

MINISTRY OF ECONOMY AND INNOVATION

CONTRACT BETWEEN THE STATE AND MOHAVE OIL AND GAS

CORPORATION,

FOR PETROLEUM EXPLORATION, DEVELOPMENT AND PRODUCTION

RIGHTS IN THE CONCESSION AREA DENOMINATED

PENICHE

On the 21th of May, 2012, on the premises of the Direcção-Geral de Energia e Geologia in Lisbon, at 15:00 h were present the General Director of Direcção-Geral de Energia e Geologia, Mr. Engº. José Alves Escada da Costa, as the first signatory in the name and representation of the Portuguese State (hereinafter the "State"), by delegation of the Minister of the Industry and Innovation given by the Order of the 17nd of April, 2012, and as second signatory Mr. Engº. Arlindo Augusto Alves Filho, resident in Rua Engº. Vieira da Silva, Bloco 3-E, Ap. 6º. – B, 1050-105 Lisboa, representing Mohave Oil and Gas Corporation, a commercial association in accordance with the law of the State of Texas, with main office in 24 Waterway Avenue, Suite 350, The Woodlands, Tx 77380, United States of America, registered in the office of the Secretary of State of Texas under no. 128120000, with representation in Portugal in Praça do Príncipe Real, 11-1º, in Lisbon and fiscal number 980095514. _____

I verified the identity, quality and power of representation of Mr.Engº. Arlindo Augusto Alves Filho through the exhibition of the Identification Passport No. YA009482 issued on 10-05-2010, in Hong Kong and through the exhibition of the powers of attorney and certificates, documents that will be filed in the *Divisão para a Pesquisa e Exploração de Petróleo of Direcção-Geral de Energia e Geologia*

(hereinafter referred to as “**DGEG**”). -----

And, in the presence of myself, José Carlos Silva Pereira, lawyer, acting as notary, the signatories stated that they freely and in good faith agree through the present contract on the granting of a concession for petroleum exploration, development and production rights, following to direct negotiation, to Mohave Oil and Gas Corporation, under the following terms: -----

----- **CHAPTER I** -----

----- **ACTIVITY COVERED BY THE CONCESSION** -----

----- **ARTICLE 1** -----

----- **CONCESSION** -----

1. Under the terms of Decree-Law No. 109/94 of April 26, 1994 (hereinafter referred to as “DL 109/94”), a concession for the exercise of petroleum exploration, development and production activities is granted exclusively to Mohave Oil and Gas Corporation (hereinafter referred to as the “**Concessionaire**”) in concession area No. 77 – **PENICHE** -, shown on the attached location map (Annex I). This concession area comprises fifteen (5) lots in one (1) block, the description of which is also attached (Annex II). -----
2. The work to be carried out under the terms of the Concession Contract in areas subject to public easement, restrictions related to public utility or any other limitations of administrative nature, are subject to special authorisations, licences, approvals or favourable assessments by the entities with jurisdiction over those areas, if the exercise of the granted rights is or may be forbidden, limited or conditioned by the respective specific legislation. -----
3. The **Concessionaire** shall obtain the above-mentioned authorisations, licences, approvals or favourable assessments. -----

----- **ARTICLE 2** -----

----- PROSPECTION AND EXPLORATION -----

1. Without prejudice to the faculty of relinquishment referred to in article 63 of DL 109/94, the **Concessionaire** must carry out during the initial period at least the following exploration works: ----

- **First year:** **Geologic and geochemist studies**, with an estimated investment of (90.000,00€);
- **Second Year:** **Reprocessing of 200Km of seismic lines already done in the Concession and surrounding areas** with an estimated investment of (500.000,00€);
- **Geologic and geochemist studies**, with an estimated investment of (90.000,00€);
- **Third year:** Acquisition of 75 km of new 2D seismic, with an estimated investment of € 450.000,00 -----
Geologic, geophisic and geochemist studies, with an estimated investment of € 80.000,00
- **Fourth year:** Drilling of one (1) exploration well or acquisition of 3D seismic, with an estimated investment of €1.750.000,00€ -----
- **Fifth year:** Drilling of one (1) exploration well, with an estimated investment of € 2.000,000.00 -----
- **Sixth year:** Drilling of one (1) exploration well, or acquisition of 3D seismic , with an estimated investment of € 1.750.000,00 -----
- **Seventh year:** Drilling of one (1) exploration well, with an estimated investment of € 3.000.000,00€ -----
- **Eighth year:** Drilling of one (1) exploration well, with an estimated investment of €

3.500.000,00 -----

2. The exploration work will be the object of annual plans and budgets to be submitted, in sufficient detail to **DGEG** under the terms of articles 31 and 32 of DL 109/94. -----
3. The projects for field work referred to in articles 33 and 34 of DL 109/94 that include the drilling of exploration wells, must contemplate the conditions of their eventual abandonment. -----
4. Any exploration work carried out during a particular year in excess of the contractual obligation for that year shall be deducted, from the work obligation for the following years. -----

----- **ARTICLE 3** -----

----- **OBLIGATORY RELINQUISHMENT OF AREAS** -----

1. Without prejudice to the right of relinquishment referred to in article 63 of DL 109/94, the **Concessionaire** is obliged to relinquish at least fifty percent (50%) of the contract area at the end of the fifth (5th) year of the initial period. -----
2. At the end of the eighth (8th) year of the initial period and in the case of an extension being requested under paragraph 4 of article 35 of DL 109/94, the **Concessionaire** must relinquish at least fifty percent (50%) of the currently held area. -----
3. The relinquishment of areas must be made in accordance with paragraphs 3 to 6 of article 36 of DL 109/94. -----

----- **ARTICLE 4** -----

----- **DEVELOPMENT AND PRODUCTION** -----

1. Whenever as a result of exploration activities the **Concessionaire** discovers a commercial petroleum field, its preliminary demarcation must be carried out and a general development and production plan for the field shall be prepared; this plan which must obligatorily include a plan and a schedule for the abandonment of the field and the re-establishment of the original environmental

conditions or equivalent ones must be submitted to **DGEG** under the terms of articles 37 to 39 of DL 109/94. -----

For the terms of this Concession Contract, the commerciality of a discovery shall be declared by **Concessionaire**, at its sole discretion. -----

2. An annual plan and budget for each year's development and/or production activities shall be submitted to **DGEG** in sufficient detail under the terms of articles 31, 32 and 40 of DL 109/94. -----
3. Within a period of five (5) years, counting from the date of the approval of each general development and production plan, the **Concessionaire** must carry out the final demarcation of the petroleum blocks in which the discovered fields are located under the terms of the article 41 of the DL 109/94. -----
4. The above-referred period may be extended when technically justified as per paragraph 2 of article 41 of DL 109/94. -----
5. Commercial production from a petroleum field can only be started after approval of the respective general development and production plan. -----
6. The **Concessionaire** shall execute its work in a regular and continuous way, in accordance to good oil field techniques and in compliance with any technical regulations that may be established.
7. The **Concessionaire** can freely dispose of the petroleum it produces except in the cases referred to in article 72 of DL 109/94. -----
8. Conditions concerning development and production of petroleum will be established in the general development and production plan to be agreed between **DGEG** and the **Concessionaire** under the terms of articles 38 and 39 of DL 109/94. -----

----- **ARTICLE 5** -----

----- **REPORTS** -----

1. Every six (6) months, the **Concessionaire** shall submit to **DGEG** a summary activity report in triplicate. -----
2. Annually, the **Concessionaire** shall provide **DGEG** with a technical activity report together with copies of all the technical data produced during the period, in triplicate. -----
3. At the end of the third (3rd) year of the initial period and also within ninety (90) days of using the right of relinquishment referred to in article 63 of DL 109/94, if applicable, the **Concessionaire** shall present a complete evaluation report of the concession area. -----
4. Whenever seismic surveys or well drilling are carried out, the **Concessionaire** shall provide **DGEG** with additional specific reports together with copies of all the data produced during these works in accordance with instructions to be opportunely provided by **DGEG**. -----

----- **ARTICLE 6** -----

----- **SAFETY AND HYGIENE OF PERSONNEL AND INSTALLATIONS** -----

1. While exercising its activities, the **Concessionaire** must observe the general norms concerning safety, hygiene and health as well as the EU Directives concerning the protection of workers in extractive industries. -----
2. The **Concessionaire** must also submit to **DGEG** the plans referred to in paragraph 2 of article 70 of DL 109/94. -----

----- **ARTICLE 7** -----

----- **ENVIRONMENTAL AND LANDSCAPE PROTECTION** -----

1. While exercising its activities, the **Concessionaire** must adopt under the terms of article 71 of DL 109/94, adequate measures to minimise the environmental impact, ensure the preservation of the surrounding ecosystems and the protection of the cultural heritage, in strict compliance with the applicable legal norms. -----

2. The total or partial relinquishment of the concession area involves the obligation for the **Concessionaire** of restoring the original environmental conditions or equivalent ones, if applicable.

----- **ARTICLE 8** -----

----- **INSURANCE** -----

1. The **Concessionaire** must contract and maintain insurance covering the risks inherent to its activity with any international insurance company of recognized reputation. These insurance contracts must cover namely the damages relative to the civil liability of the **Concessionaire**. -----
2. When presenting the annual work plan the **Concessionaire** must prove that the insurance contracts are in force by presenting a copy of the respective policy. -----
3. **DGEG** may, if justified, notify the **Concessionaire** to update, within a reasonable period of time, the contractual conditions of the insurance policy. -----
4. The failure to comply with the provisions of paragraphs 1 and 2 of this article and of the obligation imposed by **DGEG** under the terms of the notification referred to above, constitutes serious violation of the contractual obligations of the **Concessionaire** and may justify the rescission of the Concession Contract. -----

----- **ARTICLE 9** -----

----- **CIVIL LIABILITY OF THE CONCESSIONAIRE** -----

1. Under the terms of the general law the **Concessionaire** is responsible for any damages caused to the State or to third parties as a consequence of its activity. -----
2. The **Concessionaire** shall also be responsible for any damages caused by its subcontractors to the extent that these might be responsible. -----

----- **ARTICLE 10** -----

----- **RISK** -----

The **Concessionaire** assumes full responsibility for loss, damages and all the risks associated with its activity indemnifying and holding harmless the State for any facts occurred in consequence or related to the exercise of same activity. -----

----- **CHAPTER II** -----

----- **DURATION AND TERMINATION OF THE CONCESSION** -----

----- **ARTICLE 11** -----

----- **CONCESSION PERIODS** -----

1. The initial duration of the Concession Contract is eight (8) years counted from the date of signature of the present contract. This initial period can be extended twice for periods of one (1) year each, under the terms of paragraphs 4 and 5 of article 35 of DL 109/94 and without prejudice of the **Concessionaire's** relinquishment faculty provided by article 63 of the same Decree Law. -----
2. The production period is twenty five (25) years counted from the approval of the corresponding general development and production plan under the terms of paragraphs 3 and 4 of article 22 of DL 109/94. This period can be extended one or more times for a maximum of fifteen (15) years. -----
3. The production period can be extended under the terms of paragraphs 5 and 6 of article 22 of DL 109/94, provided that the **Concessionaire** requests it one (1) year in advance and the State accepts the benefits and other conditions offered as a compensation for the requested extension.

----- **ARTICLE 12** -----

----- **TERMINATION OF THE CONCESSION CONTRACT** -----

The Concession Contract can be terminated for any of the reasons referred to in article 59 of DL 109/94 and under the terms of articles 60 to 64 of the same Decree Law without prejudice to the provisions of the following article. -----

----- **ARTICLE 13** -----

----- **REVERSION TO THE STATE** -----

1. When the Concession Contract is terminated for any of the reasons foreseen in article 59 of DL 109/94, the work carried out, the equipment, instruments, installations and any other fixed assets permanently attached to the concession can at the State's option either revert free of charge to the State in which case the State assumes the responsibility for their eventual disposal, or be kept by the **Concessionaire** and in this case the **Concessionaire** shall be responsible for that disposal. ---
2. If the **Concessionaire** does not request for an extension under the terms of Article 11 of the present contract or if it is not possible to reach the agreement referred to in paragraph 3 of the same Article 11, the State must make the option referred to in the above paragraph, up to six (6) months before the termination of the contract without prejudice to the provisions of the following numbers.-----
3. If the reason for the termination of the contract is rescission the State must make the option referred to in the previous number and communicate it to the **Concessionaire**, together with the rescission notification.-----
4. If the contract is terminated by agreement between the State and the **Concessionaire**, said agreement must include the option referred to in paragraph 1 of this article. -----
5. If the State does not make the option referred to in the previous numbers within the stipulated periods, it will be understood that the State opted for not receiving those assets. -----

----- **CHAPTER III** -----

----- **SPECIAL OBLIGATIONS OF THE CONCESSIONAIRE** -----

----- **ARTICLE 14**-----

----- **FEES** -----

1. The **Concessionaire** shall pay to **DGEG** a fee for executing the contract in the amount of ten

thousand Euros (€ 10,000.00). -----

2. Except in the case of transfers to Affiliates as per Article 21 hereunder which shall not be subject to the payment of any fees, in the case of authorised transmission of contractual rights to third parties, the **Concessionaire** shall pay **DGEG** a fee in the amount of: -----
 - a) ten thousand Euros (€ 10,000.00) in the event the transmission takes place during the first three years of the concession. -----
 - b) twenty thousand Euros (€ 20,000.00) in the event the transmission takes place during the remaining years of the initial period and its eventual extensions. -----
 - c) forty five thousand Euros (€ 45,000.00) in the event the transmission takes place during the production period. -----
3. Settlement and collection of the fees referred to in this article shall be done in accordance with the stipulations of article 55 of DL 109/94. -----

----- **ARTICLE 15** -----

----- **SURFACE RENTALS** -----

1. During the term of the present contract, the **Concessionaire** shall pay the State an annual surface rental for each square kilometre of concession area which shall be calculated as follows: -----
 - a) during the first three (3) years of the initial period: fifteen Euros and fifty cents per square kilometre (€ 15.00/km²); -----
 - b) during the remaining years of the initial period: thirty Euros per square kilometre (€ 30.00 /km²);-----
 - c) during the first (1st) extension year of the initial period: forty Euros per square kilometre (€ 40.00/ km²); -----
 - d) during the second (2nd) extension year of the initial period: sixty Euros per square kilometre

(€ 60.00/ km²); -----

e) during the production period: one hundred and one hundred Euros per square kilometre (€ 100.00/km²); -----

2. The amount of the surface rental corresponding to the year in which the contract is signed will be proportional to the number of the remaining months of the year. -----
3. Settlement and collection of the surface rentals shall be made in accordance with the stipulations of article 53 of DL 109/94. -----

----- **ARTICLE 16** -----

----- **CONFIDENTIALITY** -----

1. Throughout the validity of the contract, the **Concessionaire** as well as its Affiliates and contractors shall maintain confidential all the data obtained in the course of their activities; disclosure to third parties is only possible with the express agreement of **DGEG**. -----
2. All the information provided to **DGEG** by the **Concessionaire** shall be kept confidential for five (5) years from reception by **DGEG** or until the termination of the contract if it occurs before. -----

----- **ARTICLE 17** -----

----- **BENEFITS OFFERED TO THE STATE** -----

1. During the first three (3) of the Concession Contract the **Concessionaire** commits to provide **DGEG**, annually, with a financing equivalent to a value of eight thousand five hundred Euros (€ 8,500.00) per year and equivalent to ten thousand Euros (€ 10,000.00) per year from the 4th to the 8th year and any subsequent years that the **Concessionaire** may retain the concession for: -----
 - a) transfer of technology programmes, updating/training and promotional actions; -----
 - b) acquisition and/or contracting of equipment/specialized of technical means; -----
 - c) preservation and treatment of technical data and information. -----

2. In case of natural gas production, with or without condensate, the Concessionaire, after having recovered the oilfield(s) exploration and development expenses and deducted the operating costs of production, that is, once it attains net profit, further undertakes to pay to **DGEG** on a continuing basis: -----
- two percent (2%) of the value of the first five (5) million barrels of oil equivalent produced; -----
 - five percent (5%) of the value of the next five (5) to **ten (10) million** barrels of oil equivalent produced; -----
 - seven percent (7%) of the value of the following barrels of oil equivalent produced. -----
3. Within thirty (30) days after the end of each quarter the Concessionaire shall present all relevant information to **DGEG** to enable the payment due from Concessionaire to DGEG pursuant to paragraph 2 above to be calculated. Such information shall include production figures, aggregate exploration, development, production, and operating costs; values achieved for petroleum sales and taxes levied or liable to be levied. The **Concessionaire** shall provide to **DGEG** its estimate of the amount owed by Concessionaire to **DGEG** with respect to that quarter. **DGEG** will then issue **Concessionaire** an invoice with respect to the due benefit. This benefit will be paid within thirty (30) days of the receipt of **DGEG's** invoice. The lack of payment of this benefit constitutes serious violation of the contractual obligations of the **Concessionaire**, provided always that in the event the Concessionaire does not agree with the amount invoiced, it shall have the right, after payment of the amount not disputed, to refer the value in disagreement to an Arbitral Tribunal in accordance with Article 22. -----
4. Settlement and collection of the benefit referred in the previous paragraph will have as reference the conversions internationally accepted by the oil industry which are 1 boe (barrels of oil equivalent) = 6000 cubic feet of gas = 1 barrel of oil. -----

5. In the case of liquid oil production, the taxes to be applied over the total annual production of each oil field, are established on article 51 of Decree law 109/94 .-----

----- CHAPTER IV -----

----- INSPECTION AND BONDS -----

----- ARTICLE 18 -----

----- INSPECTION -----

1. The activities carried out under the Concession Contract are subject to inspection by **DGEG**, without prejudice of inspection by other Government agencies. -----
2. The **Concessionaire** may not hinder or obstruct the access to the concession area for the purposes mentioned in the previous number and must put at the disposal of the inspectors all the adequate means to accomplish their mission. -----
3. The **Concessionaire** must allow access to all the records concerning its activity that may be considered necessary to the inspection by **DGEG** and provide all explanations requested by the latter. -----
4. Whenever the **Concessionaire** does not observe **DGEG**'s resolutions issued within the scope of its inspection powers, the latter may act to correct the situation, directly or through third parties, at the **Concessionaire**'s expense. -----

----- ARTICLE 19 -----

----- AUDITS -----

All the expenses resulting from extraordinary audits, namely those related to just third party claims, will be charged to the **Concessionaire** as long as they reveal irregularities of its responsibility. -----

----- ARTICLE 20 -----

----- BONDS -----

1. To guarantee the exact fulfilment of the contractual obligations, including the payment of fines and indemnities for damages caused to the State or to third parties, the **Concessionaire** shall post a bond in favour of **DGEG** under the terms of the following numbers. During the production period no bond will be required. -----
2. The bond shall be posted in favour of **DGEG** by cash deposit, bank guarantee or guaranteed security. Both the bank guarantee and the guaranteed security must include a clause assuring that payment shall be immediate, at the first written request, no documentary justification or any other being required. -----
3. Under the terms of article 74 of DL 109/94 the bonds shall be posted annually at the same time as the annual work plan during the initial period and their value will be the equivalent to fifty percent (50%) of the respective budget as referred in article 31 of DL 109/94. -----
4. The bonds are terminated at the end of the respective period of validity, except in the cases of those that must be renewed or replaced; these remain in force while the corresponding renewal or replacement is not posted. -----

----- **CHAPTER V** -----

----- **TRANSMISSION OF RIGHTS AND RESPONSIBILITIES OF THE CONCESSIONAIRE** -----

----- **ARTICLE 21** -----

----- **ASSOCIATION WITH THIRD PARTIES AND TRANSMISSION OF THE POSITION** -----

1. The **Concessionaire** cannot form associations with third parties, nor can transmit to third parties the position of Concessionaire without the previous authorisation of the Minister, as stated in article 77 of DL 109/94. Any transfer to an Affiliate, which shall not be considered as a third party, shall be subject to the same procedure though its approval shall not be unreasonably withheld. -----
If **DGEG** does not pronounce on the transmission to the Affiliate within thirty (30) days, the transmission

is considered approved. -----

2. Under the terms of the previous number, the transmission to third parties of quotas or shares representing more than fifty percent (50%) of the participation is considered equivalent to the transmission of the position as **Concessionaire**. -----

3. For the purposes of the present Concession Contract, "Affiliate" means any company or legal entity that: -----

a) -controls either directly or indirectly a Party or; -----

b) -is controlled directly or indirectly by such Party or; -----

c) -is directly or indirectly controlled by a company or legal entity which directly or indirectly controls such Party. -----

"Control" means the right to exercise of fifty percent (50%) or more of the voting rights in the appointment of the directors to the Board or members of a similar corporate body to such body, as the case may be, of such company or legal entity. -----

----- **CHAPTER VI** -----

----- **APPLICABLE LAW; ARBITRATION; NOTIFICATIONS** -----

----- **ARTICLE 22** -----

----- **ARBITRATION COURT** -----

1. As defined in the article 80 of DL 109/94, disputes which may arise between the **State** and the **Concessionaire** concerning the interpretation or application of the legal and contractual terms which rule the association between the parties as contracting parties, will be settled by an arbitration court to be held in Lisbon under the terms of Portuguese legislation. -----

2. For the purposes of the previous number, the **State** and the **Concessionaire** establish the arbitration convention which constitutes Annex III to this Contract. -----

----- **ARTICLE 23** -----

----- **NOTIFICATIONS** -----

1. All the notifications, communications and other correspondence relating the present contract will be addressed to the permanent representation in Portugal of the **Concessionaire** which address is the following:

Mohave Oil and Gas Corporation

Praça do Príncipe Real, 11-1º, 1250 – 184 Lisboa.

Tel.:+351-21 346 13 85

Fax: +351-21 346 13 89

A copy of all the correspondence referred to above will be also sent to the **Concessionaire's** main office in the United States of America which address is the following: 24 Waterway Avenue, Suite 350, The Woodlands, TX 77380. -----

In case of change of address, the **Concessionaire** shall communicate the new address in writing to **DGEG** thirty (30) days before it occurs. -----

2. The **Concessionaire** is considered notified on the third weekday following the mail registration date in accordance and under the terms of the previous numbers. -----

3. The notified party can refute the presumption established in the previous paragraph when the reception of the notification occurs in a later date than the presumed one, for reasons that cannot be imputed to it. -----

The present contract, issued in duplicate, comprises 17 numbered sheets, and three annexes, I and II comprising one page each and III two pages. All the pages are initialled and the last one is signed by the signatories, the witness and the notary. The original of the contract and its annexes will be filed in **DGEG**. -----

Mr. Engº. Carlos Augusto Amaro Caxaria and Mrs. Maria de Santa Teresinha Ribeiro Pereira Barroso Abecasis, the first **as Subdiretor-General and** the second as head of the Divisão para a Pesquisa e Exploração de Petróleo of the Direcção-Geral de Energia e Geologia, are the witness and will sign the contract together with the signatories,

And after reading aloud this document, I witness that the signatories accepted this contract on confirmation of which i will sign the present deed. -----

Primeiro Outorgante:

(José Alves Escada da Costa)

Segundo Outorgante:

(Arlindo Augusto Alves Filho)

Testemunhas:

(Carlos Augusto Amaro Caxaria)

(Maria de Santa Teresinha Barroso Abecasis)

Oficial Público

(José Carlos Silva Pereira)

Unofficial translation