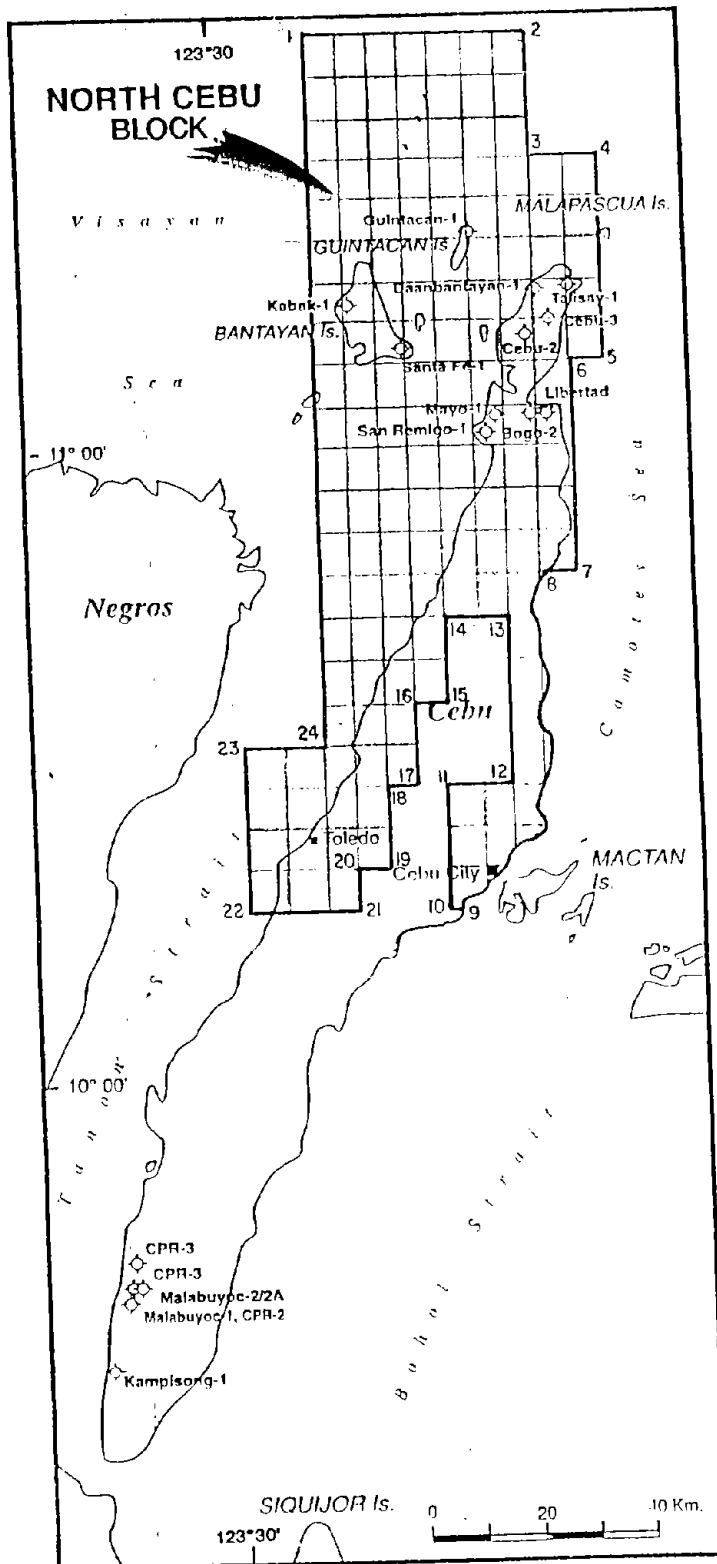


ANNEX A
TO SERVICE (PRODUCTION SHARING) CONTRACT
DATED _____ 1994

NORTHERN CEBU

<u>POINTS</u>	<u>NORTH LATITUDE</u>	<u>EAST LONGITUDE</u>
1	11° 40'	123° 39'
2	11° 40'	124° 00'
3	11° 28'	124° 00'
4	11° 28'	124° 06'
5	11° 08'	124° 06'
6	11° 08'	124° 03'
7	10° 48'	124° 03'
8	10° 48'	East coast line of Cebu
Thence southward along the east coast of Cebu		
9	10° 16'	East coast line of Cebu
10	10° 16'	123° 51'
11	10° 28'	123° 51'
12	10° 28'	123° 57'
13	10° 44'	123° 57'
14	10° 44'	123° 51'
15	10° 36'	123° 51'
16	10° 36'	123° 48'
17	10° 28'	123° 48'
18	10° 28'	123° 45'
19	10° 20'	123° 45'
20	10° 20'	123° 42'
21	10° 16'	123° 42'
22	10° 16'	123° 33'
23	10° 32'	123° 33'
24	10° 32'	123° 39'

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SERVICE CONTRACT AREA OF APPLICATION
NORTHERN CEBU, PHILIPPINES
AREA = 611,253 Has.

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ANNEX B
ACCOUNTING PROCEDURES

Attached to and made an integral part of the Contract between the GOVERNMENT OF THE PHILIPPINES, DEPARTMENT OF ENERGY and CONTRACTOR dated _____ day of _____, 19__.

ARTICLE I GENERAL PROVISIONS

1. A. Definitions

The Accounting Provisions herein provided for are to be followed and observed in the performance of all obligations under the Service Contract (Contract) to which this is attached. The terms appearing in this Annex B shall have the same meaning as those defined in the Contract.

B. For purposes of Article II, Paragraph 10 and 11, CONTRACTOR herein shall refer to the Operator who is the Party designated in accordance with the CONTRACTOR's Operating Agreement to conduct the Operations in the Contract Area for the joint account of the CONTRACTOR.

2. Accounts and Currency Exchange

CONTRACTOR shall maintain accounting records for the Petroleum Operations in accordance with generally accepted accounting practices used in the petroleum industry and in such a manner that all revenues and expenditures will be segregated or can be allocated to appropriate Contract Areas. All revenues and expenditures applicable to the Petroleum Operations shall be recorded in the both U.S. and Philippine Currency. Any transactions between U.S. Dollars and Philippine Pesos shall be stated at the applicable exchange rate. For these purpose, the applicable exchange rate shall be Inter-bank Guiding Rate for U.S. Dollars as quoted by the Philippine National

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Bank, Manila at the close of business on the last banking day of the month of disbursement or receipt, or if there were no such quotations on that day, then such rates on the most recent day in such preceding month during which there were such quotations or on such other basis as may be agreed upon by the Parties. Provided, however, That in the event of a significant change in the rate of exchange after the end of the preceding month, then all transactions after such re-evaluations until the end of that month shall be translated at the rates in effect on the day of the transaction.

Any advances made, expenditures incurred or receipts realized in any currency other than Philippine Pesos or U.S. Dollars shall first be translated into U.S. Dollars at the average of T/T selling and buying rates in the New York money market at the date of transaction. If there were no such quotations on the date of transaction, then the average rate on the most recent date shall be applicable.

It is agreed, however, that any adjustment resulting from the exchange of currency required for the use of this Operation or from the translation above listed, shall be charged or credited to the Operating Expenses. The matter of translation rates will be reconsidered if it is determined that the above methods result in inequities.

3. Statements

In implementation of Section VII of the Contract, CONTRACTOR shall render to the DEPARTMENT a statement of all charges and credits to the Operations summarized by appropriate classification indicative of the nature thereof.

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4. Adjustments

Subject to the provisions of Section 15.2 of the Contract, all statements rendered to the DEPARTMENT by the CONTRACTOR during any calendar year shall conclusively be presumed to be true and correct and reasonable unless within the period provided in said section, the DEPARTMENT takes written exception thereto and makes claim on CONTRACTOR for adjustment. Failure on the part of the DEPARTMENT to make written claim on CONTRACTOR for adjustment within such period shall establish the correctness and reasonableness thereof and preclude the filing of exceptions thereto or making of claims for adjustments thereon.

5. Audits

Audits shall be conducted in the manner and at the times stipulated by Section 15.2 of the Contract.

6. Conflicts

If there should be any conflict between the provisions of this Accounting Procedure and the Contract, the latter, shall control.

ARTICLE II OPERATING EXPENSES

Subject to the provisions of the Contract and the limitations herein prescribed, CONTRACTOR shall charge among, other items, the Operating Expenses with the following items:

1. Surface Rights

All direct costs attributed to the acquisition renewal or relinquishment of surface rights acquired and maintained in force for

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the Operations hereunder when paid by the CONTRACTOR in accordance with the provisions of the Contract except processing fees, bonuses, rentals and other payments made to the DEPARTMENT and the costs attributable to posting the performance guaranty deposits required under this Contract.

2. Labor

- A. Salaries and wages of CONTRACTOR's employees directly engaged for the benefit of the Operations in the exploration, development, maintenance and operation of the Contract Area. Salaries and wages shall include everything constituting gross pay to employees as reflected on the CONTRACTOR's payrolls.

To the extent not included in the salaries and wages the Operating Expenses shall also be charged with overtime, rest day pay, holiday, vacation pay and vacation travel pay, sickness and disability benefits, bonuses, and other customary allowances applicable to the salaries and wages chargeable hereunder and in Paragraph 10 of this Article II.

- B. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to CONTRACTOR's labor cost of salaries and wages as provided under Sub-paragraph 2A and Paragraph 10 of this Article II.

3. Employee Benefits

- A. For CONTRACTOR's employees participating under Home Office Based benefit plans, CONTRACTOR's cost of established plans for employee's group life insurance, pension retirement, thrift, and other benefits of a like nature shall be charged at a

percentage rate based on CONTRACTOR's cost experience for the preceding year applied to the amount of salaries and wages chargeable under Sub-paragraph 2A and Paragraph 10 of this Article.

- B. CONTRACTOR's employees participating in Non-Home Office Based benefit plans shall be charged at a percentage rate reflecting actual payments or accruals made by the CONTRACTOR applicable to such employees; actual payments against any amounts accrued will not be chargeable to the Operating Expenses.
- C. CONTRACTOR's cost experience rates in 3B above shall be redetermined during the first quarter of the following year and charges to Operational Expenses will be adjusted accordingly.

4. Material

Material, equipment, and supplies purchased or furnished by CONTRACTOR and subsequently used in the Operations and which are not classified as tangible investments under Paragraph 13 of this Article II. These materials, equipments and supplies shall be valued as follows:

- A. New Material, Equipment and Supplies Purchased (Condition A) shall be valued at new price which shall include such costs as export broker's fees, transportation charges, loading and unloading fees and license fees associated with procurement of materials and equipment, duties and customs fees and in-transit losses not recovered through insurance and installation cost.

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B. Good Used Material, Equipment and Supplies being used as material, equipment and supply in sound and serviceable condition suitable for reuse without reconditioning shall be valued at:

1. Seventy-five percent (75%) of current new price of the said material, equipment and supplies if such was originally charged to Operating Expenses as new.
2. Sixty-five percent (65%) of current new price if said material, equipment and supplies was originally charged to the Operating Expenses as second hand at seventy-five percent (75%) of new price.

C. Other Used Material, Equipment and Supplies:

Used Material, equipment and supplies being used shall be valued at fifty percent (50%) of current new price.

1. If after reconditioning, said used material, equipment and supplies will be further serviceable for original function as good second hand material.
2. If said used material, equipment and supplies is serviceable for original function but substantially not suitable for reconditioning.

D. Bad Order Material and Equipment

Material and equipment which are no longer usable for its original purpose without excessive repairs but are still usable for some other purposes shall be value on a basis comparable with that of items normally used for that purpose.

E. Junks

Junks, being obsolete and scrap material, equipment and supplies shall be valued at prevailing prices.

F. Temporarily Used Materials, Equipment and Supplies

When the use of material, equipment and supplies is temporary and its services does not justify the reduction in price as provided in Paragraph B(2) above, such material, equipment and supplies shall be priced on the basis that will leave a net charge to Operating Expenses consistent with the value of the service rendered.

As far as it is reasonable, practical and consistent with efficient and economical operation, only material in operator's sole opinion shall be purchased for or transferred for use in the Operations as may be required for immediate use; and the accumulation of surplus stocks shall be avoided. CONTRACTOR does not warrant the materials purchased for the Petroleum Operations, and in case of defective materials, credit shall not be passed until adjustment has been received by the CONTRACTOR from the manufacturer or its agents. Contractor agrees that it shall exercise good business judgment and good faith in pursuing warranties and guarantees received from the manufacturer of defective materials or its agents.

5. Transportation

Transportation of employees, equipment, material and supplies necessary for the Operations; Employees transportation cost will include travel costs for employees and their families paid by CONTRACTOR in conformity with CONTRACTOR's established policy manual. Transportation costs for returning an employee and his

family to their Country of Origin shall be chargeable to the Operating Expenses provided that Operating Expenses shall not be charged expenses incurred in moving an employee beyond his point of origin established at the time of his transfer to the Philippines.

6. Services

- A. Outside Services: The cost of consultants, contract services and utilities procured from outside sources, domestic and foreign, including but not limited to, all such services as are rendered in connection with geological, geophysical, drilling, engineering, legal, tax, development activities, etc.

- B. In the event the CONTRACTOR from time to time utilizes skilled personnel not regularly residing in the Philippines for performance of services either in the Philippines or elsewhere for benefit of the Petroleum Operations whose time in full or in part is not otherwise charged hereunder, a proper proportion of the direct and indirect salary and travel expenses of such personnel (including reasonable living expenses while in the Philippines) together with any taxes on such salaries or otherwise imposed upon the employee's service in the Philippines which are payable to the Philippine Government and for which the CONTRACTOR assumed responsibility, and any accident or sickness compensation and/or hospitalization cost incurred shall be charged to Operating Expenses.

- C. Data processing and computer services and other related services and/or operations acquired for the direct benefit of the Operations may be contracted through third parties or by arrangement for time rental of computer services from the CONTRACTOR's Affiliates even though such computer facilities are physically located outside the country. In either case, contract for computer services must be competitively priced.

Charges to the Operating Expenses under this provision for services directly benefitting the Operations shall be in addition to any charges allowed under Paragraph 10 and 11 of this Article II.

D. Use of Exclusively Owned Facilities

1. Equipment owned by the Second Party/Parties or any Affiliate or either of them, and not previously charged to the Operating Expenses, either directly or indirectly, may be utilized in the Operations. For the use of any such wholly- owned equipment, the Operating Expenses shall be charged a rental rate commensurate with the cost of ownership and operation, but not to exceed commercial rates for the use of like equipment.
2. A fair rate shall be charged for laboratory services performed by the Second Party/Parties or their Affiliates for the benefit of the Petroleum Operations, such as but not limited to gas, water, core and any other analyses and tests provided such charges shall not exceed those currently prevailing if performed by outside technical service companies.

E. Charges to the Operating Expenses for technical services as contemplated by Paragraph 6B and 6C and 6D above shall be included on the basis upon which overhead charges are applied under Paragraph 11 of this Article II.

7. Damage and Losses

All costs or expenses necessary to replace or repair damages or losses not recovered from insurance incurred by fire, flood, storm, theft, accident, or any other cause. CONTRACTOR shall furnish the

DEPARTMENT written notice of damages or losses incurred as soon as practicable after report of the same has been received by CONTRACTOR.

8. Legal Expenses

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorney's fees and expenses as hereinafter provided, together with all judgments obtained against the Parties or any of them on account of the Petroleum Operations, and actual expenses incurred in securing evidence for the purpose of defending against the Operations or the subject matter of the Contract. In the event actions or claims affecting interests under the Contract shall be handled by legal staff not otherwise charged to Operating Expenses of one or more of the Parties, a charge commensurate with cost of providing and furnishing such services may be made against the Operating Expenses if prior approval by Operator is granted.

9. Insurance and Claims

- A. Premiums paid for insurance required to be carried for the Petroleum Operations conducted under the Contract, together with all the expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services not recovered from insurance carrier.
- B. All actual expenditures incurred and paid by CONTRACTOR in settlement of any and all losses, claims, damages, judgement, and any other expenses not covered by insurance, including legal services, shall be charged to the Operating Expenses.

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10. Administrative Overhead - Inside the Philippines

- A. Principal office used herein means costs and expenses incurred by the CONTRACTOR for an office and staff established in Manila which may serve all activities in the Philippines including the Petroleum Operations under the Contract. Allocation of such costs and expenses between the CONTRACTOR's other activities and Petroleum Operations activities hereunder shall be made on actual expenditures or other equitable basis. Examples of such Principal Office services which are chargeable to the Operations include, but are not necessarily limited to the following:
- a. Local manager and staff
 - b. Accounting
 - c. Legal
 - d. Personnel Administration
 - e. Communications
 - f. Purchasing/Marketing
 - g. Housing/Rent
 - h. Engineering/Production/Drilling
- B. District Office(s) as used herein means cost and expenses incurred by the CONTRACTOR for an office(s) which may be establish to serve the Operations at the vicinity of the Operations. Allocation of such costs and expenses between the

CONTRACTOR's other activities and the Operations activities hereunder shall be made on actual expenditures or other equitable basis. Examples of such District Office(s) services which are chargeable to the Operations include, but are not necessarily limited to the following:

- a. Field or District Superintendent and complete Staff
- b. Geological and Geophysical Staffs
- c. Engineering, Production and Drilling Staff
- d. Communications/PR
- e. Camp and Commissary Facilities/Housing/Rent
- f. Clerical Staff/Production/Accounting/etc.

11. Administrative Overhead - Outside the Philippines

- A. CONTRACTOR's administrative overhead - outside the Philippines applicable to Operations shall be charged each month on the following percentage of adjusted net expenditures:

For first U.S. \$2,000,000 per year - 3% but not less than U.S.\$6,000 per year.

For next U.S.\$1,000,000 per year - 2%

Over U.S.\$3,000,000 per year - 1%

- B. Net expenditures for purposes of applying the percentage charges stipulated in Sub-paragraph 11A above shall be

adjusted to exclude the following:

1. Administrative overhead charged under 11A above
 2. The signature bonus and payments made in accordance with Section XVII and the costs attributable to the posting of performance quarterly deposits and rental payable under Section 4.4 of the Contract.
 3. Surface taxes and rentals
 4. Major construction projects covered by 11C below.
 5. Settlements of judgements or claims in excess of U.S.\$5,000 per transaction.
 6. Credits received from sale of assets (including division in kind) amounting to more than U.S.\$5,000 per transaction.
 7. Foreign exchange adjustments
 8. Pipeline tariff costs paid to outsider.
- C. A fee for CONTRACTOR's Administrative Overhead for major construction projects such as but not limited to offshore platforms, pipelines, gas and/or water repressuring and processing plants, tanker loading and terminal facilities, shall be agreed to by the Parties. If CONTRACTOR also performs engineering and design services outside of the Philippines for such major construction projects, the CONTRACTOR shall be entitled to charge the Operating Expenses a service fee agreed to by the Parties.

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- D. Cost studies will be performed, at least on an annual basis, to verify that the costs charged for administrative overhead and personnel costs equitably compensate the CONTRACTOR for actual costs incurred in that Year and that there is not over or under recovery of such costs from the Contract. Upon the request of either Party, these costs shall be reviewed and future charges adjusted so that actual costs are recovered. Notwithstanding any other clause, it is the intention of both Parties to this Contract that the CONTRACTOR shall neither profit nor lose through the carrying out of its duties and with particular reference to the expenses it incurs in its home office for personnel and administrative costs.

12. Other Expenditures

Any expenditures, other than expenditures which are covered and dealt with by the foregoing provisions of this Article II, necessarily incurred by the CONTRACTOR for the Operations hereunder.

13. Recovery of Capital Expenditures

A. Tangible Investment

The initial cost of physical assets classified as depreciable in accordance with generally accepted petroleum industry accounting principles purchased, fabricated by and/or for the CONTRACTOR, and used by CONTRACTOR in its Operation shall include such costs as export brokers fees, purchasing agents fees, transportation charges, loading and unloading fees, licenses fees associated with the procurement of materials and equipment, duties and customs fees, in-transit losses not recovered through insurance, installation costs necessary to put the asset ready for use, etc. The total cost of the assets shall be allocated to Operating Expenses over a ten (10) year period

under the straight-line or double-declining balance method at the option of the CONTRACTOR, beginning in the Calendar Year in which Petroleum Production starts or in the Calendar Year in which the costs are incurred whichever is later.

B. Intangible Investment

Notwithstanding any other provision of this Accounting Procedure and Contract, all intangible investments shall be reimbursed in full.

C. Leasehold Improvements

Improvements or betterments on leasehold which can be capitalized in accordance with generally accepted petroleum industry accounting practice shall be allocated to Operating Expenses in accordance with depreciation principle established in Paragraph 13-above. Such improvements shall include but not be limited to office improvements, additional equipment and other improvements installed on a ship operated under a bareboat charter, etc.

