

CONTRACT FOR OPERATIONS OF PETROLEUM EXPLOITATION  
NUMBER SIX HYPHEN NINETY THREE (6-93) EXECUTED BETWEEN  
THE MINISTRY OF ENERGY AND MINES AND  
PENTAGON PETROLEUM, INC.

In the city of Guatemala the fifteenth (15th) day of October of nineteen hundred ninety three (1993), Engineer Jose Luis Terron Calderon, fifty-two (52) years of age, married, a native Guatemalan, Civil Engineer, at this address, as a representative of the Government of the Republic, acting in his capacity as Minister of Energy and Mines of the Ministry of Energy and Mines (hereinafter referred to as the "Ministry"), acknowledged that he is authorized to act in said capacity as set out in Government Agreement number two hundred eighteen (218) dated the first (1st) day of July of nineteen hundred ninety three (1993) and by certification of Act number thirty nine hyphen ninety three (39-93) dated the first (1st) day of July of nineteen hundred ninety three (1993) which certify that he took possession of said duty, on the one part, and on the other part Maria Galvez Salazar, thirty-nine (39) years of age, single, a native Guatemalan, Assessor of Businesses, at this address, acting in her capacity as Legal Representative of the entity Pentagon Petroleum, Inc., an Entity organized in accordance with the laws of the State of Louisiana, United States of America to certify which the First Original Testimony of Public Writing required by Protocol Mandate number eight (8), by authorization in this city of Notary Pedro Leonel Brolo Campos dated the sixteenth (16th) day of November of nineteen ninety two (1992), recorded in the General Archive of Protocol under number two hundred thousand forty-nine six hundred fifty-seven (249,657), dated the nineteenth (19) day of November of nineteen hundred ninety two (1992) and the Mercantile Registry under number fifteen thousand eight hundred and forty-five (15,845), folio two hundred twenty-one (221), of book fourteen (14) of Mandates, dated twenty fourth (24) of March of nineteen hundred and ninety three (1993) (hereinafter referred to as the "Contractor"). All of the related documents were seen before me and the responsibilities that are exercised are extensive and sufficiently comply with the Law of Hydrocarbons, Legal Decree number 109-83 and the decrees of the Ministry of Energy and Mines; numbers 671 and 1273 that textually say "BUSINESS OF MINISTRY OF ENERGY AND MINES: Guatemala, the twenty-second (22nd) day of June of nineteen hundred and ninety three (1993). ISSUE: the QUALIFICATION COMMITTEE, presents documentation and reports of qualification, for the final decree, with regard to the bid presented by PENTAGON PETROLEUM, INC.", in compliance with the

Call of Bids of the Government Agreement number 764-92 dated the 7th day of September of 1992 (9/7/92) to execute Contracts for Operations of Petroleum Exploration and Exploitation of Hydrocarbons from AREA A-3-92, 671. Witness here the report presented by the Qualification Committee of Bids identified in the paragraph and, WHEREFORE: That the following Government Accord number 764-92 dated the seventh day of September 1992 (9/7/92), call of bids was issued to all interested individuals or legal entities, nationals or foreigners, to offer bids for the execution of Contracts for Operations of Petroleum of Exploration and Exploitation, which areas include the blocks identified in Article 1 of the Agreement of this Ministry number 170-92 dated the 9th day of October 1992 (10/9/92). WHEREFORE: That the Article 11 of the Call of Bids of Agreement precepts that the bids will be received by the General Director of Hydrocarbons or in the alternative, by his General Sub-Director, at the Directory of Hydrocarbons of this Ministry on the dates established in Article nine (9) of Government Agreement number 883-92, the bid for Area A-3-92, already having been made by the entity Pentagon Petroleum, Inc., and taken its course and the respective requisites complied with, the Qualification Committee appointed for this purpose by Ministerial Agreement number OM-204-92 dated 27th day of November of 1992 (11/27/92), after corresponding analysis and content with the report concerning the technical-financial capacity of the bidder, presented to this Ministry, all of the documentation relative to the bid, as well as final reports relating to same. WHEREFORE: That in accordance with that set out in Article 12, 13 and 14 of the Call of Bids of Government Agreement number 764-92, the Qualification Committee analyzed the bid presented by the Pentagon Petroleum, Inc. company with respect to the basic minimum established in said Agreement, reaching the decision to recommend to this Ministry that the adjudication be approved in favor of the bidder. WHEREFORE: That in accordance with the precepts in Article 22 of the Government Agreement number 764-92, the Ministry of Energy and Mines did expressly reserve concerning its administrative authority to accept or reject the qualified bid. THEREFORE: In accordance with the clauses considered, reports presented, articles cited and, further, that set out in Articles 28 of the Call of Bids of Agreement for the Execution of Contracts for Operations for Petroleum Exploration and Exploitation of Hydrocarbons and 2, subparagraph b), of the Decree number 57-78 of the Congress of the Republic, modified by Legal Decree numbers 75-82, 86-63 and 106-83, this Ministry, upon resolution, DECLARES: I) That it accepts the bid presented by the PENTAGON PETROLEUM, INC. company, and as a consequence, it awards the blocks identified as LA-9-92, L-9-92, and L-10-92, that integrate the

Area of Contract A-3-92, which is the object of the call of bids and that comprises a surface area that totals ONE HUNDRED THIRTY THOUSAND ONE HUNDRED EIGHTY SIX AND TWENTY-NINE HUNDREDTHS HECTARES (130,186.29 hecs.), which description per block is set out in Article 1 of the Agreement of this Ministry number 170-92 dated the ninth day of October of 1992 (10/9/92). II) The time period set for sixty (60) days counting according to that set out in the Law of this Legal Organization, in order to execute the respective Contract for Exploitation, in accordance with the Model Contract approved in Government Agreement number 1226-87, dated the 28th day of December 1987 (12/28/87) and its modifications. III) That before signing the respective contract, PENTAGON PETROLEUM, INC. company should make effective the amount of ONE HUNDRED THOUSAND QUETZALES (Q. 100,000.00) in accordance with the rate for execution of the respective Contract for Exploitation, the same as the equivalent in quetzales of thirty five cents per United States of America Dollar (U.S. \$.0.35) for each complete hectare including the area of the contract, that amount to FORTY-FIVE THOUSAND FIVE HUNDRED SIXTY FIVE AND TWENTY CENTS IN UNITED STATES OF AMERICA CURRENCY (U.S. 45,565,20), in the General Directory for Internal Revenue of the Ministry of Public Finance, with a further duty to comply with presenting the guaranty that is referred to in Article 116 of the General Regulation of the Law of Hydrocarbons, modified by the Governmental Agreement number 753-92. IV) That the entity PENTAGON PETROLEUM, INC., shall comply with that established in Article 14, subparagraph a), Addendum 4, last paragraph of the Regulation of Call of Bids for the execution of the Contracts for Exploration and Exploitation of Hydrocarbons, at the latest within five days before the date established in order to begin operations and also in order to comply with the established date to initiate operations to further comply with Article 8 of the Law of Protection and Improvement of the Environment, Decree number 68-86 of the Congress of the Republic and its Amendments. Furthermore it shall be subject to the dispositions of the Law of Hydrocarbons, its General Regulations and other applicable laws. V) That before the execution of the contract, the PENTAGON PETROLEUM, INC. company shall prove with receipt of payment indicated in the previous point III) and to have established the respective guaranty, all of that by means of the presentation of the corresponding legal documents and also to show the draft of the respective contract in order to be analyzed. VI) NOTIFY the interested parties and the Department of the Office of the Auditor and Controller, in order to extend and give the orders of corresponding payments from the bidder to make them effective in the indicated manner in this decree. F) Illegible signature of Engineer Cesar Augusto Fernandez F., Minister of

Energy and Mines. F) Illegible signature of Lic. Leandro Raul Villatorro Resinos, Vice-Minister of Energy and Mines. Is on the seal that says: Ministry of Energy and Mines. Republic of Guatemala. Ministry of Energy and Mines, MINISTRY OF ENERGY AND MINES: Guatemala, seventh (7th) of October of 1993 (10/7/93). BUSINESS ISSUE: PENTAGON PETROLEUM, INC. requests renewal of the original term for execution of the Contract for Exploitation for Area A-3-92, 1273. I) Incorporate into the previous record that precedes: II) The term is renewed in order to execute the Contract for Exploitation for the Area A-3-92, until the fifteenth (15th) day of October of the year in course; the interested party, should present on the thirteenth (13th) day of the current, the description of the work to realize it as the contractual compromise, like the documentation that verifies the person of the Legal Representative of the entity. NOTIFICATION: F) Illegible signature of Engineer Jose Luis Terron Calderon, Minister of Energy and Mines F) Illegible signature of Engineer Larry Adrade Lara, Vice-Minister of Energy and Mines, is on the seal that says: Ministry of Energy and Mines, Republic of Guatemala. In virtue of this, the parties agree to execute the following CONTRACT FOR OPERATIONS OF PETROLEUM EXPLOITATION that hereinafter will be referred to as "Contract", containing the following clauses:

#### **FIRST CLAUSE**

#### **DEFINITIONS AND ABBREVIATIONS**

Further to the definitions and abbreviations set out in the Law of Hydrocarbons and in their General Regulation, the following will be used for the effects of this contract:

#### **DEFINITIONS**

ACCOUNTING ADDENDUM: Is the document added to this contract that is referred to in subparagraph a), of Article 66 of this Law.

PHASE OF DEVELOPMENT AND PRODUCTION OR PERIOD OF EXPLOITATION. Is the definition in the Sixth Clause of this Contract.

PHASE OF EVALUATION: Is that defined in the Sixth Clause subparagraph 6.1.1 of this contract.

#### **ABBREVIATIONS**

DOLLAR: Dollar of the United States of America.

GENERAL REGULATION: Is the General Regulation of the Law of Hydrocarbons.-

## SECOND CLAUSE

### OBJECT OF THE CONTRACT

2.1. The present contract is executed with the objective that the contractor perform the operation of exploitation in accordance with the approved programs, within the area of the contract, obtain the maximum recuperation of reserves of hydrocarbons of the petroleum fields discovered by the wells Las Casas 1-X and Huapa 1-X, and from wells that are to be discovered, which shall be produced at optimum rates of production, with the appropriate diligence to ensure the most benefit to the State in accordance with the Law, the regulations and this contract. The contractor shall be able to execute operations for exploitation within the area of the contract.

2.2. The contractor is bound to comply with the obligations set out in the present contract, proportioning for services and technical-financial resources that are required; and assume the obligations that are demanded of exploitation and/or exploration.

2.3. It remains expressly stipulated that the State does not assume for any reason, any risk or responsibility for the investments and operations of exploitation and/or exploration that are realized, nor for whatever unproductive result the same may have, even if the acts or deeds are the result of an action of the contractor authorized and approved by the Ministry or the Board of Directors.

2.4. It is understood between the parties that the value of the production of hydrocarbons and other associated substances, the determination of the recoverable costs, the remuneration of the contractor, the income that for whatever reason, belongs to the State, in compliance with the Law, its General Regulation and this contract; as well as the calculations involved shall be effectuated in dollars or its equivalent in national currency, and utilized for this purpose, in the corresponding rate of exchange.

2.5. The parties to this contract agree that the amounts specified in quetzales in Articles 34, 35, subparagraph c) and 45 of the Law, and in Article 187 and Chapter V, Title VIII of the General Regulation will be expressly understood in dollars.-

### THIRD CLAUSE

#### RIGHTS OF THE CONTRACTOR

- 3.1. The contractor will benefit, in accordance with the Law, its General Regulation, this contract and Addendum, from the following rights:
- 3.1.1. To execute by himself the operations of exploitation and/or exploration within the area of the contract;
  - 3.1.2. To transport within the national territory, individuals or articles destined to related operations within the area of the contract, subject to legal dispositions of the material;
  - 3.1.3. To import, in accordance with the regiment of free importation and/or temporary suspension, the functional articles, machinery, equipment, spare parts and accessories that are required for the petroleum operations derived from this contract, like re-exporting those that would have been imported for petroleum operations;
  - 3.1.4. To separate, purify and compress the hydrocarbons that are produced and transported within each area of exploitation. To transport the hydrocarbons that are produced within the different areas of exploitation that are selected by the contractor, located in blocks LA-9-92, L-9-92 and L-10-92;
  - 3.1.5. To process and/or liquify the natural gas, sulfur and/or other substances;
  - 3.1.6. To recover all of the recoverable costs attributable to the area of the Contract and receive a part of the hydrocarbons and other compatible substances in each area of exploitation, with the concept of total remuneration for the services and for the technical and financial concepts assumed in accordance with this contract;
  - 3.1.7. To use, sell, dispose of, commercialize and export in the most convenient manner, the hydrocarbons and other substances that are related to same, except for that

agreed to in the Fourteenth Clause of this Contract;

- 3.1.8. To return one or more parts of the original area of the contract, after all the obligations have been complied with that were acquired related to these areas, and are demandable on the effective date of devolution;
- 3.1.9. To transport the corresponding hydrocarbons by whatever means or stationary transportation established by the State or by other contractors in a nondiscriminatory form, with respect to services and tariffs; and when these facilities do not exist that permit economical transportation of said hydrocarbons, to petition the direct execution of a contract for stationary transport;
- 3.1.10. To petition that certain information remain confidential;
- 3.1.11. To petition, by means of the Board of Directors, the facilities for construction and others that are necessary for the normal and adequate development of the operations of exploitation and/or exploration which can be authorized if the Ministry deems them convenient for the accomplishment of the contract in accordance with the legal dispositions related thereto;
- 3.1.12. To return to the exterior, the foreign capital invested, as well as the external costs of operation, utilities, loans made and their interest rates, and other similar concepts, in accordance with this contract and the regulation for the rate of exchange emitted by the Monetary Board by means of decree number JM hyphen one hundred thirty-two and eighty-four (JM-132-84), published in the Diario Oficial the twenty-eighth (28th) day of June of nineteen hundred and eighty four (1984), that forms a part of this contract and is incorporated herewith for all purposes;
- 3.1.13. Assign, in total or in part, the rights of this contract, only if the assignee assumes the obligations derived therein;
- 3.1.14. Consider this contract terminated, at any moment, provided that it has been complied with respect to all the obligations acquired that are demanded on the date

in which the obligations terminated;

- 3.1.15. To receive from the Board of Directors the information and technical data available concerning the area of the contract;
- 3.1.16. Whatever else the Law establishes, and the regulations and the stipulations of this contract.-

#### FOURTH CLAUSE

##### TERM OF THE CONTRACT

The term of the present contract is twenty-five (25) years, counting from the date it becomes valid unless it is terminated by some occurrence in the clauses established in the Law, the General Regulation and the stipulations of this contract.-

#### FIFTH CLAUSE

##### AREA OF THE CONTRACT

5.1. The original area of the contract has a total surface of one hundred thirty thousand one hundred eighty six hectares with twenty nine hundredths of hectares (130,186.29 Hecs.), and is integrated with the following blocks of exploitation:

- 5.1.1. BLOCK "LA-9-92". Described as follows, to-wit: Starting from the point of intersection of the meridian eighty-nine (89) degrees with fifty-seven (57) minutes and forty (40) seconds with the parallel sixteen (16) degrees with seven (7) minutes exactly, is followed the parallel due East until its Intersection with the meridian eighty-nine (89) degrees with fifty-two (52) minutes exactly. From this point you follow the meridian due South until the Intersection with the parallel fifteen (15) degrees with forty-five (45) minutes and forty-three (43) seconds. From this point you follow the parallel due West until its Intersection with the meridian eighty-nine (89) degrees with fifty-seven (57) minutes and forty (40) seconds. From this point you follow the meridian due North until its Intersection with the parallel sixteen (16) degrees with seven (7) minutes that is the point of origin.



SURFACE: Is the previously described block which covers a surface of thirty-nine thousand eight hundred and four hectares with seventy eight hundredths of hectares (39,804.78 Has.)

5.1.2. BLOCK "L-9-92". Described as follows, to-wit: Starting from the point of Intersection of the meridian eighty-nine (89) degrees with fifty-two (52) minutes exactly with the parallel sixteen (16) degrees with seven (7) minutes exactly you follow the parallel due East until its Intersection with the meridian eighty-nine (89) degrees with thirty-nine (39) minutes and eight (8) seconds. From this point, you follow the meridian due South until its Intersection with the parallel fifteen (15) degrees with fifty-six (56) minutes and fifty-three (53) seconds. From this point you follow the parallel due West until its Intersection with the meridian eighty-nine (89) degrees with fifty-two (52) minutes exactly. From this point, you follow the meridian due North until its intersection with the parallel sixteen (16) degrees with seven (7) minutes, that is the point of origin.

SURFACE: Is the previously described block which covers a surface of forty-two thousand eight hundred and eighty-seven hectares with sixty-five hundredths of hectares (42,887.65 Has.)

5.1.3. BLOCK "L-10-92", Described as follows, to-wit: Starting from the point of Intersection of the meridian eighty-nine (89) degrees with fifty-two (52) minutes exactly, with the parallel fifteen (15) degrees with fifty-six (56) minutes and fifty-three (53) seconds when you follow the parallel due East until its Intersection with the meridian eighty-nine (89) degrees with thirty-nine (39) minutes and eight (8) seconds. From this point, you follow the meridian due South until its Intersection with its parallel fifteen (15) degrees with forty-five (45) minutes and forty-three (43) seconds. From this point, you follow the parallel due West until its Intersection with the meridian eighty-nine (89) degrees with fifty-two (52) minutes exactly. From this point you follow the meridian due North until its Intersection with its parallel fifteen (15) degrees with fifty-six (56) minutes exactly, that is the point of origin.

SURFACE: Is the previously described block which covers a surface of forty-seven thousand four hundred ninety-three with eighty-six hundredths of hectares (47,493.86 Has.).

5.2. At the end of the phase of the evaluation, if the contractor has complied with the obligations relative to same, he will have the option to relinquish one or more blocks of exploitation or the total area of the contract.-

5.3. Terminating the phase of evaluation only the contractor may retain the selected areas of exploitation from each block for exploitation.-

5.4. The contract may select and retain for each commercial field, an area that covers said field but that does not exceed the ten thousand (10,000) hectares, except in special cases in which the magnitude of the oil field deposits require a larger extension, in accordance with General Regulations.-

5.5. When, for whatever reason, the commercial production is finalized in any area of exploitation, the contractor shall return the area that is referred to.-

5.6. The area of the contract has been delineated with the exclusive purpose to determine the surface of the terrain of the Republic, on which the contractor shall realize the operations which are the object of this contract in accordance with Law, the General Regulation and the contract; and shall in no way constitute property or concession in favor of the contractor or third parties with reference to said surface area, the ground, underground or any natural resource that may be found.-

## SIXTH CLAUSE

### PHASES AND PROGRAMS

6.1. The term of the contract is divided into two phases:

6.1.1. The phase of the evaluation that, for the effects of the application of the regulations and accounting addendum, is equivalent to the period of exploration to which the same refer, comprise the first year of the contract extendible for one equal period, with previous petition of the contractor made at least one month

before the first year of the contract terminates, extension which shall be extended by the Ministry when any of the following circumstances shall occur:

6.1.1.1. When the evaluation tests have not been finished in any of the wells that are referred to in the Seventh Clause of this contract;

6.1.1.2. When in order to determine the commercial value of the field discovered by one of the wells that are referred to in the Seventh Clause of this contract, further to proof of the evaluation realized in said well, it shall become necessary to drill at least one well to evaluate, or in the case of having drilled when the evaluation tests have not been concluded; and

6.1.1.3. When circumstances similar to the previous ones require the realization of additional works to those normally planned or justified, upon approval of the Ministry, to extend the period of evaluation during the second year of the contract.-

6.1.2. The phase of the development and production that is the same as the period of exploitation and for which each area of exploitation is initiated on the date established in a commercial field and terminates for each area of exploitation when the commercial production of same is terminated or when the contract terminates for whatever cause, whichever shall occur first.-

6.2. If the contractor does not select at least one area of exploitation before finalizing the phase of evaluation, the contract terminates automatically.-

6.3. Within the first three (3) successive months after the effective date, the contractor shall present a program of evaluation for the first year of the contract and, when applicable, together with the petition for extension that is referred to in paragraph 6.1.1. of this contract, the program of the corresponding evaluation. With respect to the presentation and content of said programs, by analogy, it shall be as set forth in the General Regulations for a program of exploration.-

6.4. The program for evaluation of a new discovery of hydrocarbons within the blocks of exploitation that are different from the discoveries of the wells described as: Las Casas 1-X and Huapan 1-X, shall be in addition to any other obligation that the contractor has in compliance with the Seventh Clause and number 8.5 of this contract.

6.5. The requirements for work programs that are executed in the phase of evaluation and period of exploitation shall be approved prior to their execution, which in no way shall affect the obligation of the contractor to fulfill same. However, according to the emergency circumstances involved, the contractor is not to take any action or initiative in order to confront an emergency situation that will cause danger or loss of life and property. Said emergency shall immediately be communicated to the Ministry and the Board of Directors for effective measures to be undertaken.-

6.6. When for any reason a budget that corresponds to the work program is approved with a prior date to the date of execution, the approved recoverable costs in said budget will be retroactive, beginning with the date on which it was signed.-

6.7. In the resolution for approval of the budget for exploitation, in compliance with the General Regulation, the Ministry will give its authorization for the contractor to retain, from the net production, less the royalty, whichever is necessary for the reimbursement of the accumulated recoverable costs and from the budgets for evaluation and/or exploitation, in accordance with the work program, without prejudice to the verifications and adjustments that shall be necessary, in accordance with the General Regulation and this contract.-

#### **SEVENTH CLAUSE**

##### **WORKS AND TERMS TO BEGIN SAME**

7.1. The contractor shall be obligated to effectuate in the phase of evaluation, the following works:

7.1.1. In the structure Las Casas, located in block "L-10-92", there shall be realized the evaluation for the structure, and there shall be a reconditioning of the well Las Casas 1-X, with the objective to evaluate the horizon Coban C, to obtain the parameters necessary, to

determine if the discovery is commercial.

- 7.1.2. In the structure Huapac, located in block "L-9-92" there shall be realized the evaluation for the structure, and there shall be a reconditioning of the well Huapac 1-X, with the objective to evaluate the horizon of Coban D, to obtain the parameters necessary, to determine if the discovery is commercial.
  - 7.1.3. Reprocessing of one hundred (100) kilometers of seismic lines already in existence.
  - 7.1.4. Drilling of one (1) well for rights in favor of the Municipality of Fray Bartolome de Las Casas.
- 7.2. The period to initiate the works that are referred to in number 7.1, above, shall be six (6) months counting from the effective date of the Contract.

#### EIGHTH CLAUSE

##### DISCOVERIES OF HYDROCARBONS

- 8.1. In the event of any discovery of hydrocarbons, the contractor shall immediately communicate it to the Board of Directors and shall proceed in compliance with the General Regulation.-
- 8.2. Before permanently abandoning any well in which hydrocarbons are discovered, the contractor shall communicate, in writing, same to the Board of Directors stating that he or the discoveries do not merit evaluation and it will be agreed to in number 8.3 of this contract.-
- 8.3. When the Ministry considers that an explored well merits being submitted to evaluation tests and the contractor disagrees with this viewpoint, expressed in writing in accordance with number 8.2 above, the following should be enforced:
  - 8.3.1. The Contractor, by the same act, will transfer to the Ministry, the right to execute under its own responsibility the cited proofs, before abandoning the subject well, with the equipment that the contractor shall have available in the place where the exploratory well is located on the date of the notification that is

referred to in number 8.2 of this contract;

- 8.3.2. The Ministry, in order to exercise its acquired rights indicated in the previous subparagraph, within the period of three (3) days counting at the start of the date aforementioned, shall require of the Contractor that use be made of the services of his Contractors for Petroleum Services, in accordance with the prices and conditions agreed to in the respective Contract for Petroleum Services, at his opportunity delivering to the Ministry the invoices corresponding to same, which shall be paid within the following month from the date of receipt of same;
- 8.3.3. The Contractor, without prejudice to the right of recoverable costs incurred that may be recovered in accordance with the Eleventh Clause of this Contract, waives from the moment that he expresses same in number 8.2 of this contract, any right related to or derived from the exploration or exploitation, as the case may be, in the respective petroleum field, including the confidentiality of the information with respect to the referenced area where the oil field deposits are located;
- 8.3.4. Upon requirement from the Ministry, the Contractor shall return the area selected by the Ministry that is sufficient to cover the respective petroleum field, which shall be adjusted to that set out in the General Regulation; and
- 8.3.5. If the operations completed by the Ministry cause a delay in the fulfillment of the drilling of a well with the same equipment, in a determined annual period of time, the Ministry shall consider a moratorium to the Contractor for it to be completed. Said moratorium in no case will be more than the time employed by the Ministry in the operations that cause said delay.
- 8.4. The discovery of hydrocarbons in commercial quantities shall obligate the contractor to select the area of exploitation and to delineate, develop and exploit, with due diligence, the referenced oil field deposit(s).
- 8.5. The contractor shall have an obligation to drill in each commercial field, at least, one development well per year, until

having completed the development of the field or until the area of exploitation where it is located is returned, whichever occurs first. In any event, the contractor shall complete, within the four (4) first years of the period of exploitation, of each area of exploitation, the development of the commercial field, and will initiate and regularly continue the commercial production, in accordance with the General Regulation.

#### NINTH CLAUSE

##### GUARANTIES AND FINES FOR FAILURE TO COMPLY

9.1. The contractor is obligated to present before the Ministry, the guaranty in accord and satisfaction of the State to answer for the works that are referred to in number 7.1 of this contract, which cost shall be equivalent to the maximum fine applicable in case of failure to comply, in accordance with number 9.4.-

9.2. The contractor shall guaranty in favor of the State before the initiation of each year, in accordance with the effective date of the corresponding selection, in compliance of the General Regulation, the drilling of wells for development, that are referred to in number 8.5 of this contract; which guaranty amount shall be equivalent to the maximum fine applicable in case of noncompliance, in accordance with number 9.5.-

9.3. Upon finalizing the drilling of a well or of any compromised work, the Ministry, upon petition of the contractor, previous report to the Board of Directors, and opinion of the Commission will release, partially or totally, as the case may be, the respective guaranty.-

9.4. The maximum applicable fines in case of noncompliance of the works that are referred to in number 7.1 of this contract, are the following: In accordance with the resolution of the General Board of Directors of Hydrocarbons number one thousand two hundred forty-four (1,244) dated the thirteenth (13th) day of August of nineteen hundred and ninety three (1993) the fines will be:

9.4.1. In the case of well Las Casas 1-X the amount of three hundred thousand dollars (U.S. \$300,000.00);

9.4.2. In the case of well Huapac 1-X the amount of two hundred and fifty thousand dollars (U.S. \$250,000.00);  
and

9.4.3. In the case of reprocessing of one hundred (100) kilometers of seismic lines an amount of twenty-five thousand dollars (U.S. \$25,000.00).

9.5. The maximum fine applicable in case of noncompliance of the works that are referred to in number 8.5, of this contract, is one thousand five hundred dollars (U.S. \$1,500.00) per meter of depth not drilled or the cost per meter upon drilling approved by means of the budget, whichever is more.-

#### **TENTH CLAUSE**

##### **ROYALTIES**

10.1. The contractor shall pay to the State, with priority to the recuperation of any cost, according to the Law, the General Regulation, and this contract, the royalties that are due it.-

10.2. The royalty will be twenty percent (20%) for the net production of crude petroleum with gravity of thirty (30) degrees API. The percentage aforementioned will be increased or decreased in one percent (1%) for each API degree more or less up to thirty (30) degrees API, respectively; and, in no case, shall the royalty be less than five percent (5%).-

10.3. If there should be production of crude petroleum proceeding from any discovery not declared as commercial, the contractor shall pay a special royalty of thirty-five percent (35%), in accordance with General Regulation. The royalty aforementioned constitutes the only royalty due for the aforementioned production until the effective date of selection, it being understood that at the beginning of that date the royalty set out in the previous number will be applicable.-

10.4. The contractor shall pay a royalty of five percent (5%) of the net production of natural commercial gas and condensates.-

10.5. The contractor shall pay a royalty of five percent (5%) of the net production of sulfur and/or other substances.-

#### **ELEVENTH CLAUSE**

##### **RECOVERABLE AND NONRECOVERABLE COSTS**

11.1. The contractor shall have preference with priority to the



volumes of net production, sulfur and other substances that relate to recoverable costs, with the exception of the royalty agreed to in the Tenth Clause of this contract and previous authorization of the corresponding amounts on the part of the Ministry. When applicable, the contractor shall also be able to retain its recoveries with respect to the area of the contract. The contractor shall, except for that agreed to in the Fourteenth Clause of this contract, dispose of, use, sell, commercialize and export the part of the net production, sulfur and other substances that correspond to him for these reasons.

11.2. Any investment for evaluation, development or expenses of operation attributable to the area of the contract shall be considered as recoverable costs, except when same are specifically considered as nonrecoverable in accordance with number 11.4 of this contract.-

11.3. The recoverable costs attributable to the area of the contract shall be assigned to the areas of exploitation, in accordance with the General Registry and the Accounting Addendum, in the following manner:

- 11.3.1. Those attributable to one area of exploitation will be assigned to the area where they originated;
- 11.3.2. Those attributable to the area of evaluation will be assigned to the areas of exploitation; and
- 11.3.3. Those attributable to one area of exploitation returned to the State, nonrecoverable with the net production, sulfur and other substances of the same area, shall be assigned to other areas of exploitation within the same area of the contract.

11.4. The following costs, expenses and investments will not be considered as recoverable costs:

- 11.4.1. The investments in exploration, exploitation, development, operation and any cost or expense that has been incurred by the contractor prior to the effective date or after the termination of this contract;
- 11.4.2. The costs, expenses and investments for the acquisition, purchase or leasing of materials, goods, equipment and services rendered outside of the Republic, when they can satisfactorily be produced or

acquired within same;

- 11.4.3. The expenses for professional fees, earnings, salaries and wages and other labor benefits paid to foreigners that execute functions or labors that could be satisfactorily performed by native Guatemalans;
- 11.4.4. The payments effected without any receipts or bookkeeping in accordance with the law;
- 11.4.5. All of the financial costs and any liens which the contract has incurred in the financing of the operations derived from this contract, whether made previously, during or after the effective date, as well as the interests and any payment with respect to financing the operations;
- 11.4.6. The dividends, royalties, participation, and any other type of participation;
- 11.4.7. The general expenses for administration and for the management of the main office, with the exception of the percentages established for the benefit of the authorized signatures set out in the Accounting Addendum;
- 11.4.8. The payments effected to the State with regard to royalties, fines and income tax;
- 11.4.9. The payments with respect to indemnification for damages and/or prejudices caused to the State and/or third parties, by the contractor, its contractors for petroleum services, its subcontractors for the aforementioned and any other person that renders services, whether intentionally, whether by negligence or imprudence;
- 11.4.10. Any cost, expense or investment that is effected for superfluous or excessive ease or that is not reasonably necessary to execute the petroleum operations in accordance with the progress of the referenced approved work;
- 11.4.11. Any cost for transportation incurred after the point of measurement or, when applicable, after the point of joint measurement;

- 11.4.12. The costs or expenses assumed or incurred in the commercialization of the hydrocarbons by the contractor outside of the Republic;
- 11.4.13. The total amount in excess of the reasonable expenses in accordance with the prices listed in the national or international market, as the case may be, for every class of goods, royalty rights and/or services of the same quality in the same period that the contractor incurred them;
- 11.4.14. The costs for products, services and goods obtained without quotation of prices or that have been divided in order to obviate the requirement, when the same is required in accordance with Regulation and the Accounting Addendum;
- 11.4.15. Any cost, expense or investment not attributable to the area of the referenced contract;
- 11.4.16. Any commission or expenditure concerning payment made by the contractor, the contractors for petroleum services or the subcontractors aforementioned by other means;
- 11.4.17. The losses of goods and/or hydrocarbons that for whatever reason, with the exception of sabotage, shall have to be paid or reinstated as a consequence of not having the respective insurance;
- 11.4.18. The costs and expenses derived from the intervention of the operations when this is motivated by negligence or imprudence on the part of the contractor;
- 11.4.19. The donations, except for those that are made with the written approval of the Ministry;
- 11.4.20. The particular expenses of the personnel of the contractor that, in part, are specified as follows: income taxes, revenue stamp taxes, domestic services of vigilance, telephonic, expenses of market, rates, arbitrators and contributions to municipalities, electric energy, tuition and expenses of schools for children, rental of family vehicles and payment for chauffeur, payment for enrollment and membership fees

in clubs, bar and restaurant expenses, receptions and the like, language classes, deposits for rental of homes, travel expenses for family to place of origin, for more than one time per year, even when they are comprised in the labor contract;

11.4.21. The payment for professional fees for professional services rendered by individuals that do not have the proper qualifications for same, when the laws of the Republic require that they be rendered by individuals properly qualified; and

11.4.22. The insurance premiums for the officials and the remainder of the workers of the contractor when the beneficiary shall be the contractor.-

#### **TWELFTH CLAUSE**

##### **STATE PARTICIPATION IN THE PRODUCTION AND REMUNERATION OF THE CONTRACTOR**

12.1 The shared hydrocarbons comprise the net production of hydrocarbons in each area of exploitation, less the volume of corresponding hydrocarbons to the applicable royalties and to the recoverable costs attributable to the area of the contracts, in accordance with the Eleventh Clause of this contract.-

12.2 The state participation in the production of shared hydrocarbons, for each area of exploitation dealing with crude petroleum and/or shared condensates, is set in accordance with the following scale:

12.2.1. At forty percent (40%) when the net production is from one (1) to fifteen thousand (15,000) barrels of production per day;

12.2.2. After application of the specified percentage in the aforementioned subparagraph, forty-five percent (45%) of the net production for quantities that exceed fifteen thousand (15,000) barrels of production per day and does not surpass twenty-five thousand (25,000) barrels per day;

12.2.3. After application of the specified percentages in the two (2) preceding subparagraphs, fifty percent (50%) of the net production for quantities that exceed twenty-

five thousand (25,000) barrels of production per day and does not surpass thirty-five thousand (35,000) barrels per day;

12.2.4. After application of the specified percentages in the three (3) preceding subparagraphs, fifty-five percent (55%) of the net production for quantities that exceed thirty-five thousand (35,000) barrels of production per day and does not surpass forty-five thousand (45,000) barrels per day;

12.2.5. After application of the specified percentages in the four (4) preceding subparagraphs, sixty percent (60%) of the net production for quantities of production that exceed forty-five thousand (45,000) barrels of production per day and does not surpass fifty-five thousand (55,000) barrels per day;

12.2.6. After application of the specified percentages in the five (5) preceding subparagraphs, sixty-five percent (65%) of the net production for quantities that exceed fifty-five thousand (55,000) barrels of production per day and do not surpass sixty-five thousand (65,000) barrels per day;

12.2.7. After application of the specified percentages in the six (6) preceding subparagraphs, seventy percent (70%) of the net production for quantities that exceed sixty-five thousand (65,000) barrels of production per day and does not surpass seventy-five thousand (75,000) barrels per day;

12.2.8. After application of the specified percentages in the seven (7) preceding subparagraphs, seventy-five percent (75%) of the net production for quantities that exceed seventy-five thousand (75,000) barrels of production per day.

In each of the aforementioned subparagraphs, the participation of the contractor shall be the complement of one hundred percent (100%) of the percentage set out in each subparagraph.-

12.3. The participation of the state in the shared production of natural commercial gas and/or other substances is thirty five percent (35%) and remuneration of the contractor for completion,

that is to say sixty-five percent (65%).

12.4. The participation of the contractor in the shared production of hydrocarbons and/or other substances establishes the total remuneration for the contractor's services and technical and financial commitments assumed in accordance with this contract.-

12.5. When the Ministry chooses to receive in cash the royalty and/or state participation in the production, the contractor shall arrange, use, sell, commercialize and export said hydrocarbons and other substances.-

12.6. In the event of production of crude petroleum stemming from any discovery not declared as commercial, the contractor, in addition to paying the special royalty that is set out in number 10.3. of this contract, shall pay a special state participation in accordance with the scale set out in number 12.2 of this contract and that established in the General Regulation; and the value of the corresponding remaining crude petroleum will be credited to the recoverable costs in accordance with the Accounting Addendum.-

#### **THIRTEENTH CLAUSE**

##### **NATURAL GAS AND/OR OTHER SUBSTANCES**

13.1. The natural gas shall be utilized, pending prior authorization of the Board of Directors, primarily in the operations of exploitation in the area of the contract, in accordance to the decrees of the General Regulation.-

13.2. For each one of the areas of exploitation the contractor will be able to process the natural gas and/or other substances in accordance with the program for development that is presented for every area, in accordance with the Law and the General Regulation.-

13.3. In the event that the contractor projects the construction of a processing plant for natural gas and/or other substances, the State will be able to require that same have sufficient capacity to process said types of substances from other areas of the contract.-

13.4. The investments for the construction and the expenses of operation for a processing plant for natural gas and/or other substances shall be considered as recoverable costs, except for

that set out in number 11.4 of this contract.

#### **FOURTEENTH CLAUSE**

##### **SUPPLYING THE INTERNAL MARKET**

The contractor is obligated, upon requirement of the Ministry, to sell to the State, at the price set out in number 15.2 of this contract, a prorated quantity of the hydrocarbons produced that retain the concept of recoverable costs and/or remuneration, as the case may be, that jointly with other quantities, equally produced within the country by other contractors, shall be sufficient to satisfy the total internal consumption or until completion of fifty-five percent (55%) of the totality of the hydrocarbons produced in the country, whichever is more, in accordance with the General Regulation. The State shall make use with priority the hydrocarbons that correspond to it for internal consumption.-

#### **FIFTEENTH CLAUSE**

##### **QUALITY, QUANTITY AND PRICES**

15.1. The determination of the quantities of hydrocarbons, other produced substances, and the analysis for determination of the quality of same, shall be verified by the Board of Directors, in charge of same and approval of the instruments, and other applicable procedures and norms.-

15.2. In order to determine the effective perquisite, such as the state participation in the production of shared hydrocarbons in cash, the value of the volume of hydrocarbons retained by the contractor to recuperate costs and/or remuneration or to determine the value of the volumes of hydrocarbons sold to the State to satisfy internal consumption, shall be applied to the market price of hydrocarbons adapted to the point of measurement, or when it is the joint point of measurement, determined in accordance with the Law of General Regulation.-

#### **SIXTEENTH CLAUSE**

##### **GOODS**

16.1. The State is the proprietor of the hydrocarbons discovered,

as well as the information, data, reports, interpretations of same, and the samples resulting from the original petroleum operations in the execution of the contract.-

16.2. The machinery, equipment, installations and other movable property or landed property acquired by the contractor and related to the area of the contract, in order that the same shall be recoverable with priority in accordance with that established in the Eleventh Clause of this contract, upon termination of the contract for any reason and in the event that this should occur, it shall become the property of the State, without cost in the state that imported them, acquired or constructed, to the inherent imperfections in the natural and prudent use of the same.-

16.3. During the term of this contract, the contractor shall have the authority to make exclusive use, free from charges such as leasing of the goods referred to in the previous number 16.2, for the fulfillment of the compromised operations that are the object of this contract, giving the contractor the absolute responsibility for maintaining, insuring, and any other cost or public service or other kind associated for the proper functioning of same, which shall be considered as recoverable costs, except for that set out in numeral 11.4 of this contract.-

16.4. When the cost of the goods has been partially or totally recovered, the contractor is prohibited to make any transfer, mortgage or exportation of said goods, except with the previous written authorization of the Ministry, in which case the revenues that are obtained shall be credited to the recoverable costs, in accordance with the Accounting Addendum.-

16.5. In case of loss of goods for fraud or negligence on the part of the contractor, which cost had been partially or totally recovered in accordance with the contract, the contractor shall assume all the losses and the replacement of said goods, which shall not be included within the recoverable costs in the area of the contract.-

16.6. In case the contractor decides to sell goods from his assigned property to the operations of evaluation and exploitation derived from the execution of this contract, the State shall have the preferential right to acquire said goods for the value indicated in the accounting books of the contractor, applicable as the case may be, as set out in Article 236 of the General Registry. The preferential right aforementioned, shall be exercised by the Ministry within thirty (30) regular days



following the date of receiving notification from the contractor of the intention to sell. The Law and the General Regulations will be applied concerning the regulation for exonerations.-

#### SEVENTEENTH CLAUSE

##### INFORMATION, DATA AND CONFIDENTIALITY

17.1. The Board of Directors shall provide the contractor with its (illegible word: discovery?) in writing, the information and technical data that it has in its possession, concerning the pertinent areas of the contract.-

17.2. The contractor is obligated to provide to the Ministry and/or to the Board of Directors all of the information, data, compilations and interpretations, originated in the execution of this contract, as the case may be, in accordance with the guides, circulares and instructions that are applicable. Likewise, the contractor shall be obligated to provide, at any given moment, the additional information or clarification concerning the operations of evaluation and exploitation that the Ministry or its dependencies request.-

17.3. The contractor shall have the right to petition certain information that has been given to the Ministry and/or the Board of Directors in accordance to the previous number, to be considered confidential for the parties, during the non-extendible period of two (2) years counting from the date of the receipt of the corresponding information. Said information will cease to be confidential before the time period indicated in the case of any of the following circumstances:

17.3.1. The contract is terminated for any reason;

17.3.2. A call of bids is produced in the first part of the first paragraph of subparagraph 8.3.3 of this contract;

17.3.3. Within the indicated term or on the effective date of devolution of any area, whichever occurs first; and

17.3.4. That established in Article 131 of the General Regulation.-

17.4. At any given moment, the Board of Directors shall inspect, by means of the procedures that it considers convenient, all of

the operations and will prove the validity of the information that is referred to in this Clause.-

17.5. In order to execute the operations in compliance with the contract, the contractor shall be able to retain and make use of the information and data referred to in this Clause, except for that set out in numbers 16.1. and 17.2. of this contract.

#### **EIGHTEENTH CLAUSE**

##### **SUPERVISION OF THE OPERATIONS**

18.1. The Government shall exercise the inspection, supervision, control and vigilance of the operations which are the object of this contract, as well as the results and consequences, by means of the Ministry and its dependencies, in accordance with the Law.-

#### **NINETEENTH CLAUSE**

##### **DETERMINATION OF THE CONSTANT VALUES**

19.1 The fines that are referred to in numbers 9.4. and 9.5. of this contract, the amounts that are referred to in numbers 21.2. and 23.1. of this contract, as well as the administrative rates that the contractor will have to pay in accordance with this contract, shall be adjusted annually by the Ministry in order to correct same for reasons of inflation, in accordance with Article 288 of the General Regulation, however, such adjustment shall not be more than eight percent (8%) annually. With regard to the referenced article, let it be understood that part of the formula that refers to the variations of the official rates of exchange for the value of quetzal respective to the value of the dollar, will not be applicable.-

#### **TWENTIETH CLAUSE**

##### **MONETARY EXCHANGE TRANSACTIONS**

20.1. For purposes of exchanges derived from this contract, the national money will have the official value of the legally established rate of exchange.-

20.2. The contractor may remit to the exterior the amounts equivalent to unexported volumes of hydrocarbons, which relate to the concept of recoverable costs and/or remuneration, in accordance with that established in Article 33 of the Law and the

regulations emitted by the Monetary Board of Directors in compliance with decree number JM hyphen one hundred thirty-two hyphen eighty-four (JM-132-84), published in the Diario Oficial the twenty-eighty (28th) day of June of nineteen hundred and eighty four (1984).

20.3. The contractor should invest within the country the foreign currency that corresponds to the State from the production of hydrocarbons and/or other substances that are exported in accordance with the concept of royalties and/or participation in the production, after having supplied the internal market in accordance with the Fourteenth Clause of this contract.-

#### **TWENTY-FIRST CLAUSE**

##### **TAXES AND OTHER PAYMENTS**

21.1. The contractor shall pay the taxes, charges and administrative rates in accordance with Articles 34, 35 and 45 of the Law.-

21.2. The contractor shall pay, in accordance with the Law and the General Regulation, the following annual charges:

21.2.1. Fifty cents on a dollar (U.S. \$0.50) per complete hectare in the area of the contract that is in the phase of evaluation. For the effects of these charges they shall be treated in accordance with that set out in Article 261 of the General Regulation;

21.2.2. Five dollars (U.S. \$5.00) per complete hectare that has the area(s) of exploitation in the area of the contract; and

21.2.3. Any change that the contractor effects in the program that is not significant, upon approval of the Ministry, will not be effected in the rate set out in Article 258 of the General Regulation.-

#### **TWENTY-SECOND CLAUSE**

##### **MEASURES FOR SECURITY AND PROTECTION OF THE ENVIRONMENT**

22.1. During the development of the operations for evaluation and exploitation derived from the execution of this contract, the

contractor is obligated to fulfill all of the measures for security in accordance with the norms of the international petroleum industry that are necessary for the protection of individuals, and goods, as well as the prevention of contamination in compliance with the applicable legal provisions and the stipulations of this contract.-

22.2. In the event that it has not been possible to avoid contamination, the contractor shall be responsible for elimination of same, as technically feasible, upon judgment of the Ministry without prejudice to being subject to applicable fines, and in accordance with the Law shall respond for damages and/or prejudices caused to the State or to third parties.-

22.3. At any given moment the Ministry may order the contractor, to take measures that are deemed necessary to safeguard the security of persons and their goods, whether within the area of the contract or outside of it but related with the operations that are the object of this contract.-

#### **TWENTY-THIRD CLAUSE**

##### **TRAINING OF GUATEMALAN PERSONNEL**

23.1. The contractor is obligated to contribute to the training of Guatemalan personnel, in accordance with General Regulations, with the following amounts:

23.1.1. Solely during the evaluation period, twenty-five thousand dollars (U.S. \$25,000.00) for each year of the contract;

23.1.2. From the date of the establishment of the first commercial field, in substitution of that set out in the previous number, by area of the contract, each calendar year shall be paid according to the following scale:

23.1.2.1. When the net production of crude petroleum coming from the area of the contract for the previous calendar year, is less than one hundred fifty thousand (150,000) barrels of crude petroleum it shall be thirty seven thousand five hundred dollars (U.S. \$37,500.00);

23.1.2.2. When the net production of crude petroleum per

previous calendar year coming from the area of the contract is the same or more than one hundred fifty thousand (150,000) barrels of crude petroleum and less than three hundred thousand (300,000) barrels, that agreed to in the previous number 23.1.2.1. shall be substituted for Seventy-five thousand dollars (U.S. \$75,000.00);

23.1.2.3. When the net production of crude petroleum per previous calendar year coming from the area of the contract, is more than three hundred thousand (300,000) barrels of crude petroleum and less than five hundred thousand (500,000) barrels, that agreed to in the previous number 23.1.2.2. shall be substituted for one hundred twenty-five thousand dollars (U.S. \$125,000.00); and

23.1.2.4. When the net production of crude petroleum for the previous calendar year, coming from the area of the contract is more than five hundred thousand (500,000) barrels and less than seven hundred fifty thousand (750,000) barrels, that agreed to in the previous number 23.1.2.3. shall be substituted by one hundred eighty thousand dollars (U.S. \$180,000.00);

23.1.2.5. When the net production of the crude petroleum for the previous calendar year, coming from the area of the contract is more than seven hundred and fifty thousand (750,000) barrels and less than one million (1,000,000) barrels, that agreed to in the previous number 23.1.2.4. shall be substituted by two hundred and forty thousand dollars (U.S. \$240,000.00).

23.1.2.6. When the net production of the crude petroleum for the previous calendar year, coming from the area of the contract is more than one million (1,000,000) barrels and less than three million (3,000,000) barrels, that agreed to in the previous number 23.1.2.5. shall be substituted by three hundred sixty thousand dollars (U.S. \$360,000.00); and

23.1.2.7. When the net production of the crude petroleum for the previous calendar year, coming from the area

of the contract is more than three million (3,000,000) barrels, that agreed to in the previous number 23.1.2.6. shall be substituted by four hundred and eighty thousand dollars (U.S. \$480,000.00).-

23.2. The contractor shall train the Guatemalan personnel in its service about the operations that it executes in order for them to be effectively trained with the knowledge and techniques required to efficiently conduct the operations for evaluation and exploitation, in accordance with the regulation that is emitted for this effect.-

23.3. The parties will be able to jointly execute agreements for studies or investigation, concerning the procedures and techniques that the contractor employs in the development of the petroleum operations derived from this contract. Said agreements may be regarding, without limitation, the following: frequent consultations, joint studies, discussions concerning technical problems, interchange of technology for the operation between the experts of the Ministry and the personnel of the contractor. Likewise, the experts of the Ministry shall, with the consent of the contractor, participate in the scientific investigation and the development of the operations conducted by the contractor within the country or in the exterior.-

#### **TWENTY-FOURTH CLAUSE**

##### **PREFERENCES**

24.1 The contractor shall, in the development of operations, utilize, with preference, Guatemalan products, goods, services and personnel in accordance with the Law and the General Regulation.-

24.2 The contractor shall provide to the Ministry, each calendar year, a detailed report concerning that agreed to in this clause.-

#### **TWENTY-FIFTH CLAUSE**

##### **HIGHWAYS AND WORKS OF SOCIAL ASSISTANCE**

25.1. The contractor shall maintain in good condition the highways or roadways utilized within the area of the contract for the sound execution of the petroleum operations of the contract.-

25.2. With regard to the works of social assistance the following is agreed:

25.2.1. To provide every type of medical assistance to the workers that shall be necessary and reasonable.

25.2.2. In accordance with the Ministry, the company shall construct the works that are convenient, which investment shall be a maximum of one hundred and fifty thousand dollars (U.S. \$150,000.00) per year.

25.2.3. With regard to the environment, the company shall comply with that set out by the laws, and regulations that regulate the material and this contract.-

25.3 The investments and expenses that are incurred by the contractor as a consequence of that established in this Clause, shall be considered as expenses of operation and shall be included as recoverable costs, except for that set out in number 11.4 of this contract.-

## CLAUSE TWENTY-SIX

### INDEMNIFICATION AND ASSURANCE

26.1. The contractor is obligated to indemnify, in accordance with applicable laws of the Republic, the State, the proprietors of the lands, or to any other individuals to whom there is damage and/or prejudice caused due to the activities or works originated in this contract, whether the same are caused by the same contractor, or by his contractors for petroleum services or the subcontractors of the prior mentioned or any other person that renders services, inclusive of those derived from the contamination of the environment.-

26.2. For effects of this Clause, the contractor shall be obligated to show, in compliance with the General Regulation and the Law, that the parties agree that this contract will automatically terminate for the following causes:

26.1.1. If the Contractor does not realize a commercial discovery, before the end of the second year of the contract; and

26.1.2. For termination of the term of the contract.-

26.2. The following are causes for non-automatic termination of the contract:

- 26.2.1. An unexpected financial or technical incapacity of the Contractor or the Contractor's main office, which is manifested during the development of the operations;
- 26.2.2. If a judicial declaration exists for bankruptcy or the creditors file a legal lawsuit, within the country or in the exterior;
- 26.2.3. If the Contractor or his assignees transfer the contract, totally or partially, without having complied with that set out in Article 18 of the Law;
- 26.2.4. If the Contractor presents false or intentionally incomplete information and, repetitively, obstructs the duties of the Ministry;
- 26.2.5. If the Contractor habitually disregards or is in grave non-compliance with this contract, it shall be understood that this is a grave noncompliance concerning the obligations set out in the contract, and as a result, a particularly considerable detriment is caused to the State, whether economic, environmental or of another kind, in accordance with the judgment of the Ministry;
- 26.2.6. If the Contractor repeatedly gets behind in his payment of the royalties or the state participation in the production of hydrocarbons and/or other substances;
- 26.2.7. If the Contractor disposes of the goods which cost was partially or totally recovered in accordance with the contract, without authorization of the Ministry;
- 26.2.8. When the Contractor does not renew the guaranty for the compliance that is referred to in Clause Nine of this contract;
- 26.2.9. When the commercial production is finalized for all the areas of exploitation in the area of the contract; and
- 26.2.10. If the operations for development and/or commercial production should cease for a period of ninety (90)



days (...remainder of 26.2.10 missing in Spanish contract)

...guaranties that shall be necessary, as a last resort that shall be credited before the Ministry in one period of one month counting from the date of notification of the respective decrees.-

26.3 The Contractor shall insure the goods referred to in number 16.2 of this contract.-

#### TWENTY-SEVENTH CLAUSE

##### FORTUITOUS CAUSE OR FORCE MAJEURE

27.1. The lack of compliance by any one of the parties with the obligations or conditions established in this contract, shall excuse same during the time that the event that causes the noncompliance, when same is caused by a fortuitous cause or force majeure.-

27.2. For effects of this Clause, fortuitous causes or force majeure shall be considered: Wars, insurrections, earthquakes, thunder storms, inundations and other causes or adverse meteorological conditions, or any other happening which the contractor cannot reasonably prevent or control. The exceptions are events caused by lack of observation of generally accepted practices of the International Petroleum Industry or by the negligence and/or lack of prudence of the contractor, any of his employees or his contractors for petroleum services or subcontractors of the previous.-

27.3. If it becomes impossible for one of the parties to comply with any of the obligations or conditions stipulated in this contract, due to a fortuitous cause or force majeure within the Republic, the other party in the respective clause shall be immediately notified in writing of the cause of the noncompliance.-

27.4. If the contractor is unable to comply with the obligations due to a fortuitous cause or force majeure outside of the Republic, the parties shall meet to consult for the purpose of reaching satisfactory arrangements in order that the operations for exploitation can be continued in the most adequate manner for the interested parties.-

27.5 The party affected by a fortuitous cause or force majeure shall fulfill the obligations within a reasonable period, according to mutual agreement between the parties.-

## **TWENTY-EIGHTH CLAUSE**

### **TERMINATION OF THE CONTRACT**

28.1. In addition to the termination clauses foreseen in the... (missing words in Spanish contract) ... consecutive days, except for a fortuitous cause or force majeure, dutifully proven.-

28.2. (...28.2. missing paragraph in Spanish contract).

28.3. If the noncompliance of the obligation or condition stipulated in this contract is for a fortuitous cause or force majeure, dutifully proven, occurring outside of the Republic, and is prolonged for more than twenty-four (24) consecutive months, then any of the parties shall have the right to consider the contract terminated and, in such case, the parties remain excused from all the obligations set out in the contract and the Law, which would have been complied with subsequent to the happening of the event that caused the fortuitous cause or force majeure.-

28.4. If upon the judgment of the Ministry there is cause to initiate the non-automatic termination of a contract, same shall be adhered to the procedures established in Article 57 of the General Regulation.-

## **TWENTY-NINTH CLAUSE**

### **EXPRESS DECLARATION**

The contractor expressly declares that he assumes all of the obligations set out in this contract, and if necessary, to respond to legal matters in the Republic, which shall be done not only with the goods that are owned within the National territory, but also with those that are owned in the exterior.-

## **(THIRTIETH CLAUSE**

**(...MISSING TITLE AND TEXT OF THIRTEENTH CLAUSE  
IN SPANISH CONTRACT...)**

## THIRTY-FIRST CLAUSE

### LAWS, JURISDICTION AND INTERPRETATION

31.1 The contractor is obligated to complete all of the previous provisions in the Law of Hydrocarbons, Decree of Law number 109-83 revised by Decree of Law number 161-83, the General Regulation contained in Government Agreement number 1034-83 and its amendments, and further regulations that are generally applicable to all the Contractors for exploration and/or exploitation. Furthermore, the Contractor shall be subject to the further laws of the Republic.-

31.2. In matters related to litigation concerning the application, interpretation, execution and termination, for any reason, of this contract the contractor expressly renounces any foreign domicile for this action and submits to the jurisdiction of the courts in the City of Guatemala. It is understood that the contractor, contractor for petroleum services, subcontractors for petroleum services or their partners, that are foreigners, shall not appeal, in any manner, to the complaint by means of diplomatic protection, concerning the application, interpretation, execution and termination, for any reason, of this contract.-

31.3. This contract shall be interpreted as one total document and no provision of same, by itself, shall have any relevance, validity or significance, or if same has omitted from its significance and existence the other provisions contained in the Law and the Regulations. The name given to each Clause does not have any objective except for reference to information and does not form an integral part of this contract. If some party of this contract becomes invalid due to a contradiction with the legal provisions, the validity of the remaining parts shall not be affected.-

## THIRTY-SECOND CLAUSE

### NOTIFICATIONS

32.1. For all notifications, citations, notices or communications, the parties have elected the following Board of Directors:

MINISTRY OF ENERGY AND MINES

Diagonal 17, 29-70, zona 11  
Telex: 5510 PETGUA GU  
Ciudad de Guatemala  
Guatemala, Centro America

PENTAGON PETROLEUM, INC.

23 Avenida "A" 0-42, Zona 15  
Vista Hermosa 11, Apto. 7C  
Fax: 89-2370  
Ciudad de Guatemala  
Guatemala, C.A.

32.2. All notices, reports or communications that are to be made by the contractor or operator, as the case may be, to the Ministry, related to the petroleum operations, shall be in writing in the Spanish language.-

32.3. All of the notifications, citations, notices and communications that are made by the Ministry and its dependencies to the contractor, and vice versa, shall be understood to be effective in the place that is indicated in number 32.1 of this Contract.-

32.4. As the case may be, once the operator for the petroleum operations derived as a result of this contract is designated and approved, any notification, citation, notice or communication and others related to a technical character between the Government and the contractor shall be exclusively directed to the operator and, as a consequence, will put the contractor under obligation.

32.5. The parties may change the addresses set out in number 32.1. of this Contract, but must notify the other party, in writing, of the change of address. Otherwise, proper notice will be at the address previously given.-

### **THIRTY-THIRD CLAUSE**

#### **OPTION FOR GUATEMALANS**

The contractor is obligated to give native Guatemalans the option, as set out in Article 144 of the Political Constitution of the Republic of Guatemala, to participate in the petroleum operations with capital contributions that represent a minimum of five percent (5%) of the total works undertaken for the first three years of the contract, according to the Specific

Regulation.-

**THIRTY-FOURTH CLAUSE**

**INCORPORATED DOCUMENTS**

The Accounting Addendum forms an integral part of the contract.-

The undersigned swear that we have read the entire document herewith and are well informed of its contents, validity and legal effects, we ratify, accept and sign the \_\_\_\_ pages, in the City of Guatemala, the fifteenth (15th) day of October of nineteen hundred and ninety-three (1993).-

BY THE MINISTRY: (Signature)

BY THE CONTRACTOR: (Signature)

In the City of Guatemala, the fifteen day of October of nineteen hundred and ninety three, AS NOTARY PUBLIC, I DECLARE: That the previous signatures are authentic by having been signed in my presence on this day by the Engineer Jose Luis Terron Calderon, and Mrs. Maria Elizabeth Galves Salazar, who act in the capacity of Minister of Energy and Mines and Legal Representative of Pentagon Petroleum, Inc., representations that I have witnessed and that are sufficient in my judgment for the execution of this act; that they are persons known to me and again sign with the notarial inscribed on the present act of legalizing signature.

(Signature)

(Signature)

(Signature)

Before me: Pedro Leonel Brolo Campos  
Attorney and Notary

## ACCOUNTING ADDENDUM

ACCOUNTING ADDENDUM FOR THE CONTRACT FOR EXPLOITATION NUMBER SIX HYPHEN NINETY-THREE (6-93) EXECUTED BETWEEN THE MINISTRY OF ENERGY AND MINES AND PENTAGON PETROLEUM, INC. THE FIFTEENTH DAY OF OCTOBER OF NINETEEN HUNDRED AND NINETY THREE (10/15/93).

### SECTION I

#### DEFINITIONS

In addition to the definitions contained in the Law and in the General Regulation, for the effects of this Accounting Addendum, shall be the following:

**CAPITAL ASSETS:** Is comprised of capital assets for useful living, limited or unlimited, that is owned or acquired for use in the services and processes of any center or subcenter of costs of the petroleum operations.

**SAVINGS:** Is the reduction of costs or expenses obtained by means of elimination, employment or application and adoption of measures or actions for better exploitation of the financial resources realized by the Contractor, in whichever of the margins of the center or subcenter of costs that are the subject matter herewith, during the execution of the budget, complied with in part or activity of the program of the respective work.

**APPENDIX:** Are the joint forms that the Contractor shall utilize for the effects of the elaboration, presentation and revision of the budgets, which form part of this Accounting Addendum.

**AUDIT:** In the inspection of the field, the cabinet and any other technical procedure, financial or accounting effected by the Department of Audits and the Board of Directors, each one within its capacity, that permits verification of investments in exploration, the development and expenses of operation, like the execution of the program for work.

**CENTER FOR COSTS:** Is the centralization of costs, expenses and investments derived from the execution of a program for the work of this Contract; and is divided in subcenters for costs.

**FISCAL YEAR:** Is the lapse of one year of the contract, during the period of exploration, and one calendar year during the period of

exploitation.

**QUALIFICATION BOARD:** Is integrated in accordance with Article 281 of the General Regulation.

**PLACE OF DESTINATION:** Is the area of the contract, including the common system, central offices in Guatemala and warehouses of the Contractor.

**MATERIALS AND SUPPLIES:** Are the tangible and/or functional goods utilized in the petroleum operations, with the exception of those classified as fixed assets.

**GENERAL ITEM:** Is the general division of a subcenter of costs in recoverable costs, nonrecoverable costs and the credits that correspond to the aforementioned.

**SUBCENTER OF COSTS:** Is the division of one center of costs, in accordance with that set out in number 1 of the Appendix.

**RATE OF EXCHANGE:** Is the average rate for purchase of dollars in national currency that has been realized, in the banks that habitually operate in money exchange, the third Friday of every month or the next regular day.

**TRANSFER:** Is the importation into the country or re-exportation of capital assets, materials and/or supplies that are property of the Contractor of the company affiliated with same, or when applicable, of the contractor for petroleum services or subcontractors for the aforementioned. It is also the mobilization between two or more areas of the contract, when they correspond to the same Contractor.

**VALUE OF NOTE:** Is the original cost of acquisition of capital assets, materials and supplies, less the discounts, plus the services for freight, insurance and other similar costs paid to third parties from the place of purchase to the place of destination.

## SECTION II

### GENERAL DISPOSITIONS

#### 2.1 Object of the Accounting Addendum:

The object of this Accounting Addendum is the establishment of the procedures necessary for the presentation and content of budgets, acquisition of goods and services, inventories, audits and revisions of the costs, expenses and investments, in order to establish the recoverable costs, the state participation and the remuneration to the Contractor.

## **2.2 Accounting Systems:**

The Contractor shall be able to use the system for accounting that is esteemed convenient, observing the generally accepted principles of accounting and the legal purposes that correspond to same, whenever he complies with that set out in number 2.1. of this Addendum.

## **2.3 Management Office:**

The Contractor shall establish and operate in the City of Guatemala, management office, which shall be responsible for the accounting records that are necessary.

## **2.4 Copies:**

For effects of this Accounting Addendum, the Contractor shall present to the Ministry or its Dependencies an original and three copies each of the corresponding documents.

## **2.5 Amplification of the Rates of Exchange:**

For effects of that set out in number 2.4 of the Contract, the rate of exchange determined for one calendar month shall be applied to all of the expenditures effected or other class of operations for the following month, without prejudice to that established in numbers 6.4.1, 6.4.4 and 6.4.5 of this Addendum.

## **2.6 Monetary Unit:**

The Contractor, without prejudice to that set out in numeral 2.2 of this Addendum and for the effects of this Contract, shall register, in dollars, all of the mercantile operations that have the objective of payment for services or other expenditures, when said payments are effected in national currency the Contractor shall convert them into Dollars utilizing the applicable rate of exchange on the month that the subject operation was realized.



## 2.7 Mutual Agreement:

It is understood that in the event future changes are made that substantially modify the actual system of exchange, the parties agree to adjust the Accounting Addendum as needed.

### SECTION III

#### CONTENTS OF THE BUDGET

Each budget of exploration and exploitation shall contain, in separate form, the expenditures to be made in dollars and national currency, in accordance with centers of costs with the codes that are set out in detail in number (1) of the Appendix of this Addendum.

#### 3.1 The Budget of Exploration shall contain the following centers of costs:

10 Costs and expenses to be incurred outside of the Republic;  
20 Costs and expenses to be incurred within the Republic; and  
30 Investments of exploration.

#### 3.2 The Budget of Exploitation shall contain the following Centers of Costs:

10 Costs and expenses to be incurred outside of the Republic;  
20 Costs and expenses to be incurred within the Republic;  
41 Investments of development, set out separately for each of the areas of exploitation;  
30 Investments of development of the common system;  
61 Expenses of operation, set out separately for each of the areas of exploitation; and  
\_0 Expenses of operation of the common system.

#### 3.3 Subcenters of Costs:

The centers of costs identified in the previous numbers shall be incorporated, as the case may be, with the following subcenters of costs:

#### 001 General administrative expenses.

These comprise the expenses incurred by the Main Office of the Contractor outside of the Republic, as well as those

incurred by the Contractor within the Republic, necessary for the realization of the functions of the planning, organization, integration and control, which the executive administration is in charge of, in order to jointly accomplish the optimum administration of the company. It includes, among others: professional fees, wages, salaries and other benefits and emoluments paid to executives and employees that integrate the offices of the General Management and Financial Office, the services of accounting, internal audit, computation, legal consultation, public relations, the acquisition and rental of the building, furniture, equipment, vehicles and other assets of general use in administration; the construction of installation and their maintenance; acquisition of materials, implements, utensils and supplies; contract for services and all similar expenditures not attributable to the other centers of costs.

101 **Geology.**

These comprise the expenses that are of a technical nature which include wages and salaries, superficial operations of field, studies of the subsoil, paleontology, geochemical, photogeological, remote sensors, studies of age of sedimentary rocks and any other kind of related technical studies.

151 **Geophysics:**

These are expenditures made for wages and salaries of technical personnel, of aeromagnetic investigations, of gravity and seismic studies, operations related to processing and reprocessing of geophysical data.

201 **Well of exploration number 1.**

These are expenditures that comprise the works regarding the drilling and/or testing of evaluation of the exploratory well number 1, as well as wages and salaries of technical personnel. Other exploratory wells, shall be subject to Codes 252 through 300, concerning same.

— **Well of evaluation number 1.**

These are expenditures that comprise works relating to drilling and/or tests of evaluation of exploratory well number 1, and includes wages and salaries of technical

personnel. Other exploratory wells, shall be subject to Codes 252 through 300, concerning same.

**301 Well of development number 1.**

These are expenditures that comprise works relating to drilling and/or tests of evaluation of development of well number 1. ...(missing words from 301 of the Spanish contract) ...technical. Other development wells, shall be subject to Codes 302 through 500, concerning same.

**501 Terminals.**

These comprise expenditures for preparation of the land, construction, maintenance and expenses of operation of terminales, as well as wages and salaries of technical personnel.

**551 Lines of flow.**

These comprise the expenditures related to the construction, improvement, maintenance and expenses of operation of the lines of flow.

**601 Logistics and transportation.**

These are expenses related, among others, to the wages and salaries of technical personnel, construction, improvement, maintenance of highways, fields, aerodromes, heliports and any other transportation service, like the supply of materials and necessary supplies for the field personnel.

**651 Buildings, warehouses and land.**

These are expenses related to the purchase, construction, maintenance of buildings, warehouses and lands, as well as wages and salaries of field personnel.

**701 Plant and equipment.**

These are expenses made for the purpose of construction, improvements, maintenance and expenses of operation of plants of separation, purification, processing, liquefying or improvement and injection of hydrocarbons; sulfur plants and other subproducts or petroleum or natural gas, as well as wages and salaries of technical personnel.

751 **Service, maintenance and cleaning of wells.**

These are expenses made for the purpose of the maintenance, operation, service and cleaning of wells.

801 **Training of Guatemalan personnel, welfare and social assistance and other payments to the State.**

These are expenses made in order to comply with the contractual compromises.

851 **Other studies.**

These comprise the expenses related, among others, to the economic studies related to petroleum activity.

3.4 **Integration of the centers of costs:**

The centers of costs shall be integrated with the following general items of expenditure: Recoverable costs, unrecoverable costs, credits against recoverable costs and credits against nonrecoverable costs; and the respective subcenters of costs.

Each item of expenditure shall comprise the following groups of expenses:

- Group 0: Personnel Services
- Group 1: Non-Personnel Services
- Group 2: Materials and Supplies
- Group 3: Capital Assets
- Group 4: General Administrative Expenses
- Group 5: Incidentals

These are subdivided, respectively, into areas of expenses in compliance with the structure of form number 2 of the Appendix to the Accounting Addendum.

3.5 **Conformation of the budgets.**

The conformation of the budgets shall be done in accordance with form number 2 of the Appendix which shall be integrated in the following manner:

3.5.1 The first column shall record the codes that identify the

items of expenditure.

3.5.2 The second column shall record the codes that identify the names of the items of expenditure, the expenses and investments of the subcenter of cost referenced thereto;

3.5.3 The third column shall record the values of the budget presented by the contractor. This column shall be divided into three subcolumns in order to register in the first two, the expenditures in dollars as well as in national currency and in the third column only in dollars. The values recorded in national currency shall be converted to dollars according to the applicable rate of exchange the second month prior to the month in which it is presented.

In all of the subcolumns the recoverable costs and nonrecoverable costs shall be considered.

3.5.4 The fourth column shall be reserved for use by the Ministry, who shall approve the budget that is referred to in dollars, as well as the recoverable costs as well as nonrecoverable costs.

### 3.6 **Special Items of Expenditure for Incidentals.**

This item for expenditure shall be ten percent (10%) of the total recoverable costs excluding this item of expenditure, and there shall be established from the subcolumn that sets forth the values of recoverable costs in dollars, said percentage may be applicable at any center of costs, according to the special circumstances that are applicable. In case of reduction or increase of the recoverable costs expressed in dollars, the amount of incidentals will be modified in a proportional manner.

## **SECTION IV**

### **PRESENTATION AND APPROVAL OF BUDGETS**

The Contractor shall present the budgets for exploration and/or exploitation, in accordance with Chapter V, Title II of the General Regulation, utilizing for its effect the form number 2 of the Appendix and the delineations of its application. Its approval shall only be effected in dollars.

## SECTION V

### CHANGE OF BUDGETS

#### 5.1 CHANGES:

The contractor may make changes or revisions to the budgets, in accordance with that set out in number 5.3 of this Addendum, in the following cases:

- 5.1.1 For reasonable expectation of the special items of expenditure of incidentals when same is insufficient to cover excesses during the execution of the approved work program;
- 5.1.2 For changes or amplifications to the work program; and
- 5.1.3 For emergency reasons.

#### 5.2 SAVINGS IN A BUDGET:

When the contractor obtains savings in any of the items of expenditure of a subcenter of costs, after having complied with the work program, he may transfer them, with the object of covering the insufficiency of the special items of expenditure of incidentals, or he may assign them directly to other subcenters of costs of the same center of costs, utilizing form number 2 of the Appendix, same which shall be informed to the Ministry, within the following month from the date in which it took place.

#### 5.3 Procedure in case of changes to budgets:

For change to budgets, in accordance with that set out in the previous number 5.1, the contractor shall present an application to the Board of Directors, in accordance with that established in article 114 of the General Regulation, utilizing form number 2 of the Appendix.

Upon approval of the referenced requested change in the budget, it will be adjusted proportionately, concerning items of expenditure of incidentals.

## SECTION VI

### EXECUTION OF BUDGETS

#### 6.1 Transference:

Budgetary transference will not be permitted, except in the following cases:

- 6.1.1 From the items of expenditure of incidentals to any subcenter of costs;
- 6.1.2 The revisions effected in compliance with the previous section V;
- 6.1.3 Those that are clearly justified before the Ministry; and
- 6.1.4 When the budgetary transference are effected in the same subcenter of costs of one type of currency to another utilizing the applicable rate of exchange.

#### 6.2 Assignment of Costs:

In case of existing costs and expenses that involve various areas of exploitation, the Contractor shall assign them to the following centers of costs: 50, Investments of development of the common system, and 70, expenses of operation of the common system, whichever the case may be, following that set out in article 213 of the General Regulation.

#### 6.3 General Administrative Expenses:

- 6.3.1 Incurred within the Republic: The Administrative and Management Expenses incurred by the Contractor within the Republic shall be acknowledged annually as recoverable, determined by means of a detailed study and the procedure established by said study shall be applied in the analysis of each budget. Said procedure shall be approved by the Ministry which shall be reviewed periodically by same or upon petition of the Contractor;
- 6.3.2 Incurred outside the Republic: The Administrative and Management Expenses incurred by the main office of the Contractor outside of the Republic shall be

acknowledged annually as recoverable, which shall be calculated using as a base the total recoverable costs approved from each budget, expressed in dollars, in compliance with the procedures indicated in the following numbered subparagraphs:

- 6.3.2.1 Four percent (4%) for the recoverable costs up to five million dollars (U.S. \$5,000,000.00);
- 6.3.2.2 After applying the specified percentage in the previous number, three percent (3%) for recoverable costs which are more than five million dollars (U.S. \$5,000,000.00) and up to ten million dollars (U.S. \$10,000,000.00);
- 6.3.2.3 After applying the specified percentage in the two previous numbers, two percent (2%) for recoverable costs which are more than ten million dollars (U.S. \$10,000,000.00) and up to fifteen million dollars (U.S. \$15,000,000.00);
- 6.3.2.4 After applying the specified percentage in the three previous numbers, one percent (1%) for recoverable costs which are more than fifteen million dollars (U.S. \$15,000,000.00);
- 6.3.2.5 The expenses of the executives of the main office of the Contractor that are effected within the national territory, shall remain included within number 6.3.2.

#### 6.4 Quotations:

The regiment of quotations established by Article 218 of the General Regulation, remains subject to the following specifications:

- 6.4.1 They are duty free, and as such, operations to buy goods and supplies in one sole act or to contract for works and services which are less than ONE HUNDRED THOUSAND DOLLARS (U.S. \$100,000.00) or the equivalent in national currency, at the rate of exchange established for the month immediately prior to the date in which the decision is realized to execute the operation with a certain individual person or corporation.
- 6.4.2 The quotations shall be regimented by minimum bases or specifications and shall establish criteria for



selection, among those who can depict: characteristics, quality, availability, price, time for delivery, technical assistance and of replacement, guaranty of the nature of the good, of the work or the service.

6.4.3The Ministry and the Contractor shall submit a mutual agreement setting forth the general guidelines of the functions and attributes of same to the Qualification Committee.

6.4.4The purchase in one sole act of the goods and supplies or contracting the works and services which are more than the indicated investment in the previous number 6.4.1 and less than FOUR HUNDRED THOUSAND DOLLARS (U.S. \$4,000,000.00) or the equivalent in national currency, according to the rate of exchange established for the month immediately preceding the date in which the decision was made to realize the operation with a certain individual person or legal entity, is subject to quotations. In this case the minimum bases and the criteria for selection shall be determined by the Contractor. The participation of the Qualification Committee shall be contracted monthly for it to have the knowledge of realized operations, which sole objective is to establish the award taken into account, the minimum basis or specifications, and the criteria for the selections adopted, for the effects of its approval.

6.4.5The purchase in one sole act of the goods and supplies or contracting of works and services which are more than FOUR HUNDRED THOUSAND DOLLARS (U.S. 400,000.00) or its equivalent in national currency, according to the rate of exchange established for the month immediately preceding the date in which the decision was made to realize the operation with a certain individual person or legal entity, shall be informed to the Ministry prior to the execution of same. In this case, the determination of the minimum basis and the criteria for selection shall be by mutual agreement of the Ministry and the Contractor. The award shall be effected by the Qualification Committee.

6.4.6For the formal effects of the quotations, whatever the amount may be, the following instructions shall be complied:

#### 6.4.6.1 Number of Invitations:

There will be mailed a minimum of five (5) invitations to the entities that the Contractor considers are able to provide or loan the goods, supplies, works or services that are required for the petroleum operations.

In the event the contractor cannot comply with the number of invitations referred to in the previous paragraph, he shall justify such extreme with due documentation.

#### 6.4.6.2 Opening of Seal:

The bids shall be presented in sealed envelopes, which shall be opened on the date and hour set by the persons designated for same by the Contractor or for the members of the Qualification Committee, as the case may be.

#### 6.4.6.3 Study of Bids:

At the time of opening and acknowledging the bids presented there shall proceed, directed by those persons in charge or the total Members of the Qualification Committee, as the case may be, with analysis of same and with application to the criteria for selection and, according to these requirements, award to the most convenient bidder.

#### 4.6.4 Bids presented by telex and by other means, originating from persons or entities domiciled in the exterior:

When in a quotation there are participants other than the bidders domiciled in the country, other persons or entities with domiciles in the exterior, or only these last mentioned, and in accordance with the minimum basis established they are permitted to make their bids by telex or by other means of acceptable communication, that set out in point 6.4.6.2 of this subnumeral shall not be applicable nor enforceable with respect to the opening of seals.

4.7 In addition to the exception contained in subnumeral 6.4.1 there is also an exception to this requisite for quotations for the purchase of goods and supplies or contracting of works and services necessary in any of the cases of emergency

set out in Article 115 of the General Regulation.

4.8 When practicable, it shall be requested that amplifications and/or clarifications be made of the bids presented or if these do not complete the requirements established, the event shall be declared deserted and it shall proceed to initiate a new quotation.

5 Valorization of the entrance of place of destination:

5.1 The capital assets and materials obtained by purchase shall be valued at the place of destination, in accordance with the value of the invoice, according to the type of currency which were used to acquire same. In case the value is national currency, its conversion to dollars shall be determined in accordance with the applicable rate of exchange.

5.2 The capital assets and materials obtained by transfer shall be valued according to the value of the original invoice in dollars and when the value of same is expressed in national currency this value shall be converted to dollars in accordance with the rate of exchange applicable in compliance with the following procedure:

5.2.1 The capital assets and new materials shall be valued in accordance with the price of acquisition, in accordance with the value of the original invoice in dollars and when the value of same is expressed in national currency, this value shall be converted to dollars in accordance with the rate of exchange applicable in accordance with the following procedure:

5.2.2 The capital assets and used materials, in good condition, shall be valued at seventy-five percent (75%) of the value of the original invoice; and

5.2.3 The capital assets and used materials, in need of some repair or improvement, shall be valued at fifty percent (50%) of the value of the original invoice.

6. Valuation of departure:

In case the Contractor accomplishes any sale or transfer of capital assets or materials, which cost shall have been charged as recoverable, in the execution of the private operations of the contract, they shall be valued with the type of currency in which

they were acquired in accordance with the following procedures:

- 6.1 The capital assets and new materials shall be valued at the same value established in subnumeral 6.5.2.1.
- 6.2 The capital assets and used materials shall be valued in their place of exit in the following manner:
  - 6.2.1 Used in good condition: These shall be valued at seventy-five percent (75%) of its value approved as recoverable costs in dollars or its equivalent in national currency at the applicable rate of exchange;
  - 6.2.2 Used in condition of use with some repair or improvement, these shall be valued at fifty percent (50%) of the value approved as recoverable cost in dollars or its equivalent in national currency at the applicable rate of exchange;
  - 6.2.3 Scrap or waste products: these are priced at their value as discard, with previous agreement between the parties.
- 6.3 When the State acquires the capital assets of the Contractor that had not been considered as recoverable, same shall buy them in compliance with that set out in number 16.6 of the Contract.

The indicated price in the accounting books of the Contractor that are referred to is the value in dollars or its equivalent in national currency in accordance with the applicable rates of exchange.

## SECTION VII

### REPORTS

#### 7.1 Report of budgetary execution:

In compliance with that established in Articles 224 and 240 in subparagraph g) of the General Regulation, the Contractor shall present to the Board of Directors, a monthly report of completion of the budgetary execution that is at hand, using the forms that shall be emitted by means of circulares. Said report shall include, as a minimum, the following details:

- 7.1.1 The approved budget;
- 7.1.2 The changes effected;
- 7.1.3 The actualized budget;
- 7.1.4 The total costs, expenses, investments executed in the month that is at hand indicating which were effected in dollars and which in national currency. That executed in national currency shall be converted to dollars according to the applicable rate of exchange.
- 7.1.5 The accumulation of costs during the months of the year that is at hand shall be presented only in dollars;
- 7.1.6 The estimated percentage of advance of the program of work with respect to advance of the execution of the executed budget; the advance of the aforementioned shall be presented in dollars as well as in national currency.
- 7.1.7 The total costs, expenses and investments effected in the month that is at hand indicating the expenditures in dollars and those realized in national currency. The expenditures effected in national currency shall be converted to dollars according to the applicable rate of exchange.

**7.2 Summary of Report:**

The contractor shall present every trimester a summary report of the budget that is at hand, in accordance with that established in subparagraphs a and b of Article 240 of the General Regulation with respect to the total sums that includes the indicated information in the previous numbers. In this report all of the amounts shall be expressly in dollars. For purposes of recoverable costs they shall be understood to be costs effected by all those that on the date of presentation of trimester report have been really paid, without prejudice to those costs that were paid after the presentation of the referenced report, which may be included the following trimester.

**SECTION VIII**

## **CONTROL AND VERIFICATION OF COSTS**

For the effects of control and verification of recoverable costs in accordance with the Law, the General Regulation, the contract and this Accounting Addendum, the procedures shall be as follows:

### **8.1 Verification of Costs.**

The reports that the contractor presents shall be reviewed, analyzed and evaluated jointly by the Board of Directors and the Department of the Auditor.

### **8.2 Audits.**

The Department of the Auditor shall realize audits with the objective of establishing, among other things, the veracity of the contents in the reports that the contractor presents.

As well as to verify that the accounting operations that are set out comply with that indicated in Sections VI and VII, respectively in the Addendum, fundamentally with regard to the valorization of revenues and expenses of capital assets and materials; and if the amounts that same report are backed by the corresponding legal document.

## **SECTION IX**

### **CONTROL OF INVENTORIES**

#### **9.1 Inventories.**

The contractor shall keep a perpetual inventory by any acceptable recognized means of valuation and the same shall value it in dollars. At least, once a year within the second trimester of said year, the contractor shall keep a fiscal inventory of capital assets, materials and supplies, existing on the date of the close of accounting that is treated here.

For this purpose, he shall notify in writing to the Ministry, thirty (30) days in anticipation of the date in which he proposes to make said inventory, with the objective that this one name his representative; the omission of representation, on the part of the Ministry, shall not invalidate the results that are caused, however, these should present to the Ministry within one month after the inventory is practiced.

## 9.2 Adjustments:

The adjustments of the inventory by excesses or deficiencies of more than one thousand dollars (\$1,000.00) shall be made known to the Ministry for his consideration and resolution, and when it refers to a deficiency of capital assets, the value of same shall be credited to the recoverable costs.

## SECTION X

### APPROVAL OF RECOVERABLE COSTS

#### 10.1 Verification of Awarded Bids:

In the case of quotations approved for an award of bid by the Qualifying Committee, the amount or tariffs of same shall be considered recoverable, except if the auditor determines defects in the award, in the purchase of goods and supplies of the contract of works and services.

#### 10.2 Trimester for Approval.

Once the trimester for approval has terminated, the General Board of Directors shall grant to the contractor five (5) days in which to appear and deliver a copy of the costs that are not acceptable as recoverable by the auditor, for the purpose of establishing his compliance or noncompliance. Once the indicated time period has ended, with or without a response to it, the General Board of Directors and the Department shall proceed to elaborate upon joint agreement to that set out in Article 229 of the General Regulations.

## SECTION XI

### AUXILIARY DOCUMENTATION

In addition to the accounting system that shall be maintained for other reasons, the Contractor shall maintain auxiliary accounting records concerning the group and region by centers and subcenters of the costs, for the purpose of verifying if the settlement of accounts, in which the recoverable and nonrecoverable costs are recorded, coincides with the execution of the budget.

The contractor shall maintain a record on the rate of

exchange.

#### 11.1 Source Document.

Every accounting operation shall be backed by a document that fulfills the legal requirements and corresponding evidence. The exception to this are entries of adjustment and others of a similar nature, which shall be explained with clarity and shall be authorized by the Chief of the Financial Division or the Chief of the Department of Accounting of the contractor.

#### 11.2 Charges.

For the purpose of charges, the following groups of items of expenditure shall be taken into account:

- 11.2.1 **Personnel Services:** These shall comprise, among others, wages and salaries for technical personnel, administrative and management, field workers, maintenance, medical, paramedic, laboratory; temporary personnel contracted to fill in for work that cannot be done by permanent personnel, such as some kind of legal advisory, economic studies, technical service of supervision, acting official; also including overtime for those that work extraordinary time, expenses for representation and labor services.
- 11.2.2 **Non-Personnel Services:** These shall comprise, among others, expenses for executed contracts with contracting companies for petroleum services, and other contracts for transportation and maintenance; studies and assessment, leasing of offices, machinery, equipment and their repairs, including expenses concerning the telephone, telegraph, telex, correspondence, electricity, water service, maintenance of equipment for the office and field, expenses of photocopies and heliograph, various freights, commissions, subscriptions and publications, expenses for transportation of personnel and materials, with the exception of the transportation included in the value of the invoice of the fixed assets, materials and supplies.
- 11.2.3 **Materials and Supplies:** These shall comprise, among others, drills and tricones, diamond crowns, mud, cement, additives, tubular material, well heads; food,



clothing, tires and spare tires, insecticides, sanitary products, medical products, pharmaceutical products, combustibles and lubricants.

11.2.4 **Fixed Assets:** These shall comprise, among others, land, buildings, plants, installations, constructions, routes of communication, extraordinary repairs, welfare and social assistance, machinery and equipment for exploration, and for exploitation of production, equipment for medical laboratory, for engineering, for construction, for communication, for office computers, for heavy and semi-light transportation, aerial, ocean and fluvial, storage tanks, warehouses, field, field vehicles, city vehicles, furniture, lines of flow and other equipment or machinery.

### 11.3 Credits.

For purposes of the corresponding credits, the following items of expenditure shall be taken into account:

11.3.1 **Personnel Services:** These comprise credits forthcoming from the items of expenditure included in this group that shall be designated as recoverable costs.

11.3.2 **Non-Personnel Services:** These comprise credits forthcoming from the items of expenditure in this group, that are designated as recoverable costs; as well as the product of the sale of any study for the same reason, benefits received for insurance claims, indemnifications received for damages and any other reimbursement related with this group.

11.3.3 **Materials and Supplies:** These comprise credits forthcoming from the sale, re-exportation and utilization in another activity different from those set out in the contract, of materials and supplies that were approved as recoverable costs.

11.3.4 **Capital Assets:** These comprise credits forthcoming from the sale, re-exportation, final goods after execution of the activity at the end of the period and utilization or in another activity different from those considered in the contract for goods and that were approved as recoverable costs.

The product of the sale of materials or capital assets that are referred to in the Sixteenth Clause of the Contract, shall be credited to the recoverable costs, in accordance with that set out in number 6.6 of the Accounting Addendum.

Likewise there shall be credited to recoverable costs the balance of the production of crude petroleum that is referred to in Article 214 of the General Regulation.

#### **11.4 Differed Charges and Credits:**

Each accounting entry is independent of any other, and as such, shall include the deferment for charges and credits at the close of the accounting entry that relates to it.

#### **11.5 Adjustments:**

The accounts for charges and credits shall permit adjustments of plus or minus, by means of corrections or annulments.

#### **11.6 Special Closing.**

The contractor shall effect a closing at the end of each year of the contract, for the period of exploration that shall permit verification by an audit of the recoverable costs during the year of the contract, independent of that set out in Article 228 of the General Regulation.

## **SECTION XII**

### **RECORDS AND PROCEDURES FOR DETERMINATION OF STATE PARTICIPATION AND REMUNERATION OF THE CONTRACTOR**

For the purpose of determining recoverable costs, state participation in the production of shared hydrocarbons, remuneration of the contractor and applicable adjustments made, all of the calculations shall be effected in Dollars. For these effects the following entries and procedures shall be established and applied as explained herewith:

**ACCOUNTS AND ENTRIES:** The contractor, for purposes of effective recovery of his costs and expenses incurred in dollars or in national currency converted into dollars, shall maintain specific

control of accounts, like for joint or individual entries.

**12.1 Accounts of specific control:**

- 12.1.1 A joint account, that documents the total recoverable costs for the centers of costs 10, 20, 30, 50 and 70;
- 12.1.2 An individual account, that documents the total recoverable costs for centers of costs 41, 61, etc., of the area of exploration and for each area of the exploitation;
- 12.1.3 An account that documents the value of the net production, determined in accordance with the General Regulation, for each area of exploitation; and
- 12.1.4 An account that documents the royalties paid that are attributable for each one of the areas of exploitation.

**12.2 Joint and individual entries:**

Each of the four columns shall conform, as a minimum, with those that are recorded monthly to the total of:

- 12.2.1 The recoverable costs accumulated up to a determined month;
- 12.2.2 The recoverable costs up to said determined month;
- 12.2.3 The recoverable costs incurred in the month that is at issue (that is the one following the month determined before) approved as recoverable costs; and
- 12.2.4 The balance of recoverable costs. This is obtained by subtracting the total from column 12.2.1, the total from the column 12.2.2, and to that result the total is added in the column 12.2.3, \_\_\_ for the indicated month.

(Illegible subtitle and some of the text in the Spanish contract)

Officially it shall be considered that the reimbursement of the costs ... that are joint to all types of areas of exploitation, following, ... availability, the costs and expenses shall be recovered, from that which comes from the production of hydrocarbons that is at issue; and finally, if there is still a remnant, this shall constitute part of the shared hydrocarbons.

### 12.3 Recovery of joint costs and expenses.

The recoverable costs of the joint entry by month shall be assigned in accordance with the following procedures, that consist of:

- 12.3.1 Establish the availability of recoverable costs by areas of exploitation, which shall be the result of subtracting the total amount from subnumeral 12.1.4, from that contained in subnumeral 12.1.3 of this Addendum;
- 12.3.2 Add the total disposable recoverable amounts of costs from all the areas of exploitation of the area of the contract;
- 12.3.3 Take the total of these joint costs and expenses that are recoverable set out in subnumeral 12.2.4 of this Accounting Addendum;
- 12.3.4 Compare the total amounts established in subnumerals 12.3.2 and 12.3.3 of this Accounting Addendum, the lesser shall be the total assigned for recovery of the joint costs and expenses in the month that is at issue;
- 12.3.5 Transfer the net production for the areas of exploitation, established in subnumeral 12.1.3;
- 12.3.6 Obtain the total net production of the area of the contract;
- 12.3.7 Divide the obtained result in subnumeral 12.3.3 by the result obtained in subnumeral 12.3.6, the quotient shall be the factor assigned to the joint costs and expenses per area of exploitation; and
- 12.3.8 Calculate the assignation of joint costs and expenses per area of exploitation by multiplying the factor obtained in subnumeral 12.3.7 by the total amount determined in subnumeral 12.3.4, both contained in this Accounting Addendum.

### 12.4 Recovery of individual costs and individual expenses:

The recoverable costs of the individual entry, by month and

by area of exploitation, shall be assigned in accordance with the following procedure that consists of:

- 12.4.1 Subtract from the amount established in accordance with subnumeral 12.3.1, the assignation calculated according to subnumeral 12.3.8. If the result is negative or zero, there shall be no reimbursement costs and expenses to the individual entry; if the result is positive, the following step shall be applicable;
  - 12.4.2 Subtract from the amount of the costs and expenses of the individual entry that appears in the subnumeral 12.2.4, from the disposable balance contained in subnumeral 12.4.1. If said balance is not enough to cover the total recoverable costs and expenses of the individual entry, the excess of these shall remain due for reimbursement for the following month.
- 12.5 Determination of shared hydrocarbons.**
- This phase is applicable when the outcome reported in the previous subnumeral 12.4.2 is a positive balance according to the following procedure, which consists of:
- 12.5.1 Subtract the amount of the net production for every area of exploitation, established according to subnumeral 12.1.3, the value of the respective royalties, set out in subnumeral 12.1.4;
  - 12.5.2 Subtract next the amount of the assignation of joint costs and expenses, established according to subnumeral 12.3.8; and
  - 12.5.3 Subtract the amount of the individual reimbursement of costs, established according to subnumeral 12.2.4. When the resulting value at the end is negative or zero, there shall be no shared hydrocarbons; and if the value results positive, likewise, the percentages established in the contract shall be applied in order to determine the participation of the State and, the remuneration of the contractor.
- 12.6 Each trimester there shall be adjustments established and if there are any they shall be applied before subtracting the total amounts according to subnumerals 12.5.2 and 12.5.3 of this Accounting Addendum.

12.7 The corresponding percentage to the state participation in the production of crude petroleum and/or shared condensates for each area of exploitation in accordance with Article 212 of the General Regulation, shall be calculated in the following manner:

12.7.1 When the net production of an area of exploitation does not exceed fifteen thousand (15,000) barrels of production per day, the percentage of state participation in the production of crude petroleum and/or shared condensates is equal to forty percent (40%).

12.7.2 When the net production of an area of exploitation exceeds fifteen thousand (15,000) barrels and does not surpass twenty-five thousand (25,000) barrels of production per day, the percentage of state participation in the crude petroleum and/or shared condensates is equal to one hundred (100) multiplied by the sums of the results obtained in the following subparagraphs, divided by the daily net production of the area of exploitation:

a) Fifteen thousand (15,000) multiplied by forty hundredths (0.40);

b) The difference between the daily net production of the area of exploitation and fifteen thousand (15,000) multiplied by forth-five hundredths (0.45);

12.7.3 When the net production of an area of exploitation exceeds twenty-five thousand (25,000) barrels and does not surpass thirty-five thousand (35,000) barrels of production per day, the percentage of state participation in the crude petroleum and/or shared condensates is equal to one hundred (100) multiplied by the sums of the results obtained in the following subparagraphs, divided by the daily net production of the area of exploitation:

a) Fifteen thousand (15,000) multiplied by forty hundredths (0.40);

b) Ten thousand (10,000) multiplied by forty-five hundredths (0.45);

- c) The difference between the daily net production of the area of exploitation and fifteen thousand (15,000) multiplied by fifty hundredths (0.50).

12.7.4 When the net production of an area of exploitation exceeds thirty-five thousand (35,000) barrels and does not surpass forty-five thousand (45,000) barrels of production per day, the percentage of state participation in the crude petroleum and/or shared condensates is equal to one hundred (100) multiplied by the sums of the results obtained in the following subparagraphs, divided by the daily net production of the area of exploitation:

- a) Fifteen thousand (15,000) multiplied by forty hundredths (0.40);
- b) Ten thousand (10,000) multiplied by forty-five hundredths (0.45);
- c) The difference between the daily net production of the area of exploitation and thirty-five thousand (35,000) multiplied by fifty hundredths (0.50);
- d) The difference between the daily net production of the area of exploitation and thirty-five thousand (35,000) multiplied by fifty-five hundredths (0.55).

12.7.5 When the net production of an area of exploitation exceeds forty-five thousand (45,000) barrels and does not surpass fifty-five thousand (55,000) barrels of production per day, the percentage of state participation in the crude petroleum and/or shared condensates is equal to one hundred (100) multiplied by the sums of the results obtained in the following subparagraphs, divided by the daily net production of the area of exploitation:

- a) Fifteen thousand (15,000) multiplied by forty hundredths (0.40);
- b) Ten thousand (10,000) multiplied by forty-five hundredths (0.45);
- c) Ten thousand (10,000) multiplied by fifty hundredths (0.50);

- d) The difference between the daily net production of the area of exploitation and thirty-five thousand (35,000) multiplied by fifty-five hundredths (0.55);
- e) The difference between the daily net production of the area of exploitation and forty-five thousand (45,000) multiplied by sixty hundredths (0.60).

12.7.6 When the net production of an area of exploitation exceeds fifty-five thousand (55,000) barrels and does not surpass sixty-five thousand (65,000) barrels of production per day, the percentage of state participation in the crude petroleum and/or shared condensates is equal to one hundred (100) multiplied by the sums of the results obtained in the following subparagraphs, divided by the daily net production of the area of exploitation:

- a) Fifteen thousand (15,000) multiplied by forty hundredths (0.40);
- b) Ten thousand (10,000) multiplied by forty-five hundredths (0.45);
- c) Ten thousand (10,000) multiplied by fifty hundredths (0.50);
- d) Ten thousand (10,000) multiplied by fifty-five hundredths (0.55);
- e) Ten thousand (10,000) multiplied by sixty hundredths (0.60);
- f) The difference between the daily net production of the area of exploitation and fifty-five thousand (55,000) multiplied by sixty hundredths (0.65).

12.7.7 When the net production of an area of exploitation exceeds sixty-five thousand (65,000) barrels and does not surpass seventy-five thousand (75,000) barrels of production per day, the percentage of state participation in the crude petroleum and/or shared condensates is equal to one hundred (100) multiplied by the sums of the results obtained in the following subparagraphs, divided by the daily net production of the area of exploitation:



- a) Fifteen thousand (15,000) multiplied by forty hundredths (0.40);
- b) Ten thousand (10,000) multiplied by forty-five hundredths (0.45);
- c) Ten thousand (10,000) multiplied by fifty hundredths (0.50);
- d) Ten thousand (10,000) multiplied by fifty-five hundredths (0.55);
- e) Ten thousand (10,000) multiplied by sixty hundredths (0.60);
- f) Ten thousand (10,000) multiplied by sixty-five hundredths (0.65);
- g) The difference between the daily net production of the area of exploitation and sixty-five thousand (65,000) multiplied by seventy hundredths (0.70).

12.7.8 When the net production of an area of exploitation exceeds seventy-five thousand (75,000) barrels of production per day, the percentage of state participation in the crude petroleum and/or shared condensates is equal to one hundred (100) multiplied by the sums of the results obtained in the following subparagraphs, divided by the daily net production of the area of exploitation:

- a) Fifteen thousand (15,000) multiplied by forty hundredths (0.40);
- b) Ten thousand (10,000) multiplied by forty-five hundredths (0.45);
- c) Ten thousand (10,000) multiplied by fifty hundredths (0.50);
- d) Ten thousand (10,000) multiplied by fifty-five hundredths (0.55);
- e) Ten thousand (10,000) multiplied by sixty hundredths (0.60);
- f) Ten thousand (10,000) multiplied by sixty-five hundredths (0.65);
- g) Ten thousand (10,000) multiplied by sixty-five hundredths

(0.70);

- h) The difference between the daily net production of the area of exploitation and seventy-five thousand (75,000) multiplied by seventy-five hundredths (0.75).

### SECTION XIII

#### OTHER ENTRIES

13.1 For control of the production of crude petroleum from one well that is not declared as commercial, the contractor shall keep the following entries:

13.1.1 The volume of the production of crude petroleum obtained in accordance with that set out in Article 211 of the General Regulation, during the period of testing;

13.1.2 The amount of special royalty paid for the production mentioned in the previous subnumeral;

13.1.3 The amount of the special state participation that is referred to in Article 214 of the General regulation; and

13.1.4 The amount that corresponds to the contractor, after having effected the special royalty and the special state participation, shall be credited to the recoverable costs of the program of exploration of the area of the contract.

13.2 For purposes of that stipulated in the second paragraph of Article 143 of the General Regulation, the contractor shall maintain the accounts that record the net production of natural gas, as well as the other substances, for each one of the areas of exploitation.

### SECTION XIV

#### CHANGES AND DISCREPANCIES

##### 14.1 Changes.

Any change or modification of this Accounting Addendum,

proposed by the contractor, as well as by the Ministry, shall be recognized by the totality of the contractors that operate in the country.

In any event, any applicable change affecting all of the contractors shall be incorporated into this Accounting Addendum, emitted for effective ministerial decision.

#### 14.2 **Discrepancies.**

In the event there are any discrepancies between the stipulations set out in the contract and in this Accounting Addendum, the stipulations in the contract shall prevail.

APPENDIX TO THE ACCOUNTING ADDENDUM  
FORM NUMBER I  
CODIFICATION FOR THE CENTERS AND SUBCENTERS OF COSTS

CENTERS FOR COSTS

| SUBCENTERS OF COSTS | 102030 | 415061 | 70          |
|---------------------|--------|--------|-------------|
| 001                 | 10001  | 20001  |             |
| 101                 | 10101  | 20101  | 30101 41101 |
| 151                 | 10151  | 30151  | 41151       |
| 201                 | 30201  | 41201  |             |
| 202                 | 30202  | 41202  |             |
| 203                 | 30203  | 41203  |             |
| 251                 | 30251  | 41251  |             |
| 301                 | 41301  |        |             |
| 302                 | 41302  |        |             |
| 303                 | 41303  |        |             |
| 501<br>70501        | 30301  | 41501  | 50501       |
| 551<br>70551        | 30551  | 41551  | 50551       |
| 601<br>70601        | 30601  | 41601  | 50601       |
| 651<br>70651        | 20651  | 30651  | 41651 50651 |
| 701<br>70701        | 30701  | 41701  | 50701       |
| 751                 | 30751  | 61751  |             |

-----  
801            30801    41801    61801  
70801  
-----

851  
70851            10851    20851    30851    41851    50851    61851  
-----

' Includes areas of exploitation that are set out in Codes 41 to 49; and of exploitation of 61 to 69.

" This subcenter shall be in accordance with the percentage specified in Section VI of this Accounting Addendum.

Which are the following:

10 "Costs and expenses incurred outside of the Republic.  
20 " Costs and expenses for support incurred in the Republic.  
30 "Investments of exploration.  
41 "Investments of development per area of exploitation.  
50 "Investments of development of the common system.  
61 "Expenses of operation for each area of exploitation.  
70 "Expenses of operations for the common system.  
001 "General administrative expenses.  
101 "Geology.  
151 "Geophysics.  
201 "Exploratory well number 1.  
202 "Exploratory well number 2.  
203 "Exploratory well number 3, etc.....  
251 "Well for evaluation number 1.  
301 "Well for development number 1.  
302 "Well for development number 2.  
303 "Well for development number 3, etc....  
501 "Terminals.  
551 "Lines of flow.  
601 "Logistics and transportation.  
651 "Buildings, warehouses, and lands.  
701 "Plants and equipment.  
751 "Service, maintenance and cleaning of wells.  
801 "Training of Guatemalan personnel, schools, hospitals, development of technology and other payments to the State.  
851 "Other studies

The centers of costs indicated in Appendix No. 1 correspond

to those mentioned in Article 215 of the General Regulation, in which:

- a) The center for costs identified in No. 10, responds to that mentioned in subparagraph c) of the budget of the program for exploration, as well as in subparagraph f) of the budget for the program of exploitation.
- b) The center for costs identified in No. 20, responds to that mentioned in subparagraph b) of the budget for the program for exploration and subparagraph \_\_\_) of the budget for the program of exploitation.

#### USE OF FORM NUMBER 1 OF THE APPENDIX TO THE ACCOUNTING ADDENDUM

For budgetary purposes to be applied to different investments for exploration and development to centers and subcenters of costs, the following shall describe how to effect their interaction, and shall amplify them with the corresponding explanation and requirement, which is the objective of that demonstrated in the sample FORM NUMBER 1 that comprises the Appendix of this Accounting Addendum.

**Center of costs 10 (costs and expenses to be incurred outside of the Republic):**

There shall only be applied: the expenses coming from the subcenters of costs of Geology, Geophysics, the expenses related to other studies, as well as the general administrative expenses incurred by the Main Office outside of the Republic.

**Center of costs 20 (costs and expenses for support to be incurred within the Republic):**

There shall be applied: the expenses coming from the subcenters for Geology, those related with purchasing, construction, maintenance and operation of buildings, warehouses and lands; and those related to other studies, as well as the general administrative expenses incurred by the contractor within the Republic.

**Center of costs 30 (investment for exploration):**

There shall be applied: the expenses related to all of the subcenters of costs specified in Section IV of this Accounting

Addendum, with the exception of those expenditures which correspond to the works effected for the drilling and tests for evaluation of the wells of development identified in the subcenters of costs 301, 302 and 303, as well as the general administrative expenses identified in the subcenter for costs 001.

**Center of costs 41 (investments in development for areas of exploitation):**

There shall be applied: the expenses related to all of the subcenters of costs specified in Section IV of this Accounting Addendum, with the exception of those that refer to general administrative expenses identified in subcenter of costs 001 and service for cleaning of the well identified in number 751.

**Center of costs 50 (investments in development for common systems):**

There shall only be applied: the expenses related with the following subcenters of costs: Terminals, identified in number 501, lines of flow, identified in number 551, logistics and transportation, identified in number 601; those originated in the purchase, construction, maintenance and operation of buildings, warehouses and lands, identified in number 651, as well as plants and equipment identified in number 701 and other studies identified in number 851.

**Center for costs 61 (costs for operation of each area of exploitation):**

There shall only be applied: the expenses coming from the subcenters of costs related with the service, maintenance and cleaning of the wells, identified in number 751, those related to the training of Guatemalan personnel, and those coming from other studies identified in numbers 801 and 851, respectively.

**Center for costs 70 (expenses of operation of the common system):**

There shall only be applied: the expenses coming from the subcenter for costs classified as terminales, lines of flow, logistics and transportation, buildings, warehouses and land, plant and equipment, those related with the training of Guatemalan personnel and those coming from other studies.

APPENDIX TO THE ACCOUNTING ADDENDUM  
FORM NUMBER 2

Budget for Program of: -----  
(Exploration, exploitation, etc.)

NAME OF THE CONTRACTOR:

YEAR OF THE CONTRACT:       FROM                               TO

CENTER OF COSTS CODE:

SUBCENTER OF COSTS CODE:

APPLICABLE RATE OF EXCHANGE:

| Codes | Concept | Budget<br>Presented | Budget<br>Approved     |
|-------|---------|---------------------|------------------------|
|       | US.\$   | Q.                  | Total U.S. \$   US. \$ |

0   PERSONNEL SERVICES

-----

- 011 Wages and salaries
- 012 Wages for temporary and contract work
- 013 Overtime
- 014 Expenses for representation
- 015 Labor services rendered
- 016 Other items of expenditure

1.   NON-PERSONNEL SERVICES

-----

- 111 Geology and geochemical
- 112 Geophysics
- 113 Highways
- 114 Logistics and transportation
- 115 Drilling
- 116 Fluids for drilling
- 117 Electrical registrations
- 118 Cementing wells
- 119 Testing the well
- 120 Completion of the well
- 121 Reconditioning of well
- 122 Other contracts
- 123 Maintenance
- 124 Insurance and bonds
- 125 Other items of expenditure



APPENDIX TO THE ACCOUNTING ADDENDUM (Cont.)  
FORM NUMBER 2

2. MATERIALS AND SUPPLIES

- 
- 211 Expenses for food
  - 212 Clothes for field workers
  - 213 Metallic products
  - 214 Non-metallic products
  - 215 Chemical products
  - 216 Medical and pharmaceutical products
  - 217 Combustibles and lubricants
  - 218 House furniture
  - 219 Other items of expenditure

3. CAPITAL ASSETS

- 
- 311 Machinery and equipment for exploration and production
  - 312 Equipment for storage and distribution
  - 313 Machinery and used equipment
  - 314 Medical surgical equipment
  - 315 Engineering equipment
  - 316 Laboratory equipment
  - 317 Transportation equipment
  - 318 Computer equipment
  - 319 Lands and buildings
  - 320 Miscellaneous

4. GENERAL ADMINISTRATIVE COSTS

- 
- 411 Total administrative expenses

SUBTOTAL

5. INCIDENTALS

- 
- 511 Incidentals for .....

TOTAL

This group of expenses with their respective items of expenditure, shall only be used to present the budget for the center of costs 10 and subcenter of costs 001.

6330- 8 February of 1994  
DIARIO DE CENTRO AMERICA NUMBER 24

