

October 29, 2012

INTERNATIONAL OPERATING AGREEMENT

PRESIDENT ENERGY PARAGUAY S.A.

AND

PIRITY HIDROCARBUROS S.R.L.

OPERATING AGREEMENT COVERING:

BLOQUE PIRITY - PARAGUAY

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Exhibit A	Accounting Procedure
Exhibit B	Contract Area
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OPERATING AGREEMENT

THIS AGREEMENT is made as of the 29 day of October, 2012 (the "*Effective Date*") among Pirity Hidrocarburos S.R.L., a company existing under the laws of Paraguay (hereinafter referred to as "Pirity") and President Energy Paraguay S.A., a company existing under the laws of Paraguay (hereinafter referred to as "President"). The companies named above, and their respective successors and assignees (if any), may sometimes individually be referred to as "Party" and collectively as the "Parties".

WITNESSETH:

WHEREAS, Pirity entered into that certain Concession Contract enacted as Paraguayan Law No. 3479 on April 29, 2008, as amended (the "Contract" as further hereinafter defined), which was signed into law by the Executive Branch on May 13, 2008 by and between Pirity Hidrocarburos S.R.L., and the Ministry of Public Works and Communications "MOPC," a Ministry of the Government of the Republic of Paraguay for the exploration, development and production of hydrocarbons in the Contract Area;

WHEREAS, the Parties have entered into an International Farmout Agreement dated as of September 11, 2012, as amended (the "Farmout Agreement"), pursuant to which Pirity assigned to President certain, and President has the right to earn additional, Participating Interests in accordance with the terms of the Farmout Agreement; and

WHEREAS, the Parties desire to define their respective rights and obligations with respect to their operations under the Contract;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements and obligations set out below and to be performed, the Parties agree as follows:

ARTICLE I DEFINITIONS

As used in this Agreement, the following words and terms shall have the meaning ascribed to them below:

- 1.1 *Accounting Procedure* means the rules, provisions and conditions contained in Exhibit A.
- 1.2 *AFE* means an authorization for expenditure pursuant to Article 6.7.
- 1.3 *Affiliate* means a legal entity which Controls, or is Controlled by, or which is Controlled by an entity which Controls, a Party.
- 1.4 *Agreed Interest Rate* means interest compounded on a monthly basis, at the rate per annum equal to the one (1) month term, London Interbank Offered Rate (LIBOR rate) for U.S. dollar deposits, as published in London by the Financial Times or if not published, then by The Wall Street Journal, plus FIVE (5%) percentage points, applicable on the first Business Day prior to the due date of payment and thereafter on the first Business Day of each succeeding calendar month. If the aforesaid rate is contrary to any applicable usury law, the rate of interest to be charged shall be the maximum rate permitted by such applicable law.
- 1.5 *Agreement* means this agreement, together with the Exhibits attached to this agreement, and any extension, renewal or amendment hereof agreed to in writing by the Parties.
- 1.6 *Appraisal Well* means any well (other than an Exploration Well or a Development Well) whose purpose at the time of commencement of drilling such well is to appraise the extent or the volume of Hydrocarbon reserves contained in an existing Discovery.

- 1.7 **Business Day** means a Day on which the banks in Paraguay are customarily open for business.
- 1.8 **Calendar Quarter** means a period of three (3) months commencing with January 1 and ending on the following March 31, a period of three (3) months commencing with April 1 and ending on the following June 30, a period of three (3) months commencing with July 1 and ending on the following September 30, or a period of three (3) months commencing with October 1 and ending on the following December 31, all in accordance with the Gregorian Calendar.
- 1.9 **Calendar Year** means a period of twelve (12) months commencing with January 1 and ending on the following December 31 according to the Gregorian Calendar.
- 1.10 **Commercial Discovery** means any Discovery that is sufficient to entitle the Parties to apply for authorization from the Government to commence exploitation.
- 1.11 **Completion** means an operation intended to complete a well through the Christmas tree as a producer of Hydrocarbons in one or more Zones, including the setting of production casing, perforating, stimulating the well and production Testing conducted in such operation. "**Complete**" and other derivatives shall be construed accordingly.
- 1.12 **Consenting Party** means a Party who agrees to participate in and pay its share of the cost of an Exclusive Operation.
- 1.13 **Consequential Loss** means any loss, damages, costs, expenses or liabilities caused (directly or indirectly) by any of the following arising out of, relating to, or connected with this Agreement or the operations carried out under this Agreement: (i) reservoir or formation damage; (ii) inability to produce, use or dispose of Hydrocarbons; (iii) loss or deferment of income; (iv) punitive damages; or (v) other indirect damages or losses whether or not similar to the foregoing.
- 1.14 **Contract** means the instrument identified in the recitals to this Agreement and any extension, renewal or amendment thereto.
- 1.15 **Contract Area** means as of the Effective Date the area that is described in Exhibit B. The perimeter or perimeters of the Contract Area shall correspond to that area covered by the Contract, as such area may vary from time to time during the term of validity of the Contract.
- 1.16 **Control** means the ownership directly or indirectly of more than fifty (50) percent of the voting rights in a legal entity. "**Controls**", "**Controlled by**" and other derivatives shall be construed accordingly.
- 1.17 **Crude Oil** means all crude oils, condensates, and natural gas liquids at atmospheric pressure which are subject to and covered by the Contract.
- 1.18 **Day** means a calendar day unless otherwise specifically provided.
- 1.19 **Deepening** means an operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the deepest Zone proposed in the associated AFE (if required), whichever is the deeper. "**Deepen**" and other derivatives shall be construed accordingly.
- 1.20 **Development Plan** means a plan for the development of Hydrocarbons from an Exploitation Area.
- 1.21 **Development Well** means any well drilled for the production of Hydrocarbons pursuant to a Development Plan.
- 1.22 **Discovery** means the discovery of an accumulation of Hydrocarbons whose existence until that moment was unproven by drilling.

- 1.23 *Dispute* means any dispute, controversy or claim (of any and every kind or type, whether based on contract, tort, statute, regulation, or otherwise) arising out of, relating to, or connected with this Agreement or the operations carried out under this Agreement, including any dispute as to the construction, validity, interpretation, enforceability or breach of this Agreement.
- 1.24 *Entitlement* means that quantity of Hydrocarbons (excluding all quantities used or lost in Joint Operations) of which a Party has the right and obligation to take delivery pursuant to the terms of this Agreement and the Contract, as such rights and obligations may be adjusted by the terms of any lifting, balancing and other disposition agreements entered into pursuant to Article 9.
- 1.25 *Environmental Loss* means any loss, damages, costs, expenses or liabilities (other than Consequential Loss) caused by a discharge of Hydrocarbons, pollutants or other contaminants into or onto any medium (such as land, surface water, ground water and/or air) arising out of, relating to, or connected with this Agreement or the operations carried out under this Agreement, including any of the following: (i) injury or damage to, or destruction of, natural resources or real or personal property; (ii) cost of pollution control, cleanup and removal; (iii) cost of restoration of natural resources; and (iv) fines, penalties or other assessments.
- 1.26 *Exclusive Operation* means those operations and activities carried out pursuant to this Agreement, the costs of which are chargeable to the account of less than all the Parties.
- 1.27 *Exclusive Well* means a well drilled pursuant to an Exclusive Operation.
- 1.28 *Exploitation Area* means that part of the Contract Area which is established for development of a Commercial Discovery pursuant to the Contract or, if the Contract does not establish an exploitation area, then that part of the Contract Area which is delineated as the exploitation area in a Development Plan approved as a Joint Operation or as an Exclusive Operation.
- 1.29 *Exploitation Period* means any and all periods of exploitation during which the production and removal of Hydrocarbons is permitted under the Contract.
- 1.30 *Exploration Period* means any and all periods of exploration set out in the Contract.
- 1.31 *Exploration Well* means any well the purpose of which at the time of the commencement of drilling is to explore for an accumulation of Hydrocarbons, which accumulation was at that time unproven by drilling.
- 1.32 *Farmout Agreement* is defined in the Recitals to this Agreement.
- 1.33 *G & G Data* means only geological, geophysical and geochemical data and other similar information that is not obtained through a well bore.
- 1.34 *Government* means the government of the Republic of Paraguay and any political subdivision, agency or instrumentality thereof, including the Government Oil & Gas Company.
- 1.35 *Government Oil & Gas Company* means Petróleos Paraguayos (PETROPAR).
- 1.36 *Gross Negligence / Willful Misconduct* means any act or failure to act (whether sole, joint or concurrent) by any person or entity which was intended to cause, or which was in reckless disregard of or wanton indifference to, harmful consequences such person or entity knew, or should have known, such act or failure would have on the safety or property of another person or entity.
- 1.37 *Hydrocarbons* means all substances which are subject to and covered by the Contract, including Crude Oil and Natural Gas.
- 1.38 *Joint Account* means the accounts maintained by Operator in accordance with the provisions of this

Agreement, including the Accounting Procedure.

- 1.39 *Joint Operations* means those operations and activities carried out by Operator pursuant to this Agreement, the costs of which are chargeable to all Parties.
- 1.40 *Joint Property* means, at any point in time, all wells, facilities, equipment, materials, information, funds and property (other than Hydrocarbons) held for use in Joint Operations.
- 1.41 *Laws / Regulations* means those laws, statutes, rules and regulations governing activities under the Contract.
- 1.42 *Minimum Work Obligations* means those work and/or expenditure obligations specified in the Contract that must be performed in order to satisfy the obligations of the Contract.
- 1.43 *Natural Gas* means all gaseous hydrocarbons (including wet gas, dry gas and residue gas) which are subject to and covered by the Contract, but excluding Crude Oil.
- 1.44 *Non-Consenting Party* means each Party who elects not to participate in an Exclusive Operation.
- 1.45 *Non-Operator* means each Party to this Agreement other than Operator.
- 1.46 *Operating Committee* means the committee constituted in accordance with Article 5.
- 1.47 *Operator* means a Party to this Agreement designated as such in accordance with Articles 4 or 7.12(F).
- 1.48 *Participating Interest* means as to any Party, the undivided interest of such Party (expressed as a percentage of the total interests of all Parties) in the rights and obligations derived from the Parties' interest in the Contract and this Agreement.
- 1.49 *Plugging Back* means a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone. "Plug Back" and other derivatives shall be construed accordingly.
- 1.50 *Recompletion* means an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore. "Recomplete" and other derivatives shall be construed accordingly.
- 1.51 *Reworking* means an operation conducted in the wellbore of a well after it is Completed to secure, restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include well stimulation operations, but exclude any routine repair or maintenance work, or drilling, Sidetracking, Deepening, Completing, Recompleting, or Plugging Back of a well. "Rework" and other derivatives shall be construed accordingly.
- 1.52 *Security* means (i) a guarantee or standby letter of credit issued by a bank; (ii) an on-demand bond issued by a surety corporation; (iii) a corporate guarantee; (iv) any financial security required by the Contract or this Agreement; and (v) any financial security agreed from time to time by the Parties; provided, however, that the bank, surety or corporation issuing the guarantee, standby letter of credit, bond or other security (as applicable) has a credit rating indicating it has a sufficient worth to pay its obligations in all reasonably foreseeable circumstances.
- 1.53 *Senior Supervisory Personnel* means, with respect to a Party, any individual who functions as its designated manager or supervisor who is responsible for or in charge of onsite drilling, construction or production and related operations, or any other field operations and any individual who functions for such Party or one of its Affiliates at a management level equivalent to or superior to the tier selected, or any officer or director of such Party or one of its Affiliates.

- 1.54 *Sidetracking* means the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or to drill around junk in the hole or to overcome other mechanical difficulties. "*Sidetrack*" and other derivatives shall be construed accordingly.
- 1.55 *Testing* means an operation intended to evaluate the capacity of a Zone to produce Hydrocarbons. "*Test*" and other derivatives shall be construed accordingly.
- 1.56 *Third Party ORRI* means the 5% overriding royalty interest granted by Purity to Dr. Fernando Wiens and Lic. Arnold Klassen.
- 1.57 *Urgent Operational Matters* has the meaning ascribed to it in Article 5.12(A)(1).
- 1.58 *Work Program and Budget* means a work program for Joint Operations and budget therefor as described and approved in accordance with Article 6.
- 1.59 *Zone* means a stratum of earth containing or thought to contain an accumulation of Hydrocarbons separately producible from any other accumulation of Hydrocarbons.

ARTICLE 2 EFFECTIVE DATE AND TERM

This Agreement shall have effect from the Effective Date (as defined in the preamble to this Agreement) and shall continue in effect until the following occur in accordance with the terms of this Agreement: the Contract terminates; all materials, equipment and personal property used in connection with Joint Operations or Exclusive Operations have been disposed of or removed; and final settlement (including settlement in relation to any financial audit carried out pursuant to the Accounting Procedure) has been made. Notwithstanding the preceding sentence: (i) Article 10 shall remain in effect until all abandonment obligations under the Contract have been satisfied; and (ii) Article 4.5, Article 8, Article 15.2, Article 18 and the indemnity obligation under Article 20.1 (A) shall remain in effect until all obligations have been extinguished and all Disputes have been resolved. Termination of this Agreement shall be without prejudice to any rights and obligations arising out of or in connection with this Agreement which have vested, matured or accrued prior to such termination.

ARTICLE 3 SCOPE

3.1 *Scope*

- (A) The purpose of this Agreement is to establish the respective rights and obligations of the Parties with regard to operations under the Contract, including the joint exploration, appraisal, development, production and disposition of Hydrocarbons from the Contract Area.
- (B) For greater certainty, the Parties confirm that, except to the extent expressly included in the Contract, the following activities are outside of the scope of this Agreement and are not addressed herein:
- (1) construction, operation, ownership, maintenance, repair and removal of facilities downstream from the delivery point (as determined under Article 9) of the Parties' Entitlements;
 - (2) transportation of the Parties' Entitlements downstream from the delivery point (as determined under Article 9);
 - (3) marketing and sales of Hydrocarbons, except as expressly provided in Article 7.12(E), Article 8.4 and Article 9;

- (4) acquisition of rights to explore for, appraise, develop or produce Hydrocarbons outside of the Contract Area (other than as a consequence of unitization with an adjoining contract area under the terms of the Contract); and
- (5) exploration, appraisal, development or production of minerals other than Hydrocarbons, whether inside or outside of the Contract Area.

3.2 Participating Interest

(A) The Participating Interests of the Parties as of the Effective Date are:

President	11.8%
Pirity	88.2%

(B) If a Party transfers all or part of its Participating Interest pursuant to the provisions of this Agreement and the Contract, the Participating Interests of the Parties shall be revised accordingly.

3.3 Ownership, Obligations and Liabilities: Farmout Agreement

- (A) Unless otherwise provided in this Agreement, all the rights and interests in and under the Contract, all Joint Property, and any Hydrocarbons produced from the Contract Area shall, subject to the terms of the Contract, be owned by the Parties in accordance with their respective Participating Interests.
- (B) Unless otherwise provided in this Agreement, the obligations of the Parties under the Contract and all liabilities and expenses incurred by Operator in connection with Joint Operations shall be charged to the Joint Account and all credits to the Joint Account shall be shared by the Parties, in accordance with their respective Participating Interests.
- (C) Each Party shall pay when due, in accordance with the Accounting Procedure, its Participating Interest share of Joint Account expenses, including cash advances and interest, accrued pursuant to this Agreement. A Party's payment of any charge under this Agreement shall be without prejudice to its right to later contest the charge.
- (D) Notwithstanding anything stated in this Agreement to the contrary, the terms and provisions of this Agreement are made expressly subject to the terms of the Farmout Agreement (including, without limitation, certain disproportionate sharing of certain costs, liabilities and obligations of President and Pirity until the sooner of the Earning Obligations are satisfied, or if and when Section 4.2 of the Farmout Agreement applies (both as defined therein) or until the Farmout Agreement is terminated, in accordance with the terms thereof), and to the extent that there is any conflict between the terms and provisions of this Agreement and the terms and provisions of the Farmout Agreement, the terms and provisions of the Farmout Agreement shall govern and control.
- (E) All Participating Interests are expressly made subject to and shall be burdened by the Third Party ORRI and each Party shall bear its proportionate Participating Interest share of obligations and liabilities attributable to the Third Party ORRI.

**ARTICLE 4
OPERATOR**

4.1 Designation of Operator

President is designated as Operator and agrees to act as such in accordance with this Agreement.

4.2 *Rights and Duties of Operator*

- (A) Subject to the terms and conditions of this Agreement, Operator shall have all of the rights, functions and duties of Operator under the Contract and shall have exclusive charge of and shall conduct all Joint Operations. Operator may employ independent contractors and agents (which independent contractors and agents may include an Affiliate of Operator, a Non-Operator, or an Affiliate of a Non-Operator) in such Joint Operations.
- (B) In the conduct of Joint Operations Operator shall:
- (1) perform Joint Operations in accordance with the provisions of the Contract, the Laws / Regulations, this Agreement, and the decisions of the Operating Committee not in conflict with this Agreement;
 - (2) conduct all Joint Operations in a diligent, safe and efficient manner in accordance with such good and prudent petroleum industry practices and field conservation principles as are generally followed by the international petroleum industry under similar circumstances;
 - (3) exercise due care with respect to the receipt, payment and accounting of funds in accordance with good and prudent practices as are generally followed by the international petroleum industry under similar circumstances;
 - (4) subject to Article 4.6 and the Accounting Procedure, neither gain a profit nor suffer a loss as a result of being the Operator in its conduct of Joint Operations, provided that Operator may rely upon Operating Committee approval of specific accounting practices not in conflict with the Accounting Procedure;
 - (5) perform the duties for the Operating Committee set out in Article 5, and prepare and submit to the Operating Committee proposed Work Programs and Budgets and (if required) AFEs, as provided in Article 6;
 - (6) acquire all permits, consents, approvals, and surface or other rights that may be required for or in connection with the conduct of Joint Operations;
 - (7) upon receipt of reasonable advance notice, permit the representatives of any of the Parties to have at all reasonable times during normal business hours and at their own risk and expense reasonable access to the Joint Operations with the right to observe all Joint Operations and to inspect all Joint Property and to conduct financial audits as provided in the Accounting Procedure;
 - (8) undertake to maintain the Contract in full force and effect in accordance with such good and prudent petroleum industry practices as are generally followed by the international petroleum industry under similar circumstances. Operator shall timely pay and discharge all liabilities and expenses incurred in connection with Joint Operations and use its reasonable endeavors to keep and maintain the Joint Property free from all liens, charges and encumbrances arising out of Joint Operations;
 - (9) pay to the Government for the Joint Account, within the periods and in the manner prescribed by the Contract and the Laws / Regulations, all periodic payments, royalties, taxes, fees and other payments pertaining to Joint Operations but excluding any taxes measured by the incomes of the Parties;
 - (10) carry out the obligations of Operator pursuant to the Contract, including preparing and furnishing such reports, records and information as may be required pursuant to the

Contract;

- (11) have, in accordance with any decisions of the Operating Committee, the exclusive right and obligation to represent the Parties in all dealings with the Government with respect to matters arising under the Contract and Joint Operations. Operator shall notify the other Parties as soon as possible of such meetings. Subject to the Contract and any necessary Government approvals, Non-Operators shall have the right to attend any meetings with the Government with respect to such matters, but only in the capacity of observers. Nothing contained in this Agreement shall restrict any Party from holding discussions with the Government with respect to any issue peculiar to its particular business interests arising under the Contract or this Agreement, but in such event such Party shall promptly advise the Parties, if possible, before and in any event promptly after such discussions, provided that such Party shall not be required to divulge to the Parties any matters discussed to the extent the same involve proprietary information or matters not affecting the Parties;
- (12) in accordance with Article 9.3 and any decisions of the Operating Committee, assess (to the extent lawful) alternatives for the disposition of Natural Gas from a Discovery;
- (13) in case of an emergency (including a significant fire, explosion, Natural Gas release, Crude Oil release, or sabotage; incident involving loss of life, serious injury to an employee, contractor, or third party, or serious property damage; strikes and riots; or evacuations of Operator personnel): (i) take all necessary and proper measures for the protection of life, health, the environment and property; and (ii) as soon as reasonably practicable, report to Non-Operators the details of such event and any measures Operator has taken or plans to take in response thereto;
- (14) establish and implement pursuant to Article 4.12 an HSE plan to govern Joint Operations which is designed to ensure compliance with applicable HSE laws, rules and regulations and this Agreement;
- (15) include, to the extent practical, in its contracts with independent contractors and to the extent lawful, provisions which:
 - (a) establish that such contractors can only enforce their contracts against Operator;
 - (b) permit Operator, on behalf of itself and Non-Operators, to enforce contractual indemnities against, and recover losses and damages suffered by them (insofar as recovered under their contracts) from, such contractors; and
 - (c) require such contractors to take insurance required by Article 4.7(H).

4.3 Operator Personnel

- (A) Operator shall engage or retain only such employees, Secondees, contractors, consultants and agents as are reasonably necessary to conduct Joint Operations. For the purposes of this Article 4.3, "*Secondee*" means an employee of a Non-Operator (or its Affiliate) who is seconded to Operator to provide services under a secondment agreement to be negotiated and entered into between Operator and such Non-Operator; and "*Secondment*" means placement within Operator's organization in accordance with this Article 4.3 of one or more persons who are employed by a Non-Operator or an Affiliate.
- (B) Subject to the Contract and this Agreement, Operator shall determine the number of employees, Secondees, contractors, consultants and agents, the selection of such persons, their hours of work, and (except for Secondees) the compensation to be paid to all such persons in connection with

Joint Operations.

- (C) No Secondment may be implemented except (i) in situations requiring particular expertise or involving projects of a technical, operational or economically challenging nature; and (ii) in the manner set out in paragraphs (1) to (7) below.
- (1) Any Party may propose Secondment for a designated purpose related to Joint Operations. Any proposal for Secondment must include the:
 - (a) designated purpose and scope of Secondment, including duties, responsibilities, and deliverables;
 - (b) duration of the Secondment;
 - (c) number of Secondees and minimum expertise, qualifications and experience required;
 - (d) work location and position within Operator's organization of each Secondee;
and
 - (e) estimated costs of the Secondment.
 - (2) In relation to a proposed Secondment meeting the requirements of Article 4.3(C)(1), Operator shall as soon as reasonably practicable approve (such approval to not be unreasonably withheld) or reject any Secondment proposed by a Non-Operator. Without prejudice to Operator's right to conduct Joint Operations in accordance with this Agreement and the Contract, Operator shall consider such Secondment proposal in light of the: (i) expertise and experience required for the relevant Joint Operations; (ii) expertise and experience of Operator's personnel; and (iii) potential benefits of such Secondment to the conduct of Joint Operations.
 - (3) Any proposal for one or more Secondment positions approved by Operator is subject to: (i) the Operating Committee's authorization of an appropriate budget for such Secondment positions; and (ii) Non-Operators continuing to make available to Operator Secondees qualified to fulfill the designated purpose and scope of such Secondment.
 - (4) As to each approved and authorized Secondment position, Operator shall request Non-Operators to nominate, by a specified date, qualified personnel to be the Secondee for such position. Each Non-Operator has the right (but not the obligation) to nominate for each Secondment position one or more proposed Secondees who such Non-Operator considers reasonably qualified to fulfill the designated purpose and scope of such Secondment.
 - (5) Following the deadline for submitting nominations, Operator shall consider the expertise and experience of each such nominee in light of the expertise and experience required for the approved and authorized Secondment position, and shall select from the nominees the best qualified person, unless Operator reasonably demonstrates that no nominee is qualified to fulfill the designated purpose and scope of such Secondment.
 - (6) Operator shall have the right to terminate the Secondment for cause in accordance with the secondment agreement provided for under Article 4.3(D).
 - (7) Although each Secondee shall report to and be directed by Operator, each Secondee shall remain at all times the employee of the Party (or its Affiliate) nominating such Secondee.

- (D) Any Secondment under this Agreement shall be in accordance with a separate secondment agreement to be negotiated and entered into between Operator and the employer of the Secondnee, which agreement shall be consistent with this Article 4.3.
- (E) All costs related to Secondment and Secondnees that are within the Work Program and Budget related to such Secondment position shall be charged to the Joint Account.
- (F) If any Secondnee acting as the Senior Supervisory Personnel of Operator or its Affiliates engages in Gross Negligence / Willful Misconduct which proximately causes the Parties to incur damage, loss, cost, expense or liability for claims, demands or causes of action referred to in Articles 4.6(A) or 4.6(B), then all such damages, losses, costs, expenses and liabilities shall be allocated to the Joint Account notwithstanding the provisions of Article 4.6.

4.4 *Information Supplied by Operator*

- (A) Operator shall provide Non-Operators with the following data and reports (to the extent to be charged to the Joint Account) as they are currently produced or compiled from Joint Operations:
 - (1) copies of all logs or surveys, including in digitally recorded format if such exists;
 - (2) daily drilling reports;
 - (3) copies of all Tests and core data and analysis reports;
 - (4) final well recap report;
 - (5) copies of plugging reports;
 - (6) copies of all geological and geophysical maps, seismic sections and shot point location maps;
 - (7) engineering studies, development schedules and quarterly progress reports on development projects;
 - (8) field and well performance reports, including reservoir studies and reserve estimates;
 - (9) as requested by a Non-Operator, (i) copies of all material reports relating to Joint Operations or the Contract Area furnished by Operator to the Government; and (ii) other material studies and reports relating to Joint Operations;
 - (10) gas balancing reports under agreements provided for in Article 9.3;
 - (11) such additional information as a Non-Operator may reasonably request, provided that the requesting Party or Parties pay the costs of preparation of such information and that the preparation of such information will not unduly burden Operator's administrative and technical personnel. Only Non-Operators who pay such costs will receive such additional information; and
 - (12) other reports as directed by the Operating Committee.
- (B) Operator shall give Non-Operators access at all reasonable times during normal business hours to all data and reports (other than data and reports provided to Non-Operators in accordance with Article 4.4(A)) acquired in the conduct of Joint Operations, which a Non-Operator may reasonably request. Any Non-Operator may make copies of such other data at its sole expense.

4.5 *Settlement of Claims and Lawsuits*

- (A) Operator shall promptly notify the Parties of any and all material claims or suits that relate in any way to Joint Operations. Operator shall represent the Parties and defend or oppose the claim or suit. Operator may in its sole discretion compromise or settle any such claim or suit or any related series of claims or suits for an amount not to exceed the equivalent of \$50,000.00 U.S. dollars exclusive of legal fees. Operator shall obtain the approval and direction of the Operating Committee on amounts in excess of the above-stated amount. Without prejudice to the foregoing, each Non-Operator shall have the right to be represented by its own counsel at its own expense in the settlement, compromise or defense of such claims or suits.
- (B) Any Non-Operator shall promptly notify the other Parties of any claim made against such Non-Operator by a third party that arises out of or may affect the Joint Operations, and such Non-Operator shall defend or settle the same in accordance with any directions given by the Operating Committee. Those costs, expenses and damages incurred pursuant to such defense or settlement which are attributable to Joint Operations shall be for the Joint Account.
- (C) Notwithstanding Article 4.5(A) and Article 4.5(B), each Party shall have the right to participate in any such suit, prosecution, defense or settlement conducted in accordance with Article 4.5(A) and Article 4.5(B), at its sole cost and expense; provided always that no Party may settle its Participating Interest share of any claim without first satisfying the Operating Committee that it can do so without prejudicing the interests of the Joint Operations.

4.6 *Limitation on Liability of Operator*

- (A) Except as set out in Article 4.6(C), neither Operator nor any other Indemnitee (as defined below) shall bear (except as a Party to the extent of its Participating Interest share) any damage, loss, cost, expense or liability resulting from performing (or failing to perform) the duties and functions of Operator, and the Indemnitees are hereby released from liability to Non-Operators for any and all damages, losses, costs, expenses and liabilities arising out of, incident to or resulting from such performance or failure to perform, even though caused in whole or in part by a pre-existing defect, or the negligence (whether sole, joint or concurrent), gross negligence, willful misconduct, strict liability or other legal fault of Operator (or any such Indemnitee).
- (B) Except as set out in Article 4.6(C), the Parties shall (in proportion to their Participating Interests) defend and indemnify Operator and its Affiliates, and their respective directors, officers, and employees (collectively, the "*Indemnitees*"), from any and all damages, losses, costs, expenses (including reasonable legal costs, expenses and attorneys' fees) and liabilities incident to claims, demands or causes of action brought by or on behalf of any person or entity, which claims, demands or causes of action arise out of, are incident to or result from Joint Operations, even though caused in whole or in part by a pre-existing defect, or the negligence (whether sole, joint or concurrent), gross negligence, willful misconduct, strict liability or other legal fault of Operator (or any such Indemnitee).
- (C) Notwithstanding Articles 4.6(A) or 4.6(B), if any Senior Supervisory Personnel of Operator or its Affiliates engage in Gross Negligence / Willful Misconduct which proximately causes the Parties to incur damage, loss, cost, expense or liability for claims, demands or causes of action referred to in Articles 4.6(A) or 4.6(B), then, in addition to its Participating Interest share Operator shall bear all such damages, losses, costs, expenses and liabilities. Notwithstanding the foregoing, under no circumstances shall Operator (except as a Party to the extent of its Participating Interest) or any other Indemnitee bear any Consequential Loss or Environmental Loss.
- (D) Nothing in this Article 4.6 shall be deemed to relieve Operator from its Participating Interest share of any damage, loss, cost, expense or liability arising out of, incident to, or resulting from Joint Operations.

4.7 *Insurance Obtained by Operator*

- (A) Operator shall procure and maintain for the Joint Account all insurance in the types and amounts required by the Contract or the Laws / Regulations.
- (B) Operator shall procure and maintain any further insurance, at reasonable rates, as the Operating Committee may from time to time require. In the event that such further insurance is, in Operator's reasonable opinion, unavailable or available only at an unreasonable cost, Operator shall promptly notify the Non-Operators in order to allow the Operating Committee to reconsider such further insurance.
- (C) Each Party will be provided the opportunity to underwrite any or all of the insurance to be obtained by Operator under Articles 4.7(A) and 4.7(B), through such Party's Affiliate insurance company or, if such direct insurance is not so permitted, through reinsurance policies to such Party's Affiliate insurance company; provided that the security and creditworthiness of such insurance arrangements are satisfactory to Operator, and that such arrangements will not result in any part of the premiums for such insurance not being recoverable under the Contract, or being significantly higher than the market rate.
- (D) Subject to the Contract and the Laws / Regulations, any Party may elect not to participate in the insurance to be procured under Articles 4.7(A) and 4.7(B) provided such Party:
 - (1) gives prompt written notice to that effect to Operator;
 - (2) does nothing which may interfere with Operator's negotiations for such insurance for the other Parties;
 - (3) obtains insurance prior to or concurrent with the commencement of relevant operations and maintains such insurance (in respect of which a current certificate of adequate coverage, provided at least once a year, shall be sufficient evidence) or other evidence of financial responsibility which fully covers its Participating Interest share of the risks that would be covered by the insurance to be procured under Article 4.7(A) and/or Article 4.7(B), as applicable, and which the Operating Committee determines to be acceptable. No such determination of acceptability shall in any way absolve a non-participating Party from its obligation to meet each cash call (except, in accordance with Article 4.7(F), as regards the costs of the insurance policy in which such Party has elected not to participate) including any cash call with respect to damages and losses and/or the costs of remedying the same in accordance with the terms of this Agreement, the Contract and the Laws / Regulations. If such Party obtains other insurance, such insurance shall (a) contain a waiver of subrogation in favor of all the other Parties, the Operator and their insurers but only with respect to their interests under this Agreement; (b) provide that thirty (30) days written notice be given to Operator prior to any material change in, or cancellation of, such insurance policy; (c) be primary to, and receive no contribution from, any other insurance maintained by or on behalf of, or benefiting Operator or the other Parties; and (d) contain adequate territorial extensions and coverage in the location of the Joint Operations; and
 - (4) is responsible for all deductibles, coinsurance payments, self-insured exposures, uninsured or underinsured exposures relating to its interests under this Agreement.
- (E) The cost of insurance in which all the Parties are participating shall be for the Joint Account and the cost of insurance in which less than all the Parties are participating shall be charged to the Parties participating in proportion to their respective Participating Interests. Subject to the preceding sentence, the cost of insurance with respect to an Exclusive Operation shall be charged to the Consenting Parties.

- (F) Operator shall, with respect to all insurance obtained under this Article 4.7:
- (1) use reasonable endeavors to procure or cause to be procured such insurance prior to or concurrent with, the commencement of relevant operations and maintain or cause to be maintained such insurance during the term of the relevant operations or any longer term required under the Contract or the Laws / Regulations;
 - (2) promptly inform the participating Parties when such insurance is obtained and supply them with certificates of insurance or copies of the relevant policies when the same are issued;
 - (3) arrange for the participating Parties, according to their respective Participating Interests, to be named as co-insureds on the relevant policies with waivers of subrogation in favor of all the Parties but only with respect to their interests under this Agreement;
 - (4) use reasonable endeavors to ensure that each policy shall survive the default or bankruptcy of the insured for claims arising out of an event before such default or bankruptcy and that all rights of the insured shall revert to the Parties not in default or bankruptcy; and
 - (5) duly file all claims and take all necessary and proper steps to collect any proceeds and credit any proceeds to the participating Parties in proportion to their respective Participating Interests.
- (G) Operator shall use its reasonable endeavors to require all contractors performing work with respect to Joint Operations to:
- (1) obtain and maintain any and all insurance in the types and amounts required by the Contract, the Laws / Regulations or any decision of the Operating Committee;
 - (2) name the Parties as additional insureds on the contractor's insurance policies and obtain from their insurers waivers of all rights of recourse against Operator, Non-Operators and their insurers; and
 - (3) provide Operator with certificates reflecting such insurance prior to the commencement of their services.

4.8 *Commingling of Funds*

- (A) Operator may not commingle with Operator's own funds the monies which Operator receives from or for the Joint Account pursuant to this Agreement. However, Operator reserves the right to make future proposals to the Operating Committee with respect to the commingling of funds to achieve financial efficiency.
- (B) The Operating Committee may decide that monies Operator receives for the Joint Account shall be deposited in an interest-bearing account at any time. Interest earned shall be allocated among the Parties on an equitable basis taking into account the date of the funding by each Party and its share of the Joint Account monies. Operator shall apply such earned interest to the next succeeding cash call or, if directed by the Operating Committee, pay it to the Parties.

4.9 *Resignation of Operator*

Subject to Article 4.11, Operator may resign as Operator at any time by so notifying the other Parties at least one hundred and twenty (120) Days prior to the effective date of such resignation.

4.10 Removal of Operator

- (A) Subject to Article 4.11, Operator shall be removed upon receipt of notice from any Non-Operator if:
- (1) Operator becomes insolvent or bankrupt, or makes an assignment for the benefit of creditors;
 - (2) an order is made by a court or an effective resolution is passed for the reorganization under any bankruptcy law, dissolution, liquidation, or winding up of Operator;
 - (3) a receiver is appointed for a substantial part of Operator's assets; or
 - (4) Operator dissolves, liquidates, is wound up, or otherwise terminates its existence.
- (B) Subject to Article 4.11, Operator may be removed by the decision of the Non-Operators if Operator has committed a material breach of this Agreement which for avoidance of doubt includes, without limitation, a failure to perform the duties specified in Article 4.2(B) including 4.2(B)(2) and has either failed to commence to cure that breach within thirty (30) Days of receipt of a notice from Non-Operators detailing the alleged breach or failed to diligently pursue the cure to completion. Any decision of Non-Operators to give notice of breach to Operator or to remove Operator under this Article 4.10(B) shall be made by an affirmative vote of Non-Operators holding a combined Participating Interest of at least THIRTY percent (30%). However, if Operator disputes such alleged commission of or failure to cure a material breach and dispute resolution proceedings are initiated pursuant to Article 18.2 in relation to such breach, then Operator shall remain appointed and no successor Operator may be appointed pending the conclusion or abandonment of such proceedings, subject to the terms of Article 8.3 with respect to Operator's breach of its payment obligations.
- (C) If Operator together with any Affiliates of Operator is or becomes the holder of a Participating Interest of less than twenty percent (20%), then Operator shall be required to promptly notify the other Parties. The Operating Committee shall then vote within thirty (30) Days of such notification on whether or not a successor Operator should be named pursuant to Article 4.11.

4.11 Appointment of Successor

When a change of Operator occurs pursuant to Article 4.9 or Article 4.10:

- (A) The Operating Committee shall meet as soon as possible to appoint a successor Operator pursuant to the voting procedure of Article 5.9. No Party may be appointed successor Operator against its will.
- (B) If Operator is removed, other than in the case of Article 4.10(C), neither Operator nor any Affiliate of Operator shall have the right to be considered as a candidate for the successor Operator.
- (C) The resigning or removed Operator shall be compensated out of the Joint Account for its reasonable expenses directly related to its resignation or removal, except in the case of Article 4.10(B).
- (D) The resigning or removed Operator and the successor Operator shall arrange for the taking of an inventory of all Joint Property and Hydrocarbons, and an audit of the books and records of the removed Operator. Such inventory and audit shall be completed, if possible, no later than the effective date of the change of Operator and shall be subject to the approval of the Operating Committee. The liabilities and expenses of such inventory and audit shall be charged to the Joint Account.

- (E) The resignation or removal of Operator and its replacement by the successor Operator shall not become effective prior to receipt of any necessary Government approvals.
- (F) Upon the effective date of the resignation or removal, the successor Operator shall succeed to all duties, rights and authority prescribed for Operator. The former Operator shall transfer to the successor Operator custody of all Joint Property, books of account, records and other documents maintained by Operator pertaining to the Contract Area and to Joint Operations. Upon delivery of the above-described property and data, the former Operator shall be released and discharged from all obligations and liabilities as Operator accruing after such date.

4.12 Health, Safety and Environment ("HSE")

- (A) With the goal of achieving safe and reliable operations in compliance with applicable HSE laws, rules and regulations (including avoiding significant and unintended impact on the safety or health of people, on property, or on the environment), Operator shall in the conduct of Joint Operations:
 - (1) establish and implement an HSE plan in a manner consistent with standards and procedures generally followed in the international petroleum industry under similar circumstances;
 - (2) design and operate Joint Property consistent with the HSE plan; and
 - (3) conform with locally applicable HSE laws, rules and regulations and other HSE-related statutory requirements that may apply.
- (B) The Operating Committee shall from time to time review details of Operator's HSE plan and Operator's implementation thereof.
- (C) In the conduct of Joint Operations, Operator shall establish an annual audit program whereby independent auditors review and verify the effectiveness of the HSE plan.
- (D) Operator shall require its contractors, consultants and agents undertaking activities for the Joint Account to manage HSE risks in a manner consistent with the requirements of this Article 4.12.
- (E) Operator shall establish and enforce rules consistent with those generally followed in the international petroleum industry under similar circumstances that, at a minimum, prohibit within the Contract Area the following:
 - (1) possession, use, distribution or sale of firearms, explosives, or other weapons without the prior written approval of senior management of Operator;
 - (2) possession, use, distribution or sale of alcoholic beverages without the prior written approval of senior management of Operator; and
 - (3) possession, use, distribution or sale of illicit or non-prescribed controlled substances and the misuse of prescribed drugs.
- (F) Without prejudice to a Party's rights under Article 4.2(B)(7), with reasonable advance notice, Operator shall permit each Non-Operator to have at all reasonable times during normal business hours (and at its own risk and expense) the right to conduct its own HSE audit.

**ARTICLE 5
OPERATING COMMITTEE**

5.1 *Establishment of Operating Committee*

To provide for the overall supervision and direction of Joint Operations, there is established an Operating Committee composed of representatives of each Party holding a Participating Interest. Each Party shall appoint one (1) representative and one (1) alternate representative to serve on the Operating Committee. Each Party shall as soon as possible after the date of this Agreement give notice in writing to the other Parties of the name and address of its representative and alternate representative to serve on the Operating Committee. Each Party shall have the right to change its representative and alternate at any time by giving notice of such change to the other Parties.

5.2 *Powers and Duties of Operating Committee*

The Operating Committee shall have power and duty to authorize and supervise Joint Operations that are necessary or desirable to fulfill the Contract and properly explore and exploit the Contract Area in accordance with this Agreement and in a manner appropriate in the circumstances.

5.3 *Authority to Vote*

The representative of a Party, or in his absence his alternate representative, shall be authorized to represent and bind such Party with respect to any matter which is within the powers of the Operating Committee and is properly brought before the Operating Committee. Each such representative shall have a vote equal to the Participating Interest of the Party such person represents (subject to the terms of the Farmout Agreement, which provides certain disproportionate voting rights, as between President and Pirity, until the sooner of the Earning Obligations are satisfied, or if and when Section 4.2 of the Farmout Agreement applies (both as defined therein) or until the Farmout Agreement is terminated, in accordance with the terms thereof). Each alternate representative shall be entitled to attend all Operating Committee meetings but shall have no vote at such meetings except in the absence of the representative for whom he is the alternate. In addition to the representative and alternate representative, each Party may also bring to any Operating Committee meetings such technical and other advisors as it may deem appropriate.

5.4 *Subcommittees*

The Operating Committee may establish such subcommittees, including technical subcommittees, as the Operating Committee may deem appropriate. The functions of such subcommittees shall be in an advisory capacity or as otherwise determined unanimously by the Parties. Each Party shall have the right to appoint a representative to each subcommittee.

5.5 *Notice of Meeting*

- (A) Operator may call a meeting of the Operating Committee by giving notice to the Parties at least fifteen (15) Days in advance of such meeting.
- (B) Any Non-Operator may request a meeting of the Operating Committee by giving notice to all the other Parties. Upon receiving such request, Operator shall call such meeting for a date not less than fifteen (15) Days nor more than twenty (20) Days after receipt of the request.
- (C) The notice periods above may only be waived with the unanimous consent of all the Parties.

5.6 *Contents of Meeting Notice*

- (A) Each notice of a meeting of the Operating Committee as provided by Operator shall contain:

- (1) the date, time and location of the meeting;
 - (2) an agenda of the matters and proposals to be considered and/or voted upon; and
 - (3) copies of all proposals to be considered at the meeting (including all appropriate supporting information not previously distributed to the Parties).
- (B) A Party, by notice to the other Parties given not less than seven (7) Days prior to a meeting, may add additional matters to the agenda for a meeting.
- (C) On the request of a Party, and with the unanimous consent of all Parties, the Operating Committee may consider at a meeting a proposal not contained in such meeting agenda.

5.7 Location of Meetings

All meetings of the Operating Committee shall be held in ASUNCION, TELEPHONICALLY, or elsewhere as the Operating Committee may decide.

5.8 Operator's Duties for Meetings

- (A) With respect to meetings of the Operating Committee and any subcommittee, Operator's duties shall include:
- (1) timely preparation and distribution of the agenda;
 - (2) organization and conduct of the meeting; and
 - (3) preparation of a written record or minutes of each meeting.
- (B) Operator shall have the right to appoint the chairman of the Operating Committee and all subcommittees.

5.9 Voting Procedure

Except as otherwise expressly provided in this Agreement, decisions, approvals and other actions of the Operating Committee on all proposals coming before it shall be decided as follows.

- (A) All decisions, approvals and other actions for which column (A) below is checked shall require the affirmative vote of TWO (2) or more Parties which are not Affiliates then having collectively at least EIGHTY percent (80%) of the Participating Interests.
- (B) All decisions, approvals and other actions for which column (B) below is checked shall require the affirmative vote of ONE (1) or more Parties which are not Affiliates then having collectively at least FIFTY ONE percent (51%) of the Participating Interests.

	<u>Matter</u>	(A)	(B)	
(1)	Minimum Work Programs.	X		
(2)	Drilling, Deepening, Testing, Sidetracking, Plugging Back, Re-completing or Reworking Exploration Wells.		X	
(3)	Drilling, Deepening, Testing, Sidetracking, Plugging Back,		X	

	Recompleting or Reworking Appraisal Wells.			
(4)	Development Plans.	X		
(5)	Production programs.	X		
(6)	Completion of a well.		X	
(7)	Plugging and abandoning a well.	X		
(8)	Acquisition of G & G Data.	X		
(9)	Construction of processing, treatment, compression, gathering, transportation and other downstream facilities.	X		
(10)	Contract awards (if approval is required).	X		
(11)	Determination that a Discovery is a Commercial Discovery.	X		
(12)	Unitization under the terms of the Contract with an adjoining contract area.	X		
(13)	Establishment of an interest bearing account for Joint Account monies.	X		
(14)	Acquisition and development of Venture Information under terms other than as specified in Article 15.		X	
(15)	All other matters within the Operating Committee's authority.		X	

5.10 Record of Votes

The chairman of the Operating Committee shall appoint a secretary who shall make a record of each proposal voted on and the results of such voting at each Operating Committee meeting. Each representative shall sign and be provided a copy of such record at the end of such meeting, and it shall be considered the final record of the decisions of the Operating Committee.

5.11 Minutes

The secretary shall provide each Party with a copy of the minutes of the Operating Committee meeting within fifteen (15) Business Days after the end of the meeting. Each Party shall have fifteen (15) Days after receipt of such minutes to give notice to the secretary of its objections to the minutes. A failure to give notice specifying objection to such minutes within said fifteen (15) Day period shall be deemed to be approval of such minutes. In any event, the votes recorded under Article 5.10 shall take precedence over the minutes described above.

5.12 Voting by Notice

- (A) In lieu of a meeting, any Party may submit any proposal to the Operating Committee for a vote by notice. The proposing Party or Parties shall notify Operator who shall give each Party's representative notice describing the proposal so submitted and whether Operator considers such operational matter to require urgent determination. Operator shall include with such notice adequate documentation in connection with such proposal to enable the Parties to make a decision. Each Party shall communicate its vote by notice to Operator and the other Parties within one of the

following appropriate time periods after receipt of Operator's notice:

- (1) 24 hours in the case of operations which involve the use of a drilling rig that is standing by in the Contract Area and such other operational matters reasonably considered by Operator to require by their nature urgent determination (such operations and matters being referred to as "*Urgent Operational Matters*"); and
 - (2) 5 Days in the case of all other proposals.
- (B) Except in the case of Article 5.12(A)(1), any Party may, by notice delivered to all Parties within FIVE (5) Days of receipt of Operator's notice, request that the proposal be decided at a meeting rather than by notice. In such an event, that proposal shall be decided at a meeting duly called for that purpose.
- (C) Except as provided in Article 10, any Party failing to communicate its vote in a timely manner shall be deemed to have voted against such proposal.
- (D) If a meeting is not requested, then at the expiration of the appropriate time period, Operator shall give each Party a confirmation notice stating the tabulation and results of the vote.

5.13 *Effect of Vote*

All decisions taken by the Operating Committee pursuant to this Article 5 shall be conclusive and binding on all the Parties, except in the following cases.

- (A) If pursuant to this Article 5, a Joint Operation has been properly proposed to the Operating Committee and the Operating Committee has not approved such proposal in a timely manner, then any Party that voted in favor of such proposal shall have the right for the appropriate period specified below to propose, in accordance with Article 7, an Exclusive Operation involving operations essentially the same as those proposed for such Joint Operation.
- (1) For proposals related to Urgent Operational Matters, such right shall be exercisable for twenty-four (24) hours after the time specified in Article 5.12(A)(1) has expired or after receipt of Operator's notice given to the Parties pursuant to Article 5.13(D), as applicable.
 - (2) For proposals to develop a Discovery, such right shall be exercisable for ten (10) Days after the date the Operating Committee was required to consider such proposal pursuant to Article 5.6 or Article 5.12.
 - (3) For all other proposals, such right shall be exercisable for five (5) Days after the date the Operating Committee was required to consider such proposal pursuant to Article 5.6 or Article 5.12.
- (B) If a Party voted against any proposal which was approved by the Operating Committee and which could be conducted as an Exclusive Operation pursuant to Article 7, then such Party shall have the right not to participate in the operation contemplated by such approval. Any such Party wishing to exercise its right of non-consent must give notice of non-consent to all other Parties within five (5) Days (or twenty-four (24) hours for Urgent Operational Matters) following Operating Committee approval of such proposal. If a Party exercises its right of non-consent, the Parties who were not entitled to give or did not give notice of non-consent shall be Consenting Parties as to the operation contemplated by the Operating Committee approval, and shall conduct such operation as an Exclusive Operation under Article 7; provided, however, that any such Party who was not entitled to give or did not give notice of non-consent may, by notice provided to the other Parties

within five (5) Days (or twenty-four (24) hours for Urgent Operational Matters) following the notice of non-consent given by any non-consenting Party, require that the Operating Committee vote again on the proposal in question. Only the Parties which were not entitled to or have not exercised their right of non-consent with respect to the contemplated operation shall participate in such second vote of the Operating Committee, with voting rights proportional to their respective Participating Interest. If the Operating Committee approves again the contemplated operation, any Party which voted against the contemplated operation in such second vote may elect to be a Non-Consenting Party with respect to such operation, by notice of non-consent provided to all other Parties within five (5) Days (or twenty-four (24) hours for Urgent Operational Matters) following the Operating Committee's second approval of such contemplated operation.

- (C) If the Consenting Parties to an Exclusive Operation under Article 5.13(A) or Article 5.13(B) concur, then the Operating Committee may, at any time, pursuant to this Article 5, reconsider and approve, decide or take action on any proposal that the Operating Committee declined to approve earlier, or modify or revoke an earlier approval, decision or action.
- (D) Once a Joint Operation for the drilling, Deepening, Testing, Sidetracking, Plugging Back, Completing, ReCompleting, Reworking, or plugging of a well has been approved and commenced, such operation shall not be discontinued without the consent of the Operating Committee; provided, however, that such operation may be discontinued if:
 - (1) an impenetrable substance or other condition in the hole is encountered which in the reasonable judgment of Operator causes the continuation of such operation to be impractical; or
 - (2) other circumstances occur which in the reasonable judgment of Operator cause the continuation of such operation to be unwarranted and the Operating Committee, within the period required under Article 5.12(A)(1) after receipt of Operator's notice, approves discontinuing such operation.

On the occurrence of either of the above, Operator shall promptly notify the Parties that such operation is being discontinued pursuant to the foregoing, and any Party shall have the right to propose in accordance with Article 7 an Exclusive Operation to continue such operation.

ARTICLE 6 WORK PROGRAMS AND BUDGETS

6.1 *Exploration and Appraisal*

- (A) Within THIRTY (30) Days after the Effective Date, Operator shall deliver to the Parties a proposed Work Program and Budget detailing the Joint Operations to be performed for the remainder of the current Calendar Year and, if appropriate, for the following Calendar Year. Within TEN (10) Days of such delivery, the Operating Committee shall meet to consider and to endeavor to agree on a Work Program and Budget.
- (B) On or before the 1st Day of October of each Calendar Year, Operator shall deliver to the Parties a proposed Work Program and Budget detailing the Joint Operations to be performed for the following Calendar Year. Within FIFTEEN (15) Days of such delivery, the Operating Committee shall meet to consider and to endeavor to agree on a Work Program and Budget.
- (C) If a Discovery is made, Operator shall deliver any notice of Discovery required under the Contract and shall as soon as possible submit to the Parties a report containing available details concerning the Discovery and Operator's recommendation as to whether the Discovery merits appraisal. If the Operating Committee determines that the Discovery merits appraisal, Operator within THIRTY (30) Days shall deliver to the Parties a proposed Work Program and Budget for the

appraisal of the Discovery. Within FIFTEEN (15) Days of such delivery, or earlier if necessary to meet any applicable deadline under the Contract, the Operating Committee shall meet to consider, modify and then either approve or reject the appraisal Work Program and Budget. If the appraisal Work Program and Budget is approved by the Operating Committee, Operator shall take such steps as may be required under the Contract to secure approval of the appraisal Work Program and Budget by the Government. In the event the Government requires changes in the appraisal Work Program and Budget, the matter shall be resubmitted to the Operating Committee for further consideration.

- (D) The Work Program and Budget agreed pursuant to this Article shall include at least that part of the Minimum Work Obligations required to be carried out during the Calendar Year in question under the terms of the Contract. If within the time periods prescribed in this Article 6.1 the Operating Committee is unable to agree on such a Work Program and Budget, then the proposal capable of satisfying the Minimum Work Obligations for the Calendar Year in question that receives the largest Participating Interest vote (even if less than the applicable percentage under Article 5.9) shall be deemed adopted as part of the annual Work Program and Budget. If competing proposals receive equal votes, then Operator shall choose between those competing proposals. Any portion of a Work Program and Budget adopted pursuant to this Article 6.1(D) instead of Article 5.9 shall contain only (and shall be solely limited to) such operations for the Joint Account as are necessary to maintain the Contract in full force and effect, including such operations as are necessary to fulfill the Minimum Work Obligations required for the given Calendar Year. T
- (E) Any approved Work Program and Budget may be revised by the Operating Committee from time to time. To the extent such revisions are approved by the Operating Committee, the Work Program and Budget shall be amended accordingly. Operator shall prepare and submit a corresponding work program and budget amendment to the Government if required by the Contract.
- (F) Subject to Article 6.8, approval of any such Work Program and Budget which includes:
 - (1) an Exploration Well, whether by drilling, Deepening or Sidetracking, shall include approval for all expenditures necessary for drilling, Deepening or Sidetracking, as applicable, and Testing and Completing an Exploration Well.
 - (2) an Appraisal Well, whether by drilling, Deepening or Sidetracking, shall include approval for all expenditures necessary for drilling, Deepening or Sidetracking, as applicable, and Testing and Completing such Appraisal Well.
- (G) Any Party desiring to propose a Completion attempt, or an alternative Completion attempt, must do so within the time period provided in Article 5.12(A)(1) by notifying all other Parties. Any such proposal shall include an AFE for such Completion costs.]

6.2 Development

- (A) If the Operating Committee determines that a Discovery may be a Commercial Discovery, Operator shall, as soon as practicable, deliver to the Parties a Development Plan together with the first annual Work Program and Budget (or a multi-year Work Program and Budget pursuant to Article 6.5) and provisional Work Programs and Budgets for the remainder of the development of the Discovery, which shall contain, *inter alia*:
 - (1) details of the proposed work to be undertaken, personnel required and expenditures to be incurred, including the timing of same, on a Calendar Year basis;
 - (2) an estimated date for the commencement of production;

- (3) a delineation of the proposed Exploitation Area; and
 - (4) any other information requested by the Operating Committee.
- (B) After receipt of the Development Plan and prior to any applicable deadline under the Contract, the Operating Committee shall meet to consider, modify and then either approve or reject the Development Plan and the first annual Work Program and Budget for the development of a Discovery, as submitted by Operator. If the Operating Committee determines that the Discovery is a Commercial Discovery and approves the corresponding Development Plan, Operator shall, as soon as possible, deliver any notice of Commercial Discovery required under the Contract and take such other steps as may be required under the Contract to secure approval of the Development Plan by the Government. In the event the Government requires changes in the Development Plan, the matter shall be resubmitted to the Operating Committee for further consideration.
- (C) If the Development Plan is approved, such work shall be incorporated into and form part of annual Work Programs and Budgets, and Operator shall, on or before the 1ST Day of OCTOBER of each Calendar Year submit a Work Program and Budget for the Exploitation Area, for the following Calendar Year. Subject to Article 6.5, within FIFTEEN (15) Days after such submittal, the Operating Committee shall endeavor to agree to such Work Program and Budget, including any necessary or appropriate revisions to the Work Program and Budget for the approved Development Plan.

6.3 Production

On or before the 1ST Day of OCTOBER of each Calendar Year, Operator shall deliver to the Parties a proposed production Work Program and Budget detailing the Joint Operations to be performed in the Exploitation Area and the projected production schedule for the following Calendar Year. Within FIFTEEN (15) Days of such delivery, the Operating Committee shall agree upon a production Work Program and Budget, failing which the provisions of Article 6.1(D) shall be applied *mutatis mutandis*.

6.4 Itemization of Expenditures

- (A) During the preparation of the proposed Work Programs and Budgets and Development Plans contemplated in this Article 6, Operator shall consult with the Operating Committee or the appropriate subcommittees regarding the contents of such Work Programs and Budgets and Development Plans.
- (B) Each Work Program and Budget and Development Plan submitted by Operator shall contain an itemized estimate of the costs of Joint Operations and all other expenditures to be made for the Joint Account during the Calendar Year in question and shall, *inter alia*:
- (1) identify each work category in sufficient detail to afford the ready identification of the nature, scope and duration of the activity in question;
 - (2) include such reasonable information regarding Operator's allocation procedures and estimated manpower costs as the Operating Committee may determine;
 - (3) comply with the requirements of the Contract;
 - (4) contain an estimate of funds to be expended by Calendar Quarter; and
 - (5) during the Exploration Period, provide a forecast of annual expenditures and activities through the end of the Exploration Period.
- (C) The Work Program and Budget shall designate the portion or portions of the Contract Area in

which Joint Operations itemized in such Work Program and Budget are to be conducted and shall specify the kind and extent of such operations in such detail as the Operating Committee may deem suitable.

6.5 Multi-Year Work Program and Budget

Any work that cannot be efficiently completed within a single Calendar Year may be proposed in a multi-year Work Program and Budget. Upon approval by the Operating Committee, such multi-year Work Program and Budget shall, subject only to revisions approved by the Operating Committee thereafter: (i) remain in effect as between the Parties (and the associated cost estimate shall be a binding pro-rata obligation of each Party) through the completion of the work; and (ii) be reflected in each annual Work Program and Budget. If the Contract requires that Work Programs and Budgets be submitted to the Government for approval, such multi-year Work Program and Budget shall be submitted to the Government either in a single request for a multi-year approval or as part of the annual approval process, according to the terms of the Contract.

6.6 Contract Awards

Subject to the Contract, Operator shall award each contract for Joint Operations on the following basis (the amounts stated are in thousands of U.S. dollars):

	<u>Procedure A</u>	<u>Procedure B</u>	<u>Procedure C</u>
Exploration and Appraisal Operations	0 to \$350,000	\$350,000 to \$1,350,000	> \$1,350,000
Development Operations	0 to \$350,000	\$350,000 to \$1,350,000	> \$1,350,000
Production Operations	0 to \$350,000	\$350,000 to \$1,350,000	> \$1,350,000

Procedure A

(A) Operator shall award the contract to the best qualified contractor as determined by cost and ability to perform the contract without the obligation to tender and without informing or seeking the approval of the Operating Committee, except that before entering into contracts with Affiliates of Operator exceeding \$50,000 U.S. dollars ANNUALLY, Operator shall obtain the approval of the Operating Committee.

Procedure B

- (B) Operator shall:
- (1) provide the Parties with a list of the entities whom Operator proposes to invite to tender for the said contract;
 - (2) add to such list any entity whom a Party reasonably requests to be added within fourteen (14) Days of receipt of such list;
 - (3) complete the tendering process within a reasonable period of time;
 - (4) inform the Parties of the entities to whom the contract has been awarded, provided that before awarding contracts to Affiliates of Operator which exceed \$50,000 U.S. dollars ANNUALLY, Operator shall obtain the approval of the

Operating Committee;

- (5) circulate to the Parties a competitive bid analysis stating the reasons for the choice made; and
- (6) upon the request of a Party, provide such Party with a copy of the final version of the contract.

Procedure C

(C) Operator shall:

- (1) provide the Parties with a list of the entities whom Operator proposes to invite to tender for the said contract;
- (2) add to such list any entity whom a Party reasonably requests to be added within fourteen (14) Days of receipt of such list;
- (3) prepare and dispatch the tender documents to the entities on the list as aforesaid and to Non-Operators;
- (4) after the expiration of the period allowed for tendering, consider and analyze the details of all bids received;
- (5) prepare and circulate to the Parties a competitive bid analysis, stating Operator's recommendation as to the entity to whom the contract should be awarded, the reasons therefor, and the technical, commercial and contractual terms to be agreed upon;
- (6) obtain the approval of the Operating Committee to the recommended bid; and
- (7) upon the request of a Party, provide such Party with a copy of the final version of the contract.

6.7 Authorization for Expenditure ("AFE") Procedure

- (A) Prior to incurring any commitment or expenditure for the Joint Account, which is estimated to be:
- (1) in excess of \$250,000 U.S. dollars in an exploration or appraisal Work Program and Budget;
 - (2) in excess of \$250,000 U.S. dollars in a development Work Program and Budget; and
 - (3) in excess of \$150,000 U.S. dollars in a production Work Program and Budget,

Operator shall send to each Non-Operator an AFE as described in Article 6.7(C). Notwithstanding the above, Operator shall not be obliged to furnish an initial AFE to the Parties with respect to any Minimum Work Obligations, workovers of wells and general and administrative costs that are listed as separate line items in an approved Work Program and Budget; provided, however, that to the extent the costs, expenditures or commitments regarding Minimum Work Obligations exceed an approved Work Program and Budget (or any budgeted line item thereon), such shall be governed in accordance with the supplemental AFE approval requirements described in Section 6.8(A).

- (B) Prior to making any expenditures or incurring any commitments for work subject to the AFE procedure in Article 6.7(A), Operator shall obtain the approval of the Operating Committee. If the Operating Committee approves an AFE for the operation within the applicable time period under Article 5.12(A), Operator shall be authorized to conduct the operation under the terms of this Agreement. If the Operating Committee fails to approve an AFE for the operation within the applicable time period, the operation shall be deemed rejected. Operator shall promptly notify the Parties if the operation has been rejected, and, subject to Article 7, any Party may thereafter propose to conduct the operation as an Exclusive Operation under Article 7. When an operation is rejected under this Article 6.7(B) or an operation is approved for differing amounts than those provided for in the applicable line items of the approved Work Program and Budget, the Work Program and Budget shall be deemed to be revised accordingly.
- (C) Each AFE proposed by Operator shall:
 - (1) identify the operation by specific reference to the applicable line items in the Work Program and Budget;
 - (2) describe the work in detail;
 - (3) contain Operator's best estimate of the total funds required to carry out such work;
 - (4) outline the proposed work schedule;
 - (5) provide a timetable of expenditures, if known; and
 - (6) be accompanied by such other supporting information as is necessary for an informed decision.

6.8 *Overexpenditures of Work Programs and Budgets*

- (A) For expenditures on any line item of an approved Work Program and Budget, Operator shall be entitled to incur without further approval of the Operating Committee an overexpenditure for such line item up to ten percent (10%) of the authorized amount for such line item; provided that the cumulative total of all overexpenditures for a Calendar Year shall not exceed five percent (5%) of the total annual Work Program and Budget in question.
- (B) At such time Operator reasonably anticipates the limits of Article 6.8(A) will be exceeded, Operator shall furnish to the Operating Committee a supplemental AFE for the estimated expenditures for the Operating Committee's approval, and Operator shall provide reasonable details of such overexpenditures. The Work Program and Budget shall be revised accordingly and the overexpenditures permitted in Article 6.8(A) shall be based on the revised Work Program and Budget. Operator shall promptly give notice of the amounts of overexpenditures when actually incurred.
- (C) The restrictions contained in this Article 6 shall be without prejudice to Operator's rights to make expenditures for Urgent Operational Matters and measures set out in Article 13.5 without the Operating Committee's approval.

ARTICLE 7
OPERATIONS BY LESS THAN ALL PARTIES

7.1 *Limitation on Applicability*

- (A) No operations may be conducted in furtherance of the Contract except as Joint Operations under Article 5 or as Exclusive Operations under this Article 7. No Exclusive Operation shall be conducted (other than the tie-in of Exclusive Operation facilities with existing production facilities pursuant to Article 7.10) which conflicts with a previously approved Joint Operation or with a previously approved Exclusive Operation.
- (B) Operations which are required to fulfill the Minimum Work Obligations must be proposed and conducted as Joint Operations under Article 5, and may not be proposed or conducted as Exclusive Operations under this Article 7. Except for Exclusive Operations relating to Deepening, Testing, Completing, Sidetracking, Plugging Back, Recompletions or Reworking of a well originally drilled to fulfill the Minimum Work Obligations, no Exclusive Operations may be proposed or conducted until the Minimum Work Obligations are fulfilled.
- (C) No Party may propose or conduct an Exclusive Operation under this Article 7 unless and until such Party has properly exercised its right to propose an Exclusive Operation pursuant to Article 5.13, or is entitled to conduct an Exclusive Operation pursuant to Article 10.
- (D) After the Minimum Work Obligations are Completed, any operation that may be proposed and conducted as a Joint Operation, other than operations pursuant to an approved Development Plan, may be proposed and conducted as an Exclusive Operation, subject to the terms of this Article 7; provided, however that, as contemplated in Section 7.1(B) above, until the Minimum Work Obligations are completed, no Exclusive Operations shall be permitted under this Agreement (except for Exclusive Operations relating to Deepening, Testing, Completing, Sidetracking, Plugging Back, Recompletions or Reworking of a well originally drilled to fulfill the Minimum Work Obligations).

7.2 *Procedure to Propose Exclusive Operations*

- (A) Subject to Article 7.1, if any Party proposes to conduct an Exclusive Operation, such Party shall give notice of the proposed operation to all Parties, other than Non-Consenting Parties who have relinquished their rights to participate in such operation pursuant to Article 7.4(B) or Article 7.4(F) and have no option to reinstate such rights under Article 7.4(C). Such notice shall specify that such operation is proposed as an Exclusive Operation and include the work to be performed, the location, the objectives, and estimated cost of such operation.
- (B) Any Party entitled to receive such notice shall have the right to participate in the proposed operation.
 - (1) For proposals to Deepen, Test, Complete, Sidetrack, Plug Back, Recomplete or Rework related to Urgent Operational Matters, any such Party wishing to exercise such right must so notify the proposing Party and Operator within twenty-four (24) hours after receipt of the notice proposing the Exclusive Operation.
 - (2) For proposals to develop a Discovery, any Party wishing to exercise such right must so notify Operator and the Party proposing to develop within sixty (60) Days after receipt of the notice proposing the Exclusive Operation.
 - (3) For all other proposals, any such Party wishing to exercise such right must so notify the proposing Party and Operator within ten (10) Days after receipt of the notice proposing the Exclusive Operation.

- (C) Failure of a Party to whom a proposal notice is delivered to properly reply within the period specified above shall constitute an election by that Party not to participate in the proposed operation.
- (D) If all Parties properly exercise their rights to participate, then the proposed operation shall be conducted as a Joint Operation. Operator shall commence such Joint Operation as promptly as practicable and conduct it with due diligence.
- (E) If less than all Parties entitled to receive such proposal notice properly exercise their rights to participate, then:
 - (1) The Party proposing the Exclusive Operation, together with any other Consenting Parties, shall have the right exercisable for the applicable notice period set out in Article 7.2(B), to instruct Operator (subject to Article 7.12(F)) to conduct the Exclusive Operation.
 - (2) If the Exclusive Operation is conducted, the Consenting Parties shall bear a Participating Interest in such Exclusive Operation, the numerator of which is such Consenting Party's Participating Interest as stated in Article 3.2(A) and the denominator of which is the aggregate of the Participating Interests of the Consenting Parties as stated in Article 3.2(A), or as the Consenting Parties may otherwise agree.
 - (3) If such Exclusive Operation has not been commenced within ONE HUNDRED AND EIGHTY (180) Days (excluding any extension specifically agreed by all Parties or allowed by the force majeure provisions of Article 16) after the date of the instruction given to Operator under Article 7.2(E)(1), the right to conduct such Exclusive Operation shall terminate. If any Party still desires to conduct such Exclusive Operation, notice proposing such operation must be resubmitted to the Parties in accordance with Article 5, as if no proposal to conduct an Exclusive Operation had been previously made.

7.3 Responsibility for Exclusive Operations

- (A) The Consenting Parties shall bear in accordance with the Participating Interests agreed under Article 7.2(B) the entire cost and liability of conducting an Exclusive Operation and shall indemnify the Non-Consenting Parties from any and all costs and liabilities incurred incident to such Exclusive Operation (including Consequential Loss and Environmental Loss) and shall keep the Contract Area free and clear of all liens and encumbrances of every kind created by or arising from such Exclusive Operation.
- (B) Notwithstanding Article 7.3(A), each Party shall continue to bear its Participating Interest share of the cost and liability incident to the operations in which it participated, including plugging and abandoning and restoring the surface location, but only to the extent those costs were not increased by the Exclusive Operation.

7.4 Consequences of Exclusive Operations

- (A) With regard to any Exclusive Operation, for so long as a Non-Consenting Party has the option under Article 7.4(C) to reinstate the rights it relinquished under Article 7.4(B), such Non-Consenting Party shall be entitled to have access concurrently with the Consenting Parties to all data and other information relating to such Exclusive Operation, other than data obtained in an Exclusive Operation for the purpose of acquiring G & G Data. If a Non-Consenting Party desires to receive and acquire the right to use such G & G Data, then such Non-Consenting Party shall have the right to do so by paying to the Consenting Parties its Participating Interest share as set out in Article 3.2(A) of the cost incurred in obtaining such G & G Data.
- (B) Subject to Article 7.4(C) and Article 7.6(E), each Non-Consenting Party shall be deemed to have

relinquished to the Consenting Parties, and the Consenting Parties shall be deemed to own, in proportion to their respective Participating Interests in any Exclusive Operation:

- (1) all of each such Non-Consenting Party's right to participate in further operations in the well or Deepened or Sidetracked portion of a well in which the Exclusive Operation was conducted and on any Discovery made or appraised in the course of such Exclusive Operation; and
- (2) all of each such Non-Consenting Party's right pursuant to the Contract to take and dispose of Hydrocarbons produced and saved:
 - (a) from the well or Deepened or Sidetracked portion of a well in which such Exclusive Operation was conducted; and
 - (b) from any wells drilled to appraise or develop a Discovery made or appraised in the course of such Exclusive Operation.

(C) A Non-Consenting Party shall have only the following options to reinstate the rights it relinquished pursuant to Article 7.4(B):

- (1) If the Consenting Parties decide to appraise a Discovery made in the course of an Exclusive Operation, the Consenting Parties shall submit to each Non-Consenting Party the approved appraisal program. For thirty (30) Days (or forty-eight (48) hours for Urgent Operational Matters) from receipt of such appraisal program, each Non-Consenting Party shall have the option to reinstate the rights it relinquished pursuant to Article 7.4(B) and to participate in such appraisal program. The Non-Consenting Party may exercise such option by notifying Operator within the period specified above that such Non-Consenting Party agrees to bear its Participating Interest share of the expense and liability of such appraisal program, and to pay such amounts as set out in Articles 7.5(A) and 7.5(B).
- (2) If the Consenting Parties decide to develop a Discovery made or appraised in the course of an Exclusive Operation, the Consenting Parties shall submit to the Non-Consenting Parties a Development Plan substantially in the form intended to be submitted to the Government under the Contract. For sixty (60) Days from receipt of such Development Plan or such lesser period of time prescribed by the Contract, each Non-Consenting Party shall have the option to reinstate the rights it relinquished pursuant to Article 7.4(B) and to participate in such Development Plan. The Non-Consenting Party may exercise such option by notifying Operator within the period specified above that such Non-Consenting Party agrees to bear its Participating Interest share of the liability and expense of such Development Plan and such future operating and producing costs, and to pay the amounts as set out in Articles 7.5(A) and 7.5(B).
- (3) If the Consenting Parties decide to Deepen, Complete, Sidetrack, Plug Back or Recomplete an Exclusive Well and such further operation was not included in the original proposal for such Exclusive Well, the Consenting Parties shall submit to the Non-Consenting Parties the approved AFE for such further operation. For thirty (30) Days (or forty-eight (48) hours for Urgent Operational Matters) from receipt of such AFE, each Non-Consenting Party shall have the option to reinstate the rights it relinquished pursuant to Article 7.4(B) and to participate in such operation. The Non-Consenting Party may exercise such option by notifying Operator within the period specified above that such Non-Consenting Party agrees to bear its Participating Interest share of the liability and expense of such further operation, and to pay the amounts as set out in Articles 7.5(A) and 7.5(B).

A Non-Consenting Party shall not be entitled to reinstate its rights in any other type of operation.

- (D) If a Non-Consenting Party does not properly and in a timely manner exercise its option under Article 7.4(C), including paying all amounts due in accordance with Articles 7.5(A) and 7.5(B), such Non-Consenting Party shall have forfeited the options as set out in Article 7.4(C) and the right to participate in the proposed program, unless such program, plan or operation is materially modified or expanded (in which case a new notice and option shall be given to such Non-Consenting Party under Article 7.4(C)).
- (E) A Non-Consenting Party exercising its option under Article 7.4(C) shall notify the other Parties that it agrees to bear its share of the liability and expense of such further operation and to reimburse the amounts set out in Articles 7.5(A) and 7.5(B) that such Non-Consenting Party had not previously paid. Such Non-Consenting Party shall in no way be deemed to be entitled to any amounts paid pursuant to Articles 7.5(A) and 7.5(B) incident to such Exclusive Operations. The Participating Interest of such Non-Consenting Party in such Exclusive Operation shall be its Participating Interest set out in Article 3.2(A). The Consenting Parties shall contribute to the Participating Interest of the Non-Consenting Party in proportion to the excess Participating Interest that each received under Article 7.2(E). If all Parties participate in the proposed operation, then such operation shall be conducted as a Joint Operation pursuant to Article 5.
- (F) If after the expiry of the period in which a Non-Consenting Party may exercise its option to participate in a Development Plan the Consenting Parties desire to proceed, Operator shall give notice to the Government under the appropriate provision of the Contract requesting a meeting to advise the Government that the Consenting Parties consider the Discovery to be a Commercial Discovery. Following such meeting such Operator for such development shall apply for an Exploitation Area (if applicable in the Contract). Unless the Development Plan is materially modified or expanded prior to the commencement of operations under such plan (in which case a new notice and option shall be given to the Non-Consenting Parties under Article 7.4(C)), each Non-Consenting Party to such Development Plan shall:
- (1) if the Contract so allows, elect not to apply for an Exploitation Area covering such development and forfeit all interest in such Exploitation Area, or
 - (2) if the Contract does not so allow, be deemed to have:
 - (a) elected not to apply for an Exploitation Area covering such development;
 - (b) forfeited all economic interest in such Exploitation Area; and
 - (c) assumed a fiduciary duty to exercise its legal interest in such Exploitation Area for the benefit of the Consenting Parties.

In either case such Non-Consenting Party shall be deemed to have withdrawn from this Agreement to the extent it relates to such Exploitation Area, even if the Development Plan is modified or expanded subsequent to the commencement of operations under such Development Plan and shall be further deemed to have forfeited any right to participate in the construction and ownership of facilities outside such Exploitation Area designed solely for the use of such Exploitation Area.

7.5 Premium to Participate in Exclusive Operations

- (A) Each such Non-Consenting Party shall within thirty (30) Days of the exercise of its option under Article 7.4(C), pay in immediately available funds to the Consenting Parties in proportion to their

respective Participating Interests in such Exclusive Operations a lump sum amount payable in the currency designated by such Consenting Parties. Such lump sum amount shall be equal to such Non-Consenting Party's Participating Interest share of all liabilities and expenses that were incurred in every Exclusive Operation relating to the Discovery (or Exclusive Well, as the case may be) in which the Non-Consenting Party desires to reinstate the rights it relinquished pursuant to Article 7.4(B), and that were not previously paid by such Non-Consenting Party.

- (B) In addition to the payment required under Article 7.5(A), immediately following the exercise of its option under Article 7.4(C) each such Non-Consenting Party shall be liable to reimburse the Consenting Parties who took the risk of such Exclusive Operations (in proportion to their respective Participating Interests) an amount equal to the total of:
- (1) ONE HUNDRED AND FIFTY percent (150%) of such Non-Consenting Party's Participating Interest share of all liabilities and expenses that were incurred in any Exclusive Operation relating to the obtaining of the portion of the G & G Data which pertains to the Discovery, and that were not previously paid by such Non-Consenting Party; plus
 - (2) ONE HUNDRED AND FIFTY percent (150%) of such Non-Consenting Party's Participating Interest share of all liabilities and expenses that were incurred in any Exclusive Operation relating to the drilling, Deepening, Testing, Completing, Sidetracking, Plugging Back, Recompleting and Reworking of the Exploration Well which made the Discovery in which the Non-Consenting Party desires to reinstate the rights it relinquished pursuant to Article 7.4(B), and that were not previously paid by such Non-Consenting Party; plus
 - (3) ONE HUNDRED AND FIFTY percent (150%) of the Non-Consenting Party's Participating Interest share of all liabilities and expenses that were incurred in any Exclusive Operation relating to the drilling, Deepening, Testing, Completing, Sidetracking, Plugging Back, Recompleting and Reworking of the Appraisal Well(s) which delineated the Discovery or Development Wells, in each case, in which the Non-Consenting Party desires to reinstate the rights it relinquished pursuant to Article 7.4(B), and that were not previously paid by such Non-Consenting Party.
- (C) Each such Non-Consenting Party who is liable for the amounts set out in Article 7.5(B) shall within thirty (30) Days of the exercise of its option under Article 7.4(C), pay in immediately available funds the full amount due from it under Article 7.5(B) to such Consenting Parties, in the currency designated by such Consenting Parties.
- (D) Each Consenting Party shall have the right to refuse to accept all or any portion of its share of amounts paid under Articles 7.5(A) and 7.5(B). In such case the refused amount shall be distributed to each non-refusing Consenting Party on a pro-rata basis.

7.6 *Order of Preference of Operations*

- (A) Except as otherwise specifically provided in this Agreement, if any Party desires to propose the conduct of an operation that will conflict with an existing proposal for an Exclusive Operation, such Party shall have the right exercisable for five (5) Days (or twenty-four (24) hours for Urgent Operational Matters) from receipt of the proposal for the Exclusive Operation, to deliver such Party's alternative proposal to all Parties entitled to participate in the proposed operation. Such alternative proposal shall contain the information required under Article 7.2(A).
- (B) Each Party receiving such proposals shall elect by delivery of notice to Operator and to the proposing Parties within the appropriate response period set out in Article 7.2(B) to participate in one of the competing proposals. Any Party not notifying Operator and the proposing Parties

within the response period shall be deemed to have voted against the proposals.

- (C) The proposal receiving the largest aggregate Participating Interest vote shall have priority over all other competing proposals. In the case of a tie vote, Operator shall choose among the proposals receiving the largest aggregate Participating Interest vote. Operator shall deliver notice of such result to all Parties entitled to participate in the operation within five (5) Days (or twenty-four (24) hours for Urgent Operational Matters).
- (D) Each Party shall then have two (2) Days (or twenty-four (24) hours for Urgent Operational Matters) from receipt of such notice to elect by delivery of notice to Operator and the proposing Parties whether such Party will participate in such Exclusive Operation, or will relinquish its interest pursuant to Article 7.4(B). Failure by a Party to deliver such notice within such period shall be deemed an election not to participate in the prevailing proposal.
- (E) Notwithstanding the provisions of Article 7.4(B), if for reasons other than the encountering of granite or other practically impenetrable substance or any other condition in the hole rendering further operations impracticable, a well drilled as an Exclusive Operation fails to reach the deepest objective Zone described in the notice proposing such well, Operator shall give notice of such failure to each Non-Consenting Party who submitted or voted for an alternative proposal under this Article 7.6 to drill such well to a shallower Zone than the deepest objective Zone proposed in the notice under which such well was drilled. Each such Non-Consenting Party shall have the option exercisable for forty-eight (48) hours from receipt of such notice to participate for its Participating Interest share in the initial proposed Completion of such well. Each such Non-Consenting Party may exercise such option by notifying Operator that it wishes to participate in such Completion and by paying its Participating Interest share of the cost of drilling such well to its deepest depth drilled in the Zone in which it is Completed. All liabilities and expenses for drilling and Testing the Exclusive Well below that depth shall be for the sole account of the Consenting Parties. If any such Non-Consenting Party does not properly elect to participate in the first Completion proposed for such well, the relinquishment provisions of Article 7.4(B) shall continue to apply to such Non-Consenting Party's interest.

7.7 *Stand-By Costs*

- (A) When an operation has been performed, all tests have been conducted and the results of such tests furnished to the Parties, stand by costs incurred pending response to any Party's notice proposing an Exclusive Operation for Deepening, Testing, Sidetracking, Completing, Plugging Back, Recompleting, Reworking or other further operation in such well (including the period required under Article 7.6 to resolve competing proposals) shall be charged and borne as part of the operation just completed. Stand by costs incurred subsequent to all Parties responding, or expiration of the response time permitted, whichever first occurs, shall be charged to and borne by the Parties proposing the Exclusive Operation in proportion to their Participating Interests, regardless of whether such Exclusive Operation is actually conducted.
- (B) If a further operation related to Urgent Operational Matters is proposed while the drilling rig to be utilized is on location, any Party may request and receive up to five (5) additional Days after expiration of the applicable response period specified in Article 7.2(B)(1) within which to respond by notifying Operator that such Party agrees to bear all stand by costs and other costs incurred during such extended response period. Operator may require such Party to pay the estimated stand by costs in advance as a condition to extending the response period. If more than one Party requests such additional time to respond to the notice, stand by costs shall be allocated between such Parties on a Day-to-Day basis in proportion to their Participating Interests.

7.8 *Use of Property*

The Parties participating in any Deepening, Testing, Completing, Sidetracking, Plugging Back, Re-completing or Reworking of any well drilled under this Agreement shall be permitted to use (free of cost) all casing, tubing and other equipment in the well that is not needed for operations by the owners of the wellbore, but the ownership of all such equipment shall remain unchanged. On abandonment of a well in which operations with differing participation have been conducted, the Parties abandoning the well shall account for all equipment in the well to the Parties owning such equipment by tendering to them their respective Participating Interest shares of the value of such equipment less the cost of salvage.

7.9 *Lost Production During Tie-In of Exclusive Operation Facilities*

If, during the tie-in of Exclusive Operation facilities with the existing production facilities of another operation, the production of Hydrocarbons from such other pre-existing operations is temporarily lessened as a result, then the Consenting Parties shall compensate the parties to such existing operation for such loss of production in the following manner. Operator shall determine the amount by which each Day's production during the tie-in of Exclusive Operation facilities falls below the previous month's average daily production from the existing production facilities of such operation. The so-determined amount of lost production shall be recovered by all Parties who experienced such loss in proportion to their respective Participating Interest. Upon completion of the tie-in, such lost production shall be recovered in full by Operator deducting up to one hundred percent (100%) of the production from the Exclusive Operation, prior to the Consenting Parties being entitled to receive any such production.

7.10 *Conduct of Exclusive Operations*

- (A) Each Exclusive Operation shall be carried out by the Consenting Parties acting as the Operating Committee, subject to the provisions of this Agreement applied *mutatis mutandis* to such Exclusive Operation and subject to the terms and conditions of the Contract.
- (B) The computation of liabilities and expenses incurred in Exclusive Operations, including the liabilities and expenses of Operator for conducting such operations, shall be made in accordance with the principles set out in the Accounting Procedure.
- (C) Operator shall maintain separate books, financial records and accounts for Exclusive Operations which shall be subject to the same rights of audit and examination as the Joint Account and related records, all as provided in the Accounting Procedure. Said rights of audit and examination shall extend to each of the Consenting Parties and each of the Non-Consenting Parties so long as the latter are, or may be, entitled to elect to participate in such Exclusive Operations.
- (D) Operator, if it is conducting an Exclusive Operation for the Consenting Parties, regardless of whether it is participating in that Exclusive Operation, shall be entitled to request cash advances and shall not be required to use its own funds to pay any cost and expense and shall not be obliged to commence or continue Exclusive Operations until cash advances requested have been made, and the Accounting Procedure shall apply to Operator in respect of any Exclusive Operations conducted by it.
- (E) Should the submission of a Development Plan be approved in accordance with Article 6.2, or should any Party propose (but not yet have the right to commence) a development in accordance with this Article 7 where neither the Development Plan nor the development proposal call for the conduct of additional appraisal drilling, and should any Party wish to drill an additional Appraisal Well prior to development, then the Party proposing the Appraisal Well as an Exclusive Operation shall be entitled to proceed first, but without the right (subject to the following sentence) to future reimbursement pursuant to Article 7.5. If such an Appraisal Well is produced, any Consenting Party shall own and have the right to take in kind and separately dispose of all of the Non-

Consenting Party's Entitlement from such Appraisal Well until the value received in sales to purchasers in arm-length transactions equals one hundred percent (100%) of such Non-Consenting Party's Participating Interest shares of all liabilities and expenses that were incurred in any Exclusive Operations relating to the Appraisal Well. Following the completion of drilling such Appraisal Well as an Exclusive Operation, the Parties may proceed with the Development Plan approved pursuant to Article 5.9, or (if applicable) the Parties may complete the procedures to propose an Exclusive Operation to develop a Discovery. If, as the result of drilling such Appraisal Well as an Exclusive Operation, the Party or Parties proposing to develop the Discovery decide(s) not to do so, then each Non-Consenting Party who voted in favor of such Development Plan prior to the drilling of such Appraisal Well shall pay to the Consenting Party the amount such Non-Consenting Party would have paid had such Appraisal Well been drilled as a Joint Operation.

- (F) If Operator is a Non-Consenting Party to an Exclusive Operation to develop a Discovery, then Operator may resign, but in any event shall resign on the unanimous request of the Consenting Parties, as Operator for the Exploitation Area for such Discovery, and the Consenting Parties shall select a Consenting Party to serve as Operator for such Exclusive Operation only. Any such resignation of Operator and appointment of a Consenting Party to serve as Operator for such Exclusive Operation shall be subject to the Parties having first obtained any necessary Government approvals.

ARTICLE 8 DEFAULT

8.1 *Default and Notice*

- (A) Any Party that fails to:
- (1) pay when due its share of Joint Account expenses (including cash advances and interest);
or
 - (2) obtain and maintain any Security required of such Party under the Contract or this Agreement;

shall be in default under this Agreement (a "*Defaulting Party*"), provided that Party shall not be or be deemed to be in default under this Agreement in consequence of any failure by President (or its Affiliates) duly to perform its obligations under the Farmout Agreement. Operator, or any non-defaulting Party in case Operator is the Defaulting Party, shall promptly give notice of such default (the "*Default Notice*") to the Defaulting Party and each of the non-defaulting Parties.

- (B) For the purposes of this Article 8, "*Default Period*" means the period beginning five (5) Business Days from the date that the Default Notice is issued in accordance with this Article 8.1 and ending when all the Defaulting Party's defaults pursuant to this Article 8.1 have been remedied in full.

8.2 *Operating Committee Meetings and Data*

- (A) Notwithstanding any other provision of this Agreement, the Defaulting Party shall have no right, during the Default Period, to:
- (1) call or attend Operating Committee or subcommittee meetings;
 - (2) vote on any matter coming before the Operating Committee or any subcommittee;
 - (3) access any data or information relating to any operations under this Agreement;
 - (4) consent to or reject data trades between the Parties and third parties, nor access any data

received in such data trades;

- (5) Transfer (as defined in Article 12.1) all or part of its Participating Interest, except to non-defaulting Parties in accordance with this Article 8;
- (6) consent to or reject any Transfer (as defined in Article 12.1) or otherwise exercise any other rights in respect of Transfers under this Article 8 or under Article 12;
- (7) receive its Entitlement in accordance with Article 8.4;
- (8) withdraw from this Agreement under Article 13; or
- (9) take assignment of any portion of another Party's Participating Interest in the event such other Party is either in default or withdrawing from this Agreement and the Contract.

(B) Notwithstanding any other provisions in this Agreement, during the Default Period:

- (1) unless agreed otherwise by the non-defaulting Parties, the voting interest of each non-defaulting Party shall be equal to the ratio such non-defaulting Party's Participating Interest bears to the total Participating Interests of the non-defaulting Parties;
- (2) any matters requiring a unanimous vote or approval of the Parties shall not require the vote or approval of the Defaulting Party;
- (3) the Defaulting Party shall be deemed to have elected not to participate in any operations that are voted upon during the Default Period, to the extent such an election would be permitted by Article 5.13 and Article 7; and
- (4) the Defaulting Party shall be deemed to have approved, and shall join with the non-defaulting Parties in taking, any other actions voted on during the Default Period.

8.3 *Allocation of Defaulted Accounts*

- (A) The Party providing the Default Notice pursuant to Article 8.1 shall include in the Default Notice to each non-defaulting Party a statement of: (i) the sum of money that the non-defaulting Party shall pay as its portion of the Amount in Default; and (ii) if the Defaulting Party has failed to obtain or maintain any Security required of such Party in order to maintain the Contract in full force and effect, the type and amount of the Security the non-defaulting Parties shall post or the funds they shall pay in order to allow Operator, or (if Operator is in default) the notifying Party, to post and maintain such Security. Unless otherwise agreed, the obligations for which the Defaulting Party is in default shall be satisfied by the non-defaulting Parties in proportion to the ratio that each non-defaulting Party's Participating Interest bears to the Participating Interests of all non-defaulting Parties. For the purposes of this Article 8:

"Amount in Default" means the Defaulting Party's share of Joint Account expenses which the Defaulting Party has failed to pay when due pursuant to the terms of this Agreement (but excluding any interest owed on such amount); and

"Total Amount in Default" means the following amounts: (i) the Amount in Default; (ii) third-party costs of obtaining and maintaining any Security incurred by the non-defaulting Parties or the funds paid by such Parties in order to allow Operator to obtain or maintain Security, in accordance with Article 8.3(A)(ii); plus (iii) any interest at the Agreed Interest Rate accrued on the amount under (i) from the date this amount is due by the Defaulting Party until paid in full by the Defaulting Party and on the amount under (ii) from the date this amount is incurred by the non-defaulting Parties until paid in full by the Defaulting Party.

- (B) If the Defaulting Party remedies its default in full before the Default Period commences, the notifying Party shall promptly notify each non-defaulting Party by facsimile or telephone and by email, and the non-defaulting Parties shall be relieved of their obligations under Article 8.3(A). Otherwise, each non-defaulting Party shall satisfy its obligations under Article 8.3(A)(i) before the Default Period commences and its obligations under Article 8.3(A)(ii) within ten (10) Days following the Default Notice. If any non-defaulting Party fails to timely satisfy such obligations, such Party shall thereupon be a Defaulting Party subject to the provisions of this Article 8. The non-defaulting Parties shall be entitled to receive their respective shares of the Total Amount in Default payable by such Defaulting Party pursuant to this Article 8.
- (C) If Operator is a Defaulting Party, then all payments otherwise payable to Operator for Joint Account costs pursuant to this Agreement shall be made to the notifying Party instead until the default is cured or a successor Operator appointed. The notifying Party shall maintain such funds in a segregated account separate from its own funds and shall apply such funds to third party claims due and payable from the Joint Account of which it has notice, to the extent Operator would be authorized to make such payments under the terms of this Agreement. The notifying Party shall be entitled to bill or cash call the other Parties in accordance with the Accounting Procedure for proper third party charges that become due and payable during such period to the extent sufficient funds are not available. When Operator has cured its default or a successor Operator is appointed, the notifying Party shall turn over all remaining funds in the account to Operator and shall provide Operator and the other Parties with a detailed accounting of the funds received and expended during this period. The notifying Party shall not be liable for damages, losses, costs, expenses or liabilities arising as a result of its actions under this Article 8.3(C), except to the extent Operator would be liable under Article 4.6.

8.4 Remedies

- (A) During the Default Period, the Defaulting Party shall not have a right to its Entitlement, which shall vest in and be the property of the non-defaulting Parties. Operator (or the notifying Party if Operator is a Defaulting Party) shall be authorized to sell such Entitlement in an arm's-length sale on terms that are commercially reasonable under the circumstances and, after deducting all costs, charges and expenses incurred in connection with such sale, pay the net proceeds to the non-defaulting Parties in proportion to the amounts they are owed by the Defaulting Party as a part of the Total Amount in Default (in payment of first the interest and then the principal) and apply such net proceeds toward the establishment of the Reserve Fund (as defined in Article 8.4(C)), if applicable, until all such Total Amount in Default is recovered and such Reserve Fund is established. Any surplus remaining shall be paid to the Defaulting Party, and any deficiency shall remain a debt due from the Defaulting Party to the non-defaulting Parties. When making sales under this Article 8.4(A), the non-defaulting Parties shall have no obligation to share any existing market or obtain a price equal to the price at which their own production is sold.
- (B) If Operator disposes of any Joint Property or if any other credit or adjustment is made to the Joint Account during the Default Period, Operator (or the notifying Party if Operator is a Defaulting Party) shall be entitled to apply the Defaulting Party's Participating Interest share of the proceeds of such disposal, credit or adjustment against the Total Amount in Default (against first the interest and then the principal) and toward the establishment of the Reserve Fund (as defined in Article 8.4(C)), if applicable. Any surplus remaining shall be paid to the Defaulting Party, and any deficiency shall remain a debt due from the Defaulting Party to the non-defaulting Parties.

- (C) The non-defaulting Parties shall be entitled to apply the net proceeds received under Articles 8.4(A) and 8.4(B) toward the creation of a reserve fund (the "**Reserve Fund**") in an amount equal to the Defaulting Party's Participating Interest share of: (i) the estimated cost to abandon any wells and other property in which the Defaulting Party participated; (ii) the estimated cost of severance benefits for local employees upon cessation of operations; and (iii) any other identifiable costs that the non-defaulting Parties anticipate will be incurred in connection with the cessation of operations. Upon the conclusion of the Default Period, all amounts held in the Reserve Fund shall be returned to the Party previously in Default.
- (D) Each Party grants to each of the other Parties the right and option to acquire (the "**Buy-Out Option**") all of its Participating Interest for a value (the "**Appraised Value**") as determined in this Article 8.4(D) in the event that such Party becomes a Defaulting Party and fails to fully remedy all its defaults by the 60th Day following the date of the Default Notice.— If a Defaulting Party fails to remedy its default by the 60th Day following the date of the Default Notice, then, without prejudice to any other rights available to each non-defaulting Party to recover its portion of the Total Amount in Default, a majority in interest of the non-defaulting Parties (after excluding Affiliates of the Defaulting Party) may, but shall not be obligated to, exercise such Buy-Out Option by notice to the Defaulting Party and each non-defaulting Party (the "**Option Notice**"). If more than one non-defaulting Party elects to exercise the Buy-Out Option, each electing non-defaulting Party (collectively, the "**Acquiring Parties**") shall acquire a proportion of the Participating Interest of the Defaulting Party equal to the ratio of its own Participating Interest to the total Participating Interests of all Acquiring Parties and pay such proportion of the Appraised Value (as defined below), unless they otherwise agree. The Defaulting Party shall be obligated to transfer, pursuant to Article 13.6, effective on the date of the Option Notice, its Participating Interest to the Acquiring Parties in consideration of the payment to the Defaulting Party of the Appraised Value. In the Option Notice the Acquiring Parties shall specify a value for the Defaulting Party's Participating Interest. Within five (5) Days of the Option Notice, the Defaulting Party shall (i) notify the Acquiring Parties that it accepts the value specified in the Option Notice (in which case such value is the "**Appraised Value**"); or (ii) refer the Dispute to an independent expert pursuant to Article 18.3 for determination of the value of its Participating Interest (in which case the value determined by such expert shall be deemed the "**Appraised Value**"). If the Defaulting Party fails to so notify the Acquiring Parties, the Defaulting Party shall be deemed to have accepted the Acquiring Parties' value as the Appraised Value.

If the valuation of the Defaulting Party's Participating Interest is referred to an expert, such expert shall determine the Appraised Value which shall be equal to the fair market value of the Defaulting Party's Participating Interest, less the following: (i) the Total Amount in Default; (ii) all costs, including the costs of the expert, to obtain such valuation; and (iii) FIFTEEN percent (15%) of the fair market value of the Defaulting Party's Participating Interest.

The Appraised Value shall be paid to the Defaulting Party in four (4) installments, each equal to 25% of the Appraised Value as follows:

- (1) the first installment shall be due and payable to the Defaulting Party within 90 Days after the date on which the Defaulting Party's Participating Interest is effectively transferred to the Acquiring Parties (the "**Transfer Date**");
- (2) the second installment shall be due and payable to the Defaulting Party within 180 Days after the Transfer Date;
- (3) the third installment shall be due and payable to the Defaulting Party within 270 Days after the Transfer Date; and
- (4) the fourth installment shall be due and payable to the Defaulting Party within 360 Days after the Transfer Date.

- (E) For purposes of Articles 8.4(D), as elected, the Defaulting Party shall, without delay following any request from the non-defaulting Parties, do any act required to be done by the Laws / Regulations and any other applicable laws in order to render the transfer of its Participating Interest legally valid, including obtaining all governmental consents and approvals, and shall execute any document and take such other actions as may be necessary in order to effect a prompt and valid transfer. The Defaulting Party shall be obligated to promptly remove any liens and encumbrances which may exist on its assigned Participating Interests. In the event all Government approvals are not timely obtained, the Defaulting Party shall hold the assigned Participating Interest in trust for the non-defaulting Parties who are entitled to receive it. Each Party constitutes and appoints each other Party its true and lawful attorney to execute such instruments and make such filings and applications as may be necessary to make such transfer legally effective and to obtain any necessary consents of the Government. Actions under this power of attorney may be taken by any Party individually without the joinder of the others. This power of attorney is irrevocable for the term of this Agreement and is coupled with an interest. If requested, each Party shall execute a form prescribed by the Operating Committee setting forth this power of attorney in more detail.
- (F) The non-defaulting Parties shall be entitled to recover from the Defaulting Party all reasonable attorneys' fees and all other reasonable costs sustained in the collection of amounts owing by the Defaulting Party.
- (G) The rights and remedies granted to the non-defaulting Parties in this Article 8 shall be cumulative, not exclusive, and shall be in addition to any other rights and remedies that may be available to the non-defaulting Parties, whether at law, in equity or otherwise. Each right and remedy available to the non-defaulting Parties may be exercised from time to time and so often and in such order as may be considered expedient by the non-defaulting Parties in their sole discretion.

8.5 *Survival*

The obligations of the Defaulting Party and the rights of the non-defaulting Parties shall survive the surrender of the Contract, abandonment of Joint Operations and termination of this Agreement.

8.6 *No Right of Set Off*

Each Party acknowledges and accepts that a fundamental principle of this Agreement is that each Party pays its Participating Interest share of all amounts due under this Agreement as and when required. Accordingly, any Party which becomes a Defaulting Party undertakes that, in respect of either any exercise by the non-defaulting Parties of any rights under or the application of any of the provisions of this Article 8, such Party hereby waives any right to raise by way of set off or invoke as a defense, whether in law or equity, any failure by any other Party to pay amounts due and owing under this Agreement or any alleged claim that such Party may have against Operator or any Non-Operator, whether such claim arises under this Agreement or otherwise. Each Party further agrees that the nature and the amount of the remedies granted to the non-defaulting Parties hereunder are reasonable and appropriate in the circumstances.

**ARTICLE 9
DISPOSITION OF PRODUCTION**

9.1 *Right and Obligation to Take in Kind*

Except as otherwise provided in this Article 9 or in Article 8, each Party shall have the right and obligation to own, take in kind and separately dispose of its Entitlement.

9.2 *Disposition of Crude Oil*

If Crude Oil is to be produced from an Exploitation Area, the Parties shall in good faith, and not less than three (3) months prior to the anticipated first delivery of Crude Oil, as promptly notified by Operator,

negotiate and conclude the terms of a lifting agreement to cover the offtake of Crude Oil produced under the Contract. The lifting procedure shall be based on the AIPN Model Form Lifting Procedure and shall contain all such terms as may be negotiated and agreed by the Parties, consistent with the Development Plan and subject to the terms of the Contract. The Government Oil & Gas Company may, if necessary and practicable, also be party to the lifting agreement; if the Government Oil & Gas Company is a party to the lifting agreement, then the Parties shall endeavor to obtain its agreement to the principles set forth in this Article 9.2. If a lifting agreement has not been entered into by the date of first delivery of Crude Oil, the Parties shall nonetheless be obligated to take and separately dispose of such Crude Oil as provided in Article 9.1 and in addition shall be bound by the terms set forth in the AIPN Model Form Lifting Procedure until a lifting agreement is executed by the Parties.

9.3 *Disposition of Natural Gas*

The Parties recognize that if Natural Gas is discovered it may be necessary for the Parties to enter into special arrangements for the disposal of the Natural Gas, which are consistent with the Development Plan and subject to the terms of the Contract.

ARTICLE 10 ABANDONMENT

10.1 *Abandonment of Wells Drilled as Joint Operations*

- (A) A decision to plug and abandon any well which has been drilled as a Joint Operation shall require the approval of the Operating Committee.
- (B) Should any Party fail to reply within the period prescribed in Article 5.12(A)(1) or Article 5.12(A)(2), whichever is applicable, after delivery of notice of Operator's proposal to plug and abandon such well, such Party shall be deemed to have consented to the proposed abandonment.
- (C) If the Operating Committee approves a decision to plug and abandon an Exploration Well or Appraisal Well, subject to the Laws / Regulations, any Party voting against such decision may propose (within the time periods allowed by Article 5.13(A)) to conduct an alternate Exclusive Operation in the wellbore. If no Exclusive Operation is timely proposed, or if an Exclusive Operation is timely proposed but is not commenced within the applicable time periods under Article 7.2, such well shall be plugged and abandoned.
- (D) Any well plugged and abandoned under this Agreement shall be plugged and abandoned in accordance with the Laws / Regulations and at the cost, risk and expense of the Parties who participated in the cost of drilling such well.
- (E) Notwithstanding anything to the contrary in this Article 10.1:
 - (1) If the Operating Committee approves a decision to plug and abandon a well from which Hydrocarbons have been produced and sold, subject to the Laws / Regulations, any Party voting against the decision may propose (within five (5) Days after the time specified in Article 5.6, Article 5.12(A)(1) or Article 5.12(A)(2), whichever is applicable, has expired) to take over the entire well as an Exclusive Operation. Any Party originally participating in the well shall be entitled to participate in the operation of the well as an Exclusive Operation by response notice within ten (10) Days after receipt of the notice proposing the Exclusive Operation.

In such event, the Consenting Parties shall be entitled to continue producing only from the Zone open to production at the time they assumed responsibility for the well and shall not be entitled to drill a substitute well in the event that the well taken over becomes impaired or fails.

- (2) Each Non-Consenting Party shall be deemed to have relinquished free of cost to the Consenting Parties in proportion to their Participating Interests all of its interest in the wellbore of a produced well and related equipment in accordance with Article 7.4(B). The Consenting Parties shall thereafter bear all cost and liability of plugging and abandoning such well in accordance with the Laws / Regulations, to the extent the Parties are or become obligated to contribute to such costs and liabilities, and shall indemnify the Non-Consenting Parties against all such costs and liabilities.
- (3) Subject to Article 7.12(F), Operator shall continue to operate a produced well for the account of the Consenting Parties at the rates and charges contemplated by this Agreement, plus any additional cost and charges which may arise as the result of the separate allocation of interest in such well.

10.2 *Abandonment of Exclusive Operations*

This Article 10 shall apply *mutatis mutandis* to the abandonment of an Exclusive Well or any well in which an Exclusive Operation has been conducted (in which event all Parties having the right to conduct further operations in such well shall be notified and have the opportunity to conduct Exclusive Operations in the well in accordance with the provisions of this Article 10).

ARTICLE 11 SURRENDER, EXTENSIONS AND RENEWALS

11.1 *Surrender*

- (A) If the Contract requires the Parties to surrender any portion of the Contract Area, Operator shall advise the Operating Committee of such requirement at least one hundred and twenty (120) Days in advance of the earlier of the date for filing irrevocable notice of such surrender or the date of such surrender. Prior to the end of such period, the Operating Committee shall determine pursuant to Article 5 the size and shape of the surrendered area, consistent with the requirements of the Contract. If a sufficient vote of the Operating Committee cannot be attained, then the proposal supported by a simple majority of the Participating Interests shall be adopted. If no proposal attains the support of a simple majority of the Participating Interests, then the proposal receiving the largest aggregate Participating Interest vote shall be adopted. In the event of a tie, Operator shall choose among the proposals receiving the largest aggregate Participating Interest vote. The Parties shall execute any and all documents and take such other actions as may be necessary to effect the surrender. Each Party renounces all claims and causes of action against Operator and any other Parties on account of any area surrendered in accordance with the foregoing but against its recommendation if Hydrocarbons are subsequently discovered under the surrendered area.
- (B) A surrender of all or any part of the Contract Area which is not required by the Contract shall require the unanimous consent of the Parties.

11.2 *Extension of the Term*

- (A) A proposal by any Party to enter into or extend the term of any Exploration or Exploitation Period or any phase of the Contract, or a proposal to extend the term of the Contract, shall be brought before the Operating Committee pursuant to Article 5.
- (B) Any Party shall have the right to enter into or extend the term of any Exploration or Exploitation Period or any phase of the Contract or to extend the term of the Contract, regardless of the level of support in the Operating Committee. If any Party takes such action, any Party not wishing to extend shall have a right to withdraw, subject to the requirements of Article 13.

ARTICLE 12
TRANSFER OF INTEREST OR RIGHTS AND CHANGES IN CONTROL

12.1 Obligations

- (A) Subject to the requirements of the Contract,
- (i) any Transfer (except Transfers pursuant to Article 7, Article 8 or Article 13) shall be effective only if it satisfies the terms and conditions of Article 12.2; and
 - (ii) a Party subject to a Change in Control must satisfy the terms and conditions of Article 12.3.

Should a Transfer subject to this Article or a Change in Control occur without satisfaction (in all material respects) by the transferor or the Party subject to the Change in Control, as applicable, of the requirements hereof, then each other Party shall be entitled to enforce specific performance of the terms of this Article, in addition to any other remedies (including damages) to which it may be entitled. Each Party agrees that monetary damages alone would not be an adequate remedy for the breach of any Party's obligations under this Article.

- (B) For purposes of this Agreement:

"Cash Transfer" means any Transfer where the sole consideration (other than the assumption of obligations relating to the transferred Participating Interest) takes the form of cash, cash equivalents, promissory notes or retained interests (such as production payments) in the Participating Interest being transferred; and

"Change in Control" means any direct or indirect change in Control of a Party (whether through merger, sale of shares or other equity interests, or otherwise) through a single transaction or series of related transactions, from one or more transferors to one or more transferees, in which more than 50% of the voting securities or voting rights of a Party changes.

"Encumbrance" means a mortgage, lien, pledge, charge or other encumbrance. **"Encumber"** and other derivatives shall be construed accordingly.

"Transfer" means any sale, assignment, Encumbrance or other disposition by a Party of any rights or obligations derived from the Contract or this Agreement (including its Participating Interest), other than its Entitlement and its rights to any credits, refunds or payments under this Agreement, and excluding any direct or indirect change in Control of a Party.

12.2 Transfer

- (A) Except in the case of a Party transferring all of its Participating Interest, no Transfer shall be made by any Party which results in the transferor or the transferee holding a Participating Interest of less than FIVE percent (5%) or any interest other than a Participating Interest in the Contract and this Agreement.
- (B) Subject to the terms of Articles 4.9 and 4.10, the Party serving as Operator shall remain Operator following Transfer of a portion of its Participating Interest. In the event of a Transfer of all of its Participating Interest, except to an Affiliate, the Party serving as Operator shall be deemed to have resigned as Operator, effective on the date the Transfer becomes effective under this Article 12, in which event a successor Operator shall be appointed in accordance with Article 4.11. If Operator transfers all of its Participating Interest to an Affiliate, that Affiliate shall automatically become the successor Operator, provided that the transferring Operator shall remain liable for its Affiliate's performance of its obligations.

- (C) Both the transferee, and, notwithstanding the Transfer, the transferring Party, shall be liable to the other Parties for the transferring Party's Participating Interest share of any obligations (financial or otherwise) which have vested, matured or accrued under the provisions of the Contract or this Agreement prior to such Transfer. Such obligations, shall include any proposed expenditure approved by the Operating Committee prior to the transferring Party notifying the other Parties of its proposed Transfer and shall also include costs of plugging and abandoning wells or portions of wells and decommissioning facilities in which the transferring Party participated (or with respect to which it was required to bear a share of the costs pursuant to this sentence) to the extent such costs are payable by the Parties under the Contract.
- (D) A transferee shall have no rights in the Contract or this Agreement (except any notice and cure rights or similar rights that may be provided to a Lien Holder (as defined in Article 12.2(E)) by separate instrument signed by all Parties) unless and until:
- (1) it expressly undertakes in an instrument reasonably satisfactory to the other Parties to perform the obligations of the transferor under the Contract and this Agreement in respect of the Participating Interest being transferred and obtains any necessary Government approval for the Transfer and furnishes any guarantees required by the Government or the Contract on or before the applicable deadlines; and
 - (2) except in the case of a Transfer to an Affiliate, each Party has consented in writing to such Transfer, which consent shall be denied only if the transferee fails to establish to the reasonable satisfaction of each Party its financial capability to perform its payment obligations under the Contract and this Agreement and political acceptability, consent not to be unreasonably withheld. No consent shall be required under this Article 12.2(D)(2) for a Transfer to an Affiliate if the transferring Party agrees in an instrument reasonably satisfactory to the other Parties to remain liable for its Affiliate's performance of its obligations.
- (E) Nothing contained in this Article 12 shall prevent a Party from Encumbering all or any undivided share of its Participating Interest to a third party (a "*Lien Holder*") for the purpose of security relating to finance, provided that:
- (1) such Party shall remain liable for all obligations relating to such interest;
 - (2) the Encumbrance shall be subject to any necessary approval of the Government and be expressly subordinated to the rights of the other Parties under this Agreement;
 - (3) such Party shall ensure that any Encumbrance shall be expressed to be without prejudice to the provisions of this Agreement; and
 - (4) the Lien Holder shall first enter into and deliver a subordination agreement in favor of the other Parties, substantially in the form agreed between the Parties.
- (F) Any Transfer (other than a Transfer to an Affiliate and the granting of an Encumbrance as provided in Article 12.2(E)) shall be subject to the following procedure.
- (1) In the event that a Party wishes to transfer any part or all of its Participating Interest, prior to the transferor entering into a written agreement providing for such a Transfer (whether or not such agreement is binding) the transferor shall send the other Parties notice of its intention and invite them to submit offers for the Participating Interest subject to the Transfer. The other Parties shall have thirty (30) Days from the date of such notification to deliver a counter-notification with a binding offer in accordance with Article 12.2(F)(3). If the transferor notifies the offering Party or Parties that the binding offer presents an acceptable basis for negotiating a Transfer agreement, the transferor and that

offering Party or Parties shall have the next sixty (60) Days in which to negotiate in good faith and execute the terms and conditions of a mutually acceptable Transfer agreement. If the transferor does not find that any Party's offer presents an acceptable basis for negotiating a Transfer agreement, or if the above sixty (60) Days elapse and the transferor in its sole discretion believes that a fully negotiated agreement based on the offer deemed acceptable by the transferor with all offering Parties is not imminent, the transferor shall be entitled for a period of one hundred eighty (180) Days from the expiration of the thirty (30) Day offer period or the sixty (60) Day negotiation period, respectively, plus such additional period as may be necessary to secure governmental approvals, to Transfer all or such portion of its Participating Interest to a third party, subject to the obligations set forth in this Article 12, provided that the terms and conditions of any such Transfer must be more favorable to the transferor than the best terms and conditions offered by any Party.

- (2) If more than one Party counter-notifies the transferor that it intends to acquire the Participating Interest subject to the proposed Transfer, then each such Party shall acquire a proportion of the Participating Interest to be transferred equal to the ratio of its own Participating Interest to the total Participating Interests of all the counter-notifying Parties, unless the counter-notifying Parties otherwise agree.
- (3) All Parties desiring to give such a counter-notice shall meet to formulate a joint offer. Each such Party shall make known to the other Parties the highest price or value that it is willing to offer to the transferor. The proposal with the highest price or value shall be offered to the transferor as the joint proposal of the Parties still willing to participate in such offer under the provisions of Article 12.2(F)(1) above.

12.3 Change in Control

- (A) A Party subject to a Change in Control shall obtain any necessary Government approval with respect to the Change in Control and furnish any replacement Security required by the Government or the Contract on or before the applicable deadlines.
- (B) A Party subject to a Change in Control shall provide evidence reasonably satisfactory to the other Parties that following the Change in Control such Party shall continue to have the financial capability to satisfy its payment obligations and political acceptability under the Contract and this Agreement. Should the Party that is subject to the Change in Control fail to provide such evidence, any other Party, by notice to such Party, may require such Party to provide Security satisfactory to the other Parties with respect to its Participating Interest share of any obligations or liabilities which the Parties may reasonably be expected to incur under the Contract and this Agreement during the then-current Exploration or Exploitation Period or phase of the Contract.

ARTICLE 13 WITHDRAWAL FROM AGREEMENT

13.1 Right of Withdrawal

- (A) Subject to the provisions of this Article 13 and the Contract, any Party not in default may at its option withdraw from this Agreement and the Contract by giving notice to all other Parties stating its decision to withdraw. Such notice shall be unconditional and irrevocable when given, except as may be provided in Article 13.7.
- (B) The effective date of withdrawal for a withdrawing Party shall be the end of the calendar month following the calendar month in which the notice of withdrawal is given, provided that if all Parties elect to withdraw, the effective date of withdrawal for each Party shall be the date determined by Article 13.9.

13.2 Partial or Complete Withdrawal

- (A) Within thirty (30) Days of receipt of each withdrawing Party's notification, each of the other Parties may also give notice that it desires to withdraw from this Agreement and the Contract. Should all Parties give notice of withdrawal, the Parties shall proceed to abandon the Contract Area and terminate the Contract and this Agreement. If less than all of the Parties give such notice of withdrawal, then the withdrawing Parties shall take all steps to withdraw from the Contract and this Agreement on the earliest possible date and execute and deliver all necessary instruments and documents to assign their Participating Interest to the Parties which are not withdrawing, without any compensation whatsoever, in accordance with the provisions of Article 13.6.
- (B) Any Party withdrawing under Article 11.2 or under this Article 13 shall at its option, (1) withdraw from the entirety of the Contract Area, or (2) withdraw only from all exploration activities under the Contract, but not from any Exploitation Area, Commercial Discovery, or Discovery (whether appraised or not) made prior to such withdrawal. Such withdrawing Party shall retain its rights in Joint Property, but only insofar as they relate to any such Exploitation Area, Commercial Discovery or Discovery, and shall abandon all other rights in Joint Property.

13.3 Rights of a Withdrawing Party

A withdrawing Party shall have the right to receive its Entitlement produced through the effective date of its withdrawal. The withdrawing Party shall be entitled to receive all information to which such Party is otherwise entitled under this Agreement until the effective date of its withdrawal. After giving its notification of withdrawal, a Party shall not be entitled to vote on any matters coming before the Operating Committee, other than matters for which such Party has financial responsibility.

13.4 Obligations and Liabilities of a Withdrawing Party

- (A) A withdrawing Party shall, following its notification of withdrawal, remain liable only for its share of the following:
 - (1) costs of Joint Operations, and Exclusive Operations in which it has agreed to participate, that were approved by the Operating Committee or Consenting Parties as part of a Work Program and Budget (including a multi-year Work Program and Budget under Article 6.5) or AFE prior to such Party's notification of withdrawal, regardless of when they are incurred;
 - (2) any Minimum Work Obligations for the current period or phase of the Contract, and for any subsequent period or phase which has been approved pursuant to Article 11.2 and with respect to which such Party has failed to timely withdraw under Article 13.4(B);
 - (3) expenditures described in Articles 4.2(B)(13) and 13.5 related to an emergency occurring prior to the effective date of a Party's withdrawal, regardless of when such expenditures are incurred;
 - (4) all other obligations and liabilities of the Parties or Consenting Parties, as applicable, with respect to acts or omissions under this Agreement prior to the effective date of such Party's withdrawal for which such Party would have been liable, had it not withdrawn from this Agreement; and
 - (5) in the case of a partially withdrawing Party, any costs and liabilities with respect to Exploitation Areas, Commercial Discoveries and Discoveries from which it has not withdrawn.

The obligations and liabilities for which a withdrawing Party remains liable shall specifically include its share of any costs of plugging and abandoning wells or portions of wells in which it participated (or was required to bear a share of the costs pursuant to Article 13.4(A)(1)) to the extent such costs of plugging and abandoning are payable by the Parties under the Contract. Any mortgages, liens, pledges, charges or other encumbrances which were placed on the withdrawing Party's Participating Interest prior to such Party's withdrawal shall be fully satisfied or released, at the withdrawing Party's expense, prior to its withdrawal. A Party's withdrawal shall not relieve it from liability to the non-withdrawing Parties with respect to any obligations or liabilities attributable to the withdrawing Party under this Article 13 merely because they are not identified or identifiable at the time of withdrawal.

- (B) Notwithstanding the foregoing, a Party shall not be liable for any operations or expenditures it voted against (other than operations and expenditures described in Article 13.4(A)(2) or Article 13.4(A)(3)) if it sends notification of its withdrawal within five (5) Days (or within twenty-four (24) hours for Urgent Operational Matters) of the Operating Committee vote approving such operation or expenditure. Likewise, a Party voting against voluntarily entering into or extending of an Exploration Period or Exploitation Period or any phase of the Contract or voluntarily extending the Contract shall not be liable for the Minimum Work Obligations associated therewith provided that it sends notification of its withdrawal within thirty (30) Days of such vote pursuant to Article 11.2.

13.5 *Emergency*

If a well goes out of control or a fire, blow out, sabotage or other emergency occurs prior to the effective date of a Party's withdrawal, the withdrawing Party shall remain liable for its Participating Interest share of the costs of such emergency, regardless of when they are incurred.

13.6 *Assignment*

A withdrawing Party shall assign its Participating Interest free of cost to each of the non-withdrawing Parties in the proportion which each of their Participating Interests (prior to the withdrawal) bears to the total Participating Interests of all the non-withdrawing Parties (prior to the withdrawal), unless the non-withdrawing Parties agree otherwise. The expenses associated with the withdrawal and assignments shall be borne by the withdrawing Party.

13.7 *Approvals*

A withdrawing Party shall promptly join in such actions as may be necessary or desirable to obtain any Government approvals required in connection with the withdrawal and assignments. The non-withdrawing Parties shall use reasonable endeavors to assist the withdrawing Party in obtaining such approvals. Any penalties or expenses incurred by the Parties in connection with such withdrawal shall be borne by the withdrawing Party. If the Government does not approve a Party's withdrawal and assignment to the other Parties, then the withdrawing Party shall at its option either (1) retract its notice of withdrawal by notice to the other Parties and remain a Party as if such notice of withdrawal had never been sent, or (2) hold its Participating Interest in trust for the sole and exclusive benefit of the non-withdrawing Parties with the right to be reimbursed by the non-withdrawing Parties for any subsequent costs and liabilities incurred by it for which it would not have been liable, had it successfully withdrawn.

13.8 *Security*

A Party withdrawing from this Agreement and the Contract pursuant to this Article 13 shall provide Security satisfactory to the other Parties to satisfy any obligations or liabilities for which the withdrawing Party remains liable in accordance with Article 13.4, but which become due after its withdrawal, including Security to cover the costs of an abandonment, if applicable.

13.9 *Withdrawal or Abandonment by All Parties*

In the event all Parties decide to withdraw, the Parties agree that they shall be bound by the terms and conditions of this Agreement for so long as may be necessary to wind up the affairs of the Parties with the Government, to satisfy any requirements of the Laws / Regulations and to facilitate the sale, disposition or abandonment of property or interests held by the Joint Account, all in accordance with Article 2.

**ARTICLE 14
RELATIONSHIP OF PARTIES AND TAX**

14.1 *Relationship of Parties*

The rights, duties, obligations and liabilities of the Parties under this Agreement shall be individual, not joint or collective. It is not the intention of the Parties to create, nor shall this Agreement be deemed or construed to create, a mining or other partnership, joint venture or association or (except as explicitly provided in this Agreement) a trust. This Agreement shall not be deemed or construed to authorize any Party to act as an agent, servant or employee for any other Party for any purpose whatsoever except as explicitly set forth in this Agreement. In their relations with each other under this Agreement, the Parties shall not be considered fiduciaries except as expressly provided in this Agreement.

14.2 *Tax*

Each Party shall be responsible for reporting and discharging its own tax measured by the profit or income of the Party and the satisfaction of such Party's share of all contract obligations under the Contract and under this Agreement. Each Party shall protect, defend and indemnify each other Party from any and all loss, cost or liability arising from the indemnifying Party's failure to report and discharge such taxes or satisfy such obligations. The Parties intend that all income and all tax benefits (including deductions, depreciation, credits and capitalization) with respect to the expenditures made by the Parties hereunder will be allocated by the Government tax authorities to the Parties based on the share of each tax item actually received or borne by each Party. If such allocation is not accomplished due to the application of the Laws / Regulations or other Government action, the Parties shall attempt to adopt mutually agreeable arrangements that will allow the Parties to achieve the financial results intended. Operator shall provide each Party, in a timely manner and at such Party's sole expense, with such information with respect to Joint Operations as such Party may reasonably request for preparation of its tax returns or responding to any audit or other tax proceeding.

14.3 *United States Tax Election*

Each Party to this Agreement shall hereby agree to enter into and shall be bound by a Tax Partnership for U.S. Federal Tax purposes substantially in the form attached as Exhibit C. Such Tax Partnership has no tax implications for non-U.S. parties.

**ARTICLE 15
VENTURE INFORMATION - CONFIDENTIALITY - INTELLECTUAL PROPERTY**

15.1 *Venture Information*

- (A) Each Party may use all information it receives under Article 4.4(A) (the "*Venture Information*") without the approval of any other Party, subject to any applicable restrictions and limitations set forth in this Article 15, the Agreement and the Contract. For purposes of this Article 15, the right to use shall entail the right to copy and prepare derivative works.
- (B) Each Party may, subject to any applicable restrictions and limitations set forth in the Contract, extend the right to use Venture Information to each of its Affiliates which are obligated to terms

not less restrictive than this Article 15.

- (C) The acquisition or development of Venture Information under terms other than as specified in this Article 15 shall require the approval of the Operating Committee. The request for approval submitted by a Party shall be accompanied by a description of, and summary of the use and disclosure restrictions which would be applicable to, the Venture Information, and any such Party will be obligated to use all reasonable efforts to arrange for rights to use which are not less restrictive than specified in this Article 15.
- (D) All Venture Information received by a Party under this Agreement is received on an "as is" basis without warranties, express or implied, of any kind. Any use of such Venture Information by a Party shall be at such Party's sole risk.

15.2 Confidentiality

- (A) Subject to the provisions of the Contract and this Article 15, the Parties agree that all information in relation with Joint Operations or Exclusive Operations shall be considered confidential and shall be kept confidential and not be disclosed during the term of the Contract and for a period of TWO (2) years thereafter to any person or entity not a Party to this Agreement, except:
 - (1) to an Affiliate pursuant to Article 15.1(B);
 - (2) to a governmental agency or other entity when required by the Contract;
 - (3) to the extent such information is required to be furnished in compliance with the applicable law or regulations, or pursuant to any legal proceedings or because of any order of any court binding upon a Party;
 - (4) to prospective or actual attorneys engaged by any Party where disclosure of such information is essential to such attorney's work for such Party;
 - (5) to prospective or actual contractors and consultants engaged by any Party where disclosure of such information is essential to such contractor's or consultant's work for such Party;
 - (6) to a bona fide prospective transferee of a Party's Participating Interest to the extent appropriate in order to allow the assessment of such Participating Interest (including an entity with whom a Party and/or its Affiliates are conducting bona fide negotiations directed toward a merger, consolidation or the sale of a majority of its or an Affiliate's shares);
 - (7) to a bank or other financial institution to the extent appropriate to a Party arranging for funding;
 - (8) to the extent such information must be disclosed pursuant to any rules or requirements of any government or stock exchange having jurisdiction over such Party, or its Affiliates; provided that if any Party desires to disclose information in an annual or periodic report to its or its Affiliates' shareholders and to the public and such disclosure is not required pursuant to any rules or requirements of any government or stock exchange, then such Party shall comply with Article 19.3;
 - (9) to its respective employees for the purposes of Joint Operations or Exclusive Operations as the case may be, subject to each Party taking customary precautions to ensure such information is kept confidential; and

- (10) any information which, through no fault of a Party, becomes a part of the public domain.
- (B) Disclosure as pursuant to Articles 15.2(A)(5), (6), and (7) shall not be made unless prior to such disclosure the disclosing Party has obtained a written undertaking from the recipient party to keep the information strictly confidential for at least TWO (2) years and to use the information for the sole purpose described in Articles 15.2(A)(5), (6), and (7), whichever is applicable, with respect to the disclosing Party.

15.3 Intellectual Property

- (A) Subject to Articles 15.3(C) and 15.5 and unless provided otherwise in the Contract, all intellectual property rights in the Venture Information shall be Joint Property. Each Party and its Affiliates have the right to use all such intellectual property rights in their own operations (including joint operations or a production sharing arrangement in which the Party or its Affiliates has an ownership or equity interest) without the approval of any other Party. Decisions regarding obtaining, maintaining and licensing such intellectual property rights shall be made by the Operating Committee, and the costs thereof shall be for the Joint Account. Upon unanimous consent of the Operating Committee as to ownership, licensing rights, and income distribution, the ownership of intellectual property rights in the Venture Information may be assigned to the Operator or to a Party.
- (B) Nothing in this Agreement shall be deemed to require a Party to (i) divulge proprietary technology to any of the other Parties; or (ii) grant a license or other rights under any intellectual property rights owned or controlled by such Party or its Affiliates to any of the other Parties.
- (C) If a Party or an Affiliate of a Party has proprietary technology applicable to activities carried out under this Agreement which the Party or its Affiliate desires to make available on terms and conditions other than as specified in Article 15.3(A), the Party or Affiliate may, with the prior approval of the Operating Committee, make the proprietary technology available on terms to be agreed. If the proprietary technology is so made available, then any inventions, discoveries, or improvements which relate to such proprietary technology and which result from Joint Account expenditures shall belong to such Party or Affiliate. In such case, each other Party shall have a perpetual, royalty-free, irrevocable license to practice such inventions, discoveries, or improvements, but only in connection with the Joint Operations.
- (D) Subject to Article 4.6(B), all costs and expenses of defending, settling or otherwise handling any claim which is based on the actual or alleged infringement of any intellectual property right shall be for the account of the operation from which the claim arose, whether Joint Operations or Exclusive Operations.

15.4 Continuing Obligations

Any Party ceasing to own a Participating Interest during the term of this Agreement shall nonetheless remain bound by the obligations of confidentiality in Article 15.2, and any disputes in relation thereto shall be resolved in accordance with Article 18.2.

15.5 Trades

Operator may, with approval of the Operating Committee, make well trades and data trades for the benefit of the Parties, with any data so obtained to be furnished to all Parties who participated in the cost of the data that was traded. Operator shall cause any third party to such trade to enter into an undertaking to keep the traded data confidential.

ARTICLE 16
FORCE MAJEURE

16.1 Obligations

If as a result of Force Majeure any Party is rendered unable, wholly or in part, to carry out its obligations under this Agreement, other than the obligation to pay any amounts due or to furnish Security, then the obligations of the Party giving such notice, so far as and to the extent that the obligations are affected by such Force Majeure, shall be suspended during the continuance of any inability so caused and for such reasonable period thereafter as may be necessary for the Party to put itself in the same position that it occupied prior to the Force Majeure, but for no longer period. The Party claiming Force Majeure shall notify the other Parties of the Force Majeure within a reasonable time after the occurrence of the facts relied on and shall keep all Parties informed of all significant developments. Such notice shall give reasonably full particulars of the Force Majeure and also estimate the period of time which the Party will probably require to remedy the Force Majeure. The affected Party shall use all reasonable diligence to remove or overcome the Force Majeure situation as quickly as possible in an economic manner but shall not be obligated to settle any labor dispute except on terms acceptable to it, and all such disputes shall be handled within the sole discretion of the affected Party.

16.2 Definition of Force Majeure

For the purposes of this Agreement, "Force Majeure" shall have the same meaning as is set out in Article 67 of the Paraguayan Hydrocarbons Law 779/95 as the same may be amended from time to time.

ARTICLE 17
NOTICES

Except as otherwise specifically provided, all notices authorized or required between the Parties by any of the provisions of this Agreement shall be in writing (in English) and delivered in person or by courier service or by any electronic means of transmitting written communications which provides written confirmation of complete transmission, and addressed to such Parties. Oral communication does not constitute notice for purposes of this Agreement, and e-mail addresses and telephone numbers for the Parties are listed below as a matter of convenience only. A notice given under any provision of this Agreement shall be deemed delivered only when received by the Party to whom such notice is directed, and the time for such Party to deliver any notice in response to such originating notice shall run from the date the originating notice is received. "Received" for purposes of this Article 17 shall mean actual delivery of the notice to the address of the Party specified hereunder or to be thereafter notified in accordance with this Article 17. Each Party shall have the right to change its address at any time and/or designate that copies of all such notices be directed to another person at another address, by giving written notice thereof to all other Parties.

Pirity Hidrocarburos S.R.L.
Juan De Salazar 657
Asunción, Paraguay

President Energy Paraguay S.A.
Edificio Mariscal Center / 9o piso / Apart.B
Avda. Mcal Lopez esq. Dr. Morra
Asunción, Paraguay

Attention: Luis Alberto Peters
Fax: + 595-21-233-741
Email: LPeters@PirityHidrocarburos.com.py
Telephone: + 595-21-233-740

Attention: Richard Hubbard
Fax:
Email: richard.hubbard@presidentpc.com
Telephone:

ARTICLE 18
APPLICABLE LAW - DISPUTE RESOLUTION - WAIVER OF SOVEREIGN IMMUNITY

18.1 *Applicable Law*

The substantive laws of PARAGUAY, exclusive of any conflicts of laws principles that could require the application of any other law, shall govern this Agreement for all purposes, including the resolution of all Disputes between or among Parties.

18.2 *Dispute Resolution*

(A) Notification. A Party who desires to submit a Dispute for resolution shall commence the dispute resolution process by providing the other parties to the Dispute written notice of the Dispute ("*Notice of Dispute*"). The Notice of Dispute shall identify the parties to the Dispute and contain a brief statement of the nature of the Dispute and the relief requested. The submission of a Notice of Dispute shall toll any applicable statutes of limitation related to the Dispute, pending the conclusion or abandonment of dispute resolution proceedings under this Article 18.

(B) Negotiations. The parties to the Dispute shall seek to resolve any Dispute by negotiation between Senior Executives. A "*Senior Executive*" means any individual who has authority to negotiate the settlement of the Dispute for a Party. Within thirty (30) Days after the date of the receipt by each party to the Dispute of the Notice of Dispute (which notice shall request negotiations among Senior Executives), the Senior Executives representing the parties to the Dispute shall meet at a mutually acceptable time and place to exchange relevant information in an attempt to resolve the Dispute. If a Senior Executive intends to be accompanied at the meeting by an attorney, each other party's Senior Executive shall be given written notice of such intention at least three (3) Days in advance and may also be accompanied at the meeting by an attorney. Notwithstanding the above, any Party may initiate arbitration proceedings pursuant to Article 18.2 (C) concerning such Dispute within thirty (30) Days after the date of receipt of the Notice of Dispute.

(C) Arbitration. Any Dispute not finally resolved by alternative dispute resolution procedures set forth in Articles 18.2(B) shall be exclusively and definitively resolved through final and binding arbitration, it being the intention of the Parties that this is a broad form arbitration agreement designed to encompass all possible disputes.

(1) Rules. The arbitration shall be conducted in accordance with the following arbitration rules (as then in effect) (the "*Rules*");

Rules of Arbitration of the International Chamber of Commerce (ICC).

(2) Number of Arbitrators. The arbitration shall be conducted by three arbitrators, unless all parties to the Dispute agree to a sole arbitrator within thirty (30) Days after the filing of the arbitration. For greater certainty, for purposes of this Article 18.2(D), the filing of the arbitration means the date on which the claimant's request for arbitration is received by the other parties to the Dispute.

(3) Method of Appointment of the Arbitrators. If the arbitration is to be conducted by a sole arbitrator, then the arbitrator will be jointly selected by the parties to the Dispute. If the parties to the Dispute fail to agree on the arbitrator within thirty (30) Days after the filing of the arbitration, then ICC Arbitral Institution shall appoint the arbitrator.

If the arbitration is to be conducted by three arbitrators and there are only two parties to the Dispute, then each party to the Dispute shall appoint one arbitrator within thirty (30) Days of the filing of the arbitration, and the two arbitrators so appointed shall select the presiding arbitrator within thirty (30) Days after the latter of the two arbitrators has been

appointed by the parties to the Dispute. If a party to the Dispute fails to appoint its party-appointed arbitrator or if the two party-appointed arbitrators cannot reach an agreement on the presiding arbitrator within the applicable time period, then the ICC Arbitral Institution shall appoint the remainder of the three arbitrators not yet appointed.

If the arbitration is to be conducted by three arbitrators and there are more than two parties to the Dispute, then within thirty (30) Days of the filing of the arbitration, all claimants shall jointly appoint one arbitrator and all respondents shall jointly appoint one arbitrator, and the two arbitrators so appointed shall select the presiding arbitrator within thirty (30) Days after the latter of the two arbitrators has been appointed by the parties to the Dispute. If either all claimants or all respondents fail to make a joint appointment of an arbitrator or if the party-appointed arbitrators cannot reach an agreement on the presiding arbitrator within the applicable time period, then ICC Arbitral Institution shall appoint the remainder of the three arbitrators not yet appointed.

- (4) Consolidation. If the Parties initiate multiple arbitration proceedings, the subject matters of which are related by common questions of law or fact and which could result in conflicting awards or obligations, then all such proceedings may be consolidated into a single arbitral proceeding.
- (5) Place of Arbitration. Unless otherwise agreed by all parties to the Dispute, the place of arbitration shall be BOGOTA, COLUMBIA.
- (6) Language. The arbitration proceedings shall be conducted in the English language and the arbitrator(s) shall be fluent in the English language.
- (7) Entry of Judgment. The award of the arbitral tribunal shall be final and binding. Judgment on the award of the arbitral tribunal may be entered and enforced by any court of competent jurisdiction.
- (8) Notice. All notices required for any arbitration proceeding shall be deemed properly given if sent in accordance with Article 17.
- (9) Qualifications and Conduct of the Arbitrators. All arbitrators shall be and remain at all times wholly impartial, and, once appointed, no arbitrator shall have any ex parte communications with any of the parties to the Dispute concerning the arbitration or the underlying Dispute other than communications directly concerning the selection of the presiding arbitrator, where applicable. Whenever the parties to the Dispute are of more than one nationality, the single arbitrator or the presiding arbitrator (as the case may be) shall not be of the same nationality as any of the parties or their ultimate parent entities, unless the parties to the Dispute otherwise agree.
- (10) Interim Measures. Notwithstanding any requirements for alternative dispute resolution procedures as set forth in Article 18.2(B), any party to the Dispute may apply to a court for interim measures (i) prior to the constitution of the arbitral tribunal (and thereafter as necessary to enforce the arbitral tribunal's rulings); or (ii) in the absence of the jurisdiction of the arbitral tribunal to rule on interim measures in a given jurisdiction. The Parties agree that seeking and obtaining such interim measures shall not waive the right to arbitration. The arbitrators (or in an emergency the presiding arbitrator acting alone in the event one or more of the other arbitrators is unable to be involved in a timely fashion) may grant interim measures including injunctions, attachments and conservation orders in appropriate circumstances, which measures may be immediately enforced by court order. Hearings on requests for interim measures may be held in person, by telephone, by video conference or by other means that permit the parties to the Dispute to present evidence and arguments.

- (11) Costs and Attorneys' Fees. The arbitral tribunal is authorized to award costs and attorneys' fees and to allocate them between the parties to the Dispute. The costs of the arbitration proceedings, including attorneys' fees, shall be borne in the manner determined by the arbitral tribunal.
 - (12) Interest. The award shall include interest, as determined by the arbitral award, from the date of any default or other breach of this Agreement until the arbitral award is paid in full. Interest shall be awarded at the Agreed Interest Rate.
 - (13) Currency of Award. The arbitral award shall be made and payable in United States dollars, free of any tax or other deduction.
 - (14) Exemplary Damages. The Parties waive their rights to claim or recover, and the arbitral tribunal shall not award, any punitive, multiple, or other exemplary damages (whether statutory or common law) except to the extent such damages have been awarded to a third party and are subject to allocation between or among the parties to the Dispute.
 - (15) Waiver of Challenge to Decision or Award. To the extent permitted by law, any right to appeal or challenge any arbitral decision or award, or to oppose enforcement of any such decision or award before a court or any governmental authority, is hereby waived by the Parties except with respect to the limited grounds for modification or non-enforcement provided by any applicable arbitration statute or treaty.
- (D) Confidentiality. All negotiations, mediation, arbitration, and expert determinations relating to a Dispute (including a settlement resulting from negotiation or mediation, an arbitral award, documents exchanged or produced during a mediation or arbitration proceeding, and memorials, briefs or other documents prepared for the arbitration) are confidential and may not be disclosed by the Parties, their employees, officers, directors, counsel, consultants, and expert witnesses, except (in accordance with Article 15.2) to the extent necessary to enforce this Article 18 or any arbitration award, to enforce other rights of a Party, or as required by law; provided, however, that breach of this confidentiality provision shall not void any settlement, expert determination or award.

18.3 *Expert Determination*

For any decision referred to an expert under Article 8.4, the Parties hereby agree that such decision shall be conducted expeditiously by an expert selected unanimously by the parties to the Dispute. The expert is not an arbitrator of the Dispute and shall not be deemed to be acting in an arbitral capacity. The Party desiring an expert determination shall give the other parties to the Dispute written notice of the request for such determination. If the parties to the Dispute are unable to agree upon an expert within ten (10) Days after receipt of the notice of request for an expert determination, then, upon the request of any of the parties to the Dispute, the International Centre for Expertise of the International Chamber of Commerce (ICC) shall appoint such expert and shall administer such expert determination through the ICC's Rules for Expertise. The expert, once appointed, shall have no *ex parte* communications with any of the parties to the Dispute concerning the expert determination or the underlying Dispute. All Parties agree to cooperate fully in the expeditious conduct of such expert determination and to provide the expert with access to all facilities, books, records, documents, information and personnel necessary to make a fully informed decision in an expeditious manner. Before issuing his final decision, the expert shall issue a draft report and allow the parties to the Dispute to comment on it. The expert shall endeavor to resolve the Dispute within thirty (30) Days (but no later than sixty (60) Days) after his appointment, taking into account the circumstances requiring an expeditious resolution of the matter in dispute. The expert's decision shall be final and binding on the parties to the Dispute unless challenged in an arbitration pursuant to Article 18.2(C) within sixty (60) Days of the date the expert's final decision is received by the parties to the Dispute and until replaced by such subsequent arbitral award. In such arbitration (i) the expert determination on the specific matter under Article 8.4 shall be entitled to a rebuttable presumption of correctness; and (ii) the expert shall not

(without the written consent of the parties to the Dispute) be appointed to act as an arbitrator or as adviser to the parties to the Dispute.

18.4 Waiver of Sovereign Immunity

Any Party that now or hereafter has a right to claim sovereign immunity for itself or any of its assets hereby waives any such immunity to the fullest extent permitted by the laws of any applicable jurisdiction. This waiver includes immunity from (i) any expert determination, mediation, or arbitration proceeding commenced pursuant to this Agreement; (ii) any judicial, administrative or other proceedings to aid the expert determination, mediation, or arbitration commenced pursuant to this Agreement; and (iii) any effort to confirm, enforce, or execute any decision, settlement, award, judgment, service of process, execution order or attachment (including pre-judgment attachment) that results from an expert determination, mediation, arbitration or any judicial or administrative proceedings commenced pursuant to this Agreement. Each Party acknowledges that its rights and obligations hereunder are of a commercial and not a governmental nature.

ARTICLE 19 GENERAL PROVISIONS

19.1 Conduct of the Parties

- (A) Each Party warrants that it and its Affiliates have not made, offered, or authorized and will not make, offer, or authorize with respect to the matters which are the subject of this Agreement, any payment, gift, promise or other advantage, whether directly or through any other person or entity, to or for the use or benefit of any public official (*i.e.*, any person holding a legislative, administrative or judicial office, including any person employed by or acting on behalf of a public agency, a public enterprise or a public international organization) or any political party or political party official or candidate for office, where such payment, gift, promise or advantage would violate (i) the applicable laws of the Republic of Paraguay; (ii) the laws of the country of incorporation of such Party or such Party's ultimate parent company and of the principal place of business of such ultimate parent company; or (iii) the principles described in the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, signed in Paris on December 17, 1997, which entered into force on February 15, 1999, and the Convention's Commentaries. Each Party shall defend, indemnify and hold the other Parties harmless from and against any and all claims, damages, losses, penalties, costs and expenses arising from or related to, any breach by such first Party of such warranty. Such indemnity obligation shall survive termination or expiration of this Agreement. Each Party shall in good time (i) respond in reasonable detail to any notice from any other Party reasonably connected with the above-stated warranty; and (ii) furnish applicable documentary support for such response upon request from such other Party.
- (B) Each Party agrees to (i) maintain adequate internal controls; (ii) properly record and report all transactions; and (iii) comply with the laws applicable to it. Each Party must rely on the other Parties' system of internal controls, and on the adequacy of full disclosure of the facts, and of financial and other data regarding the Joint Operations undertaken under this Agreement. No Party is in any way authorized to take any action on behalf of another Party that would result in an inadequate or inaccurate recording and reporting of assets, liabilities or any other transaction, or which would put such Party in violation of its obligations under the laws applicable to the operations under this Agreement.

19.2 Conflicts of Interest

- (A) Operator undertakes that it shall avoid any conflict of interest between its own interests (including the interests of Affiliates) and the interests of the other Parties in dealing with suppliers, customers and all other organizations or individuals doing or seeking to do business with the Parties in

connection with activities contemplated under this Agreement.

- (B) The provisions of the preceding paragraph shall not apply to: (1) Operator's performance which is in accordance with the local preference laws or policies of the Government; or (2) Operator's acquisition of products or services from an Affiliate, or the sale thereof to an Affiliate, made in accordance with the terms of this Agreement.
- (C) Unless otherwise agreed, the Parties and their Affiliates are free to engage or invest (directly or indirectly) in an unlimited number of activities or businesses, any one or more of which may be related to or in competition with the business activities contemplated under this Agreement, without having or incurring any obligation to offer any interest in such business activities to any Party.

19.3 Public Announcements

- (A) Operator shall be responsible for the preparation and release of all public announcements and statements regarding this Agreement or the Joint Operations; provided that no public announcement or statement shall be issued or made unless, prior to its release, all the Parties have been furnished with a copy of such statement or announcement and the approval of at least two (2) Parties which are not Affiliates of Operator holding fifty percent (50%) or more of the Participating Interests not held by Operator or its Affiliates has been obtained. Where a public announcement or statement becomes necessary or desirable because of danger to or loss of life, damage to property or pollution as a result of activities arising under this Agreement, Operator is authorized to issue and make such announcement or statement without prior approval of the Parties, but shall promptly furnish all the Parties with a copy of such announcement or statement.
- (B) If a Party wishes to issue or make any public announcement or statement regarding this Agreement or the Joint Operations, it shall not do so unless, prior to the release of the public announcement or statement, such Party furnishes all the Parties with a copy of such announcement or statement, and obtains the approval of at least two (2) Parties which are not Affiliates holding fifty percent (50%) or more of the Participating Interests not held by such announcing Party or its Affiliates; provided that, notwithstanding any failure to obtain such approval, no Party shall be prohibited from issuing or making any such public announcement or statement if it is necessary to do so in order to comply with the applicable laws, rules or regulations of any government, legal proceedings or stock exchange having jurisdiction over such Party or its Affiliates as set forth in Article 15.2.

19.4 Successors and Assigns

Subject to the limitations on Transfer contained in Article 12, this Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Parties.

19.5 Waiver

No waiver by any Party of any one or more defaults by another Party in the performance of any provision of this Agreement shall operate or be construed as a waiver of any future default or defaults by the same Party, whether of a like or of a different character. Except as expressly provided in this Agreement no Party shall be deemed to have waived, released or modified any of its rights under this Agreement unless such Party has expressly stated, in writing, that it does waive, release or modify such right.

19.6 No Third Party Beneficiaries

Except as provided under Article 4.6 (B), the interpretation of this Agreement shall exclude any rights under legislative provisions conferring rights under a contract to persons not a party to that contract.

19.7 Joint Preparation

Each provision of this Agreement shall be construed as though all Parties participated equally in the drafting of the same. Consequently, the Parties acknowledge and agree that any rule of construction that a document is to be construed against the drafting party shall not be applicable to this Agreement.

19.8 Severance of Invalid Provisions

If and for so long as any provision of this Agreement shall be deemed to be judged invalid for any reason whatsoever, such invalidity shall not affect the validity or operation of any other provision of this Agreement except only so far as shall be necessary to give effect to the construction of such invalidity, and any such invalid provision shall be deemed severed from this Agreement without affecting the validity of the balance of this Agreement.

19.9 Modifications

Except as is provided in Articles 11.2(B) and 20.8, there shall be no modification of this Agreement or the Contract except by written consent of all Parties.

19.10 Interpretation

- (A) Headings. The topical headings used in this Agreement are for convenience only and shall not be construed as having any substantive significance or as indicating that all of the provisions of this Agreement relating to any topic are to be found in any particular Article.
- (B) Singular and Plural. Reference to the singular includes a reference to the plural and vice versa.
- (C) Gender. Reference to any gender includes a reference to all other genders.
- (D) Article. Unless otherwise provided, reference to any Article or an Exhibit means an Article or Exhibit of this Agreement.
- (E) Include. "include" and "including" shall mean include or including without limiting the generality of the description preceding such term and are used in an illustrative sense and not a limiting sense.


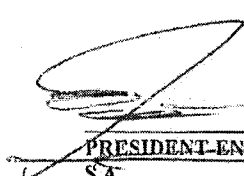
19.11 Counterpart Execution

This Agreement may be executed in any number of counterparts and each such counterpart shall be deemed an original Agreement for all purposes; provided that no Party shall be bound to this Agreement unless and until all Parties have executed a counterpart. For purposes of assembling all counterparts into one document, Operator is authorized to detach the signature page from one or more counterparts and, after signature thereof by the respective Party, attach each signed signature page to a counterpart.


19.12 Entirety

With respect to the subject matter contained herein, this Agreement (i) is the entire agreement of the Parties; and (ii) supersedes all prior understandings and negotiations of the Parties.

IN WITNESS of their agreement each Party has caused its duly authorized representative to sign this instrument on the date indicated below such representative's signature.



PRESIDENT ENERGY PARAGUAY
S.A.
By: Oscar A. Mersan – Carlos T. Mersan
Title: President and Director
Date: October.....2012.-



PIRITY HIDROCARBUROS S.R.L
By: Lijis Peters
Title: General Manager
Date: October, 2012.-

JOINT OPERATING AGREEMENT

EXHIBIT A

ACCOUNTING PROCEDURE

October 29, 2012

AIPN MODEL INTERNATIONAL ACCOUNTING PROCEDURE

PRESIDENT ENERGY PARAGUAY S.A.

AND

PIRITY HIDROCARBUROS S.R.L.

ATTACHED TO AND MADE PART OF THE OPERATING AGREEMENT FOR:

BLOQUE PIRITY - PARAGUAY

EXHIBIT "A"
ACCOUNTING PROCEDURE
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EXHIBIT "A"

ACCOUNTING PROCEDURE

Attached to and made part of the Operating Agreement, hereinafter called the "Agreement," effective as of the 29 day of October, 2012, by and between President Energy Paraguay S.A. and Pirity Hidrocarburos S.R.L..

SECTION 1 GENERAL PROVISIONS

1.1 Purpose.

1.1.1 The purpose of this Accounting Procedure is to establish equitable methods for determining charges and credits applicable to operations under the Agreement which reflect the costs of Joint Operations to the end that no Party shall gain or lose in relation to other Parties.

1.1.2 The Parties agree, however, that if the methods prove unfair or inequitable to Operator or Non-Operators, the Parties shall meet and in good faith endeavor to agree on changes in methods deemed necessary to correct any unfairness or inequity.

1.2 Conflict with Agreement.

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the Agreement to which this Accounting Procedure is attached, the provisions of the Agreement shall prevail.

1.3 Definitions.

The definitions contained in the Agreement to which this Accounting Procedure is attached shall apply to this Accounting Procedure and have the same meanings when used herein. Certain terms used herein are defined as follows:

"**Accrual basis**" means that basis of accounting under which costs and benefits are regarded as applicable to the period in which the liability for the cost is incurred or the right to the benefit arises, regardless of when invoiced, paid, or received.

"**Cash basis**" means that basis of accounting under which only costs actually paid and revenue actually received are included for any period.

"**Country of Operations**" means Paraguay.

"**Material**" means machinery, equipment and supplies acquired and held for use in Joint Operations.

"**Section**" means a section of this Accounting Procedure.

1.4 Joint Account Records and Currency Exchange.

- 1.4.1 Operator shall at all times maintain and keep true and correct records of the production and disposition of all liquid and gaseous Hydrocarbons, and of all costs and expenditures under the Agreement, as well as other data necessary or proper for the settlement of accounts between the Parties hereto in connection with their rights and obligations under the Agreement and to enable Parties to comply with their respective applicable income tax and other laws.
- 1.4.2 Operator shall maintain accounting records pertaining to Joint Operations in accordance with generally accepted accounting practices used in the international petroleum industry and any applicable statutory obligations of the Country of Operations as well as the provisions of the Contract and the Agreement.
- 1.4.3 The Joint Account shall be maintained by Operator in the English language and in United States of America ("U.S.") currency and in such other language and currency as may be required by the laws of the Country of Operations or the Contract. Conversions of currency shall be recorded at the rate actually experienced in that conversion. Currency translations are used to express the amount of expenditures and receipts for which a currency conversion has not actually occurred. Currency translations for expenditures and receipts shall be recorded in accordance with Operator's normal practice. A statement describing the practice will be provided to the Non-Operators upon request.
- NOTE: The Operators normal practice is to use a monthly average rate as published by Oanda.com <http://www.oanda.com/currency/historical-rates/>
- 1.4.4 Any currency exchange gains or losses shall be credited or charged to the Joint Account, except as otherwise specified in this Accounting Procedure.
- 1.4.5 This Accounting Procedure shall apply, *mutatis mutandis*, to Exclusive Operations in the same manner that it applies to Joint Operations; provided, however, that the charges and credits applicable to Consenting Parties shall be separately maintained. For the purpose of determining and calculating the remuneration of the Consenting Parties, including the premiums for Exclusive Operations, the costs and expenditures shall be expressed in U.S. currency (irrespective of the currency in which the expenditure was incurred).
- 1.4.6 The accrual basis for accounting shall be used in preparing accounts concerning the Joint Operations. If a Cash basis for accounting is used, Operator shall show accruals as memorandum items.

1.5 Statements and Billings.

- 1.5.1 Unless otherwise agreed by the Parties, Operator shall submit monthly to each Party, on or before the 25th Day of each month, statements of the costs and expenditures incurred during the prior month, indicating by appropriate

classification the nature thereof, the corresponding budget category, and the portion of such costs charged to each of the Parties.

These statements, as a minimum, shall contain the following information:

- advances of funds setting forth the currencies received from each Party,
 - the share of each Party in total expenditures,
 - the accrued expenditures,
 - the current account balance of each Party,
 - summary of costs, credits, and expenditures on a current month, year-to-date, and inception-to-date basis or other periodic basis, as agreed by Parties (such expenditures shall be grouped by the categories and line items designated in the approved Work Program and Budget submitted by Operator in accordance with Article 6.4 of the Agreement so as to facilitate comparison of actual expenditures against that Work Program and Budget), and
 - details of unusual charges and credits in excess of U.S. \$ 25,000.00.
- 1.5.2 Operator shall, upon request, furnish a description of the accounting classifications used by it.
- 1.5.3 Amounts included in the statements and billings shall be expressed in U.S. currency and reconciled to the currencies advanced.
- 1.5.4 Each Party shall be responsible for preparing its own accounting and tax reports to meet the requirements of the Country of Operations and of all other countries to which it may be subject. Operator, to the extent that the information is reasonably available from the Joint Account records, shall provide Non-Operators in a timely manner with the necessary information to facilitate the discharge of such responsibility.

1.6 Payments and Advances.

- 1.6.1 Upon approval of any Work Program and Budget, if Operator so requests, each Non-Operator shall advance its share of estimated cash requirements for the succeeding month's operations. Each such cash call shall be equal to the Operator's estimate of the money to be spent in the currencies required to perform its duties under the approved Work Program and Budget during the month concerned. For informational purposes the cash call shall contain an estimate of the funds required for the succeeding 2 months detailed by the categories designated in the approved Work Program and Budget submitted by Operator in accordance with Article 6.4 of the Agreement.
- 1.6.2 Each such cash call, detailed by the categories designated in the approved Work Program and Budget submitted by Operator in accordance with Article 6.4 of the Agreement, shall be made in writing and delivered to all Non-

Operators not less than 15 Days before the payment due date. The due date for payment of such advances shall be set by Operator but shall be no sooner than the first Business Day of the month for which the advances are required. All advances shall be made without bank charges. Any charges related to receipt of advances from a Non-Operator shall be borne by that Non-Operator.

1.6.3 Each Non-Operator shall wire transfer its share of the full amount of each such cash call to Operator on or before the due date, in the currencies requested or any other currencies acceptable to Operator and at a bank designated by Operator. If currency provided by a Non-Operator is other than the requested currency, then the entire cost of converting to the requested currency shall be charged to that Non-Operator.

1.6.4 Notwithstanding the provisions of Section 1.6.2, should Operator be required to pay any sums of money for the Joint Operations which were unforeseen at the time of providing the Non-Operators with said estimates of its requirements, Operator may make a written request of the Non-Operators for special advances covering the Non-Operators' share of such payments. Each such Non-Operator shall make its proportional special advances within 10 Days after receipt of such notice.

1.6.5 If a Non-Operator's advances exceed its share of cash expenditures, the next succeeding cash advance requirements, after such determination, shall be reduced accordingly. However, if the amount of such excess advance is greater than the amount of the next month's estimated cash requirements for such Non-Operator, the Non-Operator may request a refund of the difference, which refund shall be made by Operator within 10 Days after receipt of the Non-Operator's request provided that the amount is in excess of U.S. \$ 25,000.00.

If Operator does not refund the money within the time required, the unpaid balance shall bear and accrue interest at the Agreed Interest Rate from the due date until the payment is received by the Non-Operator who requested the refund.

1.6.6 If Non-Operator's advances are less than its share of cash expenditures, the deficiency shall, at Operator's option, be added to subsequent cash advance requirements or be paid by Non-Operator within 10 Days following the receipt of Operator's billing to Non-Operator for such deficiency.

1.6.7 If, under the provisions of the Agreement, Operator is required to segregate funds received from the Parties, any interest received on such funds shall be applied against the next succeeding cash call or, if directed by the Operating Committee, distributed quarterly. The interest thus received shall be allocated to the Parties on an equitable basis taking into consideration date of funding by each Party to the accounts in proportion to the total funding into the account. A monthly statement summarizing receipts, disbursements, transfers to each joint bank account and beginning and ending balances thereof shall be provided by Operator to the Parties.

- 1.6.8** If Operator does not request Non-Operators to advance their share of estimated cash requirements, each Non-Operator shall pay its share of cash expenditures within 10 Days following receipt of Operator's billing.
- 1.6.9** Payments of advances or billings shall be made on or before the due date. In accordance with Article 8 of the Agreement, if these payments are not received by the due date the unpaid balance shall bear and accrue interest from the due date until the payment is received by Operator at the Agreed Interest Rate. For the purpose of determining the unpaid balance and interest owed, Operator shall translate to U.S. currency all amounts owed in other currencies using the currency exchange rate, determined in accordance with Section 1.4.3, at the close of the last Business Day prior to the due date for the unpaid balance.
- 1.6.10** Subject to governmental regulation, Operator shall have the right, at any time and from time to time, to convert the funds advanced or any part thereof to other currencies to the extent that such currencies are then required for operations. The cost of any such conversion shall be charged to the Joint Account.
- 1.6.11** Operator shall endeavor to maintain funds held for the Joint Account in bank accounts at a level consistent with that required for the prudent conduct of Joint Operations.
- 1.6.12** If under the Agreement, Operator is required to segregate funds received from or for the Joint Account, the provisions under Section 1.6 for payments and advances by Non-Operators shall apply also to Operator.

1.7 Adjustments.

Payments of any advances or billings shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any Calendar Year shall conclusively be presumed to be true and correct after 24 months following the end of such Calendar Year, unless within the said 24 month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of a Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making claims for adjustment thereon. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of the Material as provided for in Section 6. Operator shall be allowed to make adjustments to the Joint Account after such 24 month period if these adjustments result from audit exceptions outside of this Accounting Procedure, third party claims, or Government or Government Oil & Gas Company requirements. Any such adjustments shall be subject to audit within the time period specified in Section 1.8.1.

1.8 Audits.

- 1.8.1** A Non-Operator, upon at least 60 Days advance notice in writing to Operator and all other Non-Operators, shall have the right to audit the Joint Accounts and records of Operator relating to the accounting hereunder for any Calendar

Year within the 24 month period following the end of such Calendar Year except as otherwise provided in Section 3.1. Non-Operators shall have reasonable access to Operator's personnel and to the facilities, warehouses, and offices directly or indirectly serving Joint Operations. The cost of each such audit shall be borne by Non-Operators participating in the audit. Where there are two or more Non-Operators, the Non-Operators shall make a reasonable effort to conduct joint or simultaneous audits in a manner that will result in a minimum of inconvenience to the Operator. Non-Operators must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said 24 month period. Non-Operators may request information from the Operator prior to the commencement of the audit. Operator will provide the information in electronic format or hard copy documents, if electronic format is not available. Operator will provide the information requested within 30 Days before commencement of the audit but in no event sooner than 30 Days after the written request. The information requested shall be limited to that normally used for pre-audit work such as trial balance, general ledger, and sub-ledger data.

1.8.2 Operator shall endeavor to produce information from its Affiliates reasonably necessary to support charges from those Affiliates to the Joint Account other than those charges referred to in Section 3.1.

1.8.3 Except for charges under Section 2.7.1, the following provisions apply to all charges from Operator for its Affiliates.

In addition to the information provided by the Operator under Section 1.8.2, a Non-Operator may seek to audit the books and records of an Affiliate of Operator relating to the charges by the Affiliate to the Joint Account for the same Calendar Year as provided in Section 1.8.1 above. The charges of the Affiliate shall be subject to audit in the same manner as the audit of the books and records of Operator.

No amounts paid to an Affiliate of Operator, which the Non-Operator seeks to audit, may be charged to the Joint Account if the Affiliate of the Operator does not allow audit of such amounts as provided above.

Any Party may audit the records of an Affiliate of another Party relating to that Affiliate's charges under Section 2.7.1. The provisions of Section 1.8.3 shall apply *mutatis mutandis* to such audits unless otherwise agreed by the Parties. Should such charges be rejected under the provisions of 1.8.3, such charges shall be charged back to the Party whose Affiliate provided the service.

Any Party may audit the records of Operator's Affiliate relating to charges under Section 2.6. The provisions of Section 1.8.3 shall apply *mutatis mutandis* to such audits unless otherwise agreed by the Parties.

Any Party may audit the records of a Non-Operator or its Affiliate relating to charges under Section 2.7.3, or 3.3. The provisions of Section 1.8.3 shall apply *mutatis mutandis* to such audit, unless otherwise agreed by the Parties. Should such charges be rejected under the provisions of 1.8.3, such charges shall be charged back to the Party whose Affiliate provided the service.

- 1.8.5** Any information obtained by a Party under the provisions of Section 1.8 which does not relate directly to the Joint Operations shall be kept confidential and shall not be disclosed to any party, except as would otherwise be permitted by Article 15.2(A)(3) and (10) of the Agreement.
- 1.8.6** In the event that the Operator is required by law or the Contract to employ a public accounting firm to audit the Joint Account and records of Operator relating to the accounting hereunder, the cost thereof shall be a charge against the Joint Account, and a copy of the audit shall be furnished to each Party.
- 1.8.7** At the conclusion of each audit, the Parties shall endeavor to settle outstanding matters expeditiously. To this end the Parties conducting the audit will make a reasonable effort to prepare and distribute a written report to the Operator and all the Parties who participated in the audit as soon as possible and in any event within 90 Days after the conclusion of each audit. The report shall include all claims, with supporting documentation, arising from such audit together with comments pertinent to the operation of the accounts and records. Operator shall make a reasonable effort to reply to the report in writing as soon as possible and in any event no later than 90 Days after receipt of the report. Should the Non-Operators consider that the report or reply requires further investigation of any item therein, the Non-Operators shall have the right to conduct further investigation in relation to such matter notwithstanding the provisions of Sections 1.7 and 1.8.1 that the period of 24 months may have expired. However, conducting such further investigation shall not extend the 24 month period for taking written exception to and making a claim upon the Operator for all discrepancies disclosed by said audit. Such further investigations shall be commenced within 30 Days and be concluded within 60 Days after the receipt of such report or reply, as the case may be.
- 1.8.8** All adjustments resulting from an audit agreed between the Operator and the Non-Operator conducting the audit shall be reflected promptly in the Joint Account by the Operator and reported to the Non-Operator(s). If any dispute shall arise in connection with an audit, it shall be reported to and discussed by the Operating Committee, and, unless otherwise agreed by the parties to the dispute, resolved in accordance with the provisions of Article 18 of the Agreement. If all the parties to the dispute so agree, the adjustment(s) may be referred to an independent expert agreed to by the parties to the dispute e.g. an independent accounting firm. At the election of the parties to the dispute, the decision of the expert will be binding upon such parties. Unless otherwise agreed, the cost of such expert will be shared equally by all parties to the dispute.
- 1.8.9** The provisions of this Section 1.8 apply to audits conducted under Article 4.11(D) of the Agreement except that the 60 Day advance notice and the advance information provisions of Section 1.8.1 shall not apply.

1.9 **Allocations.**

If it becomes necessary to allocate any costs or expenditures to or between Joint Operations and any other operations, such allocation shall be made on an equitable

basis. For informational purposes only, Operator shall furnish a description of its allocation procedures pertaining to these costs and expenditures and its rates for personnel and other charges, along with each proposed Work Program and Budget. Such allocation basis shall be subject to audit under Section 1.8.

SECTION 2 **DIRECT CHARGES**

Operator shall charge the Joint Account for all costs and expenditures incurred by Operator for the conduct of Joint Operations within the limits of approved Work Programs and Budgets or as otherwise specified in the Agreement. Charges for services normally provided by an operator such as those contemplated in Sections 2.7.2 and 2.7.3 which are provided by a Party's Affiliate shall reflect the cost to the Affiliate, excluding profit, for performing such services, except as otherwise provided in Section 2.6 and Section 2.7.1.

The costs and expenditures shall be recorded as required for the settlement of accounts between the Parties hereto in connection with the rights and obligations under the Agreement and for purposes of complying with the tax laws of the Country of Operations and of such other countries to which any of the Parties may be subject.

Chargeable costs and expenditures may include:

2.1 Licenses, Permits, Etc.

All costs, if any, attributable to the acquisition, maintenance, renewal or relinquishment of licenses, permits, contractual and/or surface rights acquired for Joint Operations and bonuses paid in accordance with the Contract when paid by Operator in accordance with the provisions of the Agreement.

2.2 Salaries, Wages and Related Costs.

Salaries, wages and related costs include everything constituting the employees' total compensation, as well as the cost to Operator of holiday, vacation, sickness, disability benefits, living and housing allowances, travel time, bonuses, and other customary allowances applicable to the salaries and wages chargeable hereunder, as well as the costs to Operator for employee benefits, including but not limited to employee group life insurance, group medical insurance, hospitalization, retirement, severance payments required by the laws or regulations of the Country of Operations (approval of the Operating Committee shall be required to charge the Joint Account with any severance payments in excess of those provided by the laws or regulations of the Country of Operations), and other benefit plans of a like nature applicable to labor costs of Operator.

All costs associated with organizational restructuring (e.g., separation benefits, relocation costs, asset disposition costs) of Operator or its Affiliates, other than those costs which are directly related to employees of Operator who are directly engaged in Joint Operations on a full time basis, will require the approval of the Parties to be chargeable to the Joint Account.

Any costs associated with Country of Operations benefit plans which are not currently funded shall be accrued and not be paid by Non-Operators, unless otherwise approved

by the Operating Committee, until the same are due and payable to the employee, upon withdrawal of a Party pursuant to the Agreement and then only by the withdrawing Party, or upon termination of the Agreement, whichever occurs first.

Expenditures or contributions made pursuant to assessments imposed by governmental authority for payments with respect to or on account of employees described in Section 2.2.1 and Section 2.2.2 shall be chargeable to the Joint Account.

2.3 Employee Relocation Costs.

2.3.1 Except as provided in Section 2.3.3, Operator's cost of employees' relocation to or from an assignment with the Joint Operations, whether within or outside the Country of Operations and whether permanently or temporarily assigned to the Joint Operations, shall be chargeable to the Joint Account. If such employee works on other activities in addition to Joint Operations, such relocation costs shall be allocated on an equitable basis.

2.3.2 Such relocation costs shall include transportation of employees, families, personal and household effects of the employee and family, transit expenses, and all other related costs in accordance with Operator's usual practice.

2.3.3 Relocation costs to an assignment that is not with the Joint Operations shall not be chargeable to the Joint Account unless the place of the new assignment is the point of origin of the employee or unless otherwise agreed by the Operating Committee.

2.4 Offices, Camps, and Miscellaneous Facilities.

Cost of maintaining any offices, sub-offices, camps, warehouses, housing, and other facilities of the Operator and/or Affiliates directly serving the Joint Operations. If such facilities serve operations in addition to the Joint Operations the costs shall be allocated to the properties served on an equitable basis.

2.5 Material.

Cost, net of discounts taken by Operator, of Material purchased or furnished by Operator. Such costs shall include, but are not limited to, export brokers' fees, transportation charges, loading, unloading fees, export and import duties and license fees associated with the procurement of Material and in-transit losses, if any, not covered by insurance. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for, and the cost thereof charged to, the Joint Account as may be required for immediate use.

2.6 Exclusively Owned Equipment and Facilities of Operator and Affiliates.

Charges for exclusively owned equipment, facilities, and utilities of Operator or any of its Affiliates at rates not to exceed the average commercial rates of non-affiliated third parties then prevailing for like equipment, facilities, and utilities for use in the area where the same are used hereunder. On request, Operator shall furnish Non-Operators a list of rates and the basis of application. Such rates shall be revised from time to time if found to be either excessive or insufficient, but not more than once every six months.

Exclusively owned drilling tools and other equipment lost in the hole or damaged beyond repair may be charged at replacement cost less depreciation plus transportation costs to deliver like equipment to the location where used.

2.7 Services.

2.7.1 The charges for services provided by third parties, including the Affiliates of the respective Parties which have contracted with Operator to perform services that are normally provided by third parties, other than those services covered by Section 2.7.2 and Section 2.7.3, shall be chargeable to the Joint Account. Such charges for services by the Affiliates of the respective Parties shall not exceed those currently prevailing if performed by non-affiliated third parties, considering quality and availability of services.

2.7.2 The cost of services performed by Operator's Affiliates technical and professional staffs not located within the Country of Operation and not otherwise covered under Section 2.2.2, shall be chargeable to the Joint Account. The individual rates shall include salaries and wages of such technical and professional personnel, lost time, governmental assessments, and employee benefits. Costs shall also include all support costs necessary for such technical and professional personnel to perform such services, such as, but not limited to, rent, utilities, support staff, drafting, telephone and other communication expenses, computer support, supplies, depreciation, and other reasonable expenses that are not covered under Section 3.2. Examples of such services include the following:

- Geologic Studies and Interpretation
- Seismic Data Processing
- Well Log Analysis, Correlation and Interpretation
- Laboratory Services
- Ecological and Environmental Engineering
- Decommissioning (Abandonment) and Reclamation
- Well Site Geology
- Project Management and Engineering
- Source Rock Analysis
- Petrophysical Analysis
- Geochemical Analysis
- Drilling Supervision
- Development Evaluation
- Project Accounting and Professional Services
- Other Data Processing

2.7.3 The cost of services performed with the approval of Operator by the technical and professional staffs (to include officers, contractors or consultants) of the Non-Operators and the Affiliates of the respective Non-Operators, including the cost to such Affiliates and Non-Operators of their respective secondees, shall be chargeable to the Joint Account. The individual rates shall include salaries and wages of such technical and professional personnel and secondees, lost time, governmental assessments, and employee benefits. Costs shall also include all support costs necessary for such technical and professional

personnel to perform such services, such as, but not limited, to rent, utilities, support staff, drafting, telephone and other communication expenses, computer support, supplies, depreciation, and other reasonable expenses that are not covered under Section 3.3.

2.7.4 A Non-Operator shall bill Operator for direct costs of services and of secondees charged under the provisions of Section 2.7.3 on or before the last Day of each month for charges for the preceding month, to which charges Non-Operator shall not add an administrative overhead rate. Within 30 Days after receipt of a bill for such charges, Operator shall pay the amount due thereon.

2.7.5 The charges for services under Section 2.7.2 and Section 2.7.3 shall not exceed those currently prevailing if performed by non-affiliated third parties, considering the quality and availability of such services.

2.8 **Insurance.**

Premiums paid for insurance required by law, the Contract or the Agreement to be carried for the benefit of the Joint Operations.

2.9 **Damages and Losses to Property.**

2.9.1 All costs or expenditures necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause shall be chargeable to the Joint Account. Operator shall furnish Non-Operators written notice of damages or losses incurred in excess of U.S. \$25,000.00 as soon as practical after report of the same has been received by Operator. All losses in excess of U.S. \$ 25,000.00 shall be listed separately in the monthly statement of costs and expenditures.

2.9.2 Credits for settlements received from insurance carried for the benefit of Joint Operations and from others for losses or damages to Joint Property or Materials shall be chargeable to the Joint Account. Each Party shall be credited with its Participating Interest share thereof except where such receipts are derived from insurance purchased by Operator for less than all Parties in which event such proceeds shall be credited to those Parties for whom the insurance was purchased in the proportion of their respective contributions toward the insurance coverage.

2.9.3 Expenditures incurred in the settlement of all losses, claims, damages, judgments, and other expenses for the account of Joint Operations shall be chargeable to the Joint Account.

2.10 **Litigation, Dispute Resolution and Associated Legal Expenses.**

The costs and expenses of litigation, dispute resolution and associated legal services necessary for the protection of the Joint Operations under the Agreement as follows:

2.10.1 Legal services, other than those provided by the Parties or their Affiliate employees, necessary or expedient for the protection of the Joint Operations, and all costs and expenses of litigation, arbitration or other alternative dispute

resolution procedure, including reasonable attorneys' fees and expenses, together with all judgments obtained against the Parties or any of them arising from the Joint Operations.

2.10.2 If the Parties agree, litigation, arbitration or other alternative dispute resolution procedures resulting from actions or claims affecting the Joint Operations hereunder may be handled by the legal staff of one or any of the Parties or their respective Affiliates; and a charge commensurate with the reasonable costs of providing and furnishing such services rendered may be made by the Party or its Affiliates providing such service to Operator for the Joint Account.

2.11 Taxes and Duties.

All taxes, duties, assessments and governmental charges, of every kind and nature, assessed or levied upon or in connection with the Joint Operations, other than any that are measured by or based upon the revenues, income and net worth of a Party.

If Operator or an Affiliate is subject to income or withholding tax as a result of services performed at cost for the operations under the Agreement, its charges for such services may be increased (grossed up) by the amount of such taxes incurred.

2.12 Ecological and Environmental.

Actual costs incurred on the Joint Property as a result of statutory regulations for archaeological and geophysical surveys relative to identification and protection of cultural resources and/or other environmental or ecological surveys as may be required by any regulatory authority. Also, costs to provide or have available pollution containment and removal equipment plus costs of actual control, clean up and remediation resulting from responsibilities associated with Hydrocarbon contamination as required by all applicable laws and regulations.

2.13 Decommissioning (Abandonment) and Reclamation.

Actual costs incurred for decommissioning (abandonment) and reclamation of the Joint Property, including costs required by governmental or other regulatory authority or by the Contract.

2.14 Other Expenditures.

Any other costs and expenditures incurred by Operator for the necessary and proper conduct of the Joint Operations in accordance with approved Work Programs and Budgets or as otherwise specified in the Agreement and not covered in Section 2 or in Section 3.

SECTION 3
INDIRECT CHARGES

3.1 Purpose.

Operator shall charge the Joint Account quarterly for the cost of indirect services and related office costs of Operator and its Affiliates not otherwise provided in this Accounting Procedure, and Pirity shall do the same. Indirect costs chargeable under Section 3 represent the cost of general assistance and support services provided by Operator and its Affiliates and Pirity. These costs are such that it is not practical to identify or associate them with specific projects but are for services which provide the Joint Operations with needed and necessary resources which Operator requires and provide a real benefit to Joint Operations. No cost or expenditure included under Section 2 shall be included or duplicated under Section 3. The charges under Section 3 are not subject to audit under Sections 1.8.1 and 1.8.2 other than to verify that the overhead percentages are applied correctly to the expenditure basis.

3.2 Amount for Operator.

3.2.2 Unless exceeded by the minimum assessment under Section 3.2.3, the aggregate Year-to-Date indirect charges shall be a percentage of the Year-to-Date expenditures, calculated on the following scale (U.S. Dollars) and shall be reduced pro rata for periods of less than a year:

Annual Expenditures

\$0 to \$ 2,000,000.00 of expenditures = 4%

Next \$ 3,000,000.00 of expenditures = 3%

Excess above \$ 5,000,000.00 of expenditures = 2%

3.2.3 A minimum amount of U.S. \$ 120,000.00 shall be assessed each Calendar Year calculated from the Effective Date and shall be reduced pro rata for periods of less than a year.

3.2.4 Indirect Charge for Projects.

As to major projects (such as, but not limited to, pipelines, gas reprocessing and processing plants, final loading and terminalling facilities, and dismantling for decommissioning of platforms and related facilities) when the estimated cost of each project amounts to more than U.S. \$ 2,500,000.00, a separate indirect charge for such project shall require approval of the Operating Committee at the time of approval of the project.

3.3 Amount for Pirity.

3.3.2 Unless exceeded by the minimum assessment under Section 3.3.3, the aggregate Year-to-date indirect charges shall be a percentage of the Year-to-date expenditures, calculated by replacing each percentage applied on the scale

under Section 3.2.2 (U.S. Dollars), with one percent (1%), and shall be reduced pro rata for periods of less than a year.

3.3.3 A minimum amount of U.S. \$ 60,000.00 shall be assessed each Calendar Year calculated from the Effective Date and shall be reduced pro rata for periods of less than a year.

3.3.4 Indirect Charge for Projects.

As to major projects (such as, but not limited to, pipelines, gas reprocessing and processing plants, final loading and terminalling facilities, and dismantling for decommissioning of platforms and related facilities) when the estimated cost of each project amounts to more than U.S. \$ 2,500,000.00, a separate indirect charge for such project shall require approval of the Operating Committee at the time of approval of the project.

3.4 Exclusions.

The expenditures used to calculate the monthly indirect charge shall not include the indirect charge (calculated either as a percentage of expenditures or as a minimum monthly charge), rentals on surface rights acquired and maintained for the Joint Account, guarantee deposits, pipeline tariffs, concession acquisition costs, bonuses paid in accordance with the Contract, royalties and taxes on production or revenue to the Joint Account paid by Operator, expenditures associated with major construction projects for which a separate indirect charge is established hereunder, payments to third parties in settlement of claims, and other similar items.

Credits arising from any government subsidy payments, disposition of Material, and receipts from third parties for settlement of claims shall not be deducted from total expenditures in determining such indirect charge.

**SECTION 4
ACQUISITION OF MATERIAL**

4.1 Acquisitions.

Materials purchased for the Joint Account shall be charged at net cost paid by the Operator. The price of Materials purchased shall include, but shall not be limited to export broker's fees, insurance, transportation charges, loading and unloading fees, import duties, license fees, and demurrage (retention charges) associated with the procurement of Materials and applicable taxes, less all discounts taken.

4.2 Materials Furnished by Operator.

Materials required for operations shall be purchased for direct charge to the Joint Account whenever practicable, except the Operator may furnish such Materials from its stock under the following conditions:

4.2.1 New Materials (Condition "A").

New Materials transferred from the warehouse or other properties of Operator shall be priced at net cost determined in accordance with Section 4.1 as if Operator had purchased such new Material just prior to its transfer.

Such net costs shall in no event exceed the then current market price.

4.2.2 Used Materials (Conditions "B" and "C").

4.2.2.1 Material which is in sound and serviceable condition and suitable for use without repair or reconditioning shall be classed as Condition "B" and priced at 75% of such new purchase net cost at the time of transfer.

4.2.2.2 Materials not meeting the requirements of Section 4.2.2.1, but which can be made suitable for use after being repaired or reconditioned, shall be classed as Condition "C" and priced at 50% of such new purchase net cost at the time of transfer. The cost of reconditioning shall also be charged to the Joint Account provided the Condition "C" price, plus cost of reconditioning, does not exceed the Condition "B" price; and provided that Material so classified meet the requirements for Condition "B" Material upon being repaired or reconditioned.

4.2.2.3 Material, which cannot be classified as Condition "B" or Condition "C", shall be priced at a value commensurate with its use.

4.2.2.4 Tanks, derricks, buildings, and other items of Material involving erection costs, if transferred in knocked-down condition, shall be graded as to condition as provided in Section 4.2.2, and priced on the basis of knocked-down price of like new Material.

4.2.2.5 Material including drill pipe, casing and tubing, which is no longer useable for its original purpose but is useable for some other purpose, shall be graded as to condition as provided in Section 4.2.2. Such Material shall be priced on the basis of the current price of items normally used for such other purpose if sold to third parties.

4.3 Premium Prices.

Whenever Material is not readily obtainable at prices specified in Sections 4.1 and 4.2 because of national emergencies, strikes or other unusual causes over which Operator has no control, Operator may charge the Joint Account for the required Material at Operator's actual cost incurred procuring such Material, in making it suitable for use, and moving it to the Contract Area, provided that notice in writing, including a detailed description of the Material required and the required delivery date, is furnished to Non-Operators of the proposed charge at least 30 Days before the Material is projected to be needed for operations and prior to billing Non-Operators for such Material the cost of which exceeds U.S. \$ 25,000.00. Each Non-Operator shall have the right, by so electing and notifying Operator within 15 Days after receiving notice from Operator, to furnish in

kind all or part of his share of such Material per the terms of the notice which is suitable for use and acceptable to Operator both as to quality and time of delivery. Such acceptance by Operator shall not be unreasonably withheld. If Material furnished is deemed unsuitable for use by Operator, all costs incurred in disposing of such Material or returning Material to owner shall be borne by the Non-Operator furnishing the same unless otherwise agreed by the Parties. If a Non-Operator fails to properly submit an election notification within the designated period, Operator is not required to accept Material furnished in kind by that Non-Operator. If Operator fails to submit proper notification prior to billing Non-Operators for such Material, Operator shall only charge the Joint Account on the basis of the price allowed during a "normal" pricing period in effect at time of movement.

4.4 Warranty of Material Furnished by Operator.

Operator does not warrant the condition or fitness for the purpose intended of the Material furnished. In case defective Material is furnished by Operator for the Joint Account, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

**SECTION 5
DISPOSAL OF MATERIALS**

5.1 Disposal.

Operator shall be under no obligation to purchase the interest of Non-Operators in new or used surplus Materials. Operator shall have the right to dispose of Materials but shall advise and secure prior agreement of the Operating Committee of any proposed disposition of Materials having an original cost to the Joint Account either individually or in the aggregate of U.S. \$ 25,000.00 or more. When Joint Operations are relieved of Material charged to the Joint Account, Operator shall advise each Non-Operator of the original cost of such Material to the Joint Account so that the Parties may eliminate such costs from their asset records. Credits for Material sold by Operator shall be made to the Joint Account in the month in which payment is received for the Material. Any Material sold or disposed of under this Section 5 shall be on an "as is, where is" basis without guarantees or warranties of any kind or nature. Costs and expenditures incurred by Operator in the disposition of Materials shall be charged to the Joint Account.

5.2 Material Purchased by a Party or Affiliate.

Proceeds received from Material purchased from the Joint Property by a Party or an Affiliate thereof shall be credited by Operator to the Joint Account, with new Material valued in the same manner as new Material under Section 4.2.1 and used Material valued in the same manner as used Material under Section 4.2.2, unless the value is disputed by a Party, in which case the Parties must first agree before any such sale.

5.3 Sales to Third Parties.

Proceeds received from Material purchased from the Joint Property by third parties shall be credited by Operator to the Joint Account at the net amount collected by Operator from the buyer. If the sales price is less than the value determined in accordance with the procedure set forth in Section 5.2, then approval by the Parties shall be required

prior to the sale. Any claims by the buyer for defective materials or otherwise shall be charged back to the Joint Account if and when paid by Operator.

SECTION 6 INVENTORIES

6.1 Periodic Inventories - Notice and Representation.

At reasonable intervals, but at least annually, inventories shall be taken by Operator of all Material held in warehouse stock on which detailed accounting records are normally maintained. The expense of conducting annual inventories shall be charged to the Joint Account. Operator shall furnish each Non-Operator with a reconciliation of overages and shortages. Inventory adjustments to the Joint Account shall be made for overages and shortages. Any adjustment equivalent to U.S. \$ 25,000.00 or more shall be brought to the attention of the Operating Committee.

6.2 Special Inventories.

Whenever there is a sale or change of a Participating Interest in the Agreement, a special inventory may be taken by the Operator provided the seller and/or purchaser of such interest agrees to bear all of the expense thereof. In such cases, both the seller and the purchaser shall be entitled to be represented and shall be governed by the inventory so taken.

JOINT OPERATING AGREEMENT

EXHIBIT B

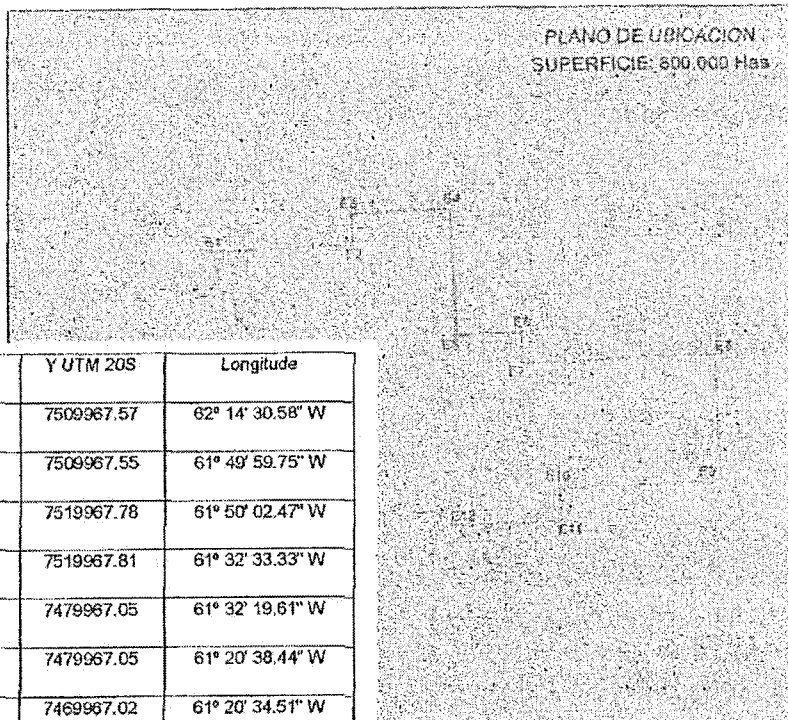
CONTRACT AREA

EXHIBIT "B"

CONTRACT AREA

Attached to and made part of the Operating Agreement, hereinafter called the "Agreement," effective as of the 29 day of October, 2012, by and between Pirity Hidrocarburos S.R.L. and President Energy Paraguay S.A.

Lands in Paraguay designated as "Bloque Pirity" under the Contract



Coordinates	X UTM 20S	Latitude	Y UTM 20S	Longitude
E-1	577978.46	22° 30' 53.04" S	7509967.57	62° 14' 30.58" W
E-2	620005.02	22° 30' 44.25" S	7509967.55	61° 49' 59.75" W
E-3	620005.07	22° 25' 19.09" S	7519967.78	61° 50' 02.47" W
E-4	650006.11	22° 25' 10.57" S	7519967.81	61° 32' 33.33" W
E-5	650006.35	22° 46' 51.03" S	7479967.05	61° 32' 19.61" W
E-6	670007.11	22° 46' 44.18" S	7479967.05	61° 20' 38.44" W
E-7	670006.99	22° 52' 09.25" S	7469967.02	61° 20' 34.51" W
E-8	730009.54	22° 51' 43.46" S	7469966.96	60° 45' 30.12" W
E-9	750009.62	23° 13' 23.27" S	7429966.15	60° 45' 08.57" W
E-10	680007.42	23° 13' 45.68" S	7429966.38	61° 14' 26.85" W
E-11	680007.38	23° 19' 10.72" S	7419966.16	61° 14' 22.58" W
E-12	646694.81	23° 19' 22.68" S	7419966.04	61° 33' 55.08" W

JOINT OPERATING AGREEMENT

EXHIBIT C

TAX PARTNERSHIP AGREEMENT

EXHIBIT "C"

TAX PARTNERSHIP AGREEMENT

Attached to and made part of the Operating Agreement, hereinafter called the "Agreement," effective as of the 29 day of October, 2012, by and between Purity Hidrocarburos S.R.L. and President Energy Paraguay S.A.

Bloque Purity United States Tax Partnership Agreement

This United States Tax Partnership Agreement ("Tax Partnership Agreement") is entered into as of September 11, 2012 by and among PIRITY Hidrocarburos S.R.L., a company organized and existing under the laws of Paraguay ("Purity") and PRESIDENT ENERGY PARAGUAY S.A., a company organized and existing under the laws of Paraguay ("PEP") (collectively, the "Parties" and each a "Party").

RECITALS:

A. Purity and PRESIDENT PETROLEUM COMPANY, P.L.C., a company organized and existing under the laws of England & Wales and the parent company of PEP, have entered into that certain International Farmout Agreement, dated as of September 11, 2012 (the "Farmout Agreement"), pursuant to which PEP can earn an interest in the Contract (as defined in the Farmout Agreement) in exchange for PEP's satisfaction of certain obligations described therein.

B. On 29 October 2012 the Parties entered into a Joint Operating Agreement (the "JOA," and together with the Farmout Agreement, the "Base Agreements") to govern the operations of the Parties in the Contract Area (as defined in the Farmout Agreement).

C. The Parties desire to acknowledge and agree that, solely for United States tax purposes and for no other purposes, the Parties intend that the relationship among the Parties to be classified as a foreign partnership.

NOW, THEREFORE, in consideration of the agreements contained herein and certain other good and valuable consideration, the parties hereto acknowledge and agree as follows:

**ARTICLE I
SCOPE AND PURPOSE; DEFINITIONS**

Section 1.1 Scope and Purpose. This Tax Partnership Agreement sets forth certain operating rules because (i) solely for United States federal, and if applicable, state tax purposes (collectively, "United States tax purposes"), the relationship among the Parties under the Base Agreements is intended to constitute a foreign partnership (the "Tax Partnership") that, as an entity, will be deemed to own or have the use of the various assets with respect to which the Bloque Purity Activities (hereafter defined) are conducted and to realize all receipts and incur all costs and losses related thereto, while (ii) for all other purposes, the relationship among the

Parties under the Base Agreements is intended to constitute a contractual arrangement pursuant to which some of the Parties own interests in the various assets with respect to which the Bloque Pirity Activities are conducted and individually realize receipts or incur costs and losses with respect thereto as provided in the Base Agreements. This Tax Partnership Agreement is not intended to create, nor shall the same be construed as creating, any partnership, joint venture or other relationship or entity that is subject to recognition as such for any purpose other than United States tax purposes or, except as provided in the Base Agreements, otherwise renders any Party liable for debts or obligations of any other Party. References herein to the Tax Partnership as an entity or to contributions, receipts, income, gains, distributions, costs, losses or deductions of the Tax Partnership are intended solely to reflect the fact that, for United States tax purposes, the Tax Partnership is considered to be a partnership and those items are deemed to have been realized by the Tax Partnership as an entity, and such references shall not be interpreted in a manner inconsistent with the foregoing.

Section 1.2 Definitions. All capitalized terms used herein, and not otherwise defined herein, shall have the meanings assigned to them in the Base Agreements, or as follows:

(a) **Bloque Pirity Activities**

“Bloque Pirity Activities” shall mean the activities of the Parties pursuant to the Base Agreements with respect to the Contract and the assets in the Contract Area, including without limitation the production of hydrocarbons from the Contract Area, the funding of activities in the Contract Area by the Parties pursuant to the Base Agreements, and the sharing among the Parties of certain revenues from the sale of hydrocarbons produced from the Contract Area.

(b) **Code**

“Code” shall mean the Internal Revenue Code of 1986, as amended.

(c) **Fiscal Year**

“Fiscal Year” shall mean the annual accounting and tax reporting period for the Tax Partnership as specified in Section 4.3 hereof.

(d) **Tax Matters Party**

“Tax Matters Party” shall mean the Party designated in Section 4.2 as the “tax matters partner,” for purposes of section 6231(a)(7) of the Code.

(e) **Treasury Regulations**

“Treasury Regulations” shall mean the regulations promulgated by the United States Department of Treasury pursuant to and in respect of the Code. All references herein to sections of the Regulations shall include any corresponding provision or provisions of succeeding, similar, substitute or temporary regulations.

Section 1.3 Term and Termination of Tax Partnership. The Tax Partnership shall come into existence upon the date of execution of the Base Agreements and shall continue in full force and effect from and after such date until the first to occur of the following: (a) the termination of the Base Agreements, or (b) such time as the Parties mutually agree to the termination of the Tax Partnership.

ARTICLE II REFLECTION OF ACTIVITIES FOR UNITED STATES TAX PURPOSES

Section 2.1 Entity Level Reflection of Activities. For United States tax purposes, but for no other purpose, all Bloque Pirity Activities shall be deemed to have been effected through the Tax Partnership, rather than by the Parties individually, as set out in this Article II.

Section 2.2 Receipts, Profits, Income and Gains. For purposes of applying the provisions of this Tax Partnership Agreement, all receipts by any Party in respect of the Contract or the assets in the Contract Area pursuant to the Base Agreements shall be deemed first to have been received by the Tax Partnership and then to have been distributed to such Party by the Tax Partnership in the manner specified in the Base Agreements. All such items shall be taken into account in the allocations provided for in Article III hereof.

Section 2.3 Costs, Expenses, Deductions and Losses. For purposes of applying the provisions of this Tax Partnership Agreement, all costs incurred or payments made by any Party in respect of the Contract or the assets in the Contract Area pursuant to the Base Agreements shall be deemed first to have been received by the Tax Partnership as a contribution by the Party incurring the cost or making the payment pursuant to the terms of the Base Agreements and then to have been paid, incurred or distributed by the Tax Partnership to the payee or obligee of the cost or the recipient of the payment. All such items shall be taken into account in the allocations provided for in Article III hereof.

Section 2.4 Contributions. For purposes of applying the provisions of this Tax Partnership Agreement, upon formation of the Tax Partnership, Pirity shall be treated as contributing to the Tax Partnership the Contract. Each Party shall be treated as contributing to the Tax Partnership all costs incurred, liabilities assumed, or payments made by the Parties in respect of the Contract, the assets in the Contract Area, or otherwise pursuant to the Base Agreements.

Section 2.5 Distributions. For purposes of applying the provisions of this Tax Partnership Agreement, all receipts by such Party in respect of the Contract or the assets in the Contract Area pursuant to the Base Agreements shall be treated as a distribution by the Tax Partnership to such Party.

Section 2.6 Debt Financing. For purposes of applying the provisions of this Tax Partnership Agreement, unless the Parties agree otherwise and this Tax Partnership Agreement is amended to reflect such agreement, (a) all debt financing incurred by a Party shall be for the sole account of that Party and shall not be considered debt financing of the Tax Partnership, and (b) no Tax Partnership asset shall be acquired by assumption of, or taking subject to, any debt financing.

Section 2.7 Record Title. For purposes of applying the provisions of this Tax Partnership Agreement (a) legal title to the Contract or the assets in the Contract Area held by any Party shall be deemed to be held by such Party strictly as nominee for the Tax Partnership, and (b) for U.S. Federal Tax purposes only all assignments made among the Parties with respect to the Contract or the assets in the Contract Area prior to termination of the Tax Partnership shall be disregarded.

ARTICLE III ALLOCATIONS OF PROFIT AND LOSS

Section 3.1 Allocation Of Book Items. All items of income, gain, deduction, loss and credit realized by the Tax Partnership during each Fiscal Year, as reflected on the books and records of the Tax Partnership, shall be allocated among the Parties in accordance with their respective "partner's interest in the partnership" with respect to the Tax Partnership, as determined under Section 704(b) of the Code and Treasury Regulations Section 1.704-1(b)(3). The Parties agree that except as otherwise provided in the Treasury Regulations, allocations made among the Parties in accordance with this Section 3.1 shall be made as follows:

(a) All items of income or gain arising from the sale or disposition of oil, gas or other hydrocarbon substances from the Contract Area shall be allocated to the Parties in the proportion that the Parties share in the revenue giving rise to such items under the Base Agreements.

(b) All items of income or gain realized upon the sale or other taxable disposition of all or part of the Contract or any asset in the Contract Area shall be allocated to the Parties in the same ratios in which they share the portion of the revenue giving rise to such income or gain under the Base Agreements.

(c) All items of deduction or loss realized upon the sale, other taxable disposition, abandonment or worthlessness of all or part of the Contract or any asset in the Contract Area shall be allocated to the Parties in accordance with their relative contributions to the cost basis of such asset.

(d) All items of deduction or loss resulting from the depletion or depreciation of the Contract or any asset in the Contract Area shall be allocated to the Parties in the same ratio in which the costs or basis giving rise to such allowances were borne or provided by the Parties.

(e) All items of deduction or loss with respect to exploration and development expenses or costs (including without limitation intangible drilling and development costs) shall be allocated to the Parties in accordance with their contribution to such costs.

(f) All items of loss, deduction or credit not falling within any other subsection of this Section 3.1 shall be allocated to and accounted for by each Party in accordance with its respective contribution to the asset or the costs and expenses to which such items relate.

(g) All items of income and gain not falling within any other subsection of this Section 3.1 shall be allocated to and accounted for by each Party in the proportion that the Parties share in the revenue giving rise to such items under the Base Agreements.

Section 3.2 Allocation Of Tax Items.

(a) Except as otherwise required by Section 704(c) of the Code and the Treasury Regulations thereunder, each item of income, gain, loss, deduction and credit computed for United States federal income tax purposes shall be allocated among the Parties in the same manner as each correlative item of income, gain, loss, deduction or credit is allocated pursuant to the provisions of Section 3.1 hereof. The selection of one or more methods of allocating tax items under Section 704(c) of the Code and the Treasury Regulations thereunder shall be made in the sole discretion of the Tax Matters Party.

(b) The deduction for depletion for United States federal income tax purposes with respect to each separate oil and gas property (as defined in Section 614 of the Code) included in the Contract Area shall be computed separately by each Party rather than by the Tax Partnership; and for purposes of such computation, each Party shall be considered to own, and shall be allocated, its proportionate share of the adjusted basis in each such property as determined under Section 613A(c)(7)(D) of the Code and applicable Treasury Regulations.

(c) Allocations made pursuant to this Section 3.2 are solely for United States tax purposes.

ARTICLE IV OTHER TAX AND RELATED MATTERS

Section 4.1 United States Tax Returns and Elections.

The Parties expect that their respective activities shall not cause the Tax Partnership to realize taxable gross income from sources within the United States or to realize gross income which is effectively connected with the conduct of a trade or business within the United States, and that therefore the Tax Partnership will not be required to file United States information returns and no reporting shall be required or made with respect to any Party's (provided such Party is not otherwise subject to United States taxation) distributive share of the income, gain, loss, deduction or credit in respect of its interest in the Tax Partnership, except to the extent necessary to make any U.S. federal income tax elections, including the elections provided for in Section 4.1(b). The Parties agree that all reporting and record keeping required under the Code in respect of the Party's interest in the Tax Partnership or its United States tax items shall be effected solely by the Tax Matters Party.

Section 4.2 Tax Matters Party.

To the extent necessary or appropriate for the Tax Partnership to have a "tax matters partner" within the meaning of section 6231(a)(7) of the Code, Pirity is hereby designated the Tax Matters Party.

Section 4.3 Fiscal Year.

The Fiscal Year (herein so called) of the Tax Partnership shall be the calendar year.

**ARTICLE V
MISCELLANEOUS PROVISIONS**

Section 5.1 Assignment. Each Party's rights and obligations under this Tax Partnership Agreement shall be assigned to or assumed by any party succeeding to its rights or obligations, in whole or in part, under the Base Agreements.

Section 5.2 Counterparts. This Tax Partnership Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts together shall constitute and be one and the same instrument.

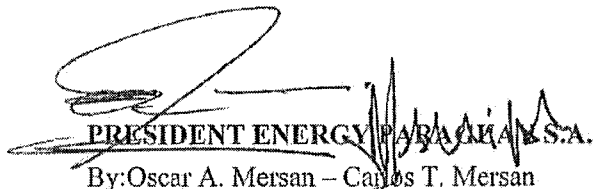
Section 5.3 Headings. The headings of the Sections of this Tax Partnership Agreement have been inserted for convenience of reference only and shall in no way restrict or otherwise modify any of the terms or provisions hereof.

Section 5.4 Amendments, Supplements, etc. Neither this Tax Partnership Agreement nor any of the terms hereof may be amended, supplemented, waived or modified orally, except by an instrument in writing signed by the Parties.

Section 5.5 Legal Enforceability. Any provision of this Tax Partnership Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining portions hereof. Any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. Upon any such determination that a provision of this Tax Partnership Agreement is prohibited or unenforceable in whole or part, the court or arbitral panel making such determination shall have the power to modify such invalidated provision so as to effect the original intent of the parties as closely as possible.

Section 5.6 Notices. All notices, requests, claims, demands and other communications under this Tax Partnership Agreement shall be in writing and shall be deemed given if delivered personally or sent by facsimile transmission or overnight courier (providing proof of delivery) to the Parties at the address for the Party specified in the Farmout Agreement.

IN WITNESS WHEREOF, the Parties have caused this Tax Partnership Agreement to be duly executed by their duly authorized officers as of the day and year first above written.



PRESIDENT ENERGY PARAGUAY S.A.

By: Oscar A. Mersan – Carlos T. Mersan

Title: President and Director

Date: October.....2012.-



PIRITY HIDROCARBUROS S.R.L

By: Luis Peters

Title: General Manager

Date: October, 2012.-

Schedule 7.1

Farmor Disclosure Schedule

The following are exceptions to the representation set forth in Section 7.1.G:

- in the case of LCH, as provided under decision number 2,406 of the Administrative Chamber of the Paraguayan Supreme Court ("Corte Suprema de Justicia, Sala Penal") rendered on August 10, 2012 (full details of which have been disclosed to Farmee), the appeals against decision number thirty eight (38) of the lower court (full details of which have been disclosed to Farmee) have been extinguished, a decision which is final and binding on LCH and not subject to any right of appeal; and
- in the case of Dr Fernando Wiens and Lic. Arnold Klassen, as expressly provided under the Third Party ORRI, full details of which have been disclosed in writing to Farmee.

Schedule 7.2

Farmee Disclosure Schedule

Farmee declares no exceptions to the representation set forth in Section 7.2.

JOINT OPERATING AGREEMENT

SCHEDULE D-1

WORK PROGRAM TIMELINE

Schedule D-1

Work Program Timeline

Year	Activity Month	Seismic Acquisition	Seismic Processing	Prospect generation	2013,14,15 Drilling +	Project Account Deposits ++	PI % +++
2012	Sept					US\$ 0.5m	
	Oct	clearing					
	Nov						
	Dec					US\$ 9.5m +	
2013	Jan	Rain				30 Days	
	Feb						
	Mar	Los Naranjos					
	Apr	3D					
	May						
	Jun	Rain	Los Naranjos				
	Jul	3D	processing				
	Aug	(1 & 2)					US\$ 10m
	Sept		limited 1 & 2 processing				
	Oct			build Prospect Inventory			
	Nov					Drilling Window	
	Dec	Rain				Exp. Well 1	Latest 30 Days
2014	Jan			CPR			
	Feb						
	Mar					US\$ 10m	
	Apr					30 Days	
	May						
	Jun					Exp. Well 2	
	Jul						
	Aug						
	Sept						
	Oct						
	Nov						
	Dec	Rain					US\$ 10m
2015	Jan					30 Days	
	Feb						
	Mar						
	Apr						
	May						
	Jun						11.8% WI
TOTAL						US\$ 40m	47.2% WI

+ Farmee selects well locations after full consultation with Farmor.

++ Except for the timing of the Line Clearing Payment, not less than thirty (30) days prior to the commencement of each Work Program Obligation, Farmee shall deposit in the Project Account, by wire transfer of immediately available funds, the sum described in Exhibit D.

+++ Within ten (10) days of the full and complete satisfaction, or waiver of the Conditions Precedent set out in Article 3 and Farmee's full satisfaction of the applicable Earning Obligations, Farmor and Farmee shall cause the Escrow Agent to deliver to Farmee the relevant Assignment(s) in the manner and in accordance with the terms, conditions and milestones set forth in Exhibit D.

Many dates used to create this Timeline are milestones described in Exhibit D and may not reflect the Parties' desire to complete the Work Program in the most expeditiously prudent manner possible.

JOINT OPERATING AGREEMENT

SCHEDULE D-2

SEISMIC PROGRAM

Schedule D-2.1

Seismic Program*

Total Budget:	US \$10,000,000
Minimum under Contract	100Km 2D
Minimum under this FOA	500Km 2D
Budget Management	AFE / Op Com
Line Clearing:	Begins October, 2012
Line Clearing Method:	GPS guided Bulldozers
Seismic Acquisition:	Begins March 1, 2012
Seismic Acquisition Method:	Vibrasize Trucks
Total 3D Collection (in Km):	Up to 600Km
Total Los Naranjos 3D:	Up to 300Km
Los Naranjos Start Date:	March 1, 2013
Los Naranjos Processing Start Date:	June 1, 2013
Total Jurumi 3D:	Up to 300Km
Jurumi Start Date:	June 1, 2013
Jurumi Processing Start Date:	September 1, 2013
Total 2D Collection (in Km):	Up to 400Km
Total Los Naranjos 2D:	Up to 200Km
Los Naranjos Start Date:	TBD
Los Naranjos Processing Start Date	TBD
Total Jurumi 2D:	Up to 200Km
Jurumi Start Date:	September 1, 2013
Jurumi Processing Start Date:	December 1, 2013
Prospect Ranking / Inventory Analysis	
Start:	August 1, 2013
CPR to be commissioned following interpretation	TBD
Additional Seismic to identify Cretaceous leads	TBD
Additional Seismic to explore the Palaeozoic fairway	TBD

* Certain Seismic Program plans and specifications provided in this Schedule D-2.1 that exceed the Minimum Work Obligations under the Contract may change, subject to the terms and conditions of the Agreement, Exhibit D thereto and the IOA. It is expressly understood by the Parties that Farnec shall consult with Farnor about any changes to: the extent and place of use of 3D seismic technology; the extent

and place of use of 2D seismic technology; the placement of seismic lines; the choice of data acquisition vendors; the choice of data processing vendors; the choice of processing methods and all other operational matters related to the Seismic Program, provided however, that in the event the Parties do not agree on any one or all of the foregoing, subject to the terms and conditions of the Agreement, Exhibit D thereto and the JOA, Farmec's vote shall prevail.

Select Seismic Program Details

Joint Design

The Parties shall jointly design a seismic survey comprising 3D and 2D seismic data within the Pirity Contract Area in accordance with the terms of this Agreement. President shall act as Operator of a Seismic Program that shall assess both; i) the general exploration potential of the Contract Area and ii) to define a ranked prospect inventory of drillable prospects from which the Parties will high grade and select initial drilling locations. Operator shall share all of their Seismic work product with Farmor in a timely and ongoing manner so that Farmor maintains a voice in the process.

Details

The Seismic Program shall be principally acquired over the Los Naranjos and Jurumi Prospect Areas as defined by Schlumberger Data and Consulting Services, Phase I Final Report dated March 10, 2009 prepared for Petro-Victory.

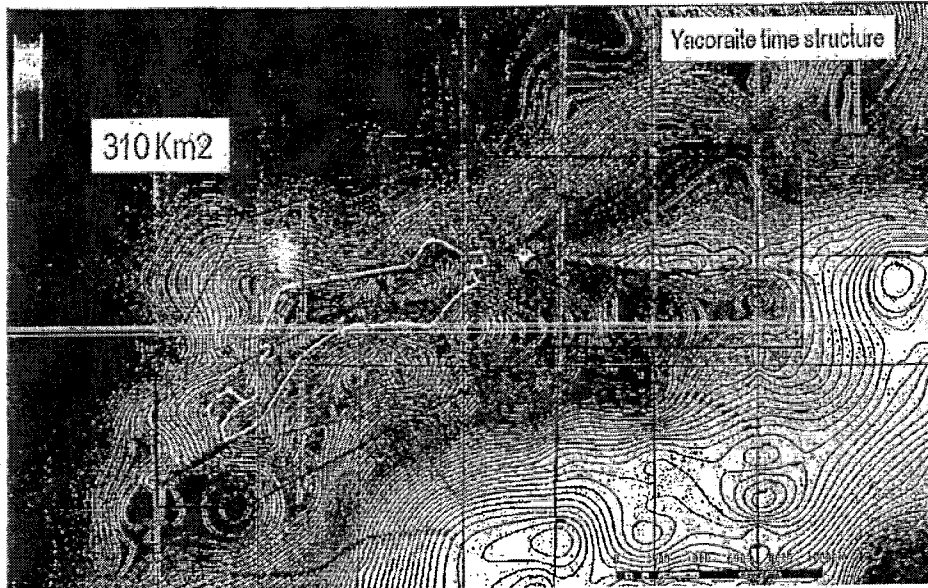
The Seismic Program includes all procedures up to the point that Operator delivers a "Fully Migrated" and processed data set to the Parties. For the purposes of this FOA, "Fully Migrated" means that the data shall be fully migrated in the pre-stack time domain ("PSTM") and that for areas of 3D seismic coverage, there shall be sufficient migration fringe or halo around the structural crest of those prospect areas to account for inward movement of dipping reflectors and focussing of seismic amplitudes dispersed over Fresnel zones during 3D migration.

Once Operator has delivered the PSTM Fully Migrated and processed data set, the Parties shall decide whether additional reprocessing is required before drilling begins. Examples of such additional reprocessing include: i) special seismic inversion techniques to identify potential porous reservoir rock properties; ii) fluid substitution techniques to identify fluid types and; iii) Pre Stack Depth Migration (PSDM) to improve the accuracy and confidence level for structural prospect identification. After full consultation between the Parties, Operator shall have sole discretion as to whether to incur additional reprocessing costs, as long as such costs do not exceed the initial AFE or Budget approved by the Operating Committee, or unless such expenditures are approved in accordance with the terms and conditions for AFEs for Overexpenditure as defined in the JOA.

Cooperation of the Parties

The Parties shall regularly and systematically jointly evaluate technical data with respect to the Seismic Program. Regular Technical Committee meetings shall be called by either Party to discuss, inter alia, all pre-drill geophysical exploration matters including but not limited to, seismic acquisition, seismic processing, prospect generation, prospect inventory development and selection of initial well locations.

Los Naranjos Seismic Area



Jurumi Seismic Area

