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EQUATORIAL GUINEA

Model Petroleum Production Sharing  
Contract Of November 1998

## CONTRACT

### BETWEEN

THE REPUBLIC OF EQUATORIAL GUINEA (hereinafter sometimes referred to as the "State"), represented for purposes of this Contract by THE MINISTRY OF MINES AND ENERGY of the REPUBLIC OF EQUATORIAL GUINEA (hereinafter referred to as the "Ministry"),

### AND

\_\_\_\_\_, a corporation organized and existing under the laws of \_\_\_\_\_, having its headquarters in \_\_\_\_\_ (hereinafter referred to as "Contractor"), represented for purposes of this Contract by \_\_\_\_\_, its \_\_\_\_\_

The State and Contractor hereinafter are referred to either individually as "Party" or collectively as "Parties".

### WITNESSETH :

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

**WHEREAS**, the State wishes to promote the development of Petroleum deposits in and throughout the Contract Area and Contractor desires to join and assist the State in accelerating the exploration and development of the potential resources within the Contract Area ; and

**WHEREAS**, Contractor represents that it has the financial ability, technical competence and professional skills necessary to carry out the Petroleum Operations hereinafter described ; and

**WHEREAS**, in accordance with Decree-Law N° 7/1981 of June 16, 1981 with respect to Hydrocarbons, relevant amendments, and regulations made thereunder, agreements in the form of Production Sharing Contracts may be entered into between the State and foreign capital investors ;

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

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□ **ARTICLE 1**

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□ **SCOPE AND DEFINITIONS**

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□ **1.1. Scope**

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This Contract is a Production Sharing Contract. In accordance with the provisions herein contained, the Ministry shall be responsible for managing the Petroleum Operations contemplated in this Contract.

Contractor shall :

- (a) be responsible to the State for the execution of the Petroleum Operations in accordance with the provisions of this Contract; and is hereby appointed and constituted the exclusive company to conduct Petroleum Operations in the Contract Area for the term hereof;
- (b) provide all necessary capital, machinery, equipment, technology and personnel necessary for the conduct of Petroleum Operations;
- (c) bear the risk of Petroleum Costs required in carrying out Petroleum Operations and shall therefore have an economic interest in the rapid development of the Petroleum deposits in the Contract Area. Such Petroleum Costs shall be recoverable as provided in Article 7.

During the term of this Contract the total production achieved in the conduct of the Petroleum Operations shall be shared between the Parties in accordance with the provisions of Article 7 of this Contract.

**1.2. Definitions**

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

- (a) "Calendar Year" or "Year" means a period of twelve (12) months commencing January 1st and ending on the following December 31st, according to the Gregorian Calendar.
- (b) "Contract Year" means a period of twelve (12) consecutive months according to the Gregorian Calendar, counted from the Effective Date of this Contract or from the anniversary of such Effective Date.
- (c) "Contract Area" means the geographic territory of the Republic of Equatorial Guinea the subject of this Contract, after deduction of



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relinquishments provided in Article 2. Such Contract Area is described in Annex "A" and delineated in Annex "B" attached hereto and incorporated herein.

- (d) **"Development Area"** means an area within the Contract Area encompassing the geographical extension of a Commercial Field subject to a development and production plan, as determined in accordance with the provisions of Article 5.6.
- (e) **"Appraisal Area"** means an area within the Contract Area encompassing the geographical extension of a Discovery subject to an appraisal work program and corresponding budget, as determined in accordance with the provisions of Article 5.2.
- (f) **"Barrel"** means a quantity or unit of Crude Oil equal to 158.9874 litres (forty-two (42) United States gallons) at a temperature of 15.56 degrees centigrade (sixty -60) degrees Fahrenheit) under one atmosphere of pressure.
- (g) **"Commercial Field" or "Field"** means a Discovery that, in the judgment of the Contractor, can be produced commercially after consideration of all pertinent operating and financial data collected during the performance of the appraisal work program and otherwise, as provided in Article 5.3, including, but not limited to, Crude Oil or Natural Gas recoverable reserves, sustainable production levels and other relevant technical and economic factors, according to generally accepted international petroleum industry practice. A Field may consist of a Petroleum reservoir or multiple Petroleum reservoirs all grouped on or related to the same individual geological structure features or stratigraphic conditions. All reservoirs overlying and underlying a Field shall constitute part of such Field.
- (h) **"Affiliated Company" or "Affiliate"** of any specified Person means any other person directly or indirectly controlling or controlled by, or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct, administer and dictate policies of such Person, through the ownership of a percentage of such Person's voting securities enough to hold a majority of voting rights at general meetings; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.
- (i) **"Discovery"** means an occurrence of Petroleum recovered at the surface which was not previously known to have existed and which is measurable by conventional petroleum industry practices.
- (j) **"Foreign Exchange"** means currency acceptable to the Parties other than that of the Republic of Equatorial Guinea.
- (k) **"Dollar"** means dollar of the United States of America.

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- (l) **"Effective Date"** means the date of the execution of this Contract by the Parties, as defined in Article 24.
- (m) **"Natural Gas"** means hydrocarbons that at atmospheric conditions of temperature and pressure are in a gaseous phase, including wet mineral gas, dry mineral gas, wet gas and residue gas remaining after the extraction, processing or separation of liquid hydrocarbons from wet gas, as well as non-hydrocarbon gas or gases produced in association with liquid or gaseous hydrocarbons.
- (n) **"Exploration Expenditures"** means direct expenditures on Exploration Operations and overhead expenses made in connection with exploration of the Contract Area. These expenditures shall be determined in accordance with the Accounting Procedure attached hereto as Annex "C", but expenditures made within a Development Area shall be excluded.
- (o) **"Development and Production Expenditures"** means direct expenditures on Development and Production Operations and overhead expenses made in connection with the development and production of a Field, excluding expenditures made within the corresponding Development Area before the Discovery has been declared as Commercial Field, all as determined in accordance with the Accounting Procedure attached hereto as Annex "C".
- (p) **"Petroleum Operating Costs"** means expenditures made and obligations incurred by Contractor in carrying out Petroleum Operations hereunder, determined in accordance with the Accounting Procedure attached hereto as Annex "C".
- (q) **"Gross Revenues"** means the total income from sales of Hydrocarbons from Contract Area in equivalent monetary value.
- (r) **"Income Tax"** means that tax levied on net income of pursuant to the Petroleum Income Tax Law of the Republic of Equatorial Guinea dated \_\_\_\_\_.
- (s) **"Petroleum Law"** means Decree-Law N° 7/1981 of June 16th, 1981, as amended from time to time.
- (t) **"Tax Law"** means the Decree Law no 1/1986 dated 10<sup>th</sup> February 1986 of the Republic of Equatorial Guinea and its subsequent amendments.
- (u) **"LIBOR"** means the London Interbank Offered Rate of Interest on six (6) month Dollar deposits, as quoted at 11:00 a.m. in London, United Kingdom, by the National Westminster Bank or any other bank agreed upon by the Parties, on the first banking day of each month for which interest is due.

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- (v) **"Maximum Efficient Rate"** means the maximum rate of production of hydrocarbons in a field which will not cause damage to the formation and which will not cause a diminution in pressure of more than 90% of the initial pressure and which accords with normal industry practice and is in accord with Article 6.4 of this Contract.
- (x) **"Exploration Operations"** includes, without limitation, geological studies, geophysical studies, aerial mapping, investigations relating to the subsurface geology, stratigraphic test drilling, exploratory wells, and related activities such as drillsite preparation, surveying and all work necessarily connected therewith, that is conducted in connection with exploration for Crude Oil and/or Natural Gas.
- (y) **"Development and Production Operations"** means all operations other than Exploration Operations conducted to facilitate extraction and the production of Crude Oil and Natural Gas.
- (z) **"Person"** means any individual, corporation, partnership, joint venture, association, trust, estate, unincorporated organization of government or any agency or political subdivision thereof.
- (aa) **"Crude Oil"** means hydrocarbons which are produced at the wellhead in liquid state at atmospheric pressure, crude mineral oil, asphalt and ozokerites and the liquid hydrocarbons known as condensate and Natural Gas liquids obtained from Natural Gas by condensation or extraction.
- (ab) **"Well"** means any opening in the ground or seabed made or being made by drilling or boring, or in any other manner, for the purpose of discovering and/or producing Crude Oil or Natural Gas, or for the injection of any fluid into an underground deposit, other than a seismic hole or a structure test hole or stratigraphic test hole.
- (ac) **"Exploration Well"** means all wells that are not development, appraisal, injection or investigation, but have the sole objective of discovering the existence of hydrocarbons or to make necessary studies to allow the discovery of hydrocarbons.
- (ad) **"Observation Well"** means a well drilled with the objective of increasing the knowledge of a reservoir.
- (ae) **"Development Well"** means a well drilled with the purpose of producing hydrocarbons or to help in their recovery.
- (af) **"Appraisal Well"** means a well drilled following the discovery of hydrocarbons with the objective of delimiting and mapping the reservoir, and also to estimate the quantity of recoverable hydrocarbons.
- (ag) **"Annual Work Program"** means an itemized statement of the Petroleum Operations to be carried out during a Calendar Year in the Contract Area

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as set forth in Article 4.

- (ah) **"International Market Price"** means the price paid for Crude Oil, at the place of treatment or consumption or an agreed price based on equivalent grade Crude Oil that is found in other regions and under similar commercial conditions, including the destination and use of the aforementioned Crude Oil, taking into account the market conditions and the types of contracts.
- (ai) **"Annual Budget"** means the estimate of the costs of all items included in an Annual Work Program.
- (aj) **"Delivery Point"** means the F.O.B. Petroleum loading point at the export terminal or any other point which may be agreed upon by the Parties.
- (ak) **"Royalties"** means a payment for each field based on a percentage calculated as a function of the quantity of daily production, and is an entitlement of the State in addition to the Crude Oil and Natural Gas produced, saved, sold and otherwise disposed of during the Petroleum Operations.
- (al) **"Petroleum Operations Regulations"** means the regulations issued under the Hydrocarbon Law, Decree Law No. 7/1981.
- (am) **"Semester"** means a period of six (6) consecutive months, commencing the first of January and the first of July of each Calendar Year.
- (an) **"Quarter"** means a period of three consecutive months beginning January 1st, April 1st, July 1st or October 1st and ending March 31st, June 30th, September 30th or December 31st, respectively.

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## ARTICLE 2

### EXPLORATION PERIOD AND RELINQUISHMENTS

2.1. Contractor is authorized under this Contract to conduct Petroleum Exploration Operations within the Contract Area during an initial term of the exploration period of five (5) Contract Years, divided into two (2) sub-periods of three (3) and two (2) years respectively.

2.2. In the event Contractor has fulfilled its exploration work obligations set forth in Article 3 with respect to the current term of the exploration period, Contractor shall have the right to be granted two renewals each of one year duration of the exploration period.

For each such renewal, Contractor shall file an application with the Ministry, no later than two (2) months prior to the expiry of the current term of the exploration period. The renewal shall be granted by the Ministry in written form.

2.3. If, upon expiry of the second renewal of the exploration period provided in Article 2.2, an appraisal work program with respect to a Discovery, as set forth in Article 5, is actually under progress, Contractor shall obtain, provided it shall have fulfilled all its exploration work obligations set forth in Article 3 with respect to that term of the exploration period, upon application with respect to the Appraisal Area related to said Discovery, the extension of the exploration period for the duration necessary to complete the appraisal work, which shall not, however, exceed six (6) months.

In such a case, Contractor shall file an application for the above-mentioned extension with the Ministry at least two (2) months prior to the expiry of the second renewal of the exploration period.

If the contractor decides not to extend the initial period of exploration, as outlined in Article 2.2, or if during an extended period of exploration the Contractor does not encounter a commercial discovery, this contract will terminate automatically.

2.4. Contractor undertakes to relinquish to the State at least forty percent (40%) of the initial area of the Contract Area by the end of the initial period of exploration and then twenty five percent (25%) of the remaining area by the end of each period of extension.

2.5. For purposes of Article 2.4. :

(a) The area already relinquished under Article 2.4, the Appraisal Areas and the Development Areas shall be deducted from the areas to be relinquished;

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- (b) Contractor shall have the right according to generally accepted technical principles in the petroleum industry to define the size, shape and location of the portion of the Contract Area which it intends to keep. However, the relinquished portion shall constitute a limited number of perimeters of a simple geometric shape, delimited by North-South and East-West lines or by natural boundaries;
- (c) The application for renewal shall be accompanied with a map specifying the Contract Area kept by Contractor along with a report specifying the work performed on the relinquished areas since the Effective Date and the results obtained therefrom.

- 2.6. Contractor may at any time notify the Ministry, with at least three (3) months' prior notice, that it relinquishes its rights on all or part of the Contract Area.

In any event, any voluntary relinquishment during any term of the exploration period shall not reduce the exploration work obligations set forth in Article 3 for such term of the exploration period, nor the amount of the corresponding guarantee.

- 2.7. Upon expiry of the second renewal of the exploration period provided in Article 2.2, subject to the provisions of Article 2.3, Contractor shall relinquish the remaining area of the Contract Area, except the areas designated as Development Areas.
- 2.8. No relinquishment made in accordance with this Article 2 shall relieve Contractor of the obligation to pay surface rentals accrued, or making payments due and payable as a result of Petroleum Operations conducted through the date of relinquishment.

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### ARTICLE 3

#### EXPLORATION WORK OBLIGATIONS

3.1. During the initial term of the exploration period of five ( 5 ) Contract Years provided in Article 2.1, Contractor undertakes to carry out the following minimum programme of works:

(a) A regional study comprising (as necessary) data processing, interpretation, reprocessing and reinterpretation of all existing data relating to the contract area.

□ (b) carry out at least ( ) kilometers of seismic survey

During the second sub-period of exploration

□ (c) drill at least two ( 2 ) exploratory wells

3.2. During the first renewal of the exploration period of one ( 1 ) Contract Years provided in Article 2.2, Contractor shall be obliged to drill one well (either an exploration or evaluation/appraisal well).

3.3. During the second renewal of the exploration period of one ( 1 ) Contract Years provided in Article 2.2, Contractor shall be obliged to drill one well (either an exploration or evaluation/appraisal well).

3.4. Each exploratory well set forth above shall be drilled to a depth necessary to fulfill defined objectives or to a lesser depth if authorized by the Ministry or 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 clearly dangerous due to abnormal formation pressure;

(c) rock formations are encountered, the hardness of which makes it impractical to continue drilling with appropriate equipment; or

(d) petroleum formations are encountered, requiring the installation of protective casings which prevent reaching the above-mentioned minimum contractual depth.

In any of the above cases, Contractor shall obtain the approval of the Ministry, prior to discontinuing drilling, which approval shall be granted inside of two (2) working days and not be unreasonably withheld, and, by this approval, the Well in question shall be deemed to have reached to the above-mentioned minimum contractual depth.

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- 3.5. If either during the initial term of the exploration period or during the term of the first renewal of the exploration period provided in Articles 2.1 and 2.2 respectively, Contractor drills a number of exploratory wells greater than the minimum drilling obligations specified for said period in Articles 3.1 and 3.2 respectively, the excess exploration wells may be carried forward to the following term(s) of the exploration period and shall be deducted from the minimum drilling obligations specified for said term(s), provided that at least one exploratory well shall be drilled during the term of each renewal of the exploration period.
- 3.6. Any provision to the contrary notwithstanding, this Contract shall not become effective until Contractor shall provide an irrevocable bank guarantee acceptable to the Ministry, guaranteeing its minimum exploration work obligations for the initial term of the exploration period provided in Article 3.1. This bank guarantee shall be under the form provided in Annex D of this Contract.

After the payment has been made, Contractor shall be deemed to have fulfilled its minimum exploration work obligations under Article 3.1 of this Contract; Contractor may, except in the event of termination of the exploration period due to a material breach of this Contract, continue to benefit from the provisions of said Contract and obtain the renewal of the exploration period, subject to application in the appropriate manner.

The Contractor shall provide a bank guarantee acceptable to the Ministry in the following form:

The Contractor shall provide a bank guarantee acceptable to the Ministry for the amount of Five Million United States Dollars (US\$ 5,000,000) for each well that the Contractor is obliged to drill, and two million United States Dollars (US\$ 2,000,000) for other petroleum operations that the Contractor is obliged to undertake during the first sub-period of the initial period of exploration.

If the Contractor decides to extend the initial period of exploration, as outlined in Article 2.2, then the Contractor shall, prior to the date of commencement, provide a bank guarantee acceptable to the Ministry corresponding to Five Million United States Dollars (US\$ 5,000,000) for each well that the Contractor is obliged to drill during whichever period of extension.

Upon submission to the Ministry by the Contractor of its detailed accounts for a period since the last such submission of accounts to the end of the month under consideration, the applicable bank guarantees shall be automatically reduced by the Contractor's notice to the issuing bank on the basis of the amount of expenditures actually made by the Contractor so as to reflect the balance of the Contractor's minimum expenditure obligation required in this Article. Further, upon completion by the Contractor of any specific operation included in the minimum work program as provided in Article 4, the remaining balance, if any, of the bank guarantee provided for the operation concluded, upon the Contractor's notice to the issuing bank, shall be automatically reduced to zero, and

If (i) at the end of the Initial Exploration period, (ii) at the end of any extension of the



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Initial Exploration period, or (iii) upon the date of termination of this Contract, as the case may be, the Contractor has not expended a sum of money at least equal to the total minimum expenditure for petroleum operations required in this Article to be expended at the applicable time, the balance of the security corresponding to the unexpended minimum expenditure for petroleum operations which this Contract required be expended at that time automatically shall be paid to the State, except when the minimum Work program as provided under Article 3 and annually defined in accordance with Article 4 has been carried out in full.

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## ARTICLE 4

### PREPARATION AND APPROVAL OF ANNUAL WORK PROGRAMS

- 4.1. No later than forty-five (45) days prior to the beginning of each Calendar Year, or, for the first Calendar Year, no later than two (2) months after the Effective Date, Contractor shall prepare and submit for approval by the Ministry a detailed itemized Annual Work Program by quarters, along with the corresponding Annual Budget for the Contract Area, setting forth the Petroleum Operations the Contractor proposes to carry out during said Calendar Year.

Each Annual Work Program and corresponding Annual Budget shall be broken down into the various exploration operations and, as the case may be, the appraisal operations with respect to each Appraisal Area, and the development and production operations with respect to each Development Area.

- 4.2. The Ministry may propose amendments or modifications to the Annual Work Program and corresponding Annual Budget by notice to Contractor, including all justifications deemed necessary, within thirty (30) days following receipt of said Program. In such a case, the Ministry and Contractor shall meet as soon as possible to review the requested amendments or modifications and establish by mutual agreement the Annual Work Program and corresponding Annual Budget in final form, in accordance with good international petroleum industry practice. The date of approval of the Annual Work Program and corresponding Annual Budget shall be the date of the above-mentioned mutual agreement.

Failing notice by the Ministry to Contractor of his wish to amend or modify the Annual Work Program and corresponding Annual Budget within the above-mentioned period of thirty (30) days, said Program and Budget shall be deemed approved by the Ministry upon the expiry date of said period.

In any case, each operation included in the Annual Work Program shall be diligently performed by the Contractor.

- 4.3. It is acknowledged by the Ministry and Contractor that the results acquired as the work progresses or certain changes in circumstances may justify modifications to the Annual Work Program. In such a case, after notification to the Ministry, Contractor may make such modifications provided the basic objectives of said Annual Work Program are not modified.

In any case, the expenditures incurred for purposes of such modifications shall not exceed the initial Annual Budget approved by the Ministry by more than five percent (5%) without his written consent.

- 4.4. The Parties further recognise that in the event of an emergency of extraordinary

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circumstances requiring immediate action, either party may take all actions it deems proper to protect its interests and those of its employees and any costs so incurred by the Contractor shall be included in the Petroleum Operating Costs. Costs incurred by the Contractor related to cleaning up pollution or damage to the environment caused by the Contractor shall not be included in the the Petroleum Operating Costs.

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## ARTICLE 5

### APPRAISAL OF A DISCOVERY, DEVELOPMENT AND PRODUCTION PERIOD

- 5.1. If the Contractor discovers Petroleum within the Contract Area, it shall notify the Ministry in writing thereof as soon as possible. This notice shall include all relevant information developed in accordance with generally accepted practice of the international petroleum industry, and particulars on any testing program which Contractor shall carry out, in accordance with good international petroleum industry practice, to contribute to the evaluation of the Petroleum shows encountered during drilling.

Within thirty (30) days following the date of suspension or abandonment of the Discovery Well, Contractor shall submit to the Ministry a report giving all the information associated with said Discovery, including the results of the production tests, and specifying the recommendations of Contractor with respect to the continuation of appraisal operations on said Discovery.

- 5.2. If Contractor considers that the above-mentioned Discovery merits appraisal, it shall diligently submit to the Ministry a detailed appraisal work program and the estimated corresponding budget, no later than six (6) months following the date on which the Discovery has been notified as set forth in Article 5.1.

This appraisal work program shall specify the estimated extension of said Discovery, which area shall be designated as Appraisal Area. This work program shall also include all seismic, drilling, testing and appraisal operations necessary to carry out an appropriate evaluation of the Discovery. Contractor shall then diligently undertake the appraisal work in compliance with said program, it being understood that the provisions of Article 4.3 shall apply to said program.

The duration of the appraisal work program shall not exceed twenty ( 20 ) months, unless as otherwise agreed in writing by the Ministry.

- 5.3. Within three (3) months following completion of the appraisal work program and no later than thirty (30) days prior to the expiry of the term of the second renewal of the exploration period defined in Article 2.2, including any extension thereof in accordance with the provisions of Article 2.3, Contractor shall submit to the Ministry a detailed report giving all the technical and economic information associated with the Petroleum Discovery so appraised and which shall establish, in Contractor's opinion, whether said Discovery is a Commercial Field.

Such report shall include, *inter alia*, the following information: geological and petrophysical characteristics of the Discovery; estimated delimitation of the

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Discovery; results of the drill stem tests and production tests performed; preliminary economic study with respect to the exploitation of the Discovery.

- 5.4. For the purposes of Article 5.3, Contractor shall make a determination as to whether a Discovery is a Commercial Field on the basis of whether that Discovery can be produced commercially after consideration of all pertinent operating and financial data collected during the performance of the appraisal work program and otherwise, including, but not limited to, Crude Oil and Natural Gas recoverable reserves, sustainable production levels and other relevant technical and economic factors, according to generally accepted international petroleum industry practice.
- 5.5. Any quantity of Petroleum produced from a Discovery before it is declared as Commercial Field, if it is not used for the Petroleum Operations or lost, shall be subject to the provisions of Articles 7, 8 and 9.
- 5.6. If Contractor deems the Discovery to be a Commercial Field, it shall submit for approval to the Ministry, within five (5) months following the remittance of the report referred to in Article 5.3, and no later than thirty (30) days prior to the expiry of the term of the second renewal of the exploration period defined in Article 2.2, including any extension thereof in accordance with the provisions of Article 2.3, a development and production plan including the elements provided in Article 8 (Field Development) of the Petroleum Regulations.

The Ministry may propose amendments or modifications to the above-mentioned development and production plan, as well as to the requested Development Area, by notice to Contractor including all the justifications deemed necessary, within ninety (90) days following receipt of said plan. The provisions of Article 4.2 shall be applicable to said plan as regards the approval thereof.

When the results obtained during development work require some modifications to the development and production plan, said plan may be modified by using the same procedure as that provided for above as regards the initial approval thereof.

- 5.7. If Contractor discovers more than one Commercial Field in the Contract Area, each of them shall be the subject of a separate Development Area and development and production plan. The number of Development Areas in the Contract Area is not limited.
- 5.8. If during work performed after approval of the development and production plan, it appears that the extent of the Field is larger than the Development Area designated pursuant to Article 5.6, the Ministry shall grant Contractor the additional area, provided that such area is an integral part of the Contract Area then in force and provided that Contractor provides the technical evidence of the existence of the extension so requested.
- 5.9. In the event a Field extends beyond the boundaries of the Contract Area in

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force, the Ministry may require Contractor to exploit said Field in association with the Contractor of the adjacent area in accordance with the provisions of Article 8.4 of the Petroleum Regulations.

When this applies to a Free Area, the Ministry may award an extension of the Contract Area to cover the limits of the Field, always in accordance with the Hydrocarbon Law and reflects new contractual obligations on the Contractor relative to such extensions.

- 5.10. Contractor shall commence development operations within six (6) months after the date of approval of the development and production plan set forth in Article 5.6 and shall pursue said operations diligently.

Contractor undertakes to perform the development and production operations in accordance with good international petroleum industry practice, and the provisions of the Petroleum Regulations.

- 5.11. The duration of the development and production period during which Contractor is authorized to produce a Field is set at twenty-five (25) years from the date of approval of the development and production plan related to said Field.

Upon expiry of the initial development and production period defined above, such period may, at the Ministry's option, be extended for an additional period of not more than ten (10) years; if Contractor submits a request to this effect to the Ministry at least one (1) year prior to said expiry, provided also that Contractor has fulfilled all its contractual obligations during the initial development and production period and provided that it can demonstrate that a commercial production from the corresponding Field is still possible after the initial development and production period.

- 5.12. Contractor undertakes to perform at its own expense and financial risk all Petroleum Operations useful and necessary for placing the Field in production, in accordance with the development and production plan approved.
- 5.13. Contractor may at any time relinquish its rights on any Development Area subject to six (6) month's prior notice to the Ministry, provided it has fulfilled all its contractual obligations under this Contract.
- 5.14. Any stoppage of production operations for a period of at least six (6) months decided by Contractor without the Ministry's consent shall entitle the Ministry to terminate this Contract in accordance with the provisions of Article 19.
- 5.15. For the duration of the exploration period, the Ministry may, with at least six months' prior notice, require Contractor to relinquish immediately without any compensation all its rights over the area encompassing a Discovery, including all its rights over Petroleum which may be produced from said Discovery, if Contractor:

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- (a) has not submitted an appraisal work program with respect to said Discovery within six (6) months following the date on which said Discovery has been notified to the Ministry; or
- (b) does not declare the Discovery as a Commercial Field within two (2) years after completion of appraisal work with respect to said Discovery.

The Ministry may then perform or cause to be performed any appraisal, development, production, treatment, transportation and marketing work with respect to said Discovery, without any compensation to Contractor, provided, however, it shall not cause prejudice to the continued performance of the Petroleum Operations by Contractor in the balance of the Contract Area.

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## ARTICLE 6

### CONTRACTOR'S RIGHTS AND OBLIGATIONS RELATING TO THE CONDUCT OF PETROLEUM OPERATIONS

- 6.1. Contractor shall supply all the necessary funds and purchase or rent all the equipment and materials required for the performance of the Petroleum Operations. It shall also supply all the technical expertise, including the use of the foreign personnel required for implementing the Annual Work Programs. Contractor shall be responsible for the preparation and implementation of the Annual Work Programs which shall be performed in the most appropriate way in accordance with good international petroleum industry practice.
- 6.2. Where Contractor consists of several entities, it shall, upon the Effective Date, provide the Ministry with a copy of the Joint Operating Agreement which binds the entities constituting the Contractor, while specifying the name of the entity appointed as "Operator" which shall be responsible for the conduct of Petroleum Operations.
- 6.3. Within six (6) months following the Effective Date, Contractor shall open an office in the Republic of Equatorial Guinea and keep it in existence during the term of this Contract. Said office shall be manned by at least one representative, to whom any notice under this Contract may be delivered.
- 6.4. Contractor shall conduct the Petroleum Operations provided under this Contract diligently and in accordance with generally accepted practice in the international petroleum industry, and the provisions of the Petroleum Regulations.

**Maximum Efficient Rate:** Contractor will produce crude oil from the Area of Contract in such a manner that it reaches the maximum efficient rate. The Contractor and the MINISTRY will revise production programs before production starts in any field and establish from the start the maximum efficient rate and level of production required for Natural Gas, and fix the dates when such coefficients and levels should be reviewed with the expectation of introducing any necessary adjustments. In the case of the Natural Gas, the level of production will be not less than what is required in order to fulfill the requirements of any Natural Gas Buy/Sell Contract. In the case of crude oil the level of production will be not less than what is necessary in order to satisfy any effective Contract for the sale of crude oil. In no cases will production levels be enough to cause damage to the reservoirs.

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



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6.6. If, after the Effective Date, other Persons are granted permits or licenses within the Contract Area concerning the exploration and production of any minerals or substances other than Crude Oil or Natural Gas, Contractor shall use its best efforts to avoid obstruction or interference with such licensees' operations within the Contract Area. The Ministry shall use its best efforts to ensure that operations of third parties do not obstruct Contractor's Petroleum Operations within the Contract Area.

6.7. In the exercise of its right to build, perform, work and maintain all facilities necessary for purposes of this Contract, Contractor shall not occupy land located within less than fifty (50) meters from any building, burial place, enclosing wall, yard and garden, house, group of dwellings, village, urban center, well, water point, reservoir, street, road, railway, pipeline, works of public interest or infrastructure works, unless prior authorization is obtained from the Ministry. Contractor shall repair any damage caused during such work.

The design and construction of houses, offices and other facilities on behalf of the Contractor shall be of a permanent nature.

6.8. Contractor and its sub-contractors undertake to give preference to Equatoguinean enterprises, goods and services, under competitive conditions in terms of price, quantity, quality, terms of payment and delivery time.

Contractor and its sub-contractors shall call for bids from Equatoguinean and foreign businesses for supply, construction or services contracts the value of which exceeds five hundred thousand (500,000) Dollars, it being understood that Contractor shall not unduly break down said contracts into component parts. The selection of the subcontractors, negotiation of terms and conditions shall be the exclusive responsibility of the Contractor.

A copy of such contract and other third party arrangement pertaining to the Petroleum Operations shall be furnished to the Ministry upon execution thereof.

6.9. Contractor shall specify all such contracts in the Annual Work Programs.

6.10. From the commencement of the Petroleum Operations, Contractor shall ensure priority employment for Equatoguinean personnel and contribute to the training of that personnel in order to allow them access to any position in the Petroleum Operations. Contractor may only employ expatriate personnel and subcontractors if there is no possibility of recruiting Equatoguinean personnel in the required specialties.

For that purpose Contractor shall establish at the end of each Calendar Year in agreement with the Ministry a plan for recruiting Equatoguinean personnel and a plan for training and improving the skills of such personnel in order to achieve progressively greater participation of Equatoguinean personnel in the

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Petroleum Operations and corresponding costs incurred by the Contractor shall be considered Petroleum Operations Costs.

- 6.11. Contractor shall also contribute to training and improving the professional skills of the agents of the State, in accordance with a plan established in agreement with the Ministry at the end of each Calendar Year.

For that purpose, during the term of the exploration period, Contractor shall allocate to said plan for training and improving the Equatoguinean personnel from the State or, at the Ministry's option, remit to the Ministry a minimum amount of one hundred thousand (100,000) Dollars per year. From the date of first declaration of a Commercial Field within the Contract Area, the said amount shall be increased to two hundred thousand (200,000) Dollars per year.

- 6.12. Petroleum Operations shall be subject to supervision by the Ministry. The duly commissioned representatives of the Ministry shall have the right, *inter alia*, to supervise Petroleum Operations and, at reasonable intervals, to inspect the facilities, equipment, materials, records and books relating to Petroleum Operations, provided that such inspection shall not unduly delay the proper conduct of said Operations. Costs incurred in audit inspections in the national territory shall be charged to the Contractor and are not recoverable.

For purposes of permitting the exercise of the above-mentioned rights, Contractor shall provide the representatives of the Ministry with reasonable assistance regarding transportation and accommodation, and transportation and accommodation costs directly related to supervision and inspection shall be borne by Contractor. Said costs shall not be deemed to be Petroleum Costs and shall not be recoverable pursuant to the provisions of Article 7.2.

Contractor shall inform the Ministry at regular intervals of the performance of Petroleum Operations and of the accidents which have occurred, if any, as required by the Petroleum Regulations.

All notices and reports defined in the Petroleum Regulations are to be provided by Contractor to the Ministry.

Contractor shall forthwith notify the Ministry of any discovery of mineral substances made during the performance of Petroleum Operations.

- 6.13. The Contractor shall not produce energy for its own use unless the national production is insufficient for the demands of industry.

Contractor shall carry out Petroleum Operations diligently and according to the generally accepted standards of the petroleum industry, designed to allow the production of Crude Oil at the maximum efficient rate and Natural Gas at the rate specified in Article 6.4. The Contractor shall ensure that all equipment, plant and installations used by the Contractor conform to generally accepted engineering standards and they should be well constructed and optimally maintained.

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- 6.15 The Contractor will take, in particular, all the necessary measures to:
- (a) Ensure that any Crude Oil or Natural Gas discovered and produced within the Contracted Area is not wasted, or lost in any way.
  - (b) Avoid causing damage to formations trapping hydrocarbon accumulations.
  - (c) Prevent the unintentional ingress of water into the hydrocarbon-bearing formation.
  - (d) Avoid causing damage to aquifers.

Ensure that petroleum operations carried out as agreed in this Contract comply with the applicable laws and regulations of the Republic of Equatorial Guinea.

Undertake necessary precautions for the protection of shipping and fishing and to avoid contamination of the sea and rivers.

Indemnify, protect and hold harmless the State against any claim, loss or damage of any nature including, but not limited to claims for loss or damage to the property or sustained by any person caused by or as a result of any operation carried out by or in the name of the Contractor in the Contract Area; and

Drill in a responsible way and explore the field in a manner that will protect the interests of the Republic of Equatorial Guinea against production losses which result from exploitation of the said field outside the Contract Area, or, instead, and with the consent of the Ministry, pay the State compensation for any production losses.

- 6.16 The Natural Gas that the Contractor does not sell or use in his own operations within the Contract Area will be re-injected into the structure of the sub-soil. Notwithstanding, the Ministry may authorise the combustion of Natural Gas for short periods of time during production trials, as well as in cases whereby the combustion of relatively small amounts of Natural Gas may be necessary for the production of Crude Oil, in accordance with good practice of the international oil industry or when technical circumstances require the combustion of Natural Gas. Any said Natural Gas not used in Petroleum Operations by the Contractor is the property of the State.
- 6.17 If the Ministry decides that any works or installations built by the Contractor or any activity undertaken by the latter threatens the integrity of people or third-party property, or causes pollution, harm to maritime life to an unacceptable level, the Ministry will demand that the Contractor take opportune mitigating measures within a reasonable length of time determined by the Ministry and repair any damage to the environment. Likewise, if the Ministry judges it necessary, it will demand that the Contractor suspends

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totally or partially its oil operations until the Contractor has taken the said mitigating measures or repaired any damage.

- 6.18 With the objective of ensuring that the Contractor fulfils any obligations arising from third parties or government agencies in the case of damage to people or objects (including environmental damage) caused by the Petroleum Operations, even when they are accidental, the Contractor will maintain rigorously an insurance policy with civil responsibility to third parties whose terms of cover and conditions will be communicated in writing to the Ministry on the Effective Date.

The Contractor will be responsible, will protect and hold harmless the Ministry and the State from any responsibility should this insurance not be available, or if it does not cover totally or in part any claim or damage caused by or resulting from the Petroleum Operations.

- 6.19 The Contractor should conform to the practices generally accepted in the oil industry in the design and drilling of wells, including, but not limited to its programmes of completion, cementation and drilling.

- 6.20 Each well will be identified by a name or number indicated on maps, plans and other similar records which the Contractor will be obliged to maintain. Any change in the number or name of a well will be notified immediately to the Ministry.

- 6.21 No well will be drilled which crosses the vertical projection of the boundaries of the Contract Area. Wells of controlled deviation drilled within the Contract Area from adjacent terrain not covered under this Contract will be considered, to all effects and purposes of this Contract, as wells drilled in land included in the Contract Area. In such circumstances, according to this Contract, it will be held that production of Crude Oil and Natural Gas obtained from the Contract Area by means of a controlled deviation well on adjacent terrain or the drilling or redrilling of such a controlled deviation well constitutes a production, drilling or reconditioning operation (whichever may be the case) carried out within the Contract Area. Nothing in this paragraph has the intention or should be interpreted as if the Ministry grants the Contractor any right of lease, licence, obligation or any other right that the Contractor should obtain legally, according to the Hydrocarbons Law, Petroleum Operations Regulations, from the Ministry or third parties.

- 6.22 The Contractor will notify the Ministry in writing, seven days in advance, of the commencement of any drilling of any well set out in an approved Programme of Work and Petroleum Operations Budget, or before the resumption of works on any well whose works have been suspended for more than six months.

- 6.23 Plan of Abandonment:

- (a) On abandoning a well, the Contractor will notify the Ministry ninety days in advance of the plan of abandonment for the said well, within the Contract

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- Area;
- (b) On abandoning a discovery, the Contractor will notify the Ministry ninety days in advance of the abandonment of any discovery within the Contract Area. On receiving the said notification, the Ministry will decide whether to take charge of the discovery proposed to be abandoned, provided that this not be deemed unreasonable by the Contractor. If the Ministry does not communicate in writing its wish to take charge of operations within ninety days, the proposed abandonment of the discovery by the Contractor should be taken as approved.
  - (c) On the abandonment of a producing field, the Contractor will likewise notify the Ministry at least three years in advance of the proposed date of abandonment, including with the notification the programme of abandonment and the corresponding budget. The said costs will be properly covered and considered as Petroleum Operations expenses.
- 6.24 The Contractor will properly plug the wells he is intending to abandon to avoid contamination and harm to the environment and possible damage to the oilfield.
- 6.25 The Contractor exercises the exclusive right to carry out Petroleum Operations in the Contract Area, on condition that the said operations are carried out according to the stipulations of the present Contract, as well as the laws and regulations of the Republic of Equatorial Guinea and on condition that they are carried out in accordance with the international petroleum industry's good practice.
- 6.26 In order to carry out the Petroleum Operations, the Contractor will have the right to:
- (a) Occupy the necessary land for the management of the Petroleum Operations and associated activities as set out in paragraphs (b) and (c), including lodging for personnel assigned to the operation;
  - (b) Undertake or effect the undertaking of infrastructure work in normal economic conditions necessary for the carrying out of Petroleum Operations and associated activities such as transport, storage of equipment and goods, establishment of telecommunications equipment and communication lines and also production and installation of energy necessary for the management of Petroleum Operations;
  - (c) Undertake or effect the undertaking of works necessary for public water supply, installation works, in accordance with water supply regulations;
  - (d) Extract and use or effect the extraction and utilisation of resources from the sub-soil (other than hydrocarbons) necessary for the activities stipulated in paragraph (a), (b) and (c), in accordance with the relevant regulations.
- 6.27 Occupation of land as mentioned in Article 6.26 will be subject to a request made to the Ministry which will specify the location of said land and the use to which it will be put.

After receipt of this request and its subsequent approval the Ministry will specify the conditions of the approval and will define the land concerned.

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Applicable local regulations will be specified and verified in writing by the Government.

In the event of a lack of an amicable agreement, authorisation for occupation will be granted:

- (a) Only after the owner or users of the land have been granted by virtue of local tradition the opportunity of raising their objections before Government within a fixed amount of time according to the laws and regulations of Equatorial Guinea.

The stipulations set out in this section will be applicable;

If the land is privately owned, is subject to written rights, either of Petroleum Operations Regulations or of Property Registration.

When ownership or occupation of the land is subject to local tradition; in such a case, the beneficiaries of the said rights will be the owners or their representatives appointed legally by mandate.

When the land is public property, the social group of the public organisation responsible for its administration and, depending on the case, the people who occupy it will be the beneficiaries.

- (b) Only after payment to the owners of compensation, which will be paid by the Contractor and in the following manner:

If the occupation is temporary and if the land can be cultivated as before after one year, compensation should be equal to twice the rent of the land, calculated on the basis of the average annual rent for the three years prior to the aforementioned application; and

In all other cases compensation will be equal to twice the value of the land before occupation for the purposes of Petroleum Operations.

Any dispute between the owner or occupier of the land and the Contractor will be resolved by Ordinary Tribunal.

Works stipulated in this present Article 6.27 may, depending on the case, be declared for the public benefit according to the conditions set out in the statute which governs expropriation for the public good.

6.28 The Contractor will be liable for all expenses and compensation and, generally, every cost resulting from the execution of Articles 6.27 and 6.28. These will be considered as Petroleum Operations costs.

6.29 In the case when occupation of the land deprives the owner or recognised occupier of its use for more than one year, or if it turns out that the occupied land has become unusable for cultivation after works have finished, the contractor will be obliged to acquire the said land from the owner or occupier. Any part of the land damaged and so made unusable for the original purposes of the owner will be bought in its entirety from the owner or recognised occupier. The land to be acquired will in every case be valued according to its value prior to occupation for Petroleum Operations purposes.

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- 6.30 The act of return of the Contract Area, in total or in part, does not apply to the duties of the Contractor set out in Article 6.27 above of carrying out the works and constructing the installations according to Article 6, on condition that these works and installations are in the interest of Petroleum Operations or other activities of the Contractor, in other areas of the Contract.
- 6.31 There will be no restrictions on the entry, residence, free circulation, employment and repatriation of the people, families and goods of the employees of the Contractor and his sub-contractors, on condition that the Contractor and his sub-contractors comply with the law and employment legislation, as well as social legislation in force in the Republic of Equatorial Guinea, and in the industrial sector.

The Ministry will supply the Contractor and his sub-contractors with any administrative authorisation necessary to carry out the Petroleum Operations.

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## ARTICLE 7

### RECOVERY OF PETROLEUM COSTS, PARTICIPATION IN PRODUCTION AND PRODUCTION DISTRIBUTION

- 7.1 After paying royalties to the State, as specified in the following table and according to the daily production rate:

<i>Daily Production Rate (Barrels per day)</i>	<i>Royalties (%)</i>
From 0 to	10%
From to	12%
From to	14%
More than	16%

The Contractor will have the right to recover Petroleum Operations costs from the sales or other disposal of Crude Oil produced and saved in this Contract and not used in Petroleum Operations, up to the permitted level under the stipulations of Article 7.2.

- 7.2 To recover Petroleum costs each year, after paying Royalties to the State, the Contractor will be entitled to sixty per cent (60%) of the remaining oil production, hereafter be referred to as Cost Oil.

The value of the portion of the total Crude Oil production assigned to the Contractor's Petroleum Costs Recovery, as defined in the paragraph above, will be determined according to the stipulations in Article 9.

If, during any calendar year, Petroleum Operations Costs not yet recovered by the Contractor as set out in Article 7.2, exceed the equivalent value of sixty per cent (60%) of the total quantity of Crude Oil which remains after the requisite royalties payments as described earlier, the portion of Petroleum Operations Costs not recovered in the said year will be carried forward to the following year with an annual interest rate in line with inflation. The percentage increase for the year in question will be the consumer price index of the United States of America, as appears for the first time in the monthly publication "International Financial Statistics" of the International Monetary Fund.

- 7.3 The quantity of Crude Oil produced and saved from the Contract Area which remains during each calendar year after the Contractor has paid State royalties and after the Contractor has taken the portion for Petroleum Costs Recovery agreed under Article 7.2, will hereafter be referred to as Profit Oil.

The Profit Oil will be shared between the State and



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the Contractor, as set out in the following table:

<i>Accumulated Production (Barrels)</i>	<i>State Share in Profit Oil %</i>	<i>Contractor's Share %</i>
Up to	10%	90%
From	20%	80%
From	40%	60%
More than	60%	40%

- 7.4 The portion of Profit Oil belonging to the State will be handed over at the Delivery Point, freeing the Contractor from all responsibility regarding the said Crude Oil. However, the Contractor, when the Ministry indicates, will be obliged to market all the Crude Oil produced and saved from the Contract Area as set out in Article 7.7. In this case, the Parties will mutually agree the terms and conditions of the said marketing and the costs relating to the said marketing will be reimbursed out of the revenue from "Terminal Fees".
- 7.5 With the exception of the stipulation in Article 7.9, the Contractor will have the right to take, receive and freely export his share of the Profit Oil and of the Operations Costs Recovery Oil.
- 7.6 The title of ownership of the Contractor's portion of Profit Oil according to Article 7.3, like that of the portion of Crude Oil exported and sold for the recovery of Petroleum Costs in fulfilment of Article 7.2, will pass to the Contractor at the Delivery Point.
- 7.7 If the Ministry decides to take a part of the portion of its Profit Oil in kind, it will advise the Contractor in writing; at least ninety days before the beginning of each six month period of each calendar year, where it will specify the quantity it chooses to take in kind. This said advice will take effect from the second sixth month period of that calendar year (always providing the said decision does not interfere with operations due to any sale agreement of Crude Oil produced in the Contract Area, which the Contractor may have negotiated prior to notice about the said decision). Lack of the said notice will be considered as a decision not to receive in kind the State's share. Any sale of the State's portion of Profit Oil may not continue for a period of more than one calendar year without the consent of the Ministry.
- 7.8 If the Ministry chooses not to take its share of Profit Oil, then it may require the Contractor to sell or buy the State's production share, always providing that the price paid to the State for its production share is not less than the market price as set out in Article 9. The Contractor will pay the State for its share of Profit Oil three times a year, and the said payment will be made within the first thirty calendar days after the date of each shipment.

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## ARTICLE 8

### TAXATION

- 8.1. Contractor, its subcontractors and its personnel shall be subject to and comply with all income tax laws and regulations in the Republic of Equatorial Guinea, as well as to the fiscal and customs laws of the UDEAC as applied in Equatorial Guinea.
- 8.2. Unless otherwise agreed by the Parties, the provisions of Article 15 shall apply to income tax, royalty payments and all of the other obligations established in this Contract.

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## ARTICLE 9

### VALUATION OF CRUDE OIL

- 9.1. The unit selling price of Crude Oil to be considered under this Contract shall be the F.O.B. "Market Price" at the Delivery Point expressed in Dollars per Barrel.

A "Market Price" shall be established for each type of Crude Oil or Crude Oil mix.

- 9.2. The Market Price applicable to liftings of Crude Oil during a Quarter shall be calculated at the end of that Quarter and shall be equal to the weighted average of the prices obtained by Contractor and the State for Crude Oil sold to Third Parties during that Quarter, adjusted to reflect differentials in quality, gravity, as well as F.O.B. delivery terms and terms of payment, provided that the quantities so sold to Third Parties during that Quarter constitute at least thirty per cent (30%) of the total quantities of Crude Oil obtained from all the Fields under this Contract and sold during said Quarter.

- 9.3. In the event such sales to Third Parties are not made during the Quarter in question, or represent less than thirty per cent (30%) of the total quantities of Crude Oil obtained from all the Fields under this Contract and sold during said Quarter, the Market Price shall be determined by comparison with the "Current International Market Price", during the Quarter in question, of Crude Oils produced in the Republic of Equatorial Guinea and the neighbouring producing countries, taking into account the differentials in quality, gravity, transportation and payment terms.

- 9.4. The following transactions shall, inter alia, be excluded from the calculation of the Market Price:

- (a) sales in which the buyer is an Affiliated Company of the seller as well as sales between entities constituting Contractor;
- (b) sales between suppliers of petroleum crude and the national market;
- (c) sales for other consideration than payment in freely convertible currencies and sales fully or partially made for reasons other than the usual economic incentives involved in Crude Oil sales on the international market (such as exchange contracts, sales from government to government or to government agencies).

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- 9.5. To establish the price of crude, the evolution of the international market should be relied upon. A committee headed by the Ministry or his deputy and consisting of representatives from the State and representatives from Contractor shall meet upon request from its president in order to establish (in accordance with the provision of this Article 9) the Market Price of 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 thirty (30) days after the end of the Quarter in question, the Market Price of Crude Oil produced shall be determined by a worldwide recognized expert appointed in accordance with the Rules of Technical Expertise of the International Chamber of Commerce. The determination of the expert shall be final and binding on the Ministry and Contractor. The expert shall establish the price in accordance with the provisions of this Article 9 within twenty (20) days from his appointment. The expertise costs shall be shared equally by the Parties.

- 9.6. 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.
- 9.7. Contractor shall measure all Petroleum produced and saved under this Contract in accordance with the provisions of Article 11 of the Petroleum Regulations.

## ARTICLE 10

### BONUSES AND SURFACE RENTALS

- 10.1. On the Effective Date, Contractor shall pay the State the sum of Five Million (5,000,000) United States Dollars as a signature bonus and Five Million (5,000,000) Dollars on the signature of the contract for participation in production.
- 10.2. On the date Contractor notifies the Ministry a Discovery is a Commercial Field in accordance with the provisions of Article 5.3, Contractor shall pay the State the sum of Five million (5,000,000) United States Dollars.
- 10.3. Contractor shall pay the State the following sums as production bonuses :
- (a) Two million (2,000,000) Dollars after daily production from the Contract Area averages twenty thousand (20,000) barrels per day for a period of sixty (60) consecutive days ;
  - (b) Three million (3,000,000) Dollars after daily production from the Contract Area averages fifty thousand (50,000) barrels per day for a period of sixty (60) consecutive days.
  - (c) Three million (3,000,000) Dollars after daily production from the Contract Area averages twenty thousand (20,000) barrels per day for a period of sixty (60) consecutive days ;
  - (d) Ten million (10,000,000) Dollars after daily production from the Contract Area averages fifty thousand (50,000) barrels per day for a period of sixty (60) consecutive days.

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

- 10.4. Contractor shall pay the State the following annual surface rentals :
- (a) Fifty cents (\$0.5) per hectare annually during the initial term of the exploration period ;
  - (b) Fifty cents (\$0.5) per hectare annually during the first renewal of the exploration period ;
  - (c) Fifty cents (\$0.5) per hectare annually during the second renewal of the exploration period and any extension thereof as provided for in Article 3.2;
  - (d) One (\$1) Dollar per hectare annually during the term of a Development

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Area.

For the Year in which this Contract is signed, the surface rental set forth in paragraph (a) above shall be prorated from the Effective Date through December 31st of said Year, and shall be paid within thirty (30) calendar days after the Effective Date.

For succeeding Years the surface rentals set forth in paragraphs (a), (b) and (c) above shall be paid in advance, thirty (30) calendar days before the beginning of each Calendar Year.

For the Year in which a Development Area is granted, the surface rental set forth in paragraph (d) shall be prorated from the date of granting said Development Area through December 31st of said Year.

For succeeding Years the surface rental set forth in paragraph (d) shall be paid in advance, thirty (30) calendar days before the beginning of each Calendar Year.

The basis of computation of said surface rentals shall be the surface of the Contract Area and, where applicable, of the Development Areas, retained by Contractor on the date of payment of said surface rentals.

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

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## ARTICLE 11

### OBLIGATION TO SUPPLY DOMESTIC MARKET WITH CRUDE OIL

- 11.1. Contractor shall meet as a priority the needs of the domestic Crude Oil consumption in the Republic of Equatorial Guinea, in the event the State cannot meet such needs from the share(s) of production which the State is entitled to.
- 11.2. For this purpose, if the State so requests, Contractor shall comply with Article 15 of the Hydrocarbons Law and shall sell to the State a portion of its Profit Oil for internal consumption in the country in accordance with the requirements of this section.
- 11.3. The Ministry shall notify Contractor in writing, no later than the first day of October of each Calendar Year, of the quantities of Crude Oil which he desires to purchase under this Article for the subsequent Calendar Year. Delivery shall be made as required to the State or to the beneficiary designated by the State, during said Calendar Year according to procedures to be agreed by the Parties.
- 11.4. The price of Crude Oil so sold by Contractor to the State shall be the Market Price established in accordance with the provisions of Article 9 of this Contract and it shall be payable in Dollars, unless otherwise agreed.

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## ARTICLE 12

### NATURAL GAS

#### 12.1. Non-Associated Natural Gas

12.1.1. In the event of a Non-Associated Gas Discovery, Contractor shall diligently engage discussions with the Ministry with a view to determining whether the appraisal and exploitation of said Discovery have a potentially commercial nature.

12.1.2. If, after the above-mentioned discussions, Contractor considers that the Non-Associated Natural Gas Discovery warrants appraisal, it shall undertake an appraisal work program with respect to such Discovery in accordance with the provisions of Article 5.

For purposes of assessing the commerciality of the Non-Associated Natural Gas Discovery, Contractor shall have the right, if it so requests at least two (2) months prior to the expiry of the second renewal of the exploration period set forth in Article 2.2, to be granted the extension of the exploration period with respect to the Appraisal Area related to said Discovery, for a term of three (3) years starting from the expiry of the second renewal of the exploration period.

In addition, the Parties shall jointly assess the possible outlets for the Natural Gas from the Discovery in question, both on the local market and for export, together with the necessary means for its marketing, and they shall consider the possibility of a joint marketing of their shares of production in the event the Non-Associated Natural Gas Discovery would not otherwise be commercially exploitable.

12.1.3. Following completion of appraisal work, in the event the Parties should jointly decide that the exploitation of that Discovery is justified to supply the local market, or in the event Contractor should undertake to develop and produce that Natural Gas for export, Contractor shall submit to the Ministry, prior to the expiry of the above-mentioned three (3) year period, a development and production plan in accordance with the provisions of Article 5.6.

Contractor shall then proceed with the development and production of that Natural Gas in accordance with the development and production program submitted and approved by the Ministry pursuant to the provisions of Article 5.6, and the provisions of this Contract applicable to Crude Oil shall apply, *mutatis mutandis*, to Natural Gas, unless otherwise specifically provided under Article 12.3.



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- 12.1.4. If Contractor considers that the Non-Associated Natural Gas Discovery does not warrant appraisal, the Ministry may, with a ninety (90) day's prior notice, require Contractor to relinquish its rights on the area encompassing said Discovery.

In the same manner, if Contractor, after completion of appraisal work, considers that the Non-Associated Natural Gas Discovery is not commercial, the Ministry may, with a three (3) months' prior notice, require Contractor to relinquish its rights on the Appraisal Area related to said Discovery.

In both cases, Contractor shall forfeit its rights on all Petroleum which could be produced from said Discovery, and the Ministry may then carry out, or cause to be carried out, all the appraisal, development, production, treatment, transportation and marketing work relating to that Discovery, without any compensation to Contractor, provided, however, that said work shall not prejudice the performance of the Petroleum Operations by Contractor.

## 12.2. Associated Natural Gas

- 12.2.1. In the event of a commercial Discovery of Crude Oil, Contractor shall state in the report referred to in Article 5.3 if it considers that the production of Associated Natural Gas is likely to exceed the quantities necessary for the requirements of the Petroleum Operations related to the production of Crude Oil (including reinjection operations), and if it considers that such excess is capable of being produced in commercial quantities. In the event Contractor has informed the Ministry of such an excess, the Parties shall jointly assess the possible outlets for that excess of Natural Gas, both on the local market and for export (including the possibility of joint marketing of their shares of production of that excess of Natural Gas in the event such excess would not otherwise be commercially exploitable), together with the means necessary for its marketing.

In the event the Parties should decide that the development of the excess of Natural Gas is justified, or in the event Contractor would wish to develop and produce that excess for export, Contractor shall indicate in the development and production plan referred to in Article 5.6 the additional facilities necessary for the development and exploitation of that excess and its estimate of the costs related thereto.

Contractor shall then proceed with the development and exploitation of that excess in accordance with the development and production plan submitted and approved by the Ministry pursuant to the provisions of Article 5.6, and the provisions of this Contract applicable to Crude Oil shall apply, *mutatis mutandis*, to the excess of Natural Gas, unless otherwise specifically provided under Article

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A similar procedure shall be applicable if the sale or marketing of Associated Natural Gas is decided during the exploitation of a Field.

12.2.2. In the event Contractor does not consider the exploitation of the excess of Natural Gas as justified and if the Ministry, at any time, wishes to utilize it, the Ministry shall notify Contractor thereof, in which event :

- (a) Contractor shall make available to the Ministry free of charge at the Crude Oil and Natural Gas separation facilities all or part of the excess that the Ministry wishes to lift ;
- (b) the Ministry shall be responsible for the gathering, treatment, compression and transportation of that excess from the above-mentioned separation facilities, and shall bear any additional costs related thereto;
- (c) the construction of the facilities necessary for the operations referred to in paragraph (b) above, together with the lifting of that excess by the Ministry, shall be carried out in accordance with good international petroleum industry practice and in such a manner as not to hinder the production, lifting and transportation of Crude Oil by Contractor.

12.2.3. Any excess of Associated Natural Gas which would not be utilized under Articles 12.2.1 and 12.2.2, shall be reinjected by Contractor. However, Contractor shall have the right to flare said gas in accordance with good international petroleum industry practice, provided that Contractor furnishes the Ministry with a report demonstrating that said gas cannot be economically utilized to improve the rate of recovery of Crude Oil by means of reinjection, and provided, further, that the Ministry approves said flaring, which approval shall not be unreasonably withheld.

### **12.3. Provisions common to Associated and Non-Associated Gas**

12.3.1. Contractor shall have the right to dispose of its share of production of Natural Gas, in accordance with the provisions of this Contract. It shall also have the right to proceed with the separation of liquids from all Natural Gas produced, and to transport, store as well as to sell on the local market or for export its share of liquid Petroleum so separated, which will be considered as Crude Oil for purposes of sharing thereof between the Parties under Article 7.

12.3.2. For purposes of this Contract, the Natural Gas Market Price, expressed in Dollars per million BTU, shall be equal to :

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- (a) with respect to Natural Gas export sales to Third Parties, the price realized from purchasers ;
- (b) with respect to sales on the local market of Natural Gas as a fuel, such price as the Ministry (or the national entity that the State would set up for the distribution of Natural Gas on the local market) and Contractor mutually agree upon.

12.3.3. For purposes of Articles 7.3 and 11.3, the quantities of available Natural Gas, after deduction of the quantities used for the requirements of the Petroleum Operations, reinjected or flared, shall be expressed in a number of Barrels of Crude Oil such that one hundred and sixty five (165) cubic meters of Natural Gas as measured at the temperature of 15°C and at the atmospheric pressure of 1.01325 bar are deemed to be equal to one Barrel of Crude Oil, unless otherwise agreed upon by the Parties.

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## ARTICLE 13

### CUSTOMS REGULATIONS AND IMPORT AND EXPORT DOCUMENTS

- 13.1 In compliance with the stipulations in Articles 17 and 18 of the Hydrocarbons Law, the Contractor will have the right to import into the Republic of Equatorial Guinea all the goods necessary to carry out properly Petroleum Operations, in his own name or in the name of his sub-contractors.

For the purpose of this Contract, the Contractor will benefit from the following advantages:

- (a) Under present customs regulations, importing, in compliance with the regulations of Temporary Admission (AT) or Temporary Imports (IT), either normal or special, whichever is the case for the same Contractor, for third parties acting on his behalf and for his sub-contractors, of all materials, products, machinery, equipment and tools necessary for Petroleum Operations which are not State property, on condition that these goods are exclusively necessary for Petroleum Operations and that they can be re-exported at the end of their use;
- (b) Admission with exemption from any tax or duty of all materials, products, machinery, equipment and tools to be used exclusively for oil prospecting and exploration in the specified zone and which appear on the list in Annex 2 of Act Number 13/65-UDEAC-35 of 14<sup>th</sup> December 1964 and its subsequent modifications;

This exemption applies to imports made by the Contractor, by third parties acting on his behalf, and by his sub-contractors, on condition that a certificate of end use is produced.

- (c) Under the same aforementioned conditions, the Contractor will be allowed to import at a duty reduction of five per cent (5%) materials, products, machinery, tools and equipment which, not coming under the category of goods specified in paragraphs (a) and (b) above, are necessary for production, storage, treatment, transport, shipment and transformation of hydrocarbons in the exploration zone.

The reduced duty rate is granted by the Ministry of Economy and Finance at the request of the Contractor:

- on production of a general import schedule;
- or after a particular application for a reduced rate import, made by the Contractor fifteen days before the arrival of the goods.

These requests or applications should specify:

- The commercial nature of the goods and the customs consignment in

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which they are classified;  
The value of the goods in FOB and CIF;

- (d) Goods and household objects for personnel and domestic use imported by the Contractor's foreign personnel relevant to activities concerning Petroleum Operations on the occasion of their change of residence will be admitted duty-free under conditions fixed by Customs Regulations, in particular under Articles 17 to 20 of Act 13/65-UDEAC-35 of 14<sup>th</sup> December 1965 and its subsequent modifications.
- 13.2 Contractors, third parties importing on their behalf and their sub-contractors undertake not to proceed with imports unnecessary to the carrying-out of Petroleum Operations unless the goods are not available in Equatorial Guinea in similar conditions of price, quality and delivery time.
- 13.3 Other goods not mentioned in the above stipulations are subject to duty and taxes set by Customs Administration according to common law.
- 13.4 At their discretion taking into account their customs obligations as set out in Articles 4.1 and 4.3 and current regulations in force, the Contractor, third parties importing on his behalf and his sub-contractors may re-export, duty and tax free, goods imported within the framework of the stipulations in Article 14.1 (as when they are no longer necessary to Petroleum Operations).
- 13.5 All imports, exports and re-exports carried out within the framework of this Contract are subject to formalities required by the Customs Office.
- 13.6 The Contractor is, regarding the Customs Office, jointly and mutually responsible, with third parties importing on his behalf and his sub-contractors, for any fraud detected in abuse of the benefits set out in this Section. Fines, penalties and costs of any nature incurred by anyone guilty of such fraud do not constitute Petroleum Operations costs.
- 13.7 Apart from duties and taxes set out in this Article, the Contractor, his third-party importers and sub-contractors will not be subject to any other payment in this respect.
- 13.8 Subject to the stipulations in Article 12, the Contractor, his clients and transporters will have the right to export freely the quantities of Cost Oil and Profit Oil belonging to the Contractor, at the export point selected for this purpose, at any time, free of duty and taxes.

It is understood that the Contractor and his sub-contractors undertake to proceed with the above mentioned imports only when materials equipment are not available in the Republic of Equatorial Guinea under equivalent conditions of price, quantity, quality, terms of payment and delivery time.

Foreign employees assigned to work in the Republic of Equatorial Guinea on behalf of the Contractor or his sub-contractors, and their families, will have

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the right to import into the Republic of Equatorial Guinea their personal effects, during their first year of residence.

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## ARTICLE 14

### FOREIGN EXCHANGE

14.1. Contractor and its subcontractors shall be subject to the applicable exchange control legislation and regulations in effect in the Republic of Equatorial Guinea, it being understood that Contractor and its subcontractors shall benefit during the term of this Contract from the following rights regarding exclusively Petroleum Operations, as long as they shall have met all their respective payments and tax obligations under this Contract and under the applicable tax laws of Equatorial Guinea:

- (a) to retain or dispose of any proceeds outside Equatorial Guinea including such funds as may result from Petroleum Operations which exceed their requirements for conducting Petroleum Operations in Equatorial Guinea and their tax and other local liabilities as they arise;
- (b) To pay foreign sub-contractors and expatriate employees of the Contractor outside Equatorial Guinea, after deduction of the relevant taxes according to the current tax laws in the Republic of Equatorial Guinea.

To such effect, the Contractor, may open and use freely bank accounts, in United States dollars or in other exchanges in banks of his choice in Equatorial Guinea and abroad.

Notwithstanding the above, the Contractor, will maintain in national banking institutions while the Contract is in force a reasonable balance, not less than ten per cent of the Annual Expenses Budget, with the aim of being able to cover at any moment any urgent eventualities, such as tax costs or other contractual obligations.

- (c) to export such funds as Contractors or subcontractors shall have imported into Equatorial Guinea or earned from Petroleum Operations or from the proceeds of the sale or lease of goods or performance of services under a Contract.

14.2. Contractor and its subcontractors shall submit to the Ministry 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 14.1 above.

14.3. Contractor's expatriate employees shall have the right, in

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accordance with the regulations then in effect in the Republic of Equatorial Guinea, 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 shall have met their tax obligations in the Republic of Equatorial Guinea.

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## ARTICLE 15

### BOOKS, ACCOUNTS, AUDITS AND PAYMENTS

15.1. Contractor shall maintain its records and books in accordance with the regulations in force and the Accounting Procedure attached hereto as Annex C.

15.2. Records and books shall be maintained in the Spanish language and expressed in Dollars. They shall be supported by detailed documents demonstrating the expenses and receipts of the Contractor under this Contract.

Such records and books shall be used, *inter alia*, to determine the Contractor's gross income, Petroleum Costs and net profits and to establish the Contractor's tax obligations. They shall include the Contractor's accounts showing the sales of Petroleum under this Contract.

For information purposes, the profit and loss accounts and balance sheets shall also be maintained in Francs CFA.

15.3. Until Contractor has declared the first Commercial Field within the Contract Area in accordance with the provisions of Article 5, the originals of the records and books referred to in Article 15.1 may be kept at the Contractor's main office with at least one copy in the Republic of Equatorial Guinea. From the time of Contractor's first declaration of a Commercial Field within the Contract Area, said records and books shall be maintained in the Republic of Equatorial Guinea.

15.4. Within ninety (90) days after the expiry of a Calendar Year, Contractor shall submit to the Ministry detailed accounts showing the Petroleum Costs which Contractor has incurred during said Calendar Year. The accounts shall be certified by an independent external auditor acceptable to the Parties.

15.5. After notifying Contractor in writing, the Ministry 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 Ministry will have a period of three (3) years from the end of a given Calendar Year to perform such examinations or audits with respect to said Year and submit its objections to Contractor for any contradictions or errors found during such examinations or audits.

Contractor shall provide any necessary assistance to the persons designated by the Ministry for that purpose and facilitate their carrying out their duties. Reasonable audit expenses shall be

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reimbursed by Contractor to the State and shall be considered as Petroleum Costs and recoverable under the provisions of Article 7.2.

- 15.6. All payments between the Parties under this Contract shall, unless otherwise agreed, be in Dollars. When the receiving Party is the State, payments shall be made to the Public Treasury and when the receiving Party is Contractor, payments shall be made through a bank designated by Contractor.
- 15.7. Unless otherwise agreed, any payment under this Contract shall be made within thirty (30) days following the end of the month in which the obligation to make such payment occurs. In the event of delay in payment, the amount due shall bear interest compounded daily at the LIBOR rate plus two (2) percentage points.
- 15.8. In the case of persistent disagreement between the parties, an expert independent committee will be appointed to deliberate over the disagreement. If these proceedings fail to resolve the disagreement then the case will be submitted to arbitration as outlined in Article 22.

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## ARTICLE 16

### TRANSFER, ASSIGNMENT AND CHANGE IN CONTROL AND OPERATORSHIP

16.1 Each of the legal entities of which the Contractor consists will have:  
The right to sell, cede, transfer, convey or dispose of in any other way, part or all of its rights and interests in the Contract to any Affiliated Company after written consent from the Ministry, which will not be denied unreasonably.

The right, after having notified the Ministry, to sell, cede, transfer, convey or dispose of in any other way, part or all of its rights and interests in the Contract to other juridical entities which constitute the Contractor.

(c) The right to sell, cede, transfer, convey, or dispose of in any other way, part or all of its rights and interests in the contract to other parties who are not affiliated companies or other entities constituting the Contractor after written consent from the Ministry, which will not be denied unreasonably.

The rights and obligations resulting from this Contract cannot be transferred or yielded, totally or partially, by any entity making up the Contractor, without written approval by the Ministry, as set out in Article 4.9 of Petroleum Operations Regulation, which will not be denied unreasonably.

16.2. Any change in the Factors Constituting Control, as defined in the Petroleum Regulations, of any entity constituting Contractor shall be promptly reported to the Ministry.

In the event of such a change, the Ministry may, within three (3) months of the relevant report, serve notice in writing to the Contractor that the Ministry proposes to terminate this Contract unless such a further change in the Factors Constituting Control of the relevant entity, as specified in the notice, takes place within the period of three months beginning with the date the notice is served.

16.3. Where Contractor consists of several entities, it shall notify the Ministry of any change to the joint operating agreement which binds the entities constituting Contractor.

Any change in the Operator shall be subject to approval of the Ministry.

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## ARTICLE 17

### INDEMNIFICATION, LIABILITY AND INSURANCE

17.1. Contractor shall indemnify and compensate any person, including the State, for any damage or loss which Contractor, 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.

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

17.2. Contractor shall comply with the provisions of Article 4 of Petroleum Regulations.

17.3. Where Contractor consists of several entities, the obligations and responsibilities of those entities under this Contract shall be joint and several, except their obligations relating to income tax.

**ARTICLE 18****TITLE OF OWNERSHIP OF GOODS AND EQUIPMENT**

- 18.1 Fixed installations and/or equipment acquired by the Contractor or through his sub-contractors for use in Petroleum Operations will be the State's property once costs have been completely recovered, it being understood that the Contractor will supply the Ministry annually with a list of goods and equipment where costs have been recovered.

However, the Contractor will carry on using the said goods and/or equipment in order to carry out Petroleum Operations for the duration of the Contract, guaranteeing their conservation and good working order.

The State will be able to use the said goods and equipment for its needs, always providing the said use does not interfere with the Contractor's Petroleum Operations.

In any case, on the rescinding, termination or cancellation of this contract, for whichever of the reasons listed in Article 19, in relation to all or part of the Contract Area, the ownership of goods and equipment, including those goods and equipment whose costs have not been recovered, will pass to the State.

- 18.2 The stipulations of Article 18.1 will not apply to the Contractor's equipment, nor to that of any sub-contractors which is not essential for Petroleum Operations, nor to any hire equipment.

If the Ministry does not wish to use the said goods and equipment, it has the right to ask the Contractor to remove them, it being understood that the Contractor will carry out the withdrawal in accordance with international oil industry good practice, and according to the time frame and specified conditions previously agreed in the withdrawal plan, as set out in Article 6.23.

## ARTICLE 19

### TERMINATION OF THE CONTRACT

19.1 This Contract may be terminated, without compensation, under any one of the following occurrences :

- (a) Material breach or recurrent breach by Contractor of the provisions of the Petroleum Law or Petroleum Regulations or of the provisions of this Contract ;
- (b) A payment more than three (3) months late due by Contractor with respect to an obligation owed to the State ;
- (c) Stoppage of development work with respect to a Field for a period of six (6) consecutive months ;
- (d) After commencement of production from a Field, stoppage of the production thereof for a period of at least three (3) months, decided without the Ministry's consent ;
- (e) Failure of Contractor to comply, within the prescribed time period, with an arbitration award rendered in accordance with the provisions of Article 22;
- (f) Bankruptcy, composition with creditors or liquidation of assets of Contractor or its parent-company; or
- (g) Under the provisions of Article 2.3.

19.2 Except with respect to the occurrence set forth in paragraph (f) above, the Ministry shall pronounce the termination of the Contract only after having served formal notice on Contractor, by registered mail with acknowledgement of receipt, to remedy the breach in question within three (3) months (or within three (3) months with respect to the occurrences set forth in paragraphs (a) and (d) above) from the date of receipt of such notice.

Should Contractor fail to comply with such prescription within the prescribed time period, the Ministry may pronounce *ipso jure* the termination of this Contract.

Any dispute as to whether any ground exists to justify the termination of the Contract pronounced by the Ministry due to the forfeiture may be subject to arbitration in accordance with the provisions of Article 22. In that event, the Contract shall remain in force until the execution of the arbitration award by the Parties.

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## ARTICLE 20

### APPLICABLE LAW AND STABILITY OF CONDITIONS

- 20.1. This Contract and the Petroleum Operations carried out under said Contract shall be governed by the laws and regulations in force in the Republic of Equatorial Guinea.
- 20.2. Contractor shall be subject at any time to the laws and regulations in force in the Republic of Equatorial Guinea.
- 20.3. Should the income of the State or the Contractor be materially altered as a result of new laws, orders or regulations then, in such event, the Parties shall agree to make the necessary adjustments to the relevant provisions of this Contract, observing the principle that the affected Party shall be restored to substantially the same economic condition as it would have been in had such change in laws or regulations not occurred. The cost of such restoration to the other Party may not exceed the benefit received by such other Party as a result of such change.

This provision shall not be construed to deny to Contractor the benefit of any new law or regulation intended by the State to benefit Contractor.

"State Income", within the meaning of this Article 20.3, means the sum of all revenues whether derived from royalty, profit share, rental, fees or other form of financial income paid to the State by Contractor as a result of Petroleum Operations.

## ARTICLE 21

### FORCE MAJEURE

- 21.1. Any obligation or condition 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 an event of Force Majeure, provided, however, that there is a direct cause-and-effect relationship between the non-performance and the event of Force Majeure invoked.

In spite of the former, all outstanding payments must be made.

Any obligation or condition proceeding from this Contract which either party is unable to meet, in full or in part, with the exception of payments for which both parties are responsible, will not be considered as a breach of Contract if the said failure is caused by an event of Force Majeure, with the proviso that there is a direct relation of cause and effect between the failure and the cited Force Majeure.

- 21.2. For purposes of this Contract, an event shall be considered Force Majeure if it meets the following conditions:

- (a) It has the effect of temporarily or permanently preventing either of the Parties from performing its obligations under the Contract; and
- (b) It is unforeseeable, unavoidable and beyond the control of the Party which declares Force Majeure and is not the result of its negligence or omission.

Such an event may include, without limitation, earthquake, strike, riot, insurrection, civil disturbances, sabotage, acts of war or acts attributable to war. The intent of the Parties is that the term Force Majeure shall be interpreted in accordance with the principles and practice of the international petroleum industry.

- 21.3. If either Party cannot comply with any obligation or condition herein stipulated because of Force Majeure, it shall notify the other Party in writing as promptly as possible, and in any case not later than fourteen (14) days after the event, giving the reason for its non-compliance, particulars of the Force Majeure and the obligation or condition affected. The Party affected by the Force Majeure shall keep the other Party informed from time to time of the evolution of the Force Majeure occurrence and shall promptly notify the other Party as soon as the Force Majeure has been removed and no longer prevents it from complying with its obligation or condition and shall thereafter



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resume compliance with such obligation or condition as soon as possible.

- 21.4. The obligations other than those affected by the event of Force Majeure shall continue to be performed in accordance with the provisions of this Contract.
- 21.5 All obligations suspended as the result of Force Majeure will be completed as quickly as possible, within a time frame no longer than the length of the time of the Force Majeure.
- 21.6. When Force Majeure situation lasts more than ninety days, the Parties will meet to examine the situation and implications for Petroleum Operations, in order to establish the course of action appropriate for the fulfilment of contractual obligations in the circumstances of the said Force Majeure. In such a case, the duration of the Contract will be extended by the same amount of time that the Force Majeure has lasted.

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## ARTICLE 22

### ARBITRATION

22.1. In the event of any dispute between the State and Contractor 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 months of the date of notice of such dispute, the Parties have not reached an amicable agreement, the matter will go to arbitration at the International Chamber of Commerce (CCI) in compliance with Article 4.28 of Petroleum Operations Regulations on arbitration, with the exception of language, place and the relevant law which will be as specified in the following Article.

22.2. The seat of arbitration shall be agreed by the Parties, and if there is a lack of agreement shall be determined by the arbitrators. The language used during the arbitration proceedings shall be the Spanish language and the applicable law shall be the laws of the Republic of Equatorial Guinea as well as the rules and practice of international law applicable on the subject matter.

The arbitration tribunal shall consist of three (3) arbitrators, two (2) of whom designated by each of the Parties and the third to act as the President, nominated by the International Chamber of Commerce. No arbitrator shall be a national of the countries to which either Party belongs.

The arbitration award shall be final and 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.

22.3. The Parties shall conform to any measure of conservation prescribed or recommended by the arbitration tribunal.

22.4. A request for 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.

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## ARTICLE 23

### CONDITIONS FOR APPLICATION OF THE CONTRACT AND NOTICES

- 23.1. The Parties hereby agree to cooperate in any possible manner to achieve the objectives of this Contract.

The Ministry will facilitate the performance of Contractor's activities by granting it all permits, licenses and access rights necessary for the requirements of the Petroleum Operations, and by making available to it all the appropriate services with respect to said Operations of the Contractor, its employees and agents in the territory of the Republic of Equatorial Guinea.

- 23.2. Any notification required or given by either Party to the other, will be considered as delivered when the firm of the receiving party acknowledges receipt. Said notifications should be in Spanish and addressed to:

- For the State:

Ministry of Mines and Energy

Malabo  
Republic of Equatorial Guinea  
C/12 de Octubre  
FAX : (240) 93353  
TEL : (240) 93567, 93405  
TELEX : GBNOM 5405 EG

- For Contractor :

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

- 23.3. The State and Contractor may at any time change their authorized representative, or modify the addresses mentioned in Article 23.2, subject to at least ten (10) days' prior notice.
- 23.4. This Contract may be modified only in writing and by mutual agreement of the Parties.

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- 23.5. 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.
- 23.6. Annexes A, B, C and D attached hereto are an integral part of this Contract.
- 23.7 Anything not specifically covered in this Contract will be subject to the provisions of the Hydrocarbons Law and the Petroleum Operations Regulations.
- 23.8 This Contract constitutes a definite agreement between the State and the Contractor and replaces and substitutes any other agreement between the Parties whether oral or in writing, drawn up prior to the date of signature of the same.

The Parties agree that, for the duration of the Contract and a period of two years after its termination, all information relating to Petroleum Operations will be confidential and cannot be divulged by either Party without mutual consent.

In the same way, the Ministry will not reveal to third parties information protected by patents or contractual agreements or pertinent to the Contractor's own technology or what has been received under licence.

However, in order to obtain new tenders, the Ministry may show third parties geophysical and geological data relating to part or parts of the Contract Area adjacent to the new tender areas.

This confidentiality clause will not apply to a bona fide potential assignee, who will be sworn to confidentiality; nor will it apply to the obligation of the State to inform international financial institutions.

The parties can give information and photographs relevant to Petroleum Operations to the media by previously agreed mutual consent.

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**ARTICLE 24**

**EFFECTIVE DATE**

This Contract shall become effective upon the date on which it is executed, such date herein referred to as the Effective Date, and this Contract shall then be binding for the Parties.

In witness whereof, the Parties hereto have executed this Contract in two (2) originals in the Spanish language.

FOR MINISTRY OF MINES AND ENERGY  
REPUBLIC OF EQUATORIAL GUINEA

NAME :

TITLE :

DATE :

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FOR THE CONTRACTOR :

NAME :

TITLE :

DATE :

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## ANNEX A

### CONTRACT AREA

Attached to and made an integral part of this Contract between the Republic of Equatorial Guinea and Contractor.

Upon the Effective Date, the initial Contract Area covers an area deemed equal to approximately \_\_\_\_\_ (\_\_\_\_) square kilometers.

Said Contract Area is described on the map provided in Annex B.

The points \_\_\_\_\_ indicated on said map are defined below, by reference to the Greenwich meridian, through their geographic coordinates :

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**ANNEX B**

**MAP OF THE CONTRACT AREA**

Attached to and made an integral part of this Contract between the Republic of Equatorial Guinea and Contractor.

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## ANNEX C

### ACCOUNTING PROCEDURE

Attached to and made an integral part of this Contract between the Republic of Equatorial Guinea and Contractor.

#### ARTICLE 1

##### GENERAL PROVISIONS

###### 1.1. Purpose

This Accounting Procedure shall be followed and observed in implementing the provisions of the Contract to which it is attached.

###### 1.2. Interpretation

For purposes of this Accounting Procedure the terms used herein which are defined in the Contract shall have the same meaning when used in this Accounting Procedure.

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

###### 1.3 Accounting Records and Reports

- 1.3.1. Until Contractor has declared the first Commercial Field within the Contract Area in accordance with the provisions of Article 5 of the Contract, Contractor shall maintain at its main office complete accounts, books and records of all exploration costs and expenses related to Petroleum Operations hereunder in accordance with generally accepted accounting procedures and standards in the international petroleum industry and in accordance with the charts of accounts described under Article 1.3.2 below. A copy of these complete accounts, books and records, shall be kept at the Contractor's office in the Republic of Equatorial Guinea.

From the time Contractor has declared the first Commercial Field within the Contract Area, Contractor shall maintain in the Republic of Equatorial Guinea



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complete accounts, books and records of all revenues, costs and expenses (including those costs and expenses incurred during the exploration period of the Contract) relating to all Petroleum Operations hereunder in accordance with generally accepted accounting procedures and standards in the international petroleum industry and in accordance with the charts of accounts described under Article 1.3.2 below.

The purpose of this Accounting Procedure is to: (i) classify expenditures, (ii) define Petroleum Costs, and (iii) prescribe the manner in which the Contractor's accounts shall be prepared and approved.

- 1.3.2. Within sixty (60) days of the Effective Date, Contractor shall submit to and discuss with the Ministry a proposed outline of charts of accounts, books, records and reports, which outline shall be in accordance with generally accepted standards and recognized accounting systems and consistent with normal petroleum industry practice and procedures.

Within sixty (60) days of receiving the above submission, the Ministry shall either provide written notification of its approval of the proposal or request in writing revisions to the proposal.

Within one hundred and eighty (180) days after the Effective Date, Contractor and the Ministry shall agree on the outline of charts of accounts, books, and records and reports which shall describe the basis of the accounting system and procedures to be developed and used hereunder. Following such agreement, Contractor shall expeditiously prepare and provide the Ministry with formal copies of the comprehensive charts of accounts and manuals related to the accounting, recording and reporting functions, and procedures which shall be followed under the Contract.

- 1.3.3. Notwithstanding the generality of the foregoing, Contractor shall submit to the Ministry at regular intervals statements relating to the Petroleum Operations, including, but not limited to, the following, as provided in Article 6 of this Accounting Procedure:

- (a) Production Statement.
- (b) Value of Production and Pricing Statement (monthly).
- (c) Petroleum Costs Statement (quarterly).
- (d) Production Sharing Statement (quarterly).
- (e) Final End-of-Year Statement.

Annual Budget Statement.  
Statement of crude exports.

Statement of initial and final inventory of crude.

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- 1.3.4. All reports and statements shall be prepared in accordance with the Contract, the laws of the Republic of Equatorial Guinea and regulations made thereunder, and where there are no relevant provisions of either of these, in accordance with generally accepted practices in the international petroleum industry.

**1.4. Language and Unit of Account**

Unless otherwise agreed, all accounts, records, books and reports shall be maintained and prepared in the Spanish language and shall be recorded in Dollars. For information purposes, Contractor may also maintain accounts and records in other languages and currencies.

**1.5. Audit and Inspection Rights of the State**

- 1.5.1. As provided in Article 15.5 of the Contract, the Ministry, upon at least forty five (45) days advance written notice to Contractor, shall have the right to inspect and audit, during normal business hours, all records and documents supporting costs and expenses such as the Contractor's accounts, books, records, invoices, cash vouchers, debit notes, price lists or similar documentation with respect to the Petroleum Operations hereunder. Furthermore, the auditors shall have the right, in connection with such audit, to visit and inspect at reasonable times, all sites, plants, facilities, warehouses and offices of Contractor directly or indirectly serving the Petroleum Operations and to question personnel associated with those Operations.

In such cases the Contractor's accounts shall be certified by a recognised firm of international auditors acceptable to both parties. All the related costs shall be included as Petroleum Operation Costs.

- 1.5.2. Any audit exceptions shall be made in writing and notified in writing to the Contractor within ninety (90) days of completion of the audit (the audit shall be ordered following an exchange of letters between the Contractor and the Ministry); failure to give such written exception shall be deemed to be an acknowledgement of the correctness of the Contractor's books and accounts.
- 1.5.3. Contractor shall answer any notice of exception under Article 1.5.2 within thirty (30) days of the receipt of such notice. Where the Contractor has, after the said thirty (30) days, failed to answer a notice of exception, the exception shall prevail.
- 1.5.4. All agreed adjustments resulting from an audit and all adjustments required by prevailing exceptions shall be promptly made in the Contractor's accounts and any consequential adjustments to payments due to the State shall be made promptly.
- 1.5.5. If Contractor and the Ministry are unable to reach final agreement on proposed

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audit adjustments they may, by mutual agreement, refer their dispute for binding expert determination in accordance with the provisions of Article 15.8 of the Contract. When issues are outstanding with respect to an audit, the Contractor shall preserve the relevant documents and permit inspection thereof until the issue is resolved.

#### **1.6. Currency Exchange Rates**

The Book-Keeping Exchange Rate shall be established monthly, based on the arithmetic average of the closing buy and sell rates for the Dollar against the Equatoguinean currency unit for the last working day of the month, as published by the Bank of Central African States (BEAC).

The Book-Keeping Exchange Rate of the last working day of each calendar month shall be used for exchange transactions, and for the purpose of determining the countervalue of Dollars in the Equatoguinean currency unit for the next succeeding month. The Book Keeping Exchange Rate shall be changed when the arithmetic average of the closing buy and sell rates for any subsequent calendar month varies from the currently applicable Book Keeping Exchange Rate.

#### **1.7. Revision of the Accounting Procedure**

By mutual agreement between the Ministry and Contractor, this Accounting Procedure may be revised from time to time by a document in writing executed by the Parties.

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## ARTICLE 2

### CLASSIFICATION OF PETROLEUM COSTS

Expenditures shall be classified in accordance with the purposes for which they are made. The classification criteria are those which have been included in the approved Annual Work Program and Annual Budget for the Year in which the expenditure is made and other items which have been agreed by the Parties from time to time. All Petroleum Costs shall be classified, defined and allocated as set out below. Records of Petroleum Costs shall be maintained in such a way as to enable proper allocation to each Field in the event of a Commercial Discovery.

#### 2.1. Exploration Expenditures

Exploration Expenditures are all direct and allocated indirect expenditures incurred in the search for Petroleum in an area which is, or was at the time when such costs were incurred, part of the Contract Area including:

- (a) Aerial, geophysical, geochemical, paleontological, geological, topographical and seismic surveys and studies and their interpretation;
- (b) Core hole drilling and water Well drilling;
- (c) Labor, materials, supplies, and services used in drilling exploration Wells or appraisal Wells;
- (d) Facilities used solely in support of the purposes described in paragraphs (a), (b) and (c) above, including access roads and purchased geological and geophysical information, all separately identified;
- (e) Any other expenditures incurred in the search for and appraisal of Petroleum after the Effective Date but prior to the date of granting a Development Area with respect to the relevant Field and not covered under Article 2.3 below.

#### 2.2. Development Expenditures

Development Expenditures shall consist of all expenditures incurred in:

- (a) Drilling Wells which are completed as producing wells and drilling Wells for purposes of producing a Field whether these Wells are dry or producing and drilling Wells for the injection of water or gas to enhance recovery of Petroleum;

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- (b) Completing Wells by way of installation of casing or equipment or otherwise after a Well has been drilled for the purpose of bringing the well into use as a producing Well or as a Well for the injection of water or gas to enhance recovery of Petroleum;
- (c) The costs of Petroleum production from a Field and its transport and storage facilities such as pipelines, flow lines, production and treatment units, wellhead equipment, subsurface equipment, enhanced recovery systems, offshore platforms, petroleum storage facilities, export terminals and piers, harbors and related facilities, and access roads for production activities;
- (d) Engineering and design studies for facilities referred to in paragraph (c) above;

### 2.3. Operating Expenditures

Operating Expenditures are all expenditures incurred in Petroleum Operations from the date of approval of the relevant development and production plan as provided in Article 5.1.1 of the Contract, which are not Exploration Expenditures, Development Expenditures, General and Administrative Expenditures and Service Expenditures.

The balance of General and Administrative Expenditures and Service Expenditures not classified as the Exploration Expenditures or Development Expenditures shall be classified as Operating Expenditures.

#### 2.3.1 ASSIGNMENT OF GENERAL AND ADMINISTRATIVE EXPENSES.

They are all the expenses associated with the functioning of certain services of the Contractor in Equatorial Guinea as well as abroad and to the General Assistance of the central services necessary for the study, planning and execution of Petroleum Operations.

These expenses resulting from direct activities of the Contractor and carried out with their own services or third parties are related mainly to the following functions:

**Administrative Expenses:** Referring to Management expenses, Public Relations, Finance, Budget and Management Control, Accounting, Treasury, Financing, Management Information Systems, Taxes and Legal Issues, Insurance, Administration, and

**General Expenses:** General assistance will be billed according to the usual methods of the central services of the Operator. These methods consist of covering an equitable part of the common expenses of the corresponding central services, on one hand to the access to know-how and to the

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improvement of the techniques and on the other hand to the other different administrative expenses mentioned above. This General Assistance may be billed as Petroleum Operations are being carried out using a rate of 5% (five percent) of the costs of the referred operations.

The administrative and general costs will be assigned by means of a detailed study, and the method determined by each study will be applied consistently each calendar year. The method selected should be approved by the Ministry and the Contractor.

### 2.3.2 INTEREST RECOVERY

Interest on loans obtained on one hand from Affiliated or Parent companies or third parties not Affiliated at rates not exceeding prevalent commercial rates for investments in Petroleum Operations shall not be recoverable as Petroleum Operation Costs but shall be treated as tax deductible when calculating the income tax obligations of the Contractor.

### 2.3.3 INSURANCE AND CLAIMS

The costs of Petroleum Operations will include premiums paid for normally required insurance for operations associated with Contractor obligations carried out according to the Contract. All expenses incurred and paid by the Contractor in resolution of any loss, claim, injury and damages, shortcomings, and other expenses, including money associated with the obligations according to the Contract will be included as Petroleum Operation Costs less any cost recovered by the Contractor by means of insurance claims, so long as these expenses are not incurred or result from proven negligence of the Contractor.

### 2.3.4 INVENTORY ACCOUNTING

The costs of materials and equipment bought for inventory will be recoverable in the Calendar Year in which the stated materials and equipment arrived in the Republic of Equatorial Guinea.

## 2.4 Marketing Expenditures

The costs incurred in the export of hydrocarbons. These costs include:

Transport of hydrocarbons  
Navigation/pilotage charges, etc.

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## ARTICLE 3

### OTHER CLASSIFICATION OF COSTS

During whichever year commercial production occurs, the costs of Petroleum Operations shall comprise :

Non-capital costs incurred during the current year  
Capital costs incurred during the year  
Recuperation of all prior year's unrecovered Petroleum Operation Costs

#### 3.1 CAPITAL OR TANGIBLE COSTS

Capital or tangible costs are understood as those costs incurred in the acquisition of fixed assets which normally have a useful life of more than one year.

Tangible costs include, but are not limited to, the following:

- (a) Infrastructure for public and auxiliary services, the cost of oil loading and transportation systems, treatment plant and machinery and secondary recovery systems, gas plant and vapour systems;
- (b) production installations; construction of platforms outside the Contract Area and their on-site installations, pipework equipment, well heads, production tubes, warp rods, pipeline and gasline installation, cables, reinjection charges, storage tanks;
- (c) moveable goods: drilling and surface and subsurface production equipment and instruments, flatboats, boats, diesel engines, planes, construction machinery, furniture, office equipment etc;
- (d) construction; territory acquisition, construction of dwellings, offices, shops, factories, recreation installations and other tangible construction goods.

With the exception of territory acquired by the CONTRACTOR, all the goods itemised will depreciate during their useful life.

#### 3.1.2 Depreciation of Tangible Costs

In order to calculate Income Tax and for recovery of capital or tangible costs, Depreciation will be calculated from the year in which the assets are placed in use, allowing one complete year's depreciation. Only those costs incurred in acquiring tangible goods will be subject to Depreciation. The method used to calculate the allowed annual depreciation will be the straight line method. The shelf life to be used for depreciation purposes for tangible costs will be six (6) years. The un-depreciated balance of goods withdrawn from active service will not be assigned to Petroleum Operations Costs, but will continue to depreciate on the basis of the shelf lives previously described, except in the case of the said goods suffering unforeseen damage, for example by fire or accident.

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### 3.2 NON-CAPITAL OR INTANGIBLE COSTS

Non-capital costs are those relating to Petroleum Operations in the current year. In addition to those costs which only relate to current operations, intangible well-drilling costs according to the following points (c), (d) and (e) will be classed as non-capital costs. Non-capital costs include, but are not limited to, the following:

(a) labour, materials and services used daily in well operations, facility operations for oil field production, secondary recuperation operations, storage, management, transport and delivery operations, natural gas well operations, facilities operations for natural gas production, and other exploration activities, including maintenance operations.

(b) office and general administration services: general services including technical and similar, material services, leasing of necessary heavy engineering machinery, leasing of premises and other leasing of services and goods, personnel and public relations costs, and other outside costs.

(c) development and production drilling; labour, materials and services used in well-drilling, with the objective of penetrating a proven deposit in the drilling of delineation wells, as well as drilling, deepening or reconstruction of wells and, if there are any, access tracks to the wells;

(d) exploratory drilling; labour, materials and services used in well drilling with the objective of discovering unverified deposits of Crude Oil and Natural Gas, and, if there are any, access tracks to the wells;

(e) studies: labour, materials and services used in aerial, geological, topographical, geophysical and seismic reconnaissance and core drilling;

(f) other exploration costs - auxiliary or provisional facilities with a shelf life no longer than one year, used in the study of geological and geophysical data; and

(g) the signature bonus and costs incurred for production bonuses, as required, according to Articles 10.1 and 10.3 of the Contract.

Non-capital or intangible costs will be treated as Petroleum Operations Costs, which will be recovered in the current year.

### 3.3. EXPENDITURES EXCLUDED FROM PETROLEUM COSTS

The following costs and expenses shall not be included in Petroleum Costs:

(a) the bonuses and surface rentals provided in Article 10 of the Contract;

(b) any payments made to the State for failure to fulfill the minimum exploration work obligations in accordance with Article 3 of the Contract;



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- (c) interest and any other financing charges incurred on loans raised to finance Petroleum Operations;
- (d) costs of marketing or transportation of Petroleum beyond the Delivery Point, costs which are compensation for Terminal Fees (defined below);
- (e) the cost of any bank guarantee under the Contract and any other amounts spent on indemnification with regard to nonfulfillment of contractual obligations;
- (f) attorney's fees and other costs of proceedings in connection with arbitration under Article 22 of the Contract or expert determination as provided in the Contract or this Accounting Procedure;
- (h) fines and penalties imposed under the laws of Equatorial Guinea.
- (i) costs incurred by the Contractor before and during the negotiation of this Contract.
- (j) costs which exceed the approved budget in accordance with the conditions of this Contract.

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## ARTICLE 4

### 4.1 PRACTICAL DETERMINATION OF TAX RATE

Tax rate = (1) - (2) - (3) - (4)

(1) Contractor's net income (recoverable costs + production participation)

Less (-):

(2) Non-capital costs

(3) Depreciation of capital costs

(4) Carry forward of deficits of the previous financial year if there are any (subject to limitation of three years of carrying forward)

### 4.2 PRINCIPLE OF TREATMENT OF A FINANCIAL YEAR DEFICIT

Article 67 of the Tax Law (modified by Decree/Law No. /1988):

"In case of deficit in a financial year, this deficit will be considered as relating to the following financial year and deducted from the profit made during the said financial year, if this profit is not sufficient for the deduction to be made, the excess of the deficit will be carried over successively to the profits of the next financial year until the third financial year."

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## ARTICLE 5

### RECORDS AND VALUATION OF ASSETS

#### 5.1. Records

Contractor shall maintain detailed records of property in use for Petroleum Operations under the Contract in accordance with normal practice in exploration and production activities of the international petroleum industry.

#### 5.2. Inventories during Initial Exploration Operations

Prior to the date of approval of the first Annual Work Program and Annual Budget submitted pursuant to Article 4 of the Contract, Contractor shall prepare an annual schedule (to be included as part of the Statement required under Article 6.3 of this Accounting Procedure) of all property in use for Petroleum Operations and its value as shown in the Contractor's records.

#### 5.3. Inventories in Subsequent Operations

Subsequent to the date of approval of the first Annual Work Program and Annual Budget submitted pursuant to Article 4 of the Contract, inventories of property in use in Petroleum Operations under the Contract shall be taken at reasonable intervals but at least once a year with respect to movable assets and once every two (2) years with respect to immovable assets.

Contractor shall give the Ministry at least thirty (30) days written notice of its intention to take such inventory and the Ministry shall have the right to be represented when such inventory is taken. Contractor shall clearly state the principles upon which valuation of the inventory has been based. Contractor shall make every effort to provide to the Ministry a full report on such inventory within thirty (30) days of the taking of the inventory.

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## ARTICLE 6

### STATEMENTS

#### 6.1. Production Statement

Without prejudice to the rights and obligations of the Parties under the Contract, from the date of commencement of regular production from the Contract Area, Contractor shall submit a monthly production statement to the Ministry showing the following information separately for each Field and in aggregate for the Contract Area:

- (a) The quantity of Crude Oil produced and saved.
- (b) The quality characteristics of such Crude Oil produced and saved.
- (c) The quantity of Natural Gas produced and saved.
- (d) The quality characteristics of such Natural Gas produced and saved.
- (e) The quantities of Crude Oil and Natural Gas used for the purposes of carrying on drilling and production operations and pumping to Field storage.
- (f) The quantities of Crude Oil and Natural Gas unavoidably lost.
- (g) The quantities of Natural Gas flared and vented.
- (h) The size of Petroleum stocks held at the beginning of the calendar month in question.
- (i) The size of Petroleum stocks held at the end of the calendar month in question.
- (j) The quantities of Natural Gas reinjected into the Petroleum Reservoir.

All quantities shown in this statement shall be expressed in both volumetric terms (barrels of oil and cubic meters of gas) and in weight (metric tons).

The production statement for each calendar month shall be submitted to the Ministry no later than ten (10) days after the end of such calendar month.

#### 6.2. Value of Production and Pricing Statement

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Contractor shall for the purpose of Article 9 of the Contract, prepare a statement providing calculations of the value of Crude Oil produced and saved during each Quarter.

This statement shall contain the following information:

- (a) The quantities, prices and receipts realized by Contractor as a result of sales of Crude Oil to Third Parties made during the Quarter in question.
- (b) The quantities, prices and receipts realized by Contractor as a result of sales of Crude Oil made during the Quarter in question, other than to Third Parties.
- (c) The value of stocks of Crude Oil at the end of the Quarter preceding the Quarter in question.
- (d) The value of stocks of Crude Oil at the end of the Quarter in question.
- (e) Information available to Contractor, insofar as required for the purposes of Article 9 of the Contract, concerning the prices of competitive Crude Oils produced by the main petroleum producing and exporting countries including contract prices, discounts and premia, and prices obtained on the spot markets.

### **6.3. Petroleum Costs Statement**

#### **6.3.1 Quarterly statement**

Contractor shall prepare a Quarterly Petroleum Costs Statement showing the Petroleum Costs incurred by Contractor with respect to the Contract Area, as classified under the headings provided in Article 2 of this Accounting Procedure.

Exploration Expenditures, Development Expenditures and Operating Expenditures shall be separately identified for each Field, if any. Contractor shall specify the basis of allocation of shared expenditure. If the Ministry is not satisfied with the degree of disaggregation within the categories he shall be entitled to ask for a more detailed breakdown.

Exploration Expenditures prior to the date of approval of the first development and production plan submitted pursuant to Article 4 of the Contract or not directly attributable to a specific Field shall be shown separately.

The Petroleum Costs Statement for each Quarter shall be submitted to the Ministry no later than fifteen (15) days after the end of each Quarter.

#### **6.3.2. Annual Statement**

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Contractor shall prepare an annual Petroleum Costs Statement containing the following information for the purposes of Article 7.2 of the Contract with respect to each Field:

- (a) Allowable Petroleum Costs not yet recovered carried forward from the previous Year, if any.
- (b) Allowable Petroleum Costs for the Year in question.
- (c) The quantity and value of Petroleum production taken by Contractor as Oil for Cost Recovery under the provisions of Article 8.2 of the Contract for the Year in question.
- (d) Allowable Petroleum Costs not yet recovered at the end of the Year in question.

The annual Petroleum Costs Statement shall be submitted to the Ministry no later than forty five (45) days following the end of each Year.

#### **6.4. Production Sharing Statement**

Within forty five (45) days following the end of each Year, Contractor shall submit to the Ministry with respect to such Year a Production Sharing Statement containing the following information for the purposes of Article 7.3 of the Contract:

- (a) Cumulative Deemed Profit at the end of the previous Year.
- (b) Deemed Profit for the Year in question.
- (c) Cumulative Deemed Profit at the end of the Year in question.
- (d) Cumulative Investments at the end of the previous Year.
- (e) Investments for the Year in question.
- (f) Cumulative Investments at the end of the Year in question.
- (g) Quantity and value of Contractor's share of Net Crude Oil.
- (h) Quantity and value of State's share of Net Crude Oil.

#### **6.5. Final End-of-Year Statement**

On or before the thirty-first (31st) day of March of each Year, Contractor shall

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submit to the Ministry a final end-of-year statement in accordance with the provisions of Article 3.1.3 of the Petroleum Regulations.

**6.6. Annual Budget Statement**

Contractor shall submit to the Ministry an Annual Budget Statement in accordance with the provisions of Article 4 of the Contract.

Such Statement shall distinguish between budgeted Exploration Expenditures, Development Expenditures and Operating Expenditures by Quarter and shall correspond to the individual items of Petroleum Operations included in the Annual Work Program.

BARROWS  
CONFIDENTIAL

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**ANNEX D**

Attached to and made an integral part of this Contract between the Republic of Equatorial Guinea and Contractor.

**BANK GUARANTEE**

BARROWS  
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