained during the development justify some modifications to the development and production plan, said plan may be modified by using the same procedure as that provided for above with respect to its initial approval.

6.3. When the Company considers a Field as Commercial and when Petroleum discoveries have been made by contract holders other than the Company in the same region, the Company shall, upon request from the Minister, act in concert with said holders, in accordance with the provisions of Article 7.2. below, prior to submitting the development and production plan provided for in Article 6.2.

In addition, if the Commercial Field spreads beyond the Permit area, the Minister may request the Company to exploit said Field in association with the holder(s) of the contiguous Permit(s) under a unitization agreement, in accordance with the following provisions:

- (a) The Company shall submit to the Minister for approval the development and production plan with respect to the Commercial Field prepared jointly with the holder(s) of the contiguous Permit(s) within a time period which shall not exceed one (1) year from the request;
 - (b) If the development and production plan is not submitted within the above-mentioned time period, or if it is not approved, the Minister may prepare, or may cause to be prepared, a development and production plan in accordance with good international oil industry practice. The Company shall approve said plan if the conditions specified by the Minister does not give rise for the Company to investments greater than those which the Company would have borne with respect to the Commercial Field in question if the Company had developed it by itself.
- 6.4. For each Commercial Field which has given rise to the granting of a Concession, the Company undertakes to perform, at its expense, all the Petroleum Operations required for the development and production of said Field, in compliance with the development and production plan approved.

Such Petroleum Operations shall commence within six (6) months following the date on which the Concession has been granted, and the Company shall diligently carry them out.

- 6.5. Any application for relinquishment, in whole or part, of a Concession, submitted by the Company with at least one (1) year's prior notice, shall be favorably examined provided that the Company has fulfilled all its obligations and undertakes to carry out the work which may be prescribed by the Minister for purposes of public safety, field conservation and protection of environment and aquifers, in accordance with good international oil industry practice. The above-mentioned prior notice shall be accompanied with the list of the actions which the Company undertakes to carry out for purposes of its relinquishment, and such relinquishment shall come into effect only after completion of the work prescribed by the Minister.

ARTICLE 7

TRANSPORTATION OF PETROLEUM BY PIPELINES

- 7.1. The Company shall have the right to transport, or cause to be transported while keeping the ownership thereof, Petroleum extracted under this Contract, to the points of gathering, treatment, storage, loading or major consumption, under the conditions set forth in the Petroleum Code. It shall benefit in particular from the provisions set forth in the second paragraph of Article 36 and in Article 37 of said Code.

The authorization for transportation of Petroleum by pipelines outside the Concession areas shall be granted by decree, upon application submitted by the Company or by each individual entity constituting the Company in accordance with the provisions of Article 40 of the Petroleum Code. Said authorization shall not be withheld if the project of construction of pipelines and related facilities complies with the regulations in force and allows to ensure transportation of extracted Petroleum under the best economic and technical conditions.

- 7.2. In the event of several Petroleum discoveries in the same geographical region, the Company shall reach amicable agreement with the other producers for the joint construction and/or utilization of pipelines and/or facilities which allow to lift all or part of their respective production. Any protocol, agreement or contract entered into for this purpose shall be subject to prior approval of the Minister.

In the event no amicable agreement can be reached, the Minister may demand, pursuant to Article 39 of the Petroleum Code, the Company to associate with the other producers for the joint construction and/or utilization, under the best technical and economic conditions, of pipelines and/or facilities, provided that such request shall not give rise for the Company to investments greater than those which the Company would have borne if the Company had carried out the transportation project by itself.

- 7.3. In accordance with the provisions of Article 42 of the Petroleum Code, when the Company operates a pipeline and the related facilities, it may be requested to accept, within the limit and the duration of its excess transportation capacity, the transportation of Petroleum produced by other producers subject to the payment of the transportation tariff provided for in the Petroleum Code.

- 7.4. For purposes of providing incentives to the carrying out of a project of Petroleum exportation by pipeline, the State shall have the right to associate with the Company and, as the case may be, with other producers, for purposes of constituting the entity or entities which shall be responsible for the construction and/or operation of all or part of the required transportation pipelines. The terms and conditions of such association shall be the purpose of a separate agreement to be executed in due time by the various parties concerned.

ARTICLE 8

PRODUCTION FROM A COMMERCIAL FIELD

- 8.1. For each Commercial Field which has given rise to in the granting of a Concession, the Company undertakes to produce reasonable quantities of Petroleum in accordance with good international oil industry practice, taking into account inter alia the rules of good conservation and optimum recovery of Petroleum reserves under economic conditions. For this purpose, the Company shall inter alia:

- (a) Apply to the exploitation of any Commercial Field the most appropriate methods in order to ensure the conservation of said Field and to raise the Petroleum production thereof to an optimum level under economic conditions;
 - (b) Carry out, during the preparation of the development and production plan set forth in Article 6.2, studies on enhanced recovery and use such methods if they allow, in accordance with good international oil industry practice and under economic conditions, an improvement of the recovery rate of Petroleum of the Commercial Field in question;
 - (c) Carry out periodically for each producing well the tests and measurements which allow to monitor the proper exploitation of any Commercial Field.
- 8.2. As from the commencement of production, within three (3) months prior to the expiry of each Calendar Year (and for the production program with respect to the first year of production, at least three (3) months prior to the planned date of commencement of production), the Company shall submit to the Minister with respect to each Commercial Field, the production program established in accordance with the provisions of Article 8.1., and the corresponding budget, for the following Calendar Year. The Company shall undertake to produce during each Calendar Year the quantities estimated in the production program relating to each Commercial Field, as approved pursuant to Article 14.
- 8.3. The Company shall measure, at one or several points as mutually agreed upon by the Parties (in particular at the lifting point of each Commercial Field and at the Delivery Point), the quantity and quality of Petroleum produced after extraction of the water, sediments and associated substances (showing separately the volume of Petroleum used for the requirements of Petroleum Operations and unavoidable losses), by using, with prior approval of the Department in charge of Petroleum, the appliances and procedures customarily used in the international petroleum industry. If during exploitation the Company wishes to change said measurement appliances and procedures, it shall obtain prior approval of the Department in charge of Petroleum. The Department in charge of Petroleum shall have the right to examine those measurements and to inspect or cause to be inspected the appliances and procedures used.

Where the appliances and procedures used have caused an overstatement or understatement of measured quantities of Petroleum, the error shall be deemed to have existed since the date of the last calibration of the appliances, unless the contrary can be justified, and the appropriate adjustment shall be made for the period of existence of such error.

- 8.4. The Company shall become the owner of Petroleum produced under this Contract at the wellhead.

ARTICLE 9

OBLIGATION TO SUPPLY DOMESTIC MARKET WITH CRUDE OIL

- 9.1. The Company shall meet in priority the needs of the domestic Crude Oil consumption in the Central African Republic, in the event the State cannot meet such needs from the share(s) of production which the State is entitled to and if such domestic market supply is technically possible.
- 9.2. For this purpose, the Company shall undertake to sell to the State, if the State so requests, from the Crude Oil production in the Central African Republic which the Company is entitled to, the portion necessary to meet the needs of the domestic consumption in the country, which shall be equal at the maximum to the percentage which the quantity of Crude Oil produced by the Company during a Calendar Year represents compared with the total quantity of Crude Oil produced during such Year in the Central African Republic.

For this purpose, the Minister shall notify at least three (3) months prior to the expiry of each Calendar Year the quantity of Crude Oil which the State desires to purchase, in accordance with the provisions of this Article, during the following Year.

Lifting shall be made to the State or to the beneficiary designated by the Minister through reasonable and equal quantities, on a regular basis during said Year, in accordance with procedures to be agreed upon by the Parties. The price of Crude Oil so sold to the State shall be the Ex-Field Price defined in Article 16; it shall be payable in Franc CFA.

ARTICLE 10

NATURAL GAS

- 10.1. The provisions of this Contract shall apply, mutatis mutandis, to Natural Gas subject to the specific provisions of this Article.
- 10.2. Any quantity of Associated Natural Gas which cannot be economically re-injected neither used for the Petroleum Operations nor treated to be sold, may be flared by the Company subject to prior approval of the Minister, which approval shall not be withheld if flaring said Gas is in accordance with good international petroleum industry practice. Unless in the event of emergency, the Company shall request the approval of the Minister at least two (2) months in advance; such request shall be accompanied with a study demonstrating with all the necessary evidences that all or part of such Gas cannot be usefully and economically utilized for purposes of improving through gas re-injection the maximum economic rate of recovery of Crude Oil or for purposes of any other utilization which could be normally contemplated.

10.3. If the Company decides:

- (a) to flare the Associated Natural Gas in accordance with the provisions of Article 10.2. above; or
- (b) not to exploit a Non-Associated Natural Gas Discovery;

the State shall have the right to exploit, treat and lift said Natural Gas, without paying any compensation to the Company. In such a case, the State shall bear all the additional costs required for production, treatment and lifting of said Natural Gas.

ARTICLE 11

COMPANY'S RIGHTS RELATING TO THE CONDUCT OF PETROLEUM OPERATIONS

11.1. In accordance with the provisions of the Petroleum Code and this Contract, the Company shall have the right to:

- (a) explore for, extract, treat, store, transport, sell and export Petroleum coming from the fields included within the Permit area and the Concessions which such Permit allows to be entitled to, as well as the related substances and/or the products which derive therefrom by separation or treatment, excluding refining;
- (b) have access to and occupy the required land, inside the Permit area and the Concessions which such Permit allows to be entitled to, for purposes of conducting Petroleum Operations;
- (c) carry out any work and facilities, as well as, more generally, any actions and operations necessary for the performance of Petroleum Operations.

The Company may, inter alia, pursuant to the regulations in force and subject to the payment of applicable fee, if any:

- (a) use the water necessary for the Petroleum Operations provided that the persons or livestock watering points are not deprived of the water supply;
- (b) use the stones, sand, clay, gypsum, limestone and other analogous substances necessary for the Petroleum Operations.

11.2. Subject to prior approval of the Minister, which approval shall not be withheld without any duly justified reason, the Company shall have the right to build and operate any facilities and work necessary for the Petroleum Operations such as, without limitation to, roads, trails, pipelines, landing strips, telecommunication systems, production, treatment and storage facilities, whether inside or outside the Permit or the Concessions which may result from such Permit.

Said authorization by the Minister may be subject to the utilization of the excess capacity of said facilities by Third Parties, provided that such utilization shall not interfere with the Petroleum Operations and provided that said Third Parties shall pay the Company a fair and equitable compensation.

- 11.3. Subject to compliance with the legislation in force, the foreign personnel employed by the Company and its subcontractors for the requirements of the Petroleum Operations and their families shall be authorized to enter into and stay in the Central African Republic.

The Minister shall provide assistance to the Company for the issue and renewal of the administrative documents required for the entry and stay in the Central African Republic and the exit of said personnel and their families, in particular with respect to visas, working permits and residence permits, in accordance with the legislation in force in the Central African Republic.

ARTICLE 12

COMPANY'S OBLIGATIONS RELATING TO THE CONDUCT OF PETROLEUM OPERATIONS

- 12.1. The Company shall comply with the laws and regulations in force in the Central African Republic and with the provisions of this Contract.
- 12.2. The Company shall carry out all work required for the performance of the Petroleum Operations in accordance with good international petroleum industry practice.
- 12.3. The Company shall during Petroleum Operations take any actions necessary for the protection of environment.

The Company shall, inter alia, take any reasonable steps in order to:

- (a) ensure that all facilities and equipment used for the requirements of the Petroleum Operations are in good order and correctly kept in good repair during the term of this Contract;
- (b) avoid losses and discharges of Petroleum produced as well as losses and discharges of mud or any other product used in Petroleum Operations;
- (c) ensure the protection of water bearing strata encountered during Petroleum Operations;
- (d) store Petroleum produced in storage facilities erected for that purpose;
- (e) as the case may be, rehabilitate the sites of Petroleum Operations upon completion of each Petroleum Operation.

- 12.4. The Company shall open within three (3) months following the Effective Date, an office in the Central African Republic, and maintain it during the term of the Contract; said office shall include in particular a representative authorized to conduct Petroleum Operations, to whom any notice under this Contract shall be delivered.

The Company shall notify the Minister, upon the date on which this Contract is executed, of the entity designated as Operator. Any change of Operator shall receive prior approval of the Minister, which approval shall not be withheld without any duly justified reason.

- 12.5. The Company shall, for the performance of Petroleum Operations, employ in priority, subject to similar qualifications, citizens from the Central African Republic and contribute to the training of such personnel in view of allowing them to have access to any position of qualified worker, supervisor, executive and manager.

For that purpose, the Company shall establish, at the end of each Calendar Year, in agreement with the Minister, a plan for recruiting Central African personnel and a plan for training and further training in order to reach a larger participation of such personnel in Petroleum Operations.

- 12.6. The Company shall also contribute to the training and further training of the agents from the Department in charge of Petroleum, in accordance with a plan established in agreement with the Minister at the end of each Calendar Year. For that purpose, the Company shall allocate to that plan of training of Central African personnel from the Administration or place at the Minister's disposal a minimum of Dollars _____ (____) per year during the term of validity of the Permit and, as from the granting of a Concession, a minimum of Dollars _____ (____) per year.

ARTICLE 13

INFORMATION AND REPORTS

- 13.1. The Company shall record and keep in accordance with good international petroleum industry practice all information and data resulting from the Petroleum Operations and shall, as soon as practicable, provide the Department in charge of Petroleum with a copy of all information, data, documents, reports and interpretations, obtained or prepared in the course of the Petroleum Operations, including, inter alia:
- (a) geological studies and synthesis reports as well as the maps and documents related thereto;
 - (b) geophysical studies, measurement and interpretation reports, along with the maps, profiles, sections or any other document related thereto and, upon request from the Department in charge of Petroleum, a copy of the records made; in any event, such records shall be provided to the Department in charge of Petroleum upon termination of the Contract;

- (c) well location reports, well completion reports, measurements, drill stem tests, production tests, and logs as well as analyses, with a copy of records made;
- (d) more generally, all reports, measurements, analyses or other results with respect to any activity carried out under this Contract.

All maps, sections and all other geophysical and geological documents and logs shall be provided to the Department in charge of Petroleum on an appropriate transparent support for subsequent reproduction and, as the case may be, on a digitalized support.

The Company shall also provide the Department in charge of Petroleum with a representative portion of the cores, cuttings and samples of fluids produced during drill stem tests or production tests.

Upon request from the Minister, the Company shall provide him with any other information or data in its possession relating to the Petroleum Operations.

Upon termination or in the event of relinquishment or cancellation of this Contract, the original documents, including magnetic tapes, shall be transferred to the Department in charge of Petroleum, which is the owner thereof. If the Minister so requests, the seismic records shall however be kept by the Company and remain freely at the State's disposal during a time period of ten (10) years from said termination, relinquishment or cancellation.

13.2. In addition, the Company shall provide the Department in charge of Petroleum with the following periodical reports:

- (a) daily reports on drilling and production activities;
- (b) weekly reports on geophysical work;
- (c) as from granting of a Concession, monthly reports on development and exploitation activities along with statistics on production;
- (d) within thirty (30) days from the end of each Quarter, a report on the Petroleum Operations carried out during the previous Quarter, which shall include in particular the description of the Petroleum Operations carried out and a detailed statement of expenses incurred;
- (e) within three (3) months from the end of each Calendar Year, a report on the Petroleum Operations carried out during the previous Year, along with a detailed statement of expenses incurred and a list of personnel employed by the Company.

13.3. The Department in charge of Petroleum may have access to the technical and economic files of the Company relating to the Petroleum Operations, of which at least one copy shall be kept in the Central African Republic.

- 13.4. The Parties undertake to consider as confidential and not to communicate to Third Parties the data and information relating to the Petroleum Operations, during a time period of five (5) years from the obtention thereof. However, each Party may communicate them to persons employed by such Party or working on its behalf, which persons shall undertake to comply with this confidentiality provision.

The Minister may use data and information provided by the Company in order to prepare and publish any report of general interest. Notwithstanding the provisions of the preceding paragraph, the Minister may also disclose any data and information relating to an area which the Company is no longer entitled to under this Contract.

ARTICLE 14

ANNUAL WORK PROGRAMS

- 14.1. The Petroleum Operations carried out by the Company during any Calendar Year shall be performed on the basis of the Annual Work Program and corresponding budget with respect to said Calendar Year.

For that purpose, within three (3) months prior to the end of each Calendar Year (or within thirty (30) days following the Effective Date as regards the Annual Work Program and corresponding budget with respect to the current Calendar Year), the Company shall submit to the Minister the Annual Work Program and corresponding budget planned for the following Calendar Year.

Each Annual Work Program and corresponding budget shall be broken down into the various exploration activities and, as the case may be, into the Appraisal activities for each Discovery, and the development and production activities for each Commercial Field.

- 14.2. The Minister shall not reject the Annual Work Program and corresponding budget submitted by the Company without any duly justified reason. The Minister may propose revisions or modifications to the Annual Work Program and corresponding budget by notifying the Company thereof within a time period of thirty (30) days following receipt of this Program. In that event, the Minister and the Company shall meet as soon as possible to review the revisions or modifications requested and to establish by mutual agreement the Annual Work Program and corresponding budget in final form, in accordance with good international petroleum industry practice. The date on which the Annual Work Program and corresponding budget are deemed to be approved shall be the date of the above-mentioned mutual agreement. However, with respect to the Annual Work Program relating to exploration and Appraisal, the Program and budget established by the Company after the above-mentioned meeting shall be deemed to be approved as from the date on which they have been submitted, provided that they comply with the obligations set forth in Articles 4 and 5.

If the Minister does not notify the Company of his wish for revision or modification within the above-mentioned time period of thirty (30) days, the Annual Work Program and corresponding budget submitted by the Company shall be deemed to be approved by the Minister on the date of expiry of said time period.

- 14.3. The results obtained during the performance of work or special circumstances may justify some changes in the Annual Work Program and corresponding budget. In that event, after notifying the Minister thereof, the Company may make such changes, provided that the basic objectives of said Annual Work Program shall not be changed.

ARTICLE 15

SUPERVISION OF PETROLEUM OPERATIONS

- 15.1. Petroleum Operations shall be subject to supervision by the Department in charge of Petroleum. The duly commissioned representatives from the Department in charge of Petroleum shall have the right, inter alia, to supervise Petroleum Operations and, at reasonable intervals, to inspect the facilities, equipment, material, records and books relating to Petroleum Operations, provided that such inspection shall not unduly delay the proper conduct of said Operations.

For purposes of permitting the exercise of the above-mentioned rights, the Company shall provide the representatives of the Department in charge of Petroleum with reasonable assistance regarding transportation and accomodation, and transportation and accomodation costs directly related to supervision and inspection shall be borne by the Company.

- 15.2. The Company shall regularly inform the Department in charge of Petroleum of the performance of Petroleum Operations and of the accidents which have occurred, if any. The Company shall, in particular, notify the Department in charge of Petroleum, as soon as possible and at least one (1) month in advance, of the planned Petroleum Operations such as geological or geophysical survey, drilling.

In the event the Company decides to abandon a well, it shall notify the Department in charge of Petroleum thereof at least seventy-two (72) hours prior to such abandonment; such time period shall be extended up to thirty (30) days with respect to producing wells.

- 15.3. The Department in charge of Petroleum may require the Company to carry out, at the latter's expense, any work considered as necessary for the safety of Petroleum Operations.

ARTICLE 16

VALUATION OF CRUDE OIL AND NATURAL GAS

- 16.1. For purposes of this Contract, the unit selling price of Crude Oil shall be the F.O.B. "Market Price" at the Delivery Point, expressed in Dollars per barrel, accurately reflecting the current international market price as determined below. A Market Price shall be established for each type of Crude Oil or Crude Oil mix.

An "Ex-Field Value" shall also be determined, from the Market Price, as provided for in Article 16.5. below.

- 16.2. The Market Price of Crude Oil, calculated each Quarter, shall be the weighted average of the prices obtained by the Company and the State from sales contracts with Third Parties. Commissions paid in sales to Third Parties shall not exceed the amounts customarily paid in the international petroleum industry.

In the event such sales to Third Parties are not made during the Quarter in question, the value shall be established by comparison with the "Current International Market Price", during the Quarter in question, of Crude Oils produced in the Central African Republic and the neighbouring producing countries, taking into account the differences in quality, gravity, transportation and payment conditions.

The term "Current International Market Price" means the price which permits the Crude Oil sold to reach, at the treatment or consumption places, a competitive price equivalent to that of Crude Oils of the same quality coming from other regions and delivered under comparable commercial conditions, including quantities as well as destination and utilization of such Crude Oils, taking into account the market conditions and the type of contracts.

- 16.3. A committee headed by the Minister, or his deputy, consisting of representatives from the Administration and representatives from the Company shall meet upon request from its president, in order to establish, in accordance with the provisions of this Article 16, the Market Price of the Crude Oil produced, which shall apply to the preceding Quarter. The decisions of the committee shall be taken unanimously.

In the event no decision is taken by the committee within a time period of thirty (30) days after the end of the Quarter in question, the Market Price of the Crude Oil produced shall be definitely determined by a worldwide recognized expert appointed by mutual agreement upon the Parties, or, failing such agreement, by the International Center for Technical Expertise from the International Chamber of Commerce. The expert shall establish the price in accordance with the provisions of this Article 16 within twenty (20) days from his appointment. The expertise costs shall be shared equally by the Parties.

- 16.4. Pending the determination of the price, the Market Price provisionally applicable to a Quarter shall be the Market Price of the preceding Quarter. Any necessary adjustment shall be made no later than thirty (30) days after the determination of the Market Price for the Quarter in question.
- 16.5. The Ex-Field Value shall be equal to the above-defined Market Price, as reduced by the actual costs of transportation and, as the case may be, of treatment of the Crude Oil extracted, incurred from the exit of the main storage centers related to the Commercial Field (after separation and treatment of Petroleum from one or several Fields) up to the Delivery Point. The Ex-Field Value shall be determined for each Crude Oil and each Quarter, by using the procedure provided for in this Article 16.
- 16.6. For purposes of this Contract, the value of Natural Gas sold or assigned to Third Parties or the State shall be the actual price obtained by the Company with respect to the sale of said Natural Gas.

With respect to sales or assignments of Natural Gas other than to Third Parties or the State, the value shall be determined by agreement between the Minister and the Company taking into account, inter alia, the principles then in force in the world as regards marketing of Natural Gas, the quality and quantity of Natural Gas and the price of the Central African Natural Gas sold to Third Parties under comparable market conditions.

As and when required, the Ex-Field Value of Natural Gas shall be established in accordance with the principles provided for in Article 16.5.

ARTICLE 17

ROYALTY ON PRODUCTION

- 17.1. The Company shall pay the State a royalty on production, determined on the basis of the Ex-Field Value of Petroleum (calculated from the Market Price in accordance with the provisions of Article 16 above) and the quantities of Petroleum produced and ex-field measured by applying the royalty rate defined in Article 17.2.

The quantities of Petroleum which are either consumed for the requirements of Petroleum Operations or re-injected in the fields, or lost or non-utilized, shall be excluded from the calculation of this royalty. The quantities of Petroleum which are lost or non-utilized shall be limited to justified amounts.

17.2. The royalty rates applicable to the Company with respect to all its productions of Crude Oil and Natural Gas obtained under this Contract shall be calculated as provided for in paragraphs (a) and (b) below:

(a) Crude Oil and products other than Natural Gas:

Royalty rate: twelve point five percent (12.5%).

(b) Natural Gas:

Royalty rate: five percent (5%).

17.3. Royalty on production shall be paid, in whole or in part, either in cash or in kind. The selection of the method of payment of royalty on production shall be notified to the Company by the Minister, after advice from the Minister in charge of Finance, at least three (3) months prior to the commencement of the first regular production under this Contract. Such selection shall remain in force as long as the Company has not received a new notice from the Minister, which shall be made at least three (3) months prior to the beginning of the Calendar Year for which the new method of payment shall be applicable. If such selection is not notified within the time period provided for, royalty shall be paid in whole in cash.

17.4. Royalty in cash shall be provisionally settled on a monthly basis, and definitely on a quarterly basis, to the Ministry in charge of Finance.

Prior to the fifteenth (15th) day of each month, the Company shall notify the Minister, with all useful justifications, of a statement of the quantities of Petroleum dispatched from the main storage centers related to the fields in production during the preceding month, after deduction of the quantities excluded for the calculation of royalty, as provided for in Article 17.1., and it shall pay the royalty corresponding to the preceding month by considering the Market Price and the Ex-Field Value determined in Article 16 for the Quarter in question.

As soon as the Market Price and the Ex-Field Value applicable to the preceding Quarter are determined, the Minister shall notify the Company of the final status of settlement of the royalty, after deduction of the payments made on a provisional basis. If this outstanding balance is negative, the amount shall be, until final settlement, deducted from the amount of royalty on production which the Company shall be subsequently liable to. If the outstanding balance is positive, the Company shall pay the amount within thirty (30) days.

17.5. When royalty is paid in kind, it shall also be settled on a monthly basis.

Prior to the fifteenth (15) day of each month, the Company shall notify the Minister, with all useful justifications, of a statement of the quantities of Petroleum dispatched from the main storage centers related to the fields in production during the preceding month, including the quantities paid to the State as royalty on production. After checking, the Minister shall settle the above-mentioned monthly statement and notify the Company prior to the twenty-fifth (25th) day of the same month of the status of settlement of the royalty.

Except as otherwise agreed upon by the Parties, as from the fifteenth (15th) day of each month, the Company shall place at the State's disposal, or at the disposal of the beneficiary designated by the Minister, at the exit of the main storage centers (after separation or treatment of Petroleum from one or several fields), on a time basis to be mutually agreed upon with the Minister, the quantities of Petroleum payable as royalty for the preceding month. The Company shall undertake to store, free of any charge, such quantities during at least thirty (30) days. If the Minister so requests and if the Company has the necessary facilities, it shall transport and delivery said quantities to the State or its beneficiary, at their expense.

The Minister or his beneficiary shall have a time period of thirty (30) days from the date on which the Company has placed Petroleum at their disposal, to cause to be lifted such Petroleum. If the entirety of the monthly royalty has not been lifted upon expiry of such time period, the Company may dispose of the quantities unlifted, provided that it shall pay in cash the amount of royalty corresponding to such quantities, in accordance with Article 17.4. above.

Within three (3) months prior to the beginning of the Quarter for which the royalty in kind shall be delivered, the Parties shall establish a lifting program relating to the Petroleum which constitutes the royalty, on a most regular basis during the Quarter.

ARTICLE 18

TAXATION

- 18.1. The Company shall be subject to corporate tax under the conditions provided for in the Petroleum Code.

The net profits arising from all the Company's Petroleum Operations in the territory of the Central African Republic shall be subject to the direct tax of fifty percent (50%) calculated on said net profits.

Another rate determined in accordance with the provisions of Article 69 of the Petroleum Code may be specified in the Contract.

The Company shall maintain for each Calendar Year, in accordance with the regulations in force in Central African Republic and the provisions of this Contract, separate accounts with respect to Petroleum Operations which shall be used, inter alia, to establish a profit and loss account and a balance sheet which will show the results of said Petroleum Operations as well as the assets and liabilities allocated or directly related thereto.

Company's income arising from its activities of transportation of Petroleum by pipelines in the territory of the Central African Republic shall be subject to joint taxation with income arising from other Petroleum Operations. However, income arising from transportation of Petroleum by pipelines will be subject to separate taxation, in accordance with Article 76 of the Petroleum Code, if the Company so requests upon submission of the development and production plan provided for in Article 6.2.

In the event the Company comprises several entities, their tax obligations shall be individual.

Unless as otherwise provided for by the Parties, corporate tax shall be paid in Dollars through quarterly payments in advance with annual settlement after the results of the preceding Calendar Year have been determined. Such payments in advance shall be made prior to the end of each Quarter and shall be equal, except as otherwise agreed upon (in particular, for the first year of payment of corporate tax) to the fourth of corporate tax paid in the preceding Calendar Year.

The settlement and payment of the outstanding balance of corporate tax with respect to profits of a given Calendar Year shall be made no later than the first day of May of the following Year, upon remittance of the annual tax return.

If the Company has paid in advance an amount greater than the amount of corporate tax which it is liable to with respect to the profits of a given Calendar Year, the excess amount shall be refunded within ninety (90) days following the remittance of its annual tax return.

18.2. The Company shall pay the State a supplementary petroleum payment (hereinafter referred to as "Supplementary Payment" determined as follows:

- (a) The Company (or each entity constituting the Company) shall attach to its annual tax return the determination of the "R" ratio as defined hereafter and calculated from the results recorded at the end of the preceding Calendar Year.
- (b) The "R" ratio shall represent the ratio between "Accumulated Net Revenues" and "Accumulated Investments", as determined from the accumulated amounts from the Effective Date up to the end of the preceding Calendar Year, where:
 - "Accumulated Net Revenues" means the sum of after tax profits calculated in accordance with the Accounting Procedure;
 - "Accumulated Investments" means the sum of exploration, Appraisal and development expenditures calculated in accordance with the Accounting Procedure.
- (c) As long as the "R" ratio is lower than two (2), no Supplementary Payment shall be payable.

- (d) If said ratio is equal or greater than two (2), the Supplementary Payment to be paid to the State shall be equal to _____ percent (____%) of the amount of profit subject to corporate tax with respect to the preceding Calendar Year, as determined prior to the allowances authorized under Article 19.
- (e) Except as otherwise agreed upon, the Supplementary Payment shall not be considered as a deductible charge for the determination of profit subject to corporate tax.

As the case may be, a different method may be provided for in the contract.

- (f) The Supplementary Payment shall be paid in Dollars according to a procedure similar to that defined in Article 18.1. with respect to payment of corporate tax.

18.3. The Company, its shareholders and its Affiliated Companies shall benefit from the taxation advantages provided for in Article 74 of the Petroleum Code.

In addition, in accordance with the provisions of Article 75 of the Petroleum Code, the Company shall be exempt from any taxes on turnover. The subcontractors who have executed a contract with the Company for purposes of Petroleum Operations shall also be exempt of any taxes on turnover as regards purchasing of goods and services directly necessary for the execution of such contract.

Wages and salaries paid to the Company's employees in the Central African Republic shall be subject to taxes related to such income, as well as to the social contribution for development, in accordance with the provisions of the General Tax Code in force.

18.4. The Company shall pay the Minister in charge of Finance the following annual rentals:

- (a) Dollars _____ (____) per sq. km. annually during the initial exploration period of the Permit;
- (b) Dollars _____ (____) per sq. km. annually during the first renewal period of the Permit;
- (c) Dollars _____ (____) per sq. km. annually during the second renewal period of the Permit and any extension thereof as provided for in Articles 3.4. and 3.5.;
- (d) Dollars _____ (____) per sq. km. annually during the term of a Concession.

The annual rentals set forth in paragraphs (a), (b) and (c) above shall be paid in advance each year, no later than the first day of each Contract Year, for the whole Contract Year, on the basis of the surface of the Permit held by the Company on the date of payment of said rentals.

The annual rental related to a Concession shall be paid in advance each year, on the beginning of each Calendar Year following the granting of such Concession (or, for the Year of said granting within thirty (30) days from the date of granting, prorata temporis for the remaining duration of the Year in question) on the basis of the surface of the Concession on said date.

In the event of surface relinquishment during a Year or in the event of Force Majeure, the Company shall have no right to be reimbursed for the annual rentals already paid.

ARTICLE 19

INCENTIVES TO PETROLEUM EXPLORATION

19.1. In accordance with the provisions of the Petroleum Code, the State grants the Company the specific advantages provided for in this Article, in view of providing incentives to petroleum exploration.

19.2. **Depletion allowance**

The Company may constitute each Calendar Year a provision for purposes of depletion allowance equal to twenty percent (20%) of the Ex-Field Value of Petroleum extracted which represents the basis of calculation of the royalty, to the extent of twenty-five percent (25%) of the net profit of the Year in question, as determined prior to deduction of said allowance.

The depletion allowance shall be recorded as a specific item of the liabilities of the balance sheet which shall show the amount of allowances with respect to each Calendar Year.

Such allowances shall be subject to corporate tax at the rate provided for in Article 18 in the event they are not re-invested as Approved Expenditures in the Central African Republic within a time period of two (2) years; the term "Approved Expenditures" means Petroleum exploration expenditures and any expenditure relating to a project which has been authorized by the Minister beforehand. Such tax shall be paid upon expiry of said time period of two (2) years, as regards the portion of the allowance not re-invested to that date, increased by the interest due to the delay as provided for in Article 20.4.

If the Company incurs Approved Expenditures for purposes of using the depletion allowance, it shall add to its taxable profit, under the same rate as the depreciation of said Expenditures, an amount equal to those investments. When the allowance is used in another manner, the same re-incorporation shall be made once.

19.3. Investment credit

In view of providing incentives to Petroleum exploration in the Central African Republic, the Company may benefit from an investment credit equal to fifty percent (50%) of the exploration expenditures incurred by the Company during a time period of three (3) years from the date of commencement of its first regular commercial Petroleum production in the Central African Republic, which production shall be kept during that whole period. Such investment credit may be immediately deducted from the profit subject to the corporate tax.

- 19.4. For a given year, the fiscal advantage of investment credit shall not be authorized along with the depletion allowance, nor vice versa.

For purposes of this Article, the exploration expenditures shall exclude, inter alia, any expenditures relating to Appraisal operations.

ARTICLE 20

ACCOUNTING AND AUDIT

- 20.1. The Company shall maintain its accounting in accordance with the regulations in force and the Accounting Procedure attached hereto as Appendix 2.

- 20.2. Records and books shall be maintained in the French language and expressed in Dollars. They shall be supported by detailed documents demonstrating the expenses and receipts of the Company under this Contract.

Such records and books shall be used, inter alia, to determine the gross income, operating costs and net profits of the Company, as well as to establish the Company's tax return. For information purposes, the profit and loss accounts and balance sheets shall also be maintained in Franc CFA.

- 20.3. After notifying the Company in writing, the State may cause to be examined and audited the records and books relating to Petroleum Operations by experts of its election or by its own agents. The State will have a period of five (5) years from the end of a given Calendar Year to perform such examinations or audits and submit its objections to the Company for any contradictions or errors found during such examinations or audits. The Company shall provide any necessary assistance to the persons designed by the State for that purpose and facilitate their performance. The reasonable audit expenses shall be reimbursed by the Company to the State and shall be considered as a deductible charge for purposes of calculating the taxable profit.

- 20.4. The amounts due to the State or to the Company shall be paid in Dollars or in another convertible currency to be mutually agreed upon by the Parties.

In the event of delay in a payment, the amounts payable shall bear interest at a rate of _____ percent (____%) per year from the day such amounts should have been paid up to the day on which they are paid, with monthly capitalization of interests if the delay is greater than thirty (30) days.

ARTICLE 21

IMPORT AND EXPORT

- 21.1. The Company shall have the right to import in the Central African Republic, in its own name or on behalf of its subcontractors, all the equipment, materials, transportation vehicles and four-wheel vehicles, aircraft, spare parts and consumable materials necessary for Petroleum Operations.
- 21.2. The expatriate employees and their families which work in the Central African Republic for the Company or its subcontractors shall have the right to import in the Central African Republic, during their first year of settlement, their household appliances and personal effects as well as one automobile per employee.
- 21.3. The goods set forth in Articles 21.1. and 21.2. shall be imported by the Company in accordance with the provisions of Article 79 of the Petroleum Code, with exemption or suspension of any import duties and taxes, as the case may be. The equipment, materials and vehicles directly necessary for Petroleum Operations and intended to be re-exported shall benefit from the temporary import regime.

The Company and its subcontractors shall proceed to import goods only to the extent that said goods are not available in the Central African Republic under equivalent conditions of price, quantity, quality, delivery time and terms of payment, it being understood that the Company and its subcontractors shall give preference to Central African companies as regards any construction, supply or service contract, under equivalent conditions of price, quantity, quality, delivery time and terms of payment. For any contract of which the estimated value exceeds two hundred thousand (200,000) Dollars, the Company shall select its subcontractors through tenders, or according to any other method customarily used in the international petroleum industry.

- 21.4. The Company and its subcontractors, as well as their expatriate employees and their families, shall have the right to re-export from the Central African Republic, free of any export duties and taxes, the goods imported under Articles 21.1. and 21.2. which would no longer be necessary for Petroleum Operations, subject to the application of the provisions set forth in Article 24.2.

- 21.5. The Company and its subcontractors shall have the right to sell in the Central African Republic the goods which they have imported when such goods are no longer necessary for Petroleum Operations, provided they inform in advance the Minister thereof. In that event, the seller shall be required to fulfill all the formalities prescribed by the regulations then in force and to pay all duties and taxes applicable on the transaction date, unless the above-mentioned goods are assigned to the State or to companies which hold a petroleum contract entered into with the State.
- 21.6. During the term of this Contract and subject to the provisions of Article 9 and the regulations then in force, the Company shall have the right to freely export Petroleum which it is entitled to under this Contract, free of any export duties and taxes.
- 21.7. All imports, exports and re-exports under this Contract shall be subject to the formalities required by customs as provided for by the regulations then in force. Each import declaration shall be review by the Department in charge of Petroleum which will certify that the goods are necessary for Petroleum Operations.

ARTICLE 22

FOREIGN EXCHANGE CONTROL

- 22.1. The Company shall be subject to the foreign exchange control regulations in force in the Central African Republic, it being understood that the Company and its subcontractors shall benefit during the term of this Contract from the following guarantees regarding exclusively Petroleum Operations:
- (a) the right to open and operate bank accounts outside the Central African Republic;
 - (b) the right to contract abroad the loans necessary for the performance of their activities in the Central African Republic;
 - (c) the right to receive and retain abroad all the amounts acquired or borrowed abroad, including the proceeds of sales of Petroleum, and to freely dispose thereof, to the extent such amounts exceed their fiscal obligations and domestic requirements for the Petroleum Operations in the Central African Republic;
 - (d) the right to freely remit outside the Central African Republic the proceeds of sales of Petroleum which the Company is entitled to under this Contract as well as the dividends and proceeds of any kind arising from the Petroleum Operations;
 - (e) the right to pay directly abroad the foreign enterprises which provide for goods and services necessary for the performance of Petroleum Operations;

- (f) the right to exchange, for purposes of Petroleum Operations, national currency and foreign convertible currencies, through banks and agents established in the Central African Republic and officially authorized, at exchange rates which are no less favorable to the Company or its subcontractors than either the current daily rate or the rate generally applicable in the Central African Republic to other enterprises on the day the exchange transactions occur.
- 22.2. The Company shall submit to the Minister in charge of Finance, no later than forty-five (45) days after the end of each Quarter, a report with details of the exchange transactions made under this Contract during the preceding Quarter, including the transactions on accounts opened abroad made in accordance with the provisions of Article 22.1.(a) above.
- 22.3. The Company's expatriate employees shall have the right, in accordance with the regulations then in force in the Central African Republic, to freely exchange and to freely transfer to their country of origin the savings arising from their salaries, as well as the retirement and social contributions paid by or for said employees, provided they have fulfilled their tax obligations in the Central African Republic.

ARTICLE 23

ASSIGNMENT

- 23.1. In accordance with the provisions of the Petroleum Code, the rights and obligations arising from this Contract, as well as the Permit and the Concessions, shall not be assigned, in whole or part, by any of the entities constituting the Company, without prior approval of the Minister.

The assignment shall include all the mining titles related to this Contract.

If, within three (3) months after notice to the Minister of an intended assignment accompanied with all the necessary information in support of the technical and financial capacities of the assignee, as well as with the draft assignment deed and the terms and conditions of such assignment, the Minister has not notified his justifiable refusal, said assignment shall be deemed to have been approved by the Minister upon the end of said time period of three (3) months.

As from the date of approval, the assignee shall acquire the quality of Company and shall fulfill the obligations prescribed to the Company under the Petroleum Code and this Contract, to which he shall adhere prior to the assignment.

If one of the entities constituting the Company submits to the Minister for approval an intended assignment to an Affiliated Company, the Minister will authorize said assignment within the above-mentioned time period of three (3) months; as the case may be, the provisions of Article 25.4. shall be applicable.

23.2. The Company or any entity constituting the Company shall also submit to the Minister for prior approval:

- (a) Any project which may give rise to a change in the control of the Company or the entity in question, in particular through a new sharing of the registered shares.

The following shall be considered as elements of control of the Company or of an entity: sharing of registered capital, nationality of major shareholders, as well as statutory provisions concerning the head office and the rights and obligations related to the registered shares as regards the majority required in the general meetings.

However, assignment of registered shares to Affiliated Companies shall be free, subject to prior notice to the Minister for information purposes and subject to the application of the provisions of Article 25.4., as the case may be.

As regards assignment of registered shares to new shareholders, they shall be subject to approval of the Minister only if they have the effect to assign to them more than thirty percent (30%) of the capital of the enterprise.

- (b) Any project of constitution of sureties with respect to assets and facilities allocated to Petroleum Operations.

The projects set forth in paragraphs (a) and (b) shall be notified to the Minister. If within three (3) months after said notice, the Minister has not notified the Company or the entity in question of his justifiable refusal with respect to said projects, they shall be deemed to be approved upon the end of said time period of three (3) months.

23.3. Where the Company consists of several entities, it shall provide forthwith the Minister with a copy of the joint operating agreement which binds the entity constituting the Company, and of any changes which may be made thereto, while specifying the name of the enterprise appointed as "Operator" for the conduct of Petroleum Operations; any change in the Operator shall be subject to approval of the Minister in accordance with the provisions of Article 12.4.

23.4. Assignments made in breach of the provisions of this Article shall be null and void.

ARTICLE 24

OWNERSHIP AND TRANSFER OF ASSETS UPON TERMINATION

24.1. The Company shall be the owner of the assets, whether movable or unmovable, which it has acquired for purposes of Petroleum Operations, subject to the following provisions.

24.2. Upon termination, relinquishment or cancellation of the Contract, whatever the reason therefor, with respect to all or part of the Permit or a Concession, the assets belonging to the Company and necessary for Petroleum Operations in the relinquished area shall become the ownership of the State at no cost, unless they shall be used by the Company for purposes of exploitation of other Commercial Fields located in the Central African Republic. Such transfer of ownership shall cause, as the case may be, the automatic cancellation of any surety or security concerning those assets or which those assets constitute.

If the Minister decides not to use said assets, he may require the Company to remove them at the latter's expense, it being understood that the abandonment operations shall be carried out in accordance with good international petroleum industry practice.

During the term of the Permit or the Concessions resulting therefrom, the wells which are considered by mutual agreement as unfitted for production may be taken back by the State, upon request from the Minister, for purposes of being converted into water wells. The Company shall then undertake to keep in place the casings along the requested depth as well as, as the case may be, the wellhead, and to perform the plugging of the well along the requested depth.

ARTICLE 25

RESPONSIBILITY AND INSURANCE

25.1. The Company shall indemnify and compensate any person, including the State, for any damage or loss which the Company, its employees or subcontractors and their employees may cause to the person, the property or the rights of other persons, caused by or resulting from Petroleum Operations.

The Company shall indemnify, defend and hold harmless the State against all claims, losses or damage whatsoever caused by, or resulting from, Petroleum Operations.

25.2. The Company shall take out and maintain in force, or cause to be taken out and maintained in force by its subcontractors, all insurances with respect to Petroleum Operations, of the type and for such amounts customarily used in the international petroleum industry, including, inter alia, third party liability insurances and insurances to cover damage to property and environment, without prejudice to such insurances as may be required under the Central African legislation.

The Company shall provide the Minister with the certificates justifying the subscription and maintenance of the above-mentioned insurances.

25.3. Where the Company consists of several entities, the obligations and responsibilities of those entities under this Contract shall be several, except their obligations relating to corporate tax.

- 25.4. If one of the entities constituting the Company is a subsidiary, its parent-company shall submit to the Minister for approval an undertaking guaranteeing the proper performance of the obligations arising from this Contract.

ARTICLE 26

CANCELLATION OF THE PERMIT, REVOCATION OF A CONCESSION AND TERMINATION OF THE CONTRACT

- 26.1. Pursuant to the provisions of the Petroleum Code, the Permit may be cancelled or a Concession may be revoked, as well as the Contract may be terminated, without compensation, under one of the following occurrences:
- (a) Material breach or recurrent breach by the Company of the provisions of the Petroleum Code or this Contract;
 - (b) Delay exceeding three (3) months incurred by the Company with respect to a payment due to the State;
 - (c) Stoppage of development work with respect to a Commercial Field during six (6) consecutive months;
 - (d) After commencement of production from a Commercial Field, stoppage of the exploitation thereof during one (1) year;
 - (e) Failure of the Company to comply, within the prescribed time period, with an arbitration award rendered in accordance with the provisions of Article 29 below;
or
 - (f) Bankruptcy, composition with creditors or liquidation of assets of the Company or its parent-company.
- 26.2. Except with respect to the occurrence set forth in paragraph (f) above, the State shall pronounce the forfeiture provided for in Article 26.1. only after having served formal notice on the Company, by registered mail with acknowledgement of receipt, to remedy the breach in question within three (3) months (or within six (6) months with respect to the occurrences set forth in paragraphs (c) and (d) above) from the date of receipt of such notice.

Should the Company fail to comply with such prescription within the prescribed time period, the State may pronounce ipso jure the cancellation of the Permit or the revocation of the Concession, as well as the termination of this Contract.

Any dispute as to whether any ground exists to justify the termination of the Contract pronounced by the State due to the forfeiture may be subject to arbitration in accordance with the provisions of Article 29. In that event, the Contract shall remain in force until the execution of the arbitration award by the Parties.

ARTICLE 27

APPLICABLE LAW AND STABILITY OF CONDITIONS

- 27.1. This Contract and the Petroleum Operations carried out under said Contract shall be governed by the laws and regulations in force in the Central African Republic.
- 27.2. The Company shall be subject at any time to the laws and regulations in force in the Central African Republic.
- 27.3. The Company shall not be subject to any provision which would give rise to an aggravation, whether directly or indirectly, in the charges and obligations arising from the regimes provided for in Part VIII of the Petroleum Code, as such regimes are determined by the legislation and regulations in force on the date of signing this Contract, unless as mutually agreed upon by the Parties.

ARTICLE 28

FORCE MAJEURE

- 28.1. Any obligation arising from this Contract which either Party is prevented from performing whether in whole or part (except with respect to the payments such Party is liable to), shall not be considered as a breach of this Contract if said non-performance is caused by a case of Force Majeure, provided, however, that there is a direct cause-and-effect relationship between the non-performance and the case of Force Majeure invoked.

For purposes of this Contract, cases of Force Majeure are considered to include all events which are unforeseeable, irresistible and beyond the control of the Party which invokes it, such as earthquake, strike, riot, insurrection, civil disturbances, sabotage, acts of war or acts attributable to war.

- 28.2. When either Party considers it is prevented from performing any of its obligations due to a case of Force Majeure, it shall immediately notify the other Party thereof, stating the grounds for establishing such case of Force Majeure, and it shall, in agreement with the other Party, take all necessary and useful action to assure the resumption of the obligations affected by the case of Force Majeure upon termination of that case of Force Majeure. The obligations other than those affected by the case of Force Majeure shall continue to be performed in accordance with the provisions of this Contract.
- 28.3. If the performance of any of the obligations of the Contract is delayed due to a case of Force Majeure, the duration of the resulting delay together with such time period as may be required for the repair of any damage caused by the case of Force Majeure, shall be added to the period provided for in the Contract for the performance of said obligation, as well as to the term of the Contract and that of the related Petroleum mining title.

ARTICLE 29

ARBITRATION AND EXPERTISE

- 29.1. In the event of any dispute between the State and the Company regarding the interpretation or execution of the provisions of this Contract, the Parties shall make their best efforts to settle such dispute amicably.

If, within three (3) months from the date of notice of such dispute, the Parties have not reached amicable settlement, the dispute shall be submitted, upon request of the most diligent Party, to the International Center for Settlement of Investment Disputes (ICSID) in order to be settled by arbitration in accordance with the rules set forth by the Convention on the Settlement of Investment disputes between States and Nationals of other States, which Convention was signed on March 18, 1965 and ratified by the Central African Republic on February 23, 1966.

The arbitration tribunal shall consist of three (3) arbitrators. No arbitrator shall be a national of the countries to which either Party belongs.

- 29.2. The seat of arbitration shall be Paris, France. The language used during the arbitration proceedings shall be the French language and the applicable law shall be the laws of the Central African Republic as well as the rules and practice of international law applicable on the subject matter.

The arbitration award shall be final; it shall be binding on the Parties and immediately enforceable.

The arbitration expenses shall be borne equally by the Parties, subject to the decision of the tribunal regarding the sharing thereof.

- 29.3. The Parties shall conform to any measure of conservation prescribed or recommended by the arbitration tribunal. A request to arbitration shall give rise to the suspension of the contractual provisions concerning the subject matter of the dispute, but all other rights and obligations of the Parties under this Contract shall not be suspended.

- 29.4. In the event of any difficulty arising from the execution of this Contract, the Parties hereby agree, prior to any arbitration or failing to reach amicable settlement, to request an expert to provide assistance for the amicable settlement of such dispute. Such expert shall be appointed by mutual agreement between the Parties or, failing such agreement, by the International Center for Technical Expertise of the International Chamber of Commerce, in accordance with its Regulations for Technical Expertise. The expert expenses and fees shall be shared equally by the Parties (or borne by the Company until granting the first Concession).

ARTICLE 30

MISCELLANEOUS PROVISIONS

- 30.1. All notifications or other communications with respect to this Contract shall be made in writing and shall be deemed to be valid as soon as they are delivered by hand upon receipt to a qualified representative from the Party involved at the location of its main office in the Central African Republic, or delivered by prepaid registered mail, with acknowledgement of receipt, or sent by telex or by fax confirmed by a letter and after acknowledgement of receipt by the addressee, to the addresses indicated below:

For the Central African Republic:

For the Company:

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Notifications shall be deemed to be delivered on the date the addressee receives them pursuant to the acknowledgement of receipt.

The State and the Company may at any time change their authorized representative, or modify the above-mentioned addresses, subject to at least ten (10) days' prior notice.

- 30.2. This Contract may be modified only in writing and by mutual agreement of the Parties.
- 30.3. Any waiver of the State concerning the execution of an obligation of the Company shall be in writing and signed by the Minister, and no waiver shall be considered as a precedent if the State does not exercise any of the rights which it is entitled to under this Contract.
- 30.4. Headings in this Contract are inserted for purposes of convenience and reference and in no event shall define, restrict or describe the scope or object of the Contract or of any of its clauses.

30.5. Appendices 1 and 2 attached hereto are an integral part of this Contract.

30.6. The decree approving this Contract shall be published in the Official Gazette of the Central African Republic, excluding the text of this Contract.

IN WITNESS WHEREOF, the Parties have signed this Contract in _____ () copies.

DONE IN BANGUI, _____

For the Central African Republic:
The Minister of Defense, Veterans,
Energy, Mines and Hydraulics

For the Company:

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APPENDIX 1

DELIMITATION OF THE EXPLORATION PERMIT

APPENDIX 2
ACCOUNTING PROCEDURE

ARTICLE 1

GENERAL PROVISIONS

1.1. Scope

This Accounting Procedure shall be used and observed for the performance of the obligations of the Contract to which it is attached.

The scope of this Accounting Procedure is to establish the rules and methods of accounting for determining the costs and expenses incurred by the Company with respect to the Petroleum Operations (hereinafter referred to as "Petroleum Costs").

1.2. Accounts and Statements

The Company shall record in separate accounts all transactions related to the Petroleum Operations and shall permanently maintain the accounts, books and registers which will set apart, inter alia, exploration expenditures, Appraisal expenditures with respect to each Discovery, and, as the case may be, development expenditures, production costs and financial costs with respect to each Concession, as well as general and administrative expenses.

The Company's accounts, books and registers shall be maintained in accordance with the rules of the chart of accounts in force in the Central African Republic and the rules and methods customarily used in the international petroleum industry.

In accordance with the provisions of Article 20.2. of the Contract, the Company's accounts, books and registers shall be maintained in the French language and expressed in Dollars.

Whenever it is necessary to convert into Dollars the expenses and receipts paid or received in any other currency, such expenses and receipts shall be valued on the basis of the exchange rate quoted at the Paris exchange market, in accordance with methods to be mutually agreed upon.

1.3. Interpretation

The definitions of the terms used in this Appendix 2 shall be the same as those of the corresponding terms set forth in the Contract.

In the event of any conflict between the provisions of this Accounting Procedure and the Contract, the provisions of the Contract shall prevail.

1.4. Modifications

The provisions of the Accounting Procedure may be modified by mutual agreement of the Parties.

The Parties hereby agree that if any provision of the Accounting Procedure proves inequitable to either Party, such provision shall be modified in good faith by the Parties in order to avoid any unfairness.

ARTICLE 2

PETROLEUM COSTS

The Company shall maintain accounts which will record in detail the Petroleum Costs borne with respect to the Petroleum Operations, and the following costs and expenses shall be charged to the debit of such accounts:

2.1. Personnel expenses

All payments made or expenses incurred to cover the salaries and wages of employees of the Company and its Affiliated Companies who are directly assigned either temporarily or continuously to the Petroleum Operations in the Central African Republic, including costs of legal and social insurance benefits as well as all additional costs or expenses provided for in the individual or collective employment contracts or as provided for in the administrative policies of the Company.

2.2. Buildings

Building costs, maintenance and related costs, as well as rents paid for all offices, houses, warehouses and buildings, including housing and recreational facilities for employees, and the costs of equipment, furniture, fixtures and supplies necessary for the operation of such buildings required for the performance of the Petroleum Operations.

2.3. Materials, equipment and rentals

The costs of equipment, materials, machinery, articles, supplies and facilities purchased or supplied for the requirements of the Petroleum Operations, as well as rentals or compensations paid or incurred for the use of any equipment and facilities required for the Petroleum Operations, including equipment belonging to the Company.

2.4. Transportation

Transportation of employees, equipment, materials and supplies within the Central African Republic, as well as between the Central African Republic and other countries, required for the Petroleum Operations. The costs of transportation of employees shall include the moving expenses for the employees and their families paid by the Company in accordance with its policies.

2.5. Services rendered by subcontractors

The costs of services rendered by subcontractors, consultants, experts, as well as the costs related to the services rendered by the State or any other Central African authority.

2.6. Insurance and claims

Premiums paid for insurance policies customarily subscribed for the Petroleum Operations to be performed by the Company as well as all expenses incurred and paid for the settlement of all losses, claims, compensations and other expenses, including those related to legal services, not recovered by the insurer and all expenses arising from court decisions.

If, after approval of the Minister, no insurance is subscribed with respect to a specific risk, all expenses incurred and paid by the Company for the settlement of all losses, claims, compensations, court decisions and other expenses.

2.7. Legal expenses

All expenses for the conduct, review and settlement of disputes or claims arising from the Petroleum Operations, or the expenses required to defend or recover assets acquired in the performance of the Petroleum Operations, including, inter alia, lawyer fees, court expenses, costs of investigations or inquiries and amounts paid in settlement or satisfaction of such disputes or claims. If such actions are to be conducted by the legal staff of the Company, a reasonable compensation shall be included in the Petroleum Costs, which shall not exceed in any case the cost of supplying said service usually charged by a Third Party.

2.8. General and administrative expenses ("Overheads")

- 2.8.1. Overheads in the Central African Republic shall represent the wages and expenses of the Company's employees engaged in the Petroleum Operations in the Central African Republic, whose work time is not directly allocated thereto, as well as the costs of maintaining and operating in the Central African Republic a main administrative office and sub-offices necessary for the Petroleum Operations.
- 2.8.2. The Company shall add a reasonable amount as foreign overheads necessary for the performance of the Petroleum Operations and borne by the Company and its Affiliated Companies; such amounts shall correspond to the costs of the services rendered for the benefit of the Petroleum Operations.

The amounts charged shall be provisional amounts established on the basis of the experience of the Company and shall be adjusted annually according to the actual costs borne by the Company, provided, however, such amounts shall not exceed the following limits:

- (a) prior to the granting of the first Concession: _____ percent (___%) of the Petroleum Costs excluding Overheads ;
- (b) from the granting of the first Concession : _____ percent (___%) of the Petroleum costs excluding financial costs and Overheads.

2.9. Other expenses

All expenses incurred by the Company (including interests on funds provided to the Company for purposes of financing the development and transportation Petroleum Operations, as determined in accordance with the provisions of paragraphs 3 and 4 of Article 71 of the Petroleum Code) other than the expenses covered and set forth by the preceding provisions of this Article 2 of this Appendix 2, and other than the expenses excluded from the Petroleum Costs in accordance with the provisions of the Contract.

ARTICLE 3

COST EVALUATION BASIS FOR SERVICES, MATERIALS AND EQUIPMENT USED IN THE PETROLEUM OPERATIONS

3.1. Technical services

A reasonable rate shall be charged for the technical services rendered by the Company or its Affiliated Companies for the benefit of the Petroleum Operations carried out under this Contract, such as gas, water, core analyses and any other analyses and tests, provided that such rates shall not exceed those normally charged by independent technical service companies and laboratories for like services.

3.2. Purchase of materials and equipment

The materials and equipment purchased and the services rendered necessary for the Petroleum Operations shall be charged to the Petroleum Costs Account at the "Net Cost" incurred by the Contractor.

"Net Cost" shall include the cost of purchasing (after deduction of discounts and reductions obtained, if any) and such items as taxes, shipping agent fees, transportation, loading and unloading costs, licence fees related to the supply of materials and equipment, as well as transit losses not recovered through insurance.

3.3. Utilization of equipment and facilities owned by the Company

Equipment and facilities owned by the Company and used in the Petroleum Operations shall be charged to the Petroleum Costs Account at a rental rate which shall cover maintenance, repairs, depreciation and services required for the Petroleum Operations, provided such costs shall not exceed those normally charged in the Central African Republic for like services.

3.4. Valuation of material

All material transferred from the warehouses of the Company or its Affiliated Companies, or by any entity constituting the Company or their Affiliated Companies, shall be valued as follows:

(a) New material

New material (condition "A") means new material which has never been used: one hundred percent (100%) of the Net Cost.

(b) Material in good condition

Material in good conditions (condition "B") means material in good condition which is still usable for its initial purpose without repair: seventy-five percent (75%) of the Net Cost of new material as defined in paragraph (a).

(c) Other used material

Other used material (condition "C") means material still usable for its initial purpose, but only after repairs and reconditioning: fifty percent (50%) of the Net Cost of new material as defined in paragraph (a).

(d) Material in poor condition

Material in poor conditions (condition "D") means material no longer usable for its initial purpose, but still usable for other purposes: twenty-five percent (25%) of the Net Cost of new material as defined in paragraph (a).

(e) Scrap and discard

Scrap and discard (condition "E") means material beyond usage and repair: prevailing price of scrap material.

(f) Valuation

The Parties may replace the rates specified in paragraphs (b) to (e) by valuations jointly made by their representatives.

3.5. Materials and equipment disposed by the Company

- (a) Materials, equipment and consumables purchased by all the entities constituting the Company or shared among them in kind shall be valued in accordance with the principles defined in Article 3.4. above.
- (b) Materials and equipment purchased by any entity constituting the Company or by Third Parties shall be valued at the sales price received which shall in no event be less than the price determined in accordance with the principles defined in Article 3.4. above.
- (c) The corresponding amounts shall be credited to the Petroleum Costs Account.

ARTICLE 4

DEPRECIATION OF CAPITAL EXPENDITURES AND EXPLORATION EXPENDITURES

4.1. Capital expenditures

For purposes of determining the taxable net profit arising from all the Petroleum Operations carried out by the Company in the territory of the Central African Republic, capital expenditures incurred by the Company and necessary for the Petroleum Operations shall be depreciated under a straight-line basis.

The minimum duration of depreciation shall be five (5) Calendar Years (or ten (10) Calendar Years with respect to capital expenditures relating to transportation) from the Calendar Year during which such capital expenditures are incurred, or from the Calendar Year during which the assets corresponding to such capital expenditures are put into normal service, whichever is later.

4.2. Exploration expenditures

Petroleum exploration expenditures incurred by the Company in the territory of the Central African Republic, including, inter alia, geological and geophysical exploration costs and exploratory well drilling costs (excluding productive exploratory well costs which shall be capitalized) shall be considered as charges entirely deductible upon the year they are incurred or may be depreciated under a depreciation regime selected by the Company.

ARTICLE 5

DETERMINATION OF THE SUPPLEMENTARY PETROLEUM PAYMENT

For purposes of determining the supplementary petroleum payment, the following terms shall have the following meaning:

5.1. Accumulated net revenues

The sum of the Company's profits after payment of corporate tax, of royalty on production and, as the case may be, of the supplementary petroleum payment, calculated from the Effective Date up to the end of the preceding Year.

5.2. Accumulated Investments

The sum of exploration expenditures, Appraisal expenditures and development expenditures (excluding, inter alia, financial costs, production and transportation costs, Overheads) which are charged to the Petroleum Costs account in accordance with Article 1.2. of the Accounting Procedure, calculated from the Effective Date up to the end of the preceding Year, without any deduction of depreciation which may have been made by the Company.

ARTICLE 6

INVENTORIES

6.1. Frequency

The Company shall keep permanent inventories both in quantity and value of all materials used in the Petroleum Operations and shall proceed at reasonable intervals, at least once a year, with the physical inventories such as required by the Parties.

6.2. Notification

A written notice of intention to conduct an inventory shall be sent by the Company at least sixty (60) days before the commencement of said inventory, so that the Minister and the entities constituting the Company may be represented, at their expense, during the inventory operations.

6.3. Information

In the event the Minister or any entity constituting the Company shall not be represented during an inventory, said Party or Parties shall be bound by the inventory established by the Company, which shall then furnish to such Party or Parties a copy of said inventory.