

PETROLEUM CONTRACT

BETWEEN

CHINA NATIONAL OFFSHORE OIL CORPORATION

AND

PRIMELINE ENERGY CHINA LIMITED
PRIMELINE PETROLEUM CORPORATION

FOR

CONTRACT AREA 33/07

IN

THE EAST CHINA SEA

OF

THE PEOPLE'S REPUBLIC OF CHINA

15 June 2012

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Preamble

THIS CONTRACT is entered into in Qingdao on this 15th day of June, 2012

BETWEEN:

China National Offshore Oil Corporation (hereafter referred to as "CNOOC"), a company organized and existing under the laws of the People's Republic of China, having its headquarters domiciled in Beijing, as one part; and

Primeline Energy China Limited (hereafter referred to as "PECL"), a company organized and existing under the laws of Cayman Islands, having its headquarters in Hong Kong; and

Primeline Petroleum Corporation (hereafter referred to as "PPC"), a company organized and existing under the laws of British Virgin Islands, having its headquarters in Hong Kong, as the other part.

PECL and PPC are collectively referred to as the "Foreign Contractor".

WITNESSETH

WHEREAS, all Petroleum resources under the internal waters, territorial sea, and continental shelf of the People's Republic of China and under all sea areas within the limits of national jurisdiction over the maritime resources of the People's Republic of China are owned by the People's Republic of China;

WHEREAS, CNOOC has the exclusive right to explore for, develop, produce and market Petroleum of the Contract Area in accordance with the Regulations of the People's Republic of China on Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises" (hereafter referred to as the Petroleum Regulations"), promulgated on January 30, 1982 and as amended from time to time by the State Council of the People's Republic of China;

WHEREAS, the Foreign Contractor desires and agrees to provide funds, and apply its appropriate and advanced technology and managerial experience to cooperate with CNOOC for the exploitation of Petroleum resources within the Contract Area and agrees to be subject to the laws, decrees, and other rules and regulations of the People's Republic of China in the implementation of the Contract.

NOW, THEREFORE, IT IS MUTUALLY AGREED as hereafter set forth:

Article 1 Definitions

The following words and terms used in the Contract shall have, unless otherwise specified herein, the following meanings:

- 1.1 "Petroleum" means Crude Oil and Natural Gas deposited in the subsurface and being extracted or already extracted, including any valuable non-hydrocarbon substances produced in association with Crude Oil and/or Natural Gas separated or extracted therefrom.
- 1.2 "Crude Oil" means solid and liquid hydrocarbons in their natural state, including any liquid hydrocarbons extracted from Natural Gas except for methane (CH₄).
- 1.3 "Natural Gas" means Non-associated Natural Gas and Associated Natural Gas in their natural state.
- 1.4 "Non-associated Natural Gas" means all gaseous hydrocarbons produced from gas reservoirs, including wet gas, dry gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas.
- 1.5 "Associated Natural Gas" means all gaseous hydrocarbons produced in association with Crude oil from oil reservoirs, including residue gas remaining after the extraction of liquid hydrocarbons therefrom.

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- 1.6 “Oil Field” means an accumulation of Petroleum within the Contract Area composed of one or several overlapping oil-bearing zones, within one trap or within associated traps of the same independent geological structure, which may or may not be complicated by faulting, and which has commercial value determined in accordance with the procedures stipulated in Article 11 hereof.
- 1.7 “Gas Field” means an accumulation of Petroleum within the Contract Area composed of one or several overlapping gas bearing zones, within one trap or within associated traps of the same independent geological structure, which may or may not be complicated by faulting, and which has commercial value determined in accordance with the procedures stipulated in Article 18 hereof.
- 1.8 “Petroleum Operations” means the Exploration Operations, the Development Operations, the Production Operations, and other activities related to these operations carried out under the Contract.
- 1.9 “Exploration Operations” means operations carried out for the purpose of discovering Petroleum-bearing traps by means of geological, geophysical, geochemical and other methods including exploratory well drilling; all the work undertaken to determine the commerciality of traps in which Petroleum has been discovered including Appraisal Well drilling; and feasibility studies, formulation of the Overall Development Program; and activities related to all such operations.
- 1.10 “Development Operations” means operations carried out for the realization of Petroleum production from the date of approval of the Overall Development Program for any Oil Field and/or Gas Field by the competent authorities of the Chinese Government including design, construction, installation, drilling, and related research work as well as relevant activities carried out before the Date of Commencement of Commercial Production for the realization of Petroleum production.
- 1.11 “Production Operations” means operations and all activities related thereto carried out for Petroleum production of an Oil Field and/or Gas Field from the Date of

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Commencement of Commercial Production, such as extraction, injection, stimulation, treatment, storage, transportation, lifting, etc.

- 1.12 “Basic Block” means a section of the surface of the earth bounded by the segments of longitude and latitude of equal distance of ten (10) minutes.
- 1.13 “Contract Area” means an offshore surface area demarcated with geographic coordinates for the cooperative exploitation of Petroleum resources, and in the Contract, means the offshore surface area stipulated in Article 3.1 hereof.
- 1.14 “Exploration Area” means an offshore surface area within the Contract Area which has not been relinquished before the expiration of the exploration period and in which Development Operations and Production Operations have not begun.
- 1.15 “Development Area” means a portion of the Contract Area covering an Oil Field and/or Gas Field which has been designated for development and any potential contiguous extension areas to such Field(s) within the Contract Area. The Development Area(s) shall be proposed by the Operator, demarcated by the Joint Management Committee (“JMC”) and delineated as such in the Overall Development Program approved by the competent authorities of the Chinese Government. The Development Area shall automatically cease to be in force as of the date of approval of the Production Area by CNOOC.
- 1.16 “Production Area” means an offshore surface area within any Development Area for the purpose of the performance of the Production Operations within the said Development Area after completion of the Development Operations. The Production Area proposed by the Operator, demarcated by JMC shall be submitted to CNOOC for approval before the Date of Commencement of Commercial Production.
- 1.17 “Date of Commencement of Commercial Production” means the date of commencement of the production of Crude Oil and/or Natural Gas from any Oil Field and/or Gas Field determined and announced by JMC in accordance with the provisions in Article 7.2.5 hereof, after completion of the Development

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Operations as provided in the Overall Development Program for the said Oil Field and/or Gas Field and having obtained the Operation Permission License of the Production Installation issued by the competent authorities of the Chinese Government.

- 1.18 “Calendar Year” means a period of twelve (12) consecutive Gregorian months under the Gregorian Calendar beginning on the first day of January and ending on the following thirty-first day of December in the same year.
- 1.19 “Contract Year” means a period of twelve (12) consecutive Gregorian months under the Gregorian Calendar, within the term of the Contract, beginning on the Date of Commencement of the Implementation of the Contract as mentioned in Article 1.40 herein or any anniversary thereof.
- 1.20 “Production Year” means, in respect of each Oil Field and/or Gas Field, a period of twelve (12) consecutive Gregorian months under the Gregorian Calendar beginning on the Date of Commencement of Commercial Production of such Field or anniversary thereof.
- 1.21 “Calendar Quarter” means a period of three (3) consecutive Gregorian months under the Gregorian Calendar beginning on the first day of January, the first day of April, the first day of July, or the first day of October.
- 1.22 “Exploratory Well” means any Wildcat and/or Appraisal Well drilled within the exploration period, including dry hole(s) and discovery well(s).
- 1.23 “Wildcat” means a well drilled on any geological trap for the purpose of searching for Petroleum accumulations, including wells drilled for the purpose of obtaining geological and geophysical parameters.
- 1.24 “Appraisal Well” means an Exploratory Well drilled for the purpose of evaluating the commerciality of a geological trap in which Petroleum has been discovered.
- 1.25 “Development Well” means a well drilled after the date of approval of the Overall Development Program for the purpose of producing Petroleum, increasing

production or accelerating extraction of Petroleum, including production wells, injection wells and dry holes. Any Appraisal Well drilled during the production period shall be deemed as Development Well.

- 1.26 “Work Program” means all types of plans formulated for the performance of the Petroleum Operations, including plans for exploration, development and production.
- 1.27 “Overall Development Program” means a plan prepared by the Operator for the development of an Oil Field and/or Gas Field which has been reviewed and adopted by JMC, confirmed by CNOOC and approved by the competent authorities of the Chinese Government and such plan shall include, but shall not be limited to, recoverable reserves, the development well pattern, master design, production profile, economic analysis and time schedule of the Development Operations.
- 1.28 “Deemed Interest” means interest on the development costs calculated in accordance with the rate of interest stipulated in Article 12.2.3.2 hereof when the development costs incurred in each Oil Field and/or Gas Field within the Contract Area are recovered by the Parties.
- 1.29 “Oil Field and/or Gas Field Straddling a Boundary” means an Oil Field and/or Gas Field extending from the Contract Area to one or more other contract areas and/or areas in respect of which no Petroleum contracts have been signed.
- 1.30 “Annual Gross Production of Natural Gas” means the total amount of Natural Gas produced from each Oil Field and/or Gas Field within the Contract Area considered separately in each Calendar Year, less the amount of Natural Gas used for Petroleum Operations and the amount of losses, which is saved and measured by a measuring device at the delivery point specified in Article 14.3.I hereof.
- 1.31 “Annual Gross Production of Crude Oil” means the total amount of Crude Oil produced from each Oil Field within the Contract Area considered separately in each Calendar Year, less the amount of Crude Oil used for Petroleum Operations



and the amount of losses, which is saved and measured by a measuring device at the delivery point specified in Article 14.3.1 hereof.

- 1.32 “Contractor” means the Foreign Contractor specified in the Preamble hereto, including assignee(s) in accordance with Article 23 hereof.
- 1.33 “Parties” means CNOOC and the Contractor.
- 1.34 “Operator” means an entity responsible for the performance of the Petroleum Operations under the Contract.
- 1.35 “Subcontractor” means an entity which provides the Operator with goods or services for the purpose of the Contract.
- 1.36 “Third Party” means any individual or entity except CNOOC, the Contractor and any of their Affiliates.
- 1.37 “Chinese Personnel” means any citizen of the People’s Republic of China, including CNOOC’s personnel and Chinese citizens employed by the Contractor and/or the Subcontractor(s), involved in Petroleum Operations under the Contract.
- 1.38 “Expatriate Employee” means any person employed by the Contractor, Subcontractor(s) or CNOOC who has not the nationality of the People’s Republic of China. Overseas Chinese who reside abroad and have the nationality of the People’s Republic of China and other Chinese abroad, when they are employed by the Contractor, Subcontractor(s) or CNOOC shall also be deemed as Expatriate Employees within the scope of the Contract.
- 1.39 “Affiliate” means in respect of the Contractor:
- (a) any entity in which any company comprising the Contractor directly or indirectly holds fifty percent (50%) or more of the voting rights carried by its share capital; or

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- (b) any entity which directly or indirectly holds fifty percent (50%) or more of the aforesaid voting rights of any company comprising the Contractor; or
- (c) any other entity whose aforesaid voting rights are held by an entity mentioned in (b) above in an amount of fifty percent (50%) or more;

“Affiliate” means, in respect of CNOOC, any subsidiary, branch, or regional corporation of CNOOC and any entity in which CNOOC directly or indirectly holds fifty percent (50%) or more of the voting rights carried by its share capital.

- 1.40 “Date of Commencement of the Implementation of the Contract” means the first day of the month following the month in which the Contractor has received the notification from CNOOC of the approval of the Contract by the Ministry of Commerce of the People’s Republic of China.
- 1.41 “LS36-1 Production Facility Assets” means all assets, purchased, installed and constructed by the Parties for the Natural Gas accumulation known as the Lishui 36-1 Gas Field, and including a production platform which will be constructed at the Lishui 36-1 Gas Field and a Natural Gas processing terminal to be constructed on land at Niyu Island at Wenzhou, Zhejiang Province together with a subsea pipeline connecting the platform and terminal and the pipeline connecting the terminal to the provincial grid.
- 1.42 “LS36-1 SDA” means the Supplemental Development Agreement entered into between the Parties on 17th March 2010 in relation to the Lishui 36-1 Gas Field.

Article 2

Objective of the Contract

- 2.1 The primary objective of the Contract is to explore for, develop and produce Petroleum that may exist within the Contract Area.

- 2.2 The Contractor shall apply its appropriate and advanced technology and assign its competent experts to perform the Petroleum Operations.
- 2.3 During the performance of the Petroleum Operations, the Contractor shall transfer its technology to the Chinese Personnel and train them.
- 2.4 The Contractor shall pay all the exploration costs required for the Exploration Operations (including the prospecting lease right fees as payable under law). In the event that any Oil Field and/or Gas Field is discovered within the Contract Area, the development costs of such Oil Field and/or Gas Field shall be paid by the Parties in proportion to their participating interests: fifty-one percent (51%) by CNOOC and forty-nine percent (49%) by the Contractor. In the event that CNOOC opts to participate at a level less than fifty-one percent (51%) of the participating interests, or not to participate in the development of the Field, the Contractor shall pay the remaining development costs necessary for the development of the Field in accordance with Article 12.1.2 hereof.
- 2.5 If any Oil Field and/or Gas Field is discovered within the Contract Area, the Petroleum produced therefrom shall, from the Date of Commencement of Commercial Production of such Field, be allocated in accordance with Articles 12, 13 and/or 18 hereof.
- 2.6 Nothing contained in the Contract shall be deemed to confer any right on the Contractor other than those rights expressly granted hereunder.

Article 3

Contract Area

- 3.1 The Contract Area as of the date of signature of the Contract covers a total area of five thousand eight hundred and seventy seven (5,877) square kilometers, as marked out by the geographic location and the coordinates of the connecting points of the boundary lines in Annex I attached hereto.



The said total area of the Contract Area shall be reduced in accordance with Articles 4, 5, 11 and 18 hereof.

- 3.2 Except for the rights as expressly provided by the Contract, no right is granted in favor of the Contractor to the surface area, subsea, sea-bed, sub-soil or to any natural resources or aquatic resources other than Petroleum existing therein, and any things left on the sea-bed within the Contract Area.

Article 4 **Contract Term**

- 4.1 The term of the Contract shall include an exploration period, a development period and a production period.
- 4.2 The exploration period, beginning on the Date of Commencement of the Implementation of the Contract, shall be divided into three (3) phases and shall consist of seven (7) consecutive Contract Years, unless the Contract is sooner terminated, or the exploration period is extended in accordance with Article 25 hereof and/or Article 4.3 herein. The three (3) phases shall be as follows:
- (a) the first phase of three (3) Contract Years (the first Contract Year through the third Contract Year); and
 - (b) the second phase of two (2) Contract Years (the fourth Contract Year through the fifth Contract Year); and
 - (c) the third phase of two (2) Contract Years (the sixth Contract Year through the seventh Contract Year).
- 4.3 Where time is insufficient to complete the appraisal work on a Petroleum discovery made close to the expiration of the exploration period or where the time of the appraisal work on a Petroleum discovery in accordance with the appraisal Work Program approved by JMC as stated in Articles 11 and 18 hereof extends



beyond the exploration period, the exploration period as described in Article 4.2 herein shall be extended. The period of extension shall be whatever period CNOOC regards as a reasonable period of time required to complete the above-mentioned appraisal work in order to enable JMC to make a decision on the commerciality of the said Petroleum discovery in accordance with Article 11 or 18 hereof, and until the competent authorities of the Chinese Government approves or finally rejects the Overall Development Program.

- 4.4 The development period of any Oil Field and/or Gas Field within the Contract Area shall begin on the date of approval of the Overall Development Program of the said Oil Field and/or Gas Field by the competent authorities of the Chinese Government and end on the date of the entire completion of the Development Operations set forth in the Overall Development Program, excluding the time for carrying out additional development projects in the production period in accordance with Article 11.9 hereof.
- 4.5 The production period of any Oil Field and/or Gas Field within the Contract Area shall be a period of fifteen (15) consecutive Production Years beginning on the Date of Commencement of Commercial Production unless otherwise provided in Article 4.6 herein and Article 18.2 or 25 hereof. Under such circumstances as where the construction of an Oil Field and/or Gas Field is to be conducted on a large scale, and the time span required therefore is long, or where separate production of each of the multiple oil or gas producing zones of a Field is required, or under other special circumstances, the production period thereof shall, when it is necessary, be properly extended with the approval of the competent authorities of the Chinese Government.
- 4.6 Suspension or abandonment of production of an Oil Field and/or Gas Field.
- 4.6.1 In the event that the Parties agree to suspend temporarily production from an Oil Field and/or Gas Field which has entered into commercial production, the Production Area covered by that Oil Field and/or Gas Field may be retained within the Contract Area. In no event shall the period of



such retention extend beyond the date of the expiration of the production period of that Oil Field and/or Gas Field except as otherwise provided in Article 25.4 hereof. The duration of the relevant period of production suspension and the arrangement for the maintenance operations during the aforesaid period of suspension shall be proposed by the Operator, and shall be decided by JMC through discussion. With respect to the aforesaid Oil Field and/or Gas Field which has been suspended and retained within the Contract Area, in the event that production is restored during the period of such retention, the production period of that Oil Field and/or Gas Field shall be extended correspondingly. In the event that the Parties fail to reach an agreement on the restoration of production by the expiration of the production suspension period decided by JMC through discussion, the party to the Contract who wishes to restore production shall have the right to restore production solely. The other party to the Contract may later elect to participate in production but shall have no rights or obligations in respect of such Field for the solely restored production period.

4.6.2 Abandonment of production from Oil Field and/or Gas Field within the production period.

4.6.2.1 During the production period, either party to the Contract may propose to abandon production from any Oil Field and/or Gas Field within the Contract Area, provided, however, that prior written notice shall be given to the other party to the Contract. The other party to the Contract shall make a response in writing within ninety (90) days from the date on which the said notice is received. If the other party to the Contract also agrees to abandon production from the said Oil Field and/or Gas Field, then the abandonment costs shall be paid by the Parties in proportion to their participating interests in the development of such Oil Field and/or Gas Field. From the date on which the other party to the Contract makes the response in writing that it agrees to

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abandonment, the production period of such Oil Field and/or Gas Field shall be terminated and such Oil Field and/or Gas Field shall be excluded from the Contract Area.

4.6.2.2 If the Contractor notifies CNOOC in writing of its decision on abandoning production from an Oil Field and/or Gas Field, while CNOOC decides not to abandon production from such Oil Field and/or Gas Field, then from the date on which the Contractor receives CNOOC's written response of its aforesaid decision, all of the Contractor's rights and obligations under the Contract in respect of the said Field, including but not limited to the responsibilities for payment of abandonment costs in respect of such Field, shall be terminated automatically, provided that the Contractor shall not transfer to CNOOC any of the Contractor's liabilities and obligations in respect of the said Field. The said Field shall be excluded from the Contract Area.

4.6.2.3 The Parties shall abide by the relevant abandonment regulations issued by the competent authorities of the Chinese Government

4.7 The term of the Contract shall not go beyond thirty (30) consecutive Contract Years from the Date of Commencement of the Implementation of the Contract, unless otherwise stipulated hereunder.

Article 5

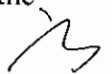
Relinquishment

5.1 The Contractor shall relinquish portions of the Contract Area in accordance with the following provisions:

5.1.1 At the expiration of the first phase of the exploration period, the Contractor shall relinquish twenty-five percent (25%) of the Contract Area as of the date of signature of the Contract.



- 5.1.2 At the expiration of the second phase of the exploration period, the Contractor shall relinquish twenty-five percent (25%) of the Contract Area remaining in the second phase after deducting each Development Area and/or Production Area therefrom.
- 5.1.3 In any of the following cases, the Contractor shall relinquish the remaining Contract Area except the areas referred to in Article 5.1.4 herein:
- (a) at the expiration of the last phase of the exploration period; or
 - (b) if the Contractor exercises its option under Article 6.1(b) of the Contract, at the expiration of the said exploration phase if the Contractor so selects; or
 - (c) at the expiration of the extended period, in the event that the exploration period is extended in accordance with Article 4.3 or 25 hereof.
- 5.1.4 In the execution of Article 5.1.3 herein, a Development Area, Production Area or an area corresponding to a trap with a Petroleum discovery which will be appraised and/or being appraised or included in an Overall Development Program awaiting approval shall not be regarded as an area to be relinquished.
- 5.1.5 At the expiration of the production period specified in Article 4.5 hereof, any Oil Field and/or Gas Field within the Contract Area shall be excluded from the Contract Area.
- 5.2 The areas relinquished pursuant to Articles 5.1.1 and 5.1.2 herein shall be made up of as few rectangles as possible so as to facilitate further Exploration Operations.
- 5.3 Within ninety (90) days prior to the date of each relinquishment, the Contractor shall submit to CNOOC a report on its completed Exploration Operations on the



areas to be relinquished, including a map showing the areas to be relinquished with its coordinates of the connecting points of the boundaries.

Article 6

Minimum Exploration Work Commitment and Expected Minimum Exploration Expenditures

- 6.1 The Contractor shall use its reasonable efforts to begin to perform the offshore Exploration Operations within six (6) months from the Date of Commencement of the Implementation of the Contract and to spud the first Wildcat within ten (10) months from the Date of Commencement of the Implementation of the Contract.
- 6.2 The Contractor shall fulfil the minimum exploration work commitment for each phase of the exploration period in accordance with the following provisions.

6.2.1

First phase minimum exploration obligations and expenditures redacted

6.2.2

Second phase minimum exploration obligations and expenditures redacted

6.2.3

Third phase minimum exploration obligations and expenditures redacted



- 6.2.4 The Wildcats specified in Articles 6.2.1, 6.2.2 and 6.2.3 herein for each exploration phase shall not be substituted by Appraisal Wells without the consent of CNOOC.
- 6.2.5 With respect to the minimum exploration work commitment for each phase of the exploration period committed by the Contractor in accordance with Articles 6.2.1, 6.2.2 and 6.2.3 herein when calculating whether the minimum exploration work commitment has been fulfilled, the number of Wildcats drilled and the kilometers of seismic lines actually completed shall be the basis of such calculation. However, the Wildcats abandoned for technical reasons without reaching their predetermined geological objective shall not count as the Wildcats actually fulfilled by the Contractor thereunder without the consent of CNOOC.
- 6.3 At the expiration of the first phase or the second phase of the exploration period, the Contractor has the following options in accordance with the terms of this Contract:
- (a) to enter the next phase and continue exploration; or
 - (b) to conduct only appraisal operations and/or development operations in the Petroleum discoveries awaiting appraisal decided by procedures under Article 11 of the Contract, provided that the minimum obligations of the selected exploration phase by the Contractor have been fulfilled; and the areas under Article 5.1.3(b) hereof have been relinquished; or
 - (c) to terminate the Contract.
- 6.4 At the expiration of any phase of the exploration period, if the actual exploration work fulfilled by the Contractor is less than the minimum exploration work commitment set forth for the said exploration phase and if the Contractor opts to

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enter the next phase and continue exploration under Article 6.1(a) herein, the Contractor shall give reasons to CNOOC for the underfulfillment; and, with the consent of CNOOC, the unfulfilled balance of the said phase shall be added to the minimum exploration work commitment for the next exploration phase.

At any time within the exploration period if there is any commercial discovery, JMC shall, at the request of any party to the Contract, discuss the possibility of increasing the exploration work. Any Wildcats and seismic lines involved in such increase shall be deducted from the minimum exploration work commitment.

- 6.5 Where the Contractor has fulfilled ahead of time the minimum exploration work commitment for any phase of the exploration period, the duration of such exploration phase stipulated in Article 4.2 hereof shall not be shortened thereby, and if the exploration work actually fulfilled by the Contractor exceeds the minimum exploration work commitment for the said exploration phase, the excess Wildcat shall be deducted from and credited against the minimum exploration work commitment for the next exploration phase.
- 6.6 If any addition or deduction is made under Article 6.4 or Article 6.5 herein in regard to the minimum exploration work commitment for any phase of the exploration period, the increased or reduced exploration work shall become the new minimum exploration work commitment for the Contractor to fulfill in the said phase.
- 6.7 At the expiration of any phase during the exploration period, if the exploration work actually fulfilled by the Contractor is less than the minimum exploration work commitment for such phase or less than the new minimum exploration work commitment as mentioned in Article 6.6 herein, and if, regardless of whether the expected minimum exploration expenditures are fulfilled or not fulfilled, the Contractor opts to terminate the Contract under Article 6.1(c) herein, or if the said phase is the last exploration phase, the Contractor shall, within thirty (30) days from the date of the decision of election to terminate the Contract or within thirty (30) days from the date of the expiration of the exploration period, pay

CNOOC only any unfulfilled balance of the minimum exploration work commitment (or of the new one) for the phase or phases entered into in U.S. dollars after it has been converted into a cash equivalent using the method provided in Annex II - Accounting Procedure hereto. However, if the minimum exploration work commitment for the exploration period is fulfilled while its expected corresponding minimum exploration expenditures are not fulfilled, the unfulfilled part shall be deemed as a saving and shall not be paid to CNOOC.

Article 7

Management Organization and Its Function

7.1 For the purpose of the proper performance of the Petroleum Operations, the Parties shall establish a JMC within forty-five (45) days from the Date of Commencement of the Implementation of the Contract.

7.1.1 CNOOC and the Contractor shall each appoint an equal number of representatives (one to three) to form JMC, and each party to the Contract shall designate one of its representatives as its chief representative. The representative of the Operator of the companies comprising the Contractor shall be the chief representative of the Contractor. All the aforesaid representatives shall have the right to present their views on the proposals at meetings held by JMC. When a decision is to be made on any proposal, the chief representative from each party to the Contract shall be the spokesman on behalf of the party to the Contract.

The chairman of JMC shall be the chief representative designated by CNOOC, and the vice chairman shall be the chief representative designated by the Contractor. The chairman of JMC shall preside over meetings of JMC. In his absence, one representative present at the meeting from CNOOC shall be designated to act as the chairman of the meeting. In the absence of the vice chairman of JMC, one representative present at the meeting from the Contractor shall be designated to act as the vice

chairman of the meeting. The Parties may, according to need, designate a reasonable number of advisors, who may attend, but shall not be entitled to vote at, JMC meetings.

7.1.2 A regular meeting of JMC shall be held at least once a Calendar Quarter, and other meetings, if necessary, may be held at any time at the request of any party to the Contract, upon giving reasonable notice to the other party to the Contract of the date, time and location of the meeting and the items to be discussed.

7.2 The Parties shall empower JMC to:

7.2.1 Review and agree to the Work Program and budget proposed by the Operator and the amendment thereof;

7.2.2 Determine the commerciality of each trap on which a Petroleum discovery has been made in accordance with the Operator's appraisal report and report its decision to CNOOC for confirmation;

7.2.3 Review and agree to the Overall Development Program and budget and any amendments thereto for each Oil Field and/or Gas Field;

7.2.4 Approve or confirm the following items of procurement and expenditures:

(a) approve procurement of any item within the budget with a unit price exceeding Five Hundred Thousand U.S. dollars (U.S. \$500,000) or any single purchase order of total monetary value exceeding Three Million U.S. dollars (U.S.\$ 3,000,000);

(b) approve a lease of equipment, or an engineering subcontract or a service contract within the budget worth more than Three Million U.S. dollars (U.S. \$ 3,000,000); and

(c) confirm excess expenditures pursuant to Article 10.2.1 hereof and the expenditures pursuant to Article 10.2.2 hereof;

- 7.2.5 Determine and announce the Date of Commencement of Commercial Production of each Oil Field and/or Gas Field within the Contract Area;
 - 7.2.6 Determine the type and scope of information and data provided to any Third Party and Affiliate in relation to the Petroleum Operations in accordance with the “Provisions of the Ministry of Petroleum Industry of the People’s Republic of China for the Control of Data Concerning the Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises” (hereafter referred to as “Provisions for the Control of Data”) and Article 22.4 hereof;
 - 7.2.7 Demarcate boundaries of the Development Area and the Production Area of each Oil Field and/or Gas Field;
 - 7.2.8 Review and approve plans for transfer of the Production Operations in accordance with Article 8.8 hereof;
 - 7.2.9 Review and approve the insurance program proposed by the Operator, and emergency procedures on safety and environmental protection;
 - 7.2.10 Review and approve personnel training programs;
 - 7.2.11 Discuss, review, decide and approve other matters that have been proposed by either party to the Contract or submitted by the expert groups or the Operator; and
 - 7.2.12 Review and examine matters required to be submitted to relevant authorities of the Chinese Government and/or CNOOC for approval.
- 7.3 Decisions of JMC shall be made unanimously through consultation. All decisions made unanimously shall be deemed as formal decisions and shall be equally binding upon the Parties. When matters upon which agreement can not be reached arise, the Parties may convene another meeting in an attempt to find a new solution thereto based on the principle of mutual benefit.

7.3.1 In the exploration period, the Parties shall endeavour to reach an agreement through consultation on exploration programs and annual exploration Work Program. If the Parties fail to reach agreement through consultation, the Contractor's proposal shall prevail, provided that such proposal is not in conflict with the relevant provisions in Articles 4, 5, and 6 hereof.

7.3.2 If it is considered by the chairman and/or the vice chairmen or their nominees that a matter requires urgent handling or may be decided without convening a meeting, JMC may make decisions through facsimile or the circulation of documents.

7.4 JMC shall establish the following subordinate bodies:

7.4.1 Secretariat

The secretariat shall be a permanent organization consisting of two (2) secretaries. One secretary shall be appointed by each of the Parties. The secretaries shall not be members of JMC, but may attend meetings of JMC as observers. The duties of the secretariat are as follows:

- (a) to keep minutes of meetings;
- (b) to prepare summaries of and resolutions for JMC meetings;
- (c) to draft and transmit notices of meetings; and
- (d) to receive and transmit proposals, reports or plans, etc. submitted by the Operator and/or any party to the Contract, that require discussion, review or approval by JMC.

7.4.2 Expert Groups

Advisory expert groups shall be established in accordance with the requirements of the Petroleum Operations in various periods. Each expert

group shall consist of an equal number of Chinese Personnel and the Contractor's employees, and, with the agreement of JMC, any other personnel. JMC shall discuss and decide upon their establishment or dissolution, size, and the appointment of their leaders in accordance with the requirements of their work. The expert groups shall have the following functions:

- (a) to discuss and study matters assigned to them by JMC and submitted by the Operator to JMC for its review and approval and any other matter assigned to them by JMC, and to make constructive suggestions to JMC;
- (b) to have access to and observe and investigate the Petroleum Operations conducted by the Operator at its office and operating sites as work requires and to submit relevant reports to JMC; and
- (c) to attend meetings of JMC as observers at the request of JMC.

7.5 When one of the companies comprising the Contractor acts as the Operator, CNOOC shall have the right to assign professional representatives to the Operator's administrative and technical departments which are related to the Petroleum Operations, who may work at length together with the Operator's staff.

The professional representatives shall have access to the centers of research, design, and data processing related only to the execution of the Contract and to the operating sites to observe all the activities and study all the information with respect to the Petroleum Operations. Such access to the aforesaid centers outside the People's Republic of China shall be decided by JMC through discussion and shall be arranged by the Operator. The Operator shall use all reasonable endeavors to assist the professional representatives to have access to Third Parties' sites. The Operator's staff shall regularly discuss their work with the professional representatives of CNOOC.



The work of professional representatives of CNOOC shall be arranged by manager(s) of the departments of the Operator in which professional representatives work. Professional representatives of CNOOC, except for the professional representatives in charge of procurement who shall undertake their functions in accordance with Article 7.6 herein, shall not interfere in the decision making on relevant matters by departmental manager(s) of the Operator. However, such professional representatives shall have the right to make proposals and comments to departmental manager(s) of the Operator or to report directly to CNOOC's representatives in JMC. When CNOOC acts as the Operator, the Contractor may also assign professional representatives including professional representatives in charge of procurement.

7.5.1 On the principle of mutual cooperation and coordination, the Operator shall provide the professional representatives with necessary facilities and assistance to perform office work and to observe the operating sites, etc.

7.5.2 The numbers of professional representatives shall be decided by JMC through consultations.

7.6 When one of the companies comprising the Contractor acts as the Operator, in respect of the items listed in the procurement plan, the procedures and provisions hereunder shall be followed:

7.6.1 The procurement department of the Operator shall inform the professional representatives appointed by CNOOC in charge of procurement of all the items of procurement.

7.6.2 The Operator shall be subject to Articles 15.1 and 15.3 hereof and reach agreement through consultation with the professional representatives of CNOOC in charge of procurement when preparing the procurement plan in accordance with the Work Program and budget. The professional representatives of CNOOC in charge of procurement shall work out an inventory listing the equipment and materials which can be made and

provided in China and a list of manufacturers, engineering and construction companies and enterprises in China which can provide services and undertake subcontracting work.

- 7.6.3 Unless otherwise agreed upon by the Parties, the Operator shall, in general, make procurement by means of calling for bids and shall notify at the same time manufacturers and enterprises concerned both inside and outside China, and the work of calling for bids shall be done within the territory of China.
- 7.6.4 When any procurement is to be made by means of calling for bids, the manufacturers and enterprises in China applying for bidding which are included in a list delivered in advance to the Operator by the professional representatives of CNOOC in charge of procurement shall be invited. The professional representatives of CNOOC in charge of procurement shall have the right to take part in the work of calling for bids, including examination of the list of bidders to be invited, preparing and issuing bidding documents, opening bids and evaluation of bids, and shall have the right to consult with the Operator the determination of award of contracts and to participate in negotiation for subcontracts and service contracts.
- 7.6.5 With respect to the items of procurement by means of not calling for bids, the Operator's procurement department and the professional representatives of CNOOC in charge of procurement shall, in accordance with the provisions specified in Article 7.6.2 herein, define items which are to be procured in the People's Republic of China and items are to be procured abroad.
- 7.7 All costs and expenses with respect to the staff members of the Parties in the subordinate bodies of JMC established in accordance with Article 7.4 herein and those with respect to the professional representatives referred to in Article 7.5 herein and wages and salaries, costs and expenses incurred by the representatives of JMC referred to in Article 7.1 herein while attending JMC meetings shall be

paid by the Operator and charged respectively to the exploration costs, development costs and operating costs in accordance with Annex II - Accounting Procedure hereto.

- 7.8 The specific responsibilities and working procedures within JMC shall be discussed and determined by JMC in accordance with the relevant provisions herein.

Article 8

Operator

- 8.1 The Parties agree that Primeline Energy Operation International Ltd. (PEOIL), a company organized and existing under the laws of Cayman Islands, having its headquarters in Hong Kong, established by Primeline Energy China Limited and Primeline Petroleum Corporation, shall act as the Operator for the Exploration Operations, Development Operations and Production Operations within the Contract Area, unless otherwise stipulated in Article 8.8 herein and Article 30.4 hereof.
- 8.2 For the implementation of the Contract, each company comprising the Contractor and any entity that becomes the Operator shall register with the State Administration for Industry and Commerce of the People's Republic of China in accordance with the relevant provisions of the said State Administration for Industry and Commerce and shall obtain in advance the necessary approval from CNOOC.

The person in charge of the Operator shall have the full right to represent the Contractor in respect of the performance of the Petroleum Operations. The names, positions and resumes of the staff and organization chart of the Operator shall be submitted in advance to CNOOC and the senior staff thereat shall be subject to the consent of CNOOC.



The parent corporation of each company comprising the Contractor which is not itself a parent corporation shall, at the request of CNOOC, provide CNOOC with a written performance guarantee with terms acceptable to CNOOC.

8.3 The Operator shall have the following obligations:

8.3.1 To apply the appropriate and advanced technology and business managerial experience of the Contractor, including each company comprising the Contractor or its and their Affiliates to perform the Petroleum Operations reasonably, economically and efficiently in accordance with sound international practice.

8.3.2 To prepare Work Programs and budgets related to the Petroleum Operations and to carry out the approved Work Programs and budgets.

8.3.3 To be responsible for procurement of installations, equipment, and supplies and entering into subcontracts and service contracts related to the Petroleum Operations, in accordance with the approved Work Programs and budgets and the applicable provisions of Articles 7.2.4, 7.6 and 10.2 hereof.

8.3.4 To prepare in advance, in accordance with Article 16 hereof, a personnel training program and budget before the commencement of the Development Operations and Production Operations respectively, and, in accordance with the said program and budget, to be responsible for preparing an annual personnel training program and budget and carrying out the annual program and budget after approval by JMC.

8.3.5 To establish an insurance program, and to enter into and implement the insurance contracts in accordance with Article 21 hereof.

8.3.6 To issue cash-call notices to all the parties to the Contract to raise the required funds based on the approved budgets and in accordance with Article 12 hereof and Annex II - Accounting Procedure hereto.

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- 8.3.7 To maintain complete and accurate accounting records of all the costs and expenditures for the Petroleum Operations in accordance with the provisions of Annex II - Accounting Procedure hereto and to keep securely the accounting books in good order.
- 8.3.8 To make necessary preparation for regular meetings of JMC, and to submit in advance to JMC necessary information related to the matters to be reviewed and approved by JMC.
- 8.3.9 To inform directly or indirectly all the Subcontractors which render services for the Petroleum Operations in China and all the Expatriate Employees of the Operator and of Subcontractors who are engaged in the Petroleum Operations in China that they shall be subject to the laws, decrees, and other rules and regulations of the People's Republic of China.
- 8.3.10 To report its work to JMC as provided in Article 7.2 hereof.
- 8.4 In the course of the performance of the Petroleum Operations, any direct loss arising out of the gross negligence or wilful misconduct of the Operator or its employees shall be solely borne by the Operator. The Operator shall make its best efforts in accordance with the international Petroleum industry practice to include provisions similar to this Article 8.4 herein in related subcontracts and service contracts.
- 8.5 In the course of the performance of the Petroleum Operations, the Operator shall handle the information, samples or reports in accordance with the following provisions:
- 8.5.1 The Operator shall provide CNOOC with various information and data in accordance with Article 14 and 21 of the "Petroleum Regulations" and the "Provisions for the Control of Data" and the Operator shall use and handle such information and data referred to herein in accordance with the said provisions. The information and data within the scope of the "Provisions for the Control of Data" shall be reported to CNOOC at the same time

when the Operator reports them to its parent corporation. Upon receipt by the Operator of any report from its parent corporation concerning such information and data, a copy of such report shall be furnished to CNOOC.

8.5.2 The Operator shall furnish CNOOC in a timely manner with reports on safety, environmental protection and accidents related to the Petroleum Operations and with financial reports prepared in accordance with the provisions of Annex II - Accounting Procedure hereto.

8.5.3 The Operator shall provide the non-operator(s) of the Contractor with copies of the relevant data and reports reasonably required by non-operator(s) and referred to in Articles 8.5.1 and 8.5.2 herein.

8.5.4 The Operator shall, at the request of any party to the Contract, furnish that party to the Contract with the following:

8.5.4.1 Procurement plans for purchasing equipment and materials, inquiries, offers, orders and service contracts, etc.;

8.5.4.2 Manuals, technical specifications, design criteria, design documents (including design drawings), construction records and information, consumption statistics, equipment inventory, spare parts inventory, etc.;

8.5.4.3 Technical investigation and cost analysis reports; and

8.5.4.4 Other information relating to the Petroleum Operations already acquired by the Operator in the performance of the Contract.

8.6 In the course of performing the Petroleum Operations, the Operator shall abide by the laws, decrees, and other rules and regulations with respect to environmental protection and safety of the People's Republic of China and shall endeavour in accordance with the international petroleum industry practice to:



- 8.6.1 Minimize the damage and destruction to marine organisms and their living oceanic environments;
- 8.6.2 Control blowouts promptly and prevent or avoid waste or loss of Petroleum discovered in or produced from the Contract Area;
- 8.6.3 Prevent Petroleum from flowing into low pressure formations or damaging adjacent Petroleum-bearing formations;
- 8.6.4 Prevent water from flowing into Petroleum-bearing formations through dry holes or other wells, except for the purpose of secondary recovery;
- 8.6.5 Prevent land, forests, crops, buildings and other installations from being damaged and destroyed; and
- 8.6.6 Minimize the danger to personnel safety and health.

8.7 Project Management Team

In any Oil Field and/or Gas Field within the Contract Area where CNOOC has the participating interest in the development of said Field, a project management team (hereafter referred to as "PMT") shall be established in the organization of the Operator at the date of approval of the Overall Development Program for said Field by the competent authorities of the Chinese Government.

The PMT shall comprise those personnel designated by the Parties and the number of CNOOC's personnel shall no less than one third (1/3) of the total number of personnel within the PMT. The Contractor shall designate the person acting as the manager of PMT, and CNOOC shall designate the person acting as the deputy manager of PMT.

The PMT shall be located at the Operator's office within the Chinese territory. The working location(s) of the members of PMT shall be decided according to the need of the work.

The specific organization, staffing and working system of PMT and responsibilities and competence of various positions including those of CNOOC's personnel assigned to PMT shall be determined by the Parties through consultation prior to the approval of the Overall Development Program for said Oil Field and/or Gas Field.

8.8 Transfer and take over of the Production Operations

Before the full recovery of the development costs actually incurred in accordance with the Overall Development Program of any Oil Field and/or Gas Field within the Contract Area, CNOOC may, after agreement reached through consultations of JMC, take over the Production Operations of that Oil Field and/or Gas Field, if conditions permit. After the full recovery of the development costs actually incurred in accordance with the Overall Development Program of any Oil Field and/or Gas Field within the Contract Area, CNOOC shall, at any time, have the right by giving a written notice to the Contractor to take over the Production Operations of that Oil Field and/or Gas Field. Both aforesaid cases shall be effected in accordance with the procedures described hereunder.

8.8.1 The Contractor shall submit a transfer plan of the Production Operations to CNOOC and JMC respectively within sixty (60) days following the date of receiving the written notice of CNOOC. Such transfer plan shall include, but not be limited to, a list of various posts to be taken over by CNOOC, a schedule of transfer by stages, inventories of the relevant facilities and equipment and an inventory of all documents, manuals, data and information necessary for the Production Operations. Where the transfer of some of the Production Operations involves any Third Party, the Contractor shall consult with CNOOC in advance and propose a solution thereto in the transfer plan, however, this situation shall not be taken by the Contractor as an excuse to delay and hinder the transfer of the Production Operations.

JMC shall, within thirty (30) days from the date of receiving the said plan, review and approve it.

8.8.2 CNOOC shall, within sixty (60) days from the date of receiving the transfer plan of the Production Operations approved by JMC, submit to the Contractor and JMC respectively the lists and resumes of CNOOC's personnel who will take over the posts. The personnel named in the lists shall be persons who have been trained by the Contractor in accordance with the provisions set forth in Article 16 hereof or personnel who are considered by CNOOC to be competent. Within one hundred and eighty (180) days from the date of receiving CNOOC's lists of the personnel who will take over the operations, the Contractor shall arrange for such personnel to undergo step by step practical training for the posts to be taken over by them and shall assist CNOOC to manage the qualification test.

8.8.3 Within three hundred and thirty (330) days from the date of receiving the written notice of CNOOC, the Contractor shall submit to JMC a report on the completion of preparations for the transfer of the Production Operations. Such report shall include the results of the qualification test for CNOOC's personnel who will take over the Production Operations and shall be confirmed by JMC within thirty (30) days after the receipt of the said report. The transfer of the Production Operations shall begin on the date when JMC makes such confirmation.

8.8.3.1 When the completion of the preparations for the transfer of the Production Operations is confirmed by JMC, the Contractor shall, in accordance with the transfer schedule by stages, transfer to CNOOC's take-over personnel control of all facilities and equipment relating to the Production Operations in the Oil Field and/or Gas Field, and all documents, manuals, data and information regarding the use and operation of such facilities and

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equipment, so that CNOOC's personnel are able to manage the operation of such facilities and equipment.

- 8.8.3.2 If JMC believes that preparations for the transfer of the Production Operations have not been completed and sets another deadline for the completion of preparations for the transfer of the Production Operations, the preparations for the transfer shall be completed prior to the deadline and the transfer shall begin thereafter.
- 8.8.4 The transfer in respect of the accounting and financial aspects shall be handled in accordance with Annex II - Accounting Procedure hereto.
- 8.8.5 During the preparation for the transfer of the Production Operations and in the course of the actual transfer, the Contractor shall perform the functions provided for in Article 8.3, 8.4, 8.5 and 8.6 herein in respect of an Oil Field and/or Gas Field undergoing the transfer of the Production Operations, until the date when CNOOC has completely assumed control of and taken over the Production Operations of the Oil Field and/or Gas Field. Thereafter, the functions of the Operator provided for in Article 8.3, 8.4, 8.5 and 8.6 herein shall be by analogy applicable to CNOOC.
- 8.8.6 After CNOOC has taken over the Production Operations and become the Operator of an Oil Field and/or Gas Field, the Contractor shall still have the obligation, pursuant to Article 2 hereof, to provide CNOOC with the relevant technical and personnel training assistance, and the costs incurred thereby shall be charged to the operating costs in accordance with the provisions of Annex II - the Accounting Procedure hereto.
- 8.8.7 When CNOOC takes over the Production Operations in any Oil Field and/or Gas Field, the Chinese Personnel employed by the Contractor for the Production Operations of the said Oil Field and/or Gas Field shall be transferred to CNOOC's employment. If CNOOC needs to retain the

services of any of the Expatriate Employees employed by the Contractor or the Contractor still needs to keep some of the Chinese Personnel in its employment, an agreement shall be reached through consultation between the Parties prior to the transfer.

8.8.8 The expenses incurred in the transfer and take-over of the Production Operations shall be charged to the operating costs.

Article 9

Assistance Provided by CNOOC

9.1 To enable the Contractor to carry out expeditiously and efficiently the Petroleum Operations, CNOOC shall have the obligation to assist the Contractor at its request to:

9.1.1 Obtain the approvals or permits needed to open accounts with a state-owned bank in China;

9.1.2 Go through the formalities of exchanging foreign currencies;

9.1.3 Obtain office space, office supplies, transportation and communication facilities and make arrangements for accommodation as required;

9.1.4 Go through the formalities of the customs;

9.1.5 Obtain entry and exit visas for the Expatriate Employees who will come to China for the implementation of the Contract and for their dependants who will visit them or reside in China for a long period and provide assistance for their transportation and moving as well as medical services and travel in China;

9.1.6 Obtain necessary permission to send abroad, if necessary, documents, data and samples for analysis or processing during the Petroleum Operations;
and

- 9.1.7 Contact departments engaged in fishing, aquatic products, meteorology, ocean shipping, civil aviation, railway, transportation, communication and services for supply bases etc. for relevant matters and otherwise assist the Contractor in obtaining on a timely basis approvals necessary for the conduct of the Petroleum Operations under the Contract.
- 9.2 In accordance with Article 15 hereof, CNOOC shall assist the Contractor with the recruitment of the Chinese Personnel.
- 9.3 CNOOC shall, at the request of the Contractor, sell to the Contractor data and samples concerning the Contract Area other than those produced as a result of Petroleum Operations hereunder in accordance with any relevant rules and regulations and CNOOC shall also assist the Contractor to arrange the purchase of any oceanic environmental, hydrological, meteorological, earthquake and other data available from the relevant departments in China.
- 9.4 CNOOC shall, at the request of the Contractor, also assist the Contractor with matters other than those under Articles 9.1, 9.2 and 9.3 herein if possible.
- 9.5 All expenses incurred in the assistance provided by CNOOC in accordance with this Article 9 shall be paid by the Contractor and shall be handled in accordance with the provisions of Annex II - Accounting Procedure hereto.

Article 10

Work Program and Budget

- 10.1 Before the fifteenth (15) of September of each Calendar Year after the Date of Commencement of the Implementation of the Contract, the Operator shall complete and submit to JMC for its review an annual Work Program and budget, including estimated schedule of monthly expenditures, for the next Calendar Year. JMC shall complete the review of the annual Work Program and budget and submit them to CNOOC for review and approval before the thirty-first (31st) of October of the Calendar Year in which they are submitted to JMC. Within

fifteen (15) days following the receipt of the annual Work Program and budget, CNOOC shall notify JMC in writing of its approval or any modifications thereto with its detailed reasons. If CNOOC requests any modifications on the aforesaid annual Work Program and budget, the Parties shall promptly hold meetings to make modifications and any modifications agreed upon by the Parties shall be effected immediately. In case CNOOC fails to notify JMC of its approval within fifteen (15) days, the annual Work Program and budget proposed by the Operator shall be deemed to have been approved by CNOOC. The Operator shall make its best efforts to perform the Petroleum Operations in accordance with the approved or modified annual Work Program and budget.

As required for reviewing Work Program and budget by JMC, the Operator shall submit to JMC the supporting data as detailed as possible.

Commercial scale personnel day rates for the Contractor's representatives in JMC and the PMT (and the Contractor's representatives in the expert groups on an "as needed basis") including travel costs, shall be submitted by the Contractor to the JMC. Such costs shall be approved by JMC and included in the Work Program and budget and amendments thereto. After approval by JMC, such costs incurred shall be charged to the Joint Account.

10.2 The Operator may, in accordance with the following provisions, incur excess expenditures or expenditures outside the budget in carrying out the Work Program and budget, provided that the objectives in the approved Work Program and budget are not changed:

10.2.1 In carrying out an approved budget for a single item, such as the drilling of a well, the Operator may, if necessary, incur excess expenditures of no more than ten percent (10%) of the budgeted amount. The Operator shall report quarterly the aggregate amount of all such excess expenditures to JMC for confirmation.

10.2.2 For the efficient performance of the Petroleum Operations, the Operator may, without approval, undertake certain individual projects which are not included in the Work Program and budget, for a maximum expenditure of One Hundred Thousand U.S. dollars (U.S. \$100,000) per project, but the Operator shall, within ten (10) days after such expenditures are incurred, report to JMC for confirmation. In case of emergency, the Operator may incur emergency expenditures for the amount actually needed but shall report such expenditures to JMC as soon as they are made. However the said emergency expenditures shall not be subject to Articles 10.2.3 and 10.2.4 herein.

10.2.3 In the event that the aggregate of excess expenditures under Article 10.2.1 herein and expenditures under Article 10.2.2 herein incurred in a Calendar Year cause the total expenditures of that Calendar Year to exceed the approved annual budget, such excess shall not exceed five percent (5%) of the approved annual budget for that Calendar Year. If the aforesaid excess is expected to be in excess of five percent (5%) of the annual budget, the Operator shall present its reasons therefor to JMC and obtain its approval prior to incurring such expenditures.

10.2.4 When JMC confirms the excess expenditures mentioned in Article 10.2.1 herein, and the expenditures mentioned in Article 10.2.2 herein:

- (a) if expenditures or excess expenditures are determined to be reasonable, the Operator may incur such expenditures or excess expenditures again during the same Calendar Year, subject to Article 10.2 herein; or
- (b) If expenditures or excess expenditures are determined to be unreasonable, the Operator shall not incur such expenditures or excess expenditures again during the same Calendar Year and such unreasonable expenditures or excess expenditures shall be dealt with

in accordance with Article 5.4 of Annex II - Accounting Procedure hercto.

Article 11

Determination of Commerciality

11.1 If any Petroleum discovery is made within the Contract Area, the Operator shall promptly report such discovery to JMC.

If JMC or the Contractor makes a decision that a Petroleum discovery is worthy of appraisal, the Operator shall submit to JMC an appraisal Work Program including appraisal work and timetable for such Petroleum discovery as soon as possible. Such an appraisal Work Program shall be worked out no later than ninety (90) days from the date of the aforesaid decision made by JMC or the Contractor. The appraisal Work Program shall, in so far as is practicable, be based on conducting the appraisal work continuously, with a view to commencing offshore operations within one hundred and eighty (180) days from the date of the aforesaid decision made by JMC or the Contractor.

11.2 After the approval by JMC of the appraisal Work Program referred to in Article 11.1 herein, the Operator shall carry out the operations as soon as possible without unreasonable delay in accordance with the timetable set forth in the approved appraisal Work Program.

11.3 Within one hundred and eighty (180) days after the completion of the last Appraisal Well, the Operator shall submit to JMC a detailed report on the appraisal of the commerciality of the discovered Petroleum-bearing trap. Under special circumstances, the above mentioned periods may be reasonably extended upon agreement of the Parties.

The appraisal report shall include the evaluation on geology, development, engineering and economics, including estimated project costs, and the Overall Development Program to be approved and the Overall Development Program

shall include the Maximum Efficient Rate (MER) and the duration of the production period determined in accordance with the international petroleum industry practice.

Prior to the submission of the Overall Development Program, the Operator shall:

- (a) submit to CNOOC the report of oil and/or gas in place of Oil Field and/or Gas Field; and
- (b) entrust a qualified organization to prepare the Environmental Impact Statements.

The reports and statements mentioned in (a) and (b) above shall be submitted to the competent authorities of the Chinese Government through CNOOC for review and approval unless otherwise required by the Chinese government.

- 11.4 Within thirty (30) days following the submission of the appraisal report on any Crude Oil bearing trap, JMC shall convene a meeting to review such report. When JMC decides unanimously after its review that the said Crude Oil bearing trap is an Oil Field with commercial value and is to be developed, or the Contractor considers, in accordance with Article 11.6.2 herein, that a Crude Oil bearing trap is an Oil Field with commercial value and is to be developed, JMC shall submit to CNOOC for confirmation the appraisal report and the Overall Development Program of the said Oil Field to be developed and CNOOC shall submit the Overall Development Program of the Oil Field to the competent authorities of the Chinese Government as soon as possible for its review and approval. The Operator shall perform the Development Operations in accordance with the Overall Development Program of each Oil Field approved by the competent authorities of the Chinese Government. If such Development Operations do not commence within ninety (90) days after the date of approval of the Overall Development Program of an Oil Field by the competent authorities of the Chinese Government, or if an intentional delay caused unilaterally by the Contractor acting as the Operator, results in a suspension or halt of ninety (90)

continuous days in the Development Operations of an Oil Field, the Contractor shall be deemed to have automatically waived all its rights in the said Oil Field.

11.5 If, after the appraisal, JMC determines that a Crude Oil bearing trap is non-commercial, such Crude Oil bearing trap may, at the Contractor's option, be retained within the Contract Area during the term of the exploration period; before the expiration of the exploration period, if, because of certain positive factors, JMC considers unanimously that it is necessary to reappraise the commerciality of the Crude Oil bearing trap, the Operator shall submit a further appraisal report on such Crude Oil bearing trap to JMC for its review and adoption; if the JMC's determination of non-commerciality of such Crude Oil bearing trap has not altered by the expiration of the exploration period, the relevant area of such Crude Oil bearing trap shall be excluded from the Contract Area.

11.6 If JMC can not reach an agreement on the commerciality of a Crude Oil bearing trap, the Parties shall make their best efforts to seek another solution thereto. However, if JMC can not reach an agreement on the commerciality of any Crude Oil bearing trap within ninety (90) days following the submission of the appraisal report prepared by the Operator in accordance with Article 11.3 herein or any further appraisal report prepared by the Operator in accordance with Article 11.5 herein, then such trap shall be dealt with in accordance with the following procedure:

11.6.1 If the Contractor informs CNOOC by notice that it considers a Crude Oil bearing trap without commercial value, then the Contractor shall be deemed to have waived its rights to participate in the development of that Crude Oil bearing trap. The relevant area covered by that Crude Oil bearing trap shall, however, be retained within the Contract Area until the expiration of the exploration period. In case that CNOOC decides, within the exploration period, to develop solely such Oil Field, then, within the development period, the Contractor shall be allowed to participate in the



development. If the Contractor decides, within the development period of the said Oil Field, to participate in the development of such Oil Field by giving a written notice to CNOOC, then, the Contractor shall pay CNOOC an amount of money, in addition to the forty-nine percent (49%) of the development costs spent by CNOOC on the said Oil Field with Deemed Interest thereon up to the date of Contractor's submission of the written notice to CNOOC. Such amount shall be equal to three times (300%) the foregoing payable development costs with Deemed Interest thereon and such amount of money shall not be recovered after commercial production of the Oil Field commences. Thereafter, the development costs to be incurred in such Oil Field shall be provided by the Parties in proportion to their respective participating interests. In the event that the Contractor still decides not to participate in the development of the said Oil Field by the expiration of the development period of such Oil Field, then the said Oil Field shall be excluded from the Contract Area upon the Date of Commencement of Commercial Production of the said Oil Field.

11.6.2 If CNOOC considers a Crude Oil bearing trap to have no commercial value while the Contractor considers that it is a Crude Oil bearing trap having commercial value, the Contractor may solely provide the entire development costs and undertake development of the said Oil Field, and the said Oil Field shall be deemed as an Oil Field in which CNOOC has no participating interests. The entire risk related to the development costs spent for the said Oil Field shall be borne solely by the Contractor.

11.6.3 Unless otherwise decided by CNOOC, the Development Operations and Production Operations of an Oil Field solely financed for the development by CNOOC shall still be, upon agreement between the Parties through consultation, performed by the Operator subject to the agreement of terms and conditions entered into by CNOOC and the Operator.



- 11.7 In the event of an Oil Field and/or Gas Field Straddling a Boundary, CNOOC shall arrange for the Contractor and the neighbouring parties involved to work out a unitized Overall Development Program for such Field and to negotiate the relevant provisions thereof.
- 11.8 If a Petroleum-bearing trap without commercial value within the Contract Area can be most economically developed as a commercial Oil Field and/or Gas Field by linking it up with facilities located outside the Contract Area, then the development of such Field shall be dealt with in the same manner as provided in Article 11.7 herein.
- 11.9 The procedures specified in this Article 11 shall be applied, by analogy, to determination of additional development projects in any Oil Field and/or Gas Field within the Contract Area during the production period, such projects being designed to increase the level of production and/or total quantity of Petroleum recoverable from the said Field.
- 11.10 If an appraisal trial production or temporary trial production is deemed by the Parties to be necessary with respect to any trap in which Petroleum is discovered or any Oil Field and/or Gas Field within the Contract Area, the Parties shall reach a written agreement through negotiation on terms and conditions of appraisal trial production or temporary trial production, which shall be attached hereto as a supplementary document.

Article 12

Financing and Cost Recovery

- 12.1 Funds required for the Petroleum Operations shall be raised by the Operator in accordance with Work Programs and budgets determined pursuant to the relevant provisions of the Contract, the provisions described in Annex II - Accounting Procedure hereto, and the provisions described hereunder.

12.1.1 All the exploration costs required for Exploration Operations shall be provided solely by the Contractor. However, the exploration costs required for the fulfillment of the minimum exploration work commitment shall be deemed the equity capital of the Contractor.

12.1.2 The development costs required for Development Operations in each Oil Field and/or Gas Field within the Contract Area shall be provided by CNOOC and the Contractor in proportion to their respective participating interests: fifty-one percent (51%) by CNOOC and forty-nine percent (49%) by the Contractor, unless CNOOC applies the provisions in the second paragraph of this Article 12.1.2 herein.

In the event that CNOOC, at its option, decides not to participate in the development of an Oil Field and/or Gas Field or decides to participate in the development of such Field to an extent of less than fifty-one percent (51%) of the participating interests, CNOOC shall notify the Contractor in writing of its decision of non-participation or a specific lesser percentage of its participating interests before the appraisal report is to be reviewed by JMC pursuant to Article 11.4 or Article 18.2.2 hereof. In such case, if CNOOC does not participate in the development of such Field, the development costs therein shall be borne solely by the Contractor, or in case CNOOC participates in the development of such Field to an extent of less than fifty-one percent (51%) of the participating interests, such development costs shall be borne by the Parties in proportion to their actual respective participating interests.

12.1.3 The operating costs required for the Production Operations in each Oil Field and/or Gas Field within the Contract Area shall be paid respectively by CNOOC and the Contractor in proportion to their participating interests of the development costs of the said Field.

12.1.4 For the purpose of implementation of the Contract, CNOOC shall agree that the Contractor may, when financing, use the entitlement of its share of



production under the Contract as a security for loans, provided that the Contractor shall apply to CNOOC in advance and the application therefor shall be examined by CNOOC, and provided further that the right and interests of CNOOC under the Contract shall not be impaired thereby.

12.2 All the costs incurred in the performance of Petroleum Operations shall be recovered in accordance with Annex II - Accounting Procedure hereto and the provisions described as follows:

12.2.1 The operating costs for any given Calendar Year actually incurred by CNOOC and the Contractor in respect of each Oil Field pursuant to Article 12.1.3 herein, shall be recovered in kind by the Parties out of the Crude Oil produced from the said Oil Field during that Calendar Year in accordance with Annex II - Accounting Procedure hereto, after the operating costs have been converted into a quantity of Crude Oil on the basis of the Crude Oil price determined in accordance with Article 14 hereof. Unrecovered operating costs shall be carried forward to the succeeding Calendar Year.

12.2.2 The exploration costs incurred by the Contractor shall be recovered as follows:

- (a) After the Date of Commencement of Commercial Production of an Oil Field within the Contract Area, the exploration costs incurred by the Contractor in respect of the Contract Area shall be recovered in kind out of the Crude Oil produced from any Oil Field within the Contract Area in accordance with Article 13.2.2.3 hereof, after the exploration costs have been converted into a quantity of Crude Oil based on the Crude Oil price determined in accordance with Article 14 hereof. The exploration costs shall be recovered without any interest.
- (b) If no Oil Field and/or Gas Field is discovered within the Contract Area, the exploration costs incurred by the Contractor shall be deemed

as its loss. Under no circumstances shall CNOOC reimburse the Contractor for such loss.

12.2.3 The development costs incurred by CNOOC and the Contractor and Deemed Interest thereon for each Oil Field shall be recovered as follows:

12.2.3.1 After the Date of Commencement of Commercial Production of any Oil Field within the Contract Area, the development costs in respect of such Field incurred by CNOOC and the Contractor and Deemed Interest thereon calculated in accordance with Article 12.2.3.2 herein shall be recovered in kind out of the Crude Oil produced from such Field in accordance with Article 13.2.2.3 hereof, after the development costs have been converted into a quantity of Crude Oil based on the Crude Oil price determined in accordance with Article 14 hereof.

12.2.3.2 Deemed Interest on the development costs incurred by CNOOC and the Contractor for each Oil Field within the Contract Area shall be calculated with the fixed annual compound rate of nine percent (9%) from the first day of the month following the month in which such development costs expended by each party to the Contract are actually received in the bank account of the joint account opened by the Operator. The detailed method for such calculation shall be as provided in Annex II - Accounting Procedure hereto.

12.3 The provisions in Article 12.2 herein shall apply by analogy to Gas Fields.

Article 13

Crude Oil Production and Allocation

13.1 The Operator shall, in accordance with the production profile, adjusted as the case may be, set forth in the Overall Development Program for each Oil Field as

approved by the competent authorities of the Chinese Government, work out a Crude Oil production plan for each Oil Field in each Calendar Year and carry out Crude Oil production pursuant to such plan.

13.2 The Annual Gross Production of Crude Oil of each Oil Field within the Contract Area in each Calendar Year within the production period shall be allocated in accordance with the following sequence and proportions:

13.2.1 Five percent (5%) of the Annual Gross Production of Crude Oil shall be used for payment of the Value Added Tax and shall be paid in kind to the competent authorities of the Chinese Government through CNOOC.

13.2.2 Sixty two point five percent (62.5%) of the Annual Gross Production of Crude Oil shall be used for the payment or recovery in the following sequence:

13.2.2.1 Resources tax shall be paid in accordance with then existing relevant laws, decrees rules and regulations with respect to the resources tax.

13.2.2.2 The Crude Oil less the amount of Crude Oil for payment of Resources tax in accordance with Article 13.2.2.1 shall be "cost recovery oil". Payment in kind for the operating costs actually incurred but not yet recovered by the Parties shall be made pursuant to Article 12.2.1 hereof after the price of the said "cost recovery oil" has been determined in accordance with Article 14 hereof.

13.2.2.3 The remainder of the "cost recovery oil" shall, after payment for operating costs in accordance with Article 13.2.2.2 herein, be deemed as "investment recovery oil". Such "investment recovery oil" shall be used for the recovery of the exploration costs in respect of the Contract Area which were incurred and not yet recovered by the Contractor, and shall be used for the recovery of

the development costs in respect of the Oil Field itself which were incurred and not yet recovered by CNOOC and the Contractor in accordance with Articles 12.2.2 and 12.2.3 hereof, and Deemed Interest thereon. The method of recovery and the recovery sequence are as follows:

- (a) Beginning in the Calendar Year during which the production of any Oil Field within the Contract Area commences, the “investment recovery oil” referred to in Article 13.2.2.3 herein, based on the price which has been determined in accordance with Article 14 hereof shall be paid in kind first to the Contractor for the recovery of the exploration costs which were incurred in respect of, and have not yet been recovered from, the Contract Area. The unrecovered exploration costs shall be carried forward to the succeeding Calendar Years until fully recovered.
- (b) Beginning in the Calendar Year during which the exploration costs incurred by the Contractor in respect of the Contract Area have been fully recovered, the remainder of the “investment recovery oil” of an Oil Field shall be used for the simultaneous recovery of the development costs incurred and not yet recovered respectively by CNOOC and the Contractor and Deemed Interest thereon in respect of such Field in proportion to their respective participating interests therein after the price of such remainder of the “investment recovery oil” has been determined in accordance with Article 14 hereof. The unrecovered development costs and Deemed Interest thereon shall be carried forward to the succeeding Calendar Years until fully recovered.

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- (c) During the production period of an Oil Field, costs for an additional development project incurred pursuant to Article 11.9 hereof and Deemed Interest thereon shall be recovered together with the unrecovered development costs and Deemed Interest thereon. If the development costs and Deemed Interest thereon in respect of such Oil Field have been fully recovered, then costs for the said additional development project and Deemed Interest thereon in respect of such Oil Field shall be recovered from the “investment recovery oil” of such Field referred to in Article 13.2.2.3 herein in accordance with the provisions specified in Article 13.2 herein. The unrecovered costs for the additional development project and Deemed Interest thereon shall be carried forward to the succeeding Calendar Years until fully recovered.
- (d) After the recovery of an Oil Field’s development costs and Deemed Interest thereon and/or costs for the additional development project and Deemed Interest thereon from the said Field by the Parties, the remainder of the “investment recovery oil” shall automatically be regarded as part of the “remainder oil” referred to in Article 13.2.3 herein. By the date of expiration of the production period of an Oil Field pursuant to Article 4.5 hereof, if any development costs and Deemed Interest thereon and/or costs for the additional development project incurred in respect of such Field and Deemed Interest thereon have not yet been fully recovered, then such unrecovered costs and Deemed Interest thereon shall be regarded as a loss, and the Parties shall bear the loss in proportion to their respective participating interests.

13.2.3 The remainder of the Annual Gross Production of Crude Oil after the allocation referred to in Articles 13.2.1 and 13.2.2 herein shall be deemed as "remainder oil". Such "remainder oil" shall be divided into "share oil" of the Chinese side and "allocable remainder oil".

*Calculation of amount of
"allocable remainder oil" redacted*

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*Calculation of amount of
"allocable remainder oil" redacted*

13.2.4 The "allocable remainder oil" of each Oil Field in each Calendar Year referred to in Article 13.2.3 herein shall be shared by the Parties in proportion to their respective participating interests in the development costs, fifty-one percent (51%) for CNOOC and forty-nine percent (49%) for the Contractor. In the event that CNOOC does not participate in the development of an Oil Field within the Contract Area, the Contractor shall obtain one hundred percent (100%) of the "allocable remainder oil" of that Field. In the event that CNOOC participates to an extent less than fifty-one percent (51%) in the development of an Oil Field within the Contract Area, the "allocable remainder oil" of such Field in that Calendar Year shall be shared by the Parties in proportion to their actual respective participating interests in such Oil Field.

13.3 Pursuant to the method of allocation specified in this Article, the Contractor may obtain an aggregate amount of Crude Oil consisting of the following three categories:

13.3.1 The total amount of Crude Oil as converted from the actual operating costs paid by the Contractor in all Oil Fields in proportion to its participating interests in the development costs stipulated in Article 12.1.3 hereof when recovering such costs;

13.3.2 The total amount of the "investment recovery oil" from all Oil Fields due to the Contractor provided for in Article 13.2.2.3 herein; and

13.3.3 The total amount of the "allocable remainder oil" of all Oil Fields due to the Contractor in accordance with Article 13.2.4 herein.

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13.4 In the event that the Contractor wishes to purchase a portion of all of the total amount of the Crude Oil obtained by CNOOC from the “investment recovery oil” in addition to the Crude Oil obtained by the Contractor in accordance with Article 13.3 herein, the Parties shall negotiate the terms and conditions of purchasing such Crude Oil and reach an agreement as a supplementary document hereto.

13.5 CNOOC and each company comprising the Contractor shall, throughout the entire Contract term, have the right and obligation to, in each Calendar Quarter, lift and take, and separately dispose of their respective full shares of all Crude Oil produced and determined pursuant to Articles 13.3 and 13.4 herein.

In the event that the Crude Oil production of any Oil Field is reduced because CNOOC or any company comprising the Contractor does not lift and take its full share of Crude Oil or lifts nothing, then such reduction in Crude Oil production shall not affect the full shares of Crude Oil due to or the shares of Crude Oil available to be lifted and disposed of by each of the other parties as provided in Article 13.6(c) herein.

13.6 A Crude Oil lifting procedure shall be agreed upon by the Parties no later than six (6) months prior to the Date of Commencement of Commercial Production within the Contract Area and shall include, but not be limited to:

- (a) Operator’s notification of Crude Oil production to CNOOC and each company comprising the Contractor;
- (b) notification by CNOOC and each company comprising the Contractor of its expected offtake to the Operator;
- (c) Operator’s notification to CNOOC and each company comprising the Contractor of the final Crude Oil lifting schedule which shall be binding on CNOOC and each company comprising the Contractor;

- (d) limitation and calculation of overlift and underlift of CNOOC and each company comprising the Contractor; and provisions to ensure timely and ratable lifting of Crude Oil;
- (e) determination of allowable operational tolerance on liftings; and
- (f) other terminal procedures as may be required to reflect the particular circumstances.

13.7 For the purpose of implementing the procedures as described in Article 13.6 herein, CNOOC and each company comprising the Contractor shall jointly set up a Crude Oil lifting coordination group consisting of representatives one each appointed by CNOOC and each company comprising the Contractor, with the representative of CNOOC as the chairman. Such group shall be responsible for the preparation of Crude Oil lifting plans of Calendar Year, of Calendar Quarter and of calendar month and shall also be responsible for the reasonable and unified arrangements and adjustments of the aforesaid Crude Oil lifting plans through close contact with any operator in charge of the storage and loading facilities.

Article 14

Quality, Quantity and Price of Crude Oil

14.1 In accordance with Article 13.3 hereof, the Contractor may obtain the aggregate amount of three categories of the Crude Oil referred to in Articles 13.3.1, 13.3.2 and 13.3.3 hereof. In addition, the Contractor may purchase a portion or all of the total amount of the Crude Oil allocated to CNOOC from the "investment recovery oil" in all Oil Fields within the Contract Area in accordance with Article 13.4 hereof.

14.2 Quality of the Crude Oil

14.2.1 The quality analysis of Crude Oil produced from each Oil Field within the Contract Area shall be undertaken on loading such Crude Oil to each

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tankship. Such analysis shall be carried out on a sample taken immediately prior to or during loading, by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (hereafter referred to as the "AQSIQ") or any representative agency delegated by the AQSIQ pursuant to standards issued by the State Bureau of Standardization of the People's Republic of China or by the competent authorities of petroleum industry of the Chinese Government.

14.2.2 The Crude Oil quality analysis referred to in Article 14.2.1 above shall include the following:

- (a) density at 20 degrees Centigrade, in grams per cubic centimetre;
- (b) sulphur content, in weight percentage;
- (c) water content, in weight percentage; and
- (d) basic sediment content, in weight percentage.

14.3 Quantity of the Crude Oil

14.3.1 The quantity measurement of the Crude Oil produced from each Oil Field within the Contract Area, when being lifted, shall be made at a delivery point and with measuring devices both to be agreed upon by the Parties. A relevant measuring organization of the Chinese Government or a representative agency delegated thereby shall, at appropriate regular intervals, calibrate all the measuring devices, conduct special testing and issue certificates of confirmation with respect thereto before the measuring devices are put into use. The quality and quantity of the Crude Oil delivered shall be authenticated in accordance with the commodity quality certificate and weight certificate issued by the AQSIQ and such quality and quantity shall be the basis for the accounting settlement.

14.3.2 If any party to the Contract believes that the Crude Oil measuring devices, sampling or analysis are inaccurate, or has any objection to the results,

specified in the above-mentioned certificates, onsite investigations, technical exchanges and discussions may be conducted by the Parties to resolve the issue in a manner satisfactory to the Parties.

14.4 Determination of the Crude Oil Price

14.4.1 The price of various grades of the Crude Oil shall be expressed as FOB price at the delivery point in China. Determination of the Crude Oil price shall be made with reference to the prevailing price in arm's length transactions of long-term-contract-sales of similar quality Crude Oil on the main world oil markets and the adjustment in such price shall be made in accordance with such determinants as the quality of the Crude Oil, the terms of delivery, transportation, payment and other terms.

The aforesaid price in arm's length transactions in this Article refers to a price at which a seller sells its Crude Oil to a buyer who is independent of the seller, but not including the prices used by them for government to government transactions which do not reflect the international oil market price, Crude Oil exchange, barter or spot transactions.

14.4.2 Where the Crude Oil produced from each Oil Field within the Contract Area differs in grade, the prices of such Crude Oil with different grades shall be individually determined.

14.4.3 The price of the Crude Oil produced from all the Oil Fields within the Contract Area shall be denominated in U.S. dollars per metric ton. However, if an international currency other than the U.S. dollar prevails on the main world oil markets as the pricing unit of Crude Oil, the Parties may also use that international currency therefore upon mutual agreement.

14.4.4 Procedure for the Determination of the Crude Oil Price

14.4.4.1 The Crude Oil price shall be determined each month. In case the Crude Oil price prevailing on most world oil markets fluctuates,



CNOOC and the Contractor each shall have the right to propose, at any time, that a new Crude Oil price shall be negotiated and determined.

14.4.4.2 The Contractor shall, no later than fifteen (15) days prior to commencement of any month, notify CNOOC of its proposed price for Crude Oil to be lifted in such month (for the purpose of this Article hereafter referred to as the said month).

14.4.4.3 CNOOC shall notify the Contractor of its decided price within ten (10) days after the receipt of the aforesaid proposed price as provided by the Contractor. In the absence of a different price notified by CNOOC to the Contractor within ten (10) days after the receipt of the aforesaid notification, the proposed price notified by the Contractor as referred to in Article 14.4.4.2 herein shall be applied to the Crude Oil to be lifted in the said month.

14.4.4.4 The Contractor shall, within five (5) days following its receipt of notice of a price decided by CNOOC, state to CNOOC whether the price is acceptable. If it is acceptable, the said decided price shall be regarded as the price agreed upon by the Parties for the said month. If not acceptable, the Parties shall, within ten (10) days, carry out further negotiation in an amicable manner to determine the price for the said month.

14.4.4.5 In the event that the Parties still can not reach an agreement on the Crude Oil price for the said month through further negotiations by the Parties, the Contractor may lift the Crude Oil in accordance with the quota specified for the said month in Article 13.2 hereof, and the Crude Oil price for the preceding month shall apply provisionally to the Crude Oil of such quota and/or the payment shall be made accordingly. Then, the Parties shall negotiate further on the Crude Oil price for the said month,

taking into account relevant independent and non-proprietary market data on Third Party long-term-contract-sales of Crude Oil in substantial quantities on the main world oil markets, adjusted for quality, transportation and other applicable differentials. The Parties shall each take into account the information supplied and discussed and attempt to agree on a Crude Oil price based upon such information by the end of the said month.

- (A) In the event that the Parties still can not reach an agreement on Crude Oil price by the end of the said month, then the Crude Oil price shall be the weighted average FOB price of the Crude Oil of same or similar quality sold by CNOOC and/or the Contractor to a Third Party or Third Parties and produced in the said month from the Oil Fields described hereafter, adjusted for such differences as the quality, delivery, transportation, payment and other terms, but excluding the government to government transactions which do not reflect the international oil market price, Crude Oil exchange, barter or spot transactions.

The application of the above-mentioned price of Crude Oil sold to a Third Party or Third Parties shall be in the following sequence:

- (i) Firstly, the price, calculated and determined in accordance with the above-mentioned stipulations, of the Crude Oil produced from the relevant Oil Field or Oil Fields in the Contract Area and sold to a Third Party or Third Parties shall be applied;
- (ii) In the event no sales as referred to in Paragraph (i) above were made in the said month, the price, calculated and determined in accordance with the ,

above-mentioned stipulations, of the Crude Oil produced from other oil fields in the Contract Area and sold to a Third Party or Third Parties shall be applied; and

(iii) In the event no sales mentioned in Paragraphs (i) and (ii) above were made in the said month, the price, calculated and determined in accordance with the above-mentioned stipulations, of the Crude Oil produced from the Oil Fields of other Contract Areas in offshore areas for Chinese-foreign cooperative exploitation of Petroleum resources and sold to a Third Party or Third Parties shall be applied.

(B) In the event there are no such Third Party sales of the Crude Oil during the said month, then the Crude Oil price for the said month shall be equal to the same Crude Oil price of the preceding month adjusted by the differences in the individual arithmetic average of the daily weighted average of the official government selling price of a basket of three or more internationally traded Crude Oils in the said month compared with that of such basket of Crude Oils for the preceding month. The adjusted price shall be the Crude Oil price for the said month. The Crude Oils selected for the basket shall each be similar in quality to that from the Contract Area and chosen from different countries and shall reflect the conditions of the main world oil markets and shall be mutually agreed by the Parties at a reasonable time prior to the Date of Commencement of the Commercial Production of Crude Oil.

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(C) If the Parties are unable to agree on a Crude Oil price for a month in which Crude Oil is first produced and delivered from or the production of Crude Oil is restored in a Field in the Contract Area, then the Crude Oil for the month shall be priced and/or paid in accordance with the arithmetic average price of the prices finally proposed by the Parties in the month. Based on the Crude Oil price agreed upon by the Parties for the succeeding month, the Crude Oil price for the month shall be determined by adjusting retroactively by the difference between the arithmetic average prices of the basket of the Crude Oils for the month and the succeeding month in accordance with the calculation method referred to in Paragraph 14.4.4.5(B) herein.

14.4.4.6 If, due to the delayed announcement of Crude Oil prices by the main world oil-producing countries or the main world oil markets, or if, as agreed by CNOOC and the Contractor, an unstable main world oil market exists, then, the period for the determination of the price referred to in Article 14.4.4.2 herein may be extended to the end of the said month in question.

14.4.4.7 If the Crude Oil prices are adjusted retroactively by the main world oil-producing countries, then the Crude Oil price may be retroactively adjusted by the Parties after consultation, provided that the period for such retroactive adjustment shall not exceed the current month.

14.4.5 The Crude Oil for each month due to CNOOC pursuant to Article 13 hereof shall be converted into an amount of money in the currency utilized pursuant to Article 14.4.3 herein based on the Crude Oil price for that month finally determined in accordance with the aforesaid provisions

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specified in Article 14.4 herein and such amount of money shall be entered into the joint account as of the date on which such Crude Oil is lifted.

14.4.6 The Crude Oil for each month due to the Contractor pursuant to Article 13 hereof shall be converted into an amount of money in the currency utilized pursuant to Article 14.4.3 herein based on the Crude Oil price for that month finally determined in accordance with the aforesaid provisions specified in Article 14.4 herein and such amount of money shall be entered into the joint account as of the date on which the Crude Oil is lifted.

14.5 Terms of Payment for the Purchased Crude Oil pursuant to Article 13.4.

14.5.1 Before the Crude Oil price is determined, the time limit for payment shall be agreed upon by the Parties through consultation in accordance with the practice then prevailing on the main world oil markets.

14.5.2 In case the Contractor is in default of such payment, the Contractor shall pay interest on arrears of the payment, starting from the first day of such default. The interest rate shall be the London Interbank Offered Rate (LIBOR) for U.S. dollars as defined in article 2.6 of Annex-II Accounting Procedure plus five percent (5%).

14.6 Destination of Crude Oil

14.6.1 The destination of Contractor's Crude Oil obtained under the Contract shall be at the discretion of the Contractor, except as stipulated in Article 14.6.2 herein.

14.6.2 The Contractor agrees that it shall not deliver any Crude Oil obtained hereunder to any destination which is prohibited by the laws, regulations or official requirements of the Government of the People's Republic of China. CNOOC shall notify the Contractor of all such officially prohibited destinations in writing on a timely basis.



Article 15

Preference to the Employment of the Chinese Personnel, Goods and Services

- 15.1 The Operator, in carrying out the Petroleum Operations, under the conditions of such factors as quality, price, delivery time and services are competitive, shall give preference to the goods, equipment and service provided within the territory of People's Republic of China.
- 15.2 The Contractor, in carrying out the Petroleum Operations, shall give preference to the employment of qualified Chinese Personnel. For this purpose, the Contractor shall submit in advance to CNOOC and JMC respectively a plan for the employment of Chinese Personnel listing the posts and number of the persons involved, indicating those Chinese Personnel to be employed directly and those required to be furnished by CNOOC. CNOOC shall, in accordance with the plan, and if so requested by the Contractor, provide or assist in recruiting Chinese employee candidates for such employment. For the performance of Petroleum Operations, the Contractor shall have the obligation to employ competent Chinese Personnel and to employ those who have become qualified after being trained in accordance with the training program. The Contractor shall be given preference in employing the Chinese Personnel who have participated in the training program provided by the Contractor.
- 15.3 In accordance with Article 19 of the "Petroleum Regulations", the engineering design corporations under CNOOC shall have the right to participate in the master designs and engineering designs made by the Contractor for the purpose of the implementation of the Contract. Engineering design companies within the territory of the People's Republic of China shall be given preference in entering into the subcontracts for the aforesaid master designs and engineering designs provided that their technical level, price and delivery time are competitive.
- 15.4 After the Contractor signs equipment leasing contracts, service contracts or subcontracts with CNOOC or its Affiliates in accordance with Article 15.1 herein, the Contractor shall endeavor to provide technical assistance to CNOOC or its

Affiliates, at the request of CNOOC, so as to enable them to meet the needs of operations to be undertaken. The expenses so incurred shall be borne by CNOOC or its Affiliates.

Article 16

Training of Chinese Personnel and Transfer of Technology

16.1 In the implementation of the Contract, the Contractor or its Affiliates including each company comprising the Contractor shall, apply in the Petroleum Operations their appropriate and advanced technology and managerial experience, including their proprietary technology e.g. patent, know-how or other confidential technology, etc. At the same time, the Contractor shall have the obligation to transfer its technology and managerial experience, including their proprietary technology e.g. patented technology, know-how or other confidential technology, etc. At the same time, the companies comprising the Contractor shall have the obligation to transfer their technology and experience and the necessary data and/or information for mastering that technology and experience, to CNOOC and its Affiliates. Provided however, such technology to be transferred shall be proprietary to the Contractor and if the transfer of any of such technology is restricted in any way during the term of the Contract, the Contractor shall, to the extent reasonably possible, endeavour to obtain permission for the transfer to such restricted technology.

16.2 Within ninety (90) days following the approval of the Overall Development Program of the first Oil Field and/or Gas Field within the Contract Area by the responsible authorities of the Chinese Government, the Contractor shall, after the consultation with CNOOC, complete and submit a training and technology transfer program for the Chinese Personnel in the development period and the corresponding budget to JMC for review and approval, and upon approval by JMC, put it into practice. The Contractor shall, after consultation with CNOOC complete and submit training and technology transfer programs and

corresponding budgets for the Chinese Personnel in the production period to JMC for its review and approval before the Date of Commencement of Commercial Production, and upon approval by JMC, put them into practice in time so as to have ample time in advance for such training and technology transfer.

In accordance with the provisions in Article 8.8 hereof and in order to facilitate the transfer of the Operatorship to CNOOC as early as possible, the Operator shall, through the training of the Chinese Personnel, gradually increase the percentage of the Chinese Personnel including the key personnel while the percentage of the Expatriate Employees shall be reduced accordingly. By the end of the fifth year of the production, the total number of the Chinese Personnel shall be no less than ninety percent (90%) of the total number of personnel. The total number of the Chinese Personnel mentioned above shall not include those personnel rendering living services of any Third Party.

- 16.3 The purpose, requirement, fields of specialization, scope of personnel, specified job categories, type, method and etc. of the training of Chinese Personnel and technology transfer shall be determined through consultation by the Parties.
- 16.4 The expenses and costs incurred for performing the training and technology transfer program stipulated in this Article shall be charged to the development costs if such costs are incurred after the date of approval of the Overall Development Program of the first Oil Field and/or Gas Field and before the Date of Commencement of Commercial Production of the first Oil Field and/or Gas Field, or shall be charged to the operating costs if such costs are incurred after the Date of Commencement of Commercial Production of the first Oil Field and/or Gas Field.
- 16.5 In the course of the implementation of the Contract, the Parties shall have scientific and technical cooperation and exchange in connection with the Petroleum Operations. The relevant provisions concerning the plan, participating personnel and type shall be determined by the Parties to the Contract through consultation. The expenses required by the scientific and technical cooperation



and exchange shall be included in the budget specified in Article 16.2 herein and charged to the joint account. In the scientific and technical cooperation, all inventions, experiments or research results shall be shared by and belong to the Parties who, subject to the provisions of Article 22 hereof, shall not disclose them to any Third Party.

16.5.1 In the course of the implementation of the Contract, those scientific research projects which are required by the Petroleum Operations but not carried out by the Parties, with the approval of JMC, may be commissioned to, and carried out by, any Third Party, and the Parties shall enter into subcontracts or service contracts with relevant scientific research departments within the territory of the People's Republic of China, provided that they are competitive. The aforesaid required expenses shall be included in the budget specified in Article 16.2 herein and charged to the joint account. All inventions and experimental or research results developed from the aforesaid research projects carried out by a Third Party delegated by the Operator shall also be shared by and belong to the Parties who, subject to the provisions of Article 22 hereof, shall not disclose any of them to any other Third Parties. The Operator shall endeavour to incorporate the provisions herein in the subcontracts or service contracts signed with a Third Party.

16.6 The advanced technology and managerial experience, including proprietary technology, e.g. patent, knowhow or other confidential technology and data or information that the Contractor shall transfer to CNOOC or its Affiliates, shall remain the exclusive property of the Contractor and also be subject to the confidentiality restrictions of Article 22 hereof.

Article 17

Ownership of Assets and Data

- 17.1 All assets purchased, installed and constructed under the Work Program and budget for each Oil Field and/or Gas Field within the Contract Area shall be owned by CNOOC from the date on which all the development costs actually incurred by the Contractor in the development period of each Oil Field and/or Gas Field have been fully recovered or from the date on which the production period expires, even though the aforesaid costs have not been fully recovered. Before the dates referred to in the above paragraph all assets mentioned above shall be jointly owned by the Parties. The Operator shall be responsible for the acceptance inspection or testing of the said assets and CNOOC may, as it deems necessary, send its experts to participate in such acceptance inspection or testing. In the production period, the Operator can use these aforesaid CNOOC-owned assets free of charge for performing the Petroleum Operations. Such assets shall not be used in any operations other than the Petroleum Operations or in any operations by Third Parties without the written consent of the Parties.
- 17.2 Equipment and facilities which are owned by a Third Party and are either leased by the Operator or temporarily brought into the territory of the People's Republic of China for the performance of the Petroleum Operations shall not be deemed as assets owned by CNOOC. Such equipment and facilities may be exported from the People's Republic of China, but export formalities shall be handled by CNOOC.
- 17.3 The ownership of all of the data, records, samples, vouchers, and other original data obtained in the course of performing the Petroleum Operations shall vest in CNOOC.
- 17.4 Each of the Parties shall have the continuing right to use the LS36-1 Production Facility Assets free of charge (subject to the payment of the proportion of the operational costs due in accordance with Clause 8.4 of the LS36-1 SDA), in respect of any additional gas resources discovered within the Contract Area and

which can be conveniently transported and processed using the LS36-1 Production Facility Assets. Further, it is agreed that, provided that the Parties' joint interests are preserved so that the LS36-1 Production Facility Assets will be available for any additional gas resources discovered in the Contract Area, then, if there is spare capacity in the LS36-1 Production Facility Assets, CNOOC has the right to use the Production Facility Assets for any CNOOC wholly self-financed discovery in the nearby area which can be conveniently transported and processed using the LS36-1 Production Facility Assets. Such use shall be free of charge (subject to the payment of such proportion of the operational costs as is due in accordance with Clause 8.4 of the LS36-1 SDA) if all development costs incurred in relation to the LS36-1 Production Facility Assets have been recovered prior to the date of commencement of such use, but if full development cost recovery has not been effected prior to the date of commencement of such use then, in addition to a proportion of the operational costs, CNOOC shall also pay such reasonable proportion of the development costs on such terms as is agreed by the Parties.

Article 18

Associated Natural Gas and Non-associated Natural Gas

18.1 Associated Natural Gas

18.1.1 The Associated Natural Gas produced from any Oil Field within the Contract Area shall be primarily used for purposes related to the operations of production and production enhancement of Oil Fields such as gas injection, gas lifting and power generation.

18.1.2 Based on the principle of full utilization of the Associated Natural Gas and with no impediment to normal production of the Crude Oil, the Overall Development Program of each Oil Field shall include a plan of utilization of the Associated Natural Gas. If there is any excess Associated Natural

Gas in any Oil Field after utilization pursuant to Article 18.1.1 herein (hereafter referred to as “excess Associated Natural Gas”), the Operator shall carry out a feasibility study regarding the utilization of such excess Associated Natural Gas of such Oil Field. Such feasibility study, if carried out before the Development Operations of an Oil Field, shall be included as part of the feasibility study on the development of the Oil Field. With respect to any Oil Field already under commercial production, if a further feasibility study on the utilization of its excess Associated Natural Gas is required, such study shall be carried out by the Operator and a report thereon shall be submitted to JMC for review and discussion. If the Parties decide to utilize the excess Associated Natural Gas of any Oil Field, the construction of facilities for such utilization and the production of the excess Associated Natural Gas shall be carried out at the same time as the Oil Field construction and production.

18.1.2.1 If the Parties agree that the excess Associated Natural Gas of an Oil Field has no commercial value, then such gas shall be disposed of by the Operator, provided that there is no impediment to normal production of the Crude Oil.

18.1.2.2 If any party to the Contract considers unilaterally that the excess Associated Natural Gas of an Oil Field has commercial value, such gas may be utilized by that party to the Contract at its own expense without affecting the amount of “cost recovery oil” and “allocable remainder oil” due to the other party to the Contract which does not invest in such utilization.

18.1.2.3 If the Parties agree that excess Associated Natural Gas of an Oil Field has commercial value, they shall make further investment in its utilization in proportion to their respective participating interests in the development of the Oil Field. If the Parties disagree on the commercial utilization of such excess



Associated Natural Gas of that Oil Field, they shall, guided by the principle of mutual benefit, carry out further negotiations to find a new solution to the utilization of the said excess Associated Natural Gas and reach an agreement in writing. If the Parties fail to reach an agreement through such negotiations, CNOOC shall reserve the right to dispose of such excess Associated Natural Gas unilaterally.

18.1.3 Expenses incurred in the utilization of the Associated Natural Gas of any Oil Field as stipulated in Article 18.1.1 herein, and those incurred in carrying out a feasibility study on the utilization of the excess Associated Natural Gas after commencement of commercial production of the Oil Field referred to in Article 18.1.2 herein shall be charged to the development costs of the Oil Field.

18.2 Non-associated Natural Gas

18.2.1 When any Non-associated Natural Gas Field (hereinafter referred to as the "Gas Field") is discovered within the Contract Area, the Parties shall carry out friendly negotiations regarding the development and production of the Gas Field and marketing said Non-associated Natural Gas in the domestic and international markets with a view to reaching an agreement of principle, which shall form a supplementary document to the Contract, and shall include the following principles:

18.2.1.1 The price of the Natural Gas produced from the Contract Area shall be determined based on general pricing principles prevailing internationally taking into consideration such factors as the market, the grade, quality and quantity of the Natural Gas, etc.

18.2.1.2 The Contract term for the Gas Field within the Contract Area shall be separately determined according to the conditions for

development and production of such Field and marketing of the Natural Gas; and

18.2.1.3 The allocation of the Natural Gas shall be in conformity with general principles of allocation for the Crude Oil stipulated in Article 13 hereof. However, the percentages of the allocation shall be adjusted by the Parties through negotiations in the light of actual conditions in the Gas Field so that the Contractor shall be able to obtain a reasonable economic benefit. Following the signature of the agreement of principle herein, the Operator shall work out an evaluation Work Program for the discovered Gas Field in accordance with the terms and conditions in the said agreement of principle and submit it to JMC for its review and approval. Upon approval by JMC, the Operator shall carry out the evaluation Work Program. The expenses incurred by the Operator in carrying out the said evaluation Work Program shall be charged to the exploration costs of the Contract Area.

18.2.2 After completion of evaluation of a Gas Field, the Operator shall submit a report thereon to JMC for review and discussion.

18.2.2.1 If JMC decides unanimously that a gas reservoir is non-commercial, the corresponding area covered by the gas reservoir may be retained in the Contract Area during the exploration period. But if, at the expiration of the exploration period, JMC still considers the said gas reservoir to be non-commercial, the area covered by the gas reservoir shall be excluded from the Contract Area. For a Gas Field which has potential commercial value but which has not been developed due to a lack of market or a shortage of consuming facilities, the period for which the Gas Field is retained in the Contract Area may be extended at the request of any party to the Contract. Such extended period, ↘

however, shall not exceed three (3) consecutive Contract Years after the date of expiration of the exploration period hereunder. In case the time needed for the market to develop or for the consuming facilities to be constructed for the Gas Field exceeds such extended period, a further extended period shall be subject to the approval of the competent authorities of the Chinese Government. Prior to the expiration of the exploration period, if JMC considers that a gas reservoir which has been determined to be non-commercial needs to be reappraised because of some favourable factors, the Operator shall work out a new evaluation report on that gas reservoir and submit it to JMC for review and approval.

18.2.2.2 If the Contractor considers any gas reservoir to be non-commercial, the Contractor shall be deemed to have waived its rights of participating in the development of that gas reservoir.

18.2.2.3 Where the Parties consider a gas reservoir to be commercial, the Parties shall negotiate to reach an agreement on the development of the said gas reservoir, based on the terms and conditions provided in the agreement of principle referred to in Article 18.2.1 herein. The agreement concerning the development shall be a supplementary document and an integral part hereof. If the Parties fail to reach such agreement through negotiations within three (3) years after the date of commencement of such negotiations, CNOOC shall have the right unilaterally to put up the gas reservoir for bidding. In such case, the Contractor shall still be entitled to participate in the bidding.

18.3 Natural Gas Production and Allocation

18.3.1 The Operator shall, in accordance with the production profile, adjusted as the case may be, set forth in the Overall Development Program for each Gas Field as approved by the competent authorities of the Chinese Government and in accordance with the daily delivery quantity, delivery pressure and quality specifications specified in the Natural Gas sales contract(s), carry out Natural Gas production.

18.3.2 The provisions of Articles 13.1, 13.2.1, 13.2.2, 13.2.4 and 13.3 shall apply by analogy to Gas Fields.

The provisions of sub Article 13.2.3 shall also apply by analogy to Gas Fields subject to the following:

The remainder of the Annual Gross Production of Natural Gas after the allocation referred to in Articles 13.2.1 and 13.2.2 herein shall be deemed as "remainder gas". Such "remainder gas" shall be divided into "share gas" of the Chinese side and "allocable remainder gas".

*calculation of amount of
"allocable remainder gas" redacted*



18.4 Notwithstanding the provisions in Article 18.2 hereof, in order to encourage the exploration for and development of Natural Gas, CNOOC is willing to act as a buyer and to purchase the Natural Gas produced from the Contract Area provided that the total volume of the Natural Gas purchased by CNOOC from one or more Contractors plus the shares of Natural Gas due to CNOOC shall be sufficient to supply three point five (3.5) billion cubic meters per annum of Natural Gas supply and in accordance with the following provisions:

18.4.1 CNOOC shall make investment required for laying the pipelines for landing the Natural Gas in domestic market, and shall organize the Contractors to consult the possibility of joint development of the Gas Fields.

18.4.2 The purchase of the Non-associated Natural Gas and hydrocarbon (such as condensate) associated therefrom and the Associated Natural Gas of commercial value produced from the Contract Area shall be at the wellhead.

18.4.3 The Parties shall determine through consultation the wellhead price of the Non-associated Natural Gas, and in principle, the wellhead price shall be linked to the equivalent thermal value of the international oil price and the substitute energy price in domestic market.

18.4.4 The purchase of the Non-associated Natural Gas and hydrocarbon associated therefrom shall be paid in U.S. dollars.

18.4.5 The price of Associated Natural Gas shall be separately determined through consultation by the Parties.

18.4.6 If the intention expressed in writing by the Contractor of selling its share of the Non-associated Natural Gas in accordance with the provisions

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mentioned above is accepted by CNOOC, the acreage containing the structure in relation to said Non-associated Natural Gas shall be automatically retained in the Contract Area. At the expiration of the exploration period, in case the volume of Natural Gas to be purchased by CNOOC has not yet achieved the target of supplying Natural Gas of three point five (3.5) billion cubic meters or the said target has been achieved but the Parties have not yet reached agreement on the terms and conditions for purchasing said Non-associated Natural Gas, said acreage shall be retained in the Contract Area until the Gas Field is to be developed, but such retention shall no longer than ten (10) consecutive Contract Years as of the date of expiration of the exploration period.

- 18.5 If CNOOC utilizes unilaterally the excess Associated Natural Gas of an Oil Field or develops solely a Gas Field and requires to apply thereto the Contractor's appropriate and advanced technology and managerial experience, the Parties shall negotiate terms and conditions related thereto and the Contractor shall carry out the operations after an agreement has been reached on such terms and conditions.

Article 19

Accounting, Auditing and Personnel Costs

19.1 Accounting

Annex II - Accounting Procedure hereto contains the guidelines for the Operator to keep accounting books and records and make financial settlements. The Operator shall keep and settle the accounts for all the financial activities in respect of the Contract Area and maintain all the accounting books and records in accordance with Annex II - Accounting Procedure hereto in order to accurately reflect the exploration costs, development costs with Deemed Interest thereon and operating costs, incurred in the performance of the Petroleum Operations in respect of the Contract Area, as well as quantity and monetary value of the production and allocation of Crude Oil and Natural Gas. The Operator shall

submit detailed statements and relevant written reports to JMC and the departments concerned.

19.2 Auditing

19.2.1 Any non-Operator party to the Contract shall have the right to audit all the Operator's joint account accounting books and records after the end of each Calendar Year and give the Operator a written notice of the auditing results. The auditing shall be completed within twenty-four (24) months after the end of each Calendar Year. In the absence of any written notice of the exception to the auditing results given by the non-Operator party within such period or if the annual joint account accounting books and records of the Operator are not audited by the non-Operator party within such period, the Operator's joint account accounting books and records shall be deemed correct. A special auditing of the Operator's joint account accounting books and records may be made due to some special requirements during a Calendar Year.

19.2.2 If the auditing referred to in Article 19.2.1 herein is conducted, the Operator shall be given thirty (30) days notice prior to the date of commencement of such auditing. There shall be no impediment to normal Petroleum Operations during any audit.

19.2.3 The auditors shall be entitled to access to all relevant joint account records, files and other information and may inspect such sites and facilities as necessary.

19.2.4 Upon receipt of a notice of the non-Operator party audit reports or exceptions to the auditing results, the Operator shall separately give response in writing and resolve these matters in due time (no later than sixty (60) days thereafter).

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19.3 Personnel Costs

19.3.1 The personnel costs mean the remuneration and other related charges concerned paid on the basis of the working time spent by personnel who are engaged in administration, management, accounting, finance, tax, employee relations, procurement, legal affairs, computer services, engineering, geology, geophysics, drilling and Production Operations as well as all other work for the implementation of the Contract.

19.3.1.1 The salaries or wages of personnel in various subordinate bodies of JMC and of all employees engaged in the performance of the Petroleum Operations shall be included in the personnel costs as provided in Article 19.3.1 herein.

19.3.1.2 Personnel costs which are classified as the overhead of the superior management organization pursuant to Article 5.2.18 of Annex II - Accounting Procedure hereto shall not be included in the personnel costs mentioned herein.

19.3.2 After the effective date of the Contract, the Operator shall work out a staffing plan and a personnel costs plan with respect thereto (including salary or wage standards of each personnel and its breakdown content, such as basic salary or wage, overseas allowance, area allowance, insurance, various benefits and subsidies and the extra portion of individual income tax paid by the Contractor's employees in China exceeding the individual income tax payable by them in their home countries etc.) before the beginning of each Calendar Year.

During the exploration period, the Operator shall submit a staffing plan for its organization and a personnel costs plan with the annual Work Program and budget to JMC for review and examination.

In the development period and production period, the Operator shall submit a staffing plan for its organization and a personnel costs plan with

the annual Work Program and budget to JMC for review and examination and the Contractor shall provide to CNOOC with an itemized plan of personnel costs of the Expatriate Employees, CNOOC shall bear the obligation of confidentiality to such information provided by the Contractor.

The Operator shall charge the personnel costs of the Contractor's personnel actually incurred to the joint account.

CNOOC shall have the right to audit the personnel costs charged to the joint account.

19.3.3 The level of the salaries and wages paid to the personnel appointed by CNOOC in accordance with the provisions of Article 1.2 of Annex III Personnel Costs hereto shall be determined pursuant to the provisions of Annex III Personnel Costs hereto.

The salaries and wages of the Chinese Personnel employed by the Operator in accordance with Article 2 of Annex III Personnel Costs hereto shall be determined through consultation and specified in employment contracts. The settlement of accounts for the salaries and wages of the personnel of CNOOC shall be made by CNOOC to the Operator. The Operator shall not be liable for any individual income tax of such Chinese Personnel.

Article 20

Taxation

20.1 The Contractor shall pay taxes to the Government of the People's Republic of China subject to the tax laws and regulations of the People's Republic of China.

20.2 The Operator shall advise the Subcontractors who render services for the Contract that they and their employees shall pay taxes to the Government of the People's



Republic of China subject to the tax laws and regulations of the People's Republic of China.

Article 21

Insurance

21.1 The Operator shall work out an insurance program for the Exploration Operations and submit it to JMC for review and approval within one hundred and twenty (120) days after the Date of Commencement of the Implementation of the Contract. The Operator shall, on behalf of the Parties, obtain the insurance contracts in accordance with such program as approved by JMC before commencement of offshore operations within the Contract Area.

Notwithstanding this Article 21.1 either Party, at its sole discretion, may obtain insurance in excess of the limits approved by the JMC with respect to that Party's participating interest. The costs of the insurance in excess of the limit approved by the JMC shall not be charged to the joint account.

Similar provisions shall apply in respect of Development Operations and Production Operations.

21.2 All of the insurance items as approved in the insurance program shall be insured with an insurance company or companies organized under the laws of the People's Republic of China (hereinafter "Chinese Insurance Companies").

21.3 The insurance programs worked out by the Operator shall include, but not be limited to, the following insurance covering:

(a) damages and expenses to all drilling installations and equipment, including damages and expenses to the properties used in work-sites and supply bases for the Petroleum Operations, while the equipment and properties owned by Third Party rendering services to the Operator shall be handled in accordance with Article 21.5 herein;



- (b) damages and expenses to any of the equipment or installations for production, storage and transportation, and buildings in the course of construction and installation both onshore and offshore;
- (c) damages and expenses to the Crude Oil and/or Natural Gas production installations, facilities, equipment and pipelines, both onshore and offshore;
- (d) liability to Third Parties;
- (e) liability for pollution and expenses for cleaning up in the course of drilling and the Production Operations;
- (f) expenses for killing blowouts;
- (g) liability incurred by the Operator who takes the responsibility in chartering drilling vessels, supply boats or other boats, ships and aircraft serving the Petroleum Operations;
- (h) liability for removal of wrecks; and
- (i) losses and expenses incurred during the transportation and storage in transit of goods shipped from different parts of the world to work-sites.

21.4 In the insurance contracts, the deductibles borne by the Operator alone shall be determined by the Parties through consultation, and losses within the deductible limits shall be borne by the Parties.

21.5 When signing subcontracts or lease contracts, the Operator shall endeavour to compel Subcontractors and lessors to insure their risks under the relevant subcontracts with Chinese Insurance Companies and ask these -Subcontractors or lessors to contact Chinese Insurance Companies for arrangement of the necessary insurance.

21.6 In the course of the Petroleum Operations, the Parties shall cover separately personal accidental death and injury insurance with respect to personnel assigned



by them respectively. The premiums in respect thereof shall be dealt with in the following way: the premiums for personnel accidental death and injury insurance with respect to personnel whose costs are charged to the joint account pursuant to the provisions of the Contract shall be charged to the joint account, and those with respect to other personnel shall be borne respectively by the Parties by which they are assigned.

21.7 Insurance companies owned by or affiliated with any party to the Contract, or the Parties themselves, may approach the Chinese Insurance Companies for reinsurance if they are interested in covering any part of the insurance program hereof.

21.8 The premiums of insurance in the exploration period and the development period shall be charged respectively to the exploration costs and development costs while those in the production period shall be charged to the operating costs.

21.9 Any claim under the insurance of the agreed insurance program charged to the joint account shall be handled by the Operator and any recovery made from insurers shall be credited to the joint account.

Article 22

Confidentiality

22.1 CNOOC shall, in conformity with applicable laws and regulations of the Government of the People's Republic of China on confidentiality and by taking into account the international practice, determine the confidentiality periods for which the Contract and all documents, information, data and reports related to the Petroleum Operations within the Contract Area shall be kept confidential.

22.2 Without the written consent of CNOOC, no company comprising the Contractor or any assignee shall disclose documents, information, data and reports referred to in Article 22.1 herein or any other information regarded by JMC as confidential to any Third Party except the Third Parties in Article 22.4 herein and to any Affiliate

not directly connected with the implementation of the Contract, and no party to the Contract shall otherwise transfer, present, sell or publish them in any way within the confidentiality periods. Within the confidentiality period, CNOOC shall bear the obligations for confidentiality for the aforesaid contract, document, information, data and reports. However, CNOOC has the right to furnish the following original information and data or interpretation thereof with respect to the Contract Area to the relevant Third Parties:

- (a) original information and data held by CNOOC for over two (2) years; and
- (b) interpretation as of original information and data, which has been held by CNOOC for over five (5) years.

CNOOC shall require relevant Third Parties to undertake to keep confidential the aforesaid data, information, and interpretation thereof furnished to them by CNOOC.

22.3 During the term of the Contract and after termination or cancellation of the Contract, CNOOC shall not disclose to any Third Party any patent, know-how or proprietary technology transferred to CNOOC by the Contractor without the written consent of the Contractor except for any patent technology of which has expired and any proprietary and confidential technology which have entered the public domain.

22.4 For the implementation of the Contract, CNOOC and each company comprising the Contractor may, after review by JMC and CNOOC, furnish the necessary documents, information, data and reports to Third Parties and Affiliates related to the Petroleum Operations. The Third Parties and Affiliates include:

22.4.1 banks or other credit institutions from which finance is sought by or other financial institutions which provide or propose to provide financing to any party to the Contract for the implementation of the Contract;



- 22.4.2 Third Parties and Affiliates which provide services for the Petroleum Operations, including Subcontractors and other service contractors; and
- 22.4.3 an assignee or assignees to whom rights and obligations under the Contract are intended to be assigned.
- 22.5 Necessary information, documents, data and reports may be furnished by the Contractor in accordance with the laws of its home country to the government and stock exchanges provided that the Contractor reports to JMC in advance.
- 22.6 CNOOC and each company comprising the Contractor when furnishing the documents, information, data and reports to Third Parties and Affiliates as mentioned in Article 22.4 herein shall require them to assume the confidentiality obligations as set forth herein, or shall bear full responsibility for any violation thereof.
- 22.7 No Party may issue a press release relating to the Contract Area or Petroleum Operations without the prior written consent of the other Party; provided that this limitation shall not prevent the Operator from issuing a press release in the event of an emergency.

Article 23

Assignment

- 23.1 The Contractor may assign part or all of its rights and/or obligations under the Contract to its Affiliate with the prior consent of CNOOC and in accordance with the following provisions:
- (a) the Contractor shall submit to CNOOC copies of a written agreement on the corresponding part of its rights and/or obligations to be assigned;
 - (b) the Contractor shall guarantee in writing to CNOOC the performance of the assigned obligations;



(c) no such assignment shall interfere with the performance of the Petroleum Operations or affect the organizational structure.

23.2 The Contractor may assign part or all of its rights and/or obligations under the Contract to any Third Party, provided that such assignment shall be approved by CNOOC in advance. However, CNOOC shall have the right of first refusal in respect of such assignment provided that the conditions offered by CNOOC are comparable; provided that if CNOOC elects to exercise its right of first refusal, it shall make this election within ninety (90) days of receiving notice from the Contractor of its intent to assign to a Third Party.

The written agreement of assignment mentioned above and the consent or approval of CNOOC to the assignment shall be submitted in time to the original authority approving the Contract for its record through CNOOC.

23.3 Except for the retention of CNOOC's management functions stipulated in the Contract, CNOOC shall without the prior consent of the Contractor, assign all of its rights and obligations under the Contract to one of its Affiliates (it is understood by the Parties that such Affiliate shall be CNOOC China Limited), however CNOOC shall submit to the Contractor copies of a written agreement for the assignment of all of its rights and obligations. CNOOC shall guarantee the performance of the assigned obligations and such assignment shall not interfere with the performance of the Petroleum Operations.

23.4 CNOOC may assign part of its rights and/or obligations hereunder to a Chinese Government controlled Third Party, provided that prior written consent of the Government of the People's Republic of China shall be obtained. CNOOC shall guarantee the performance of the assigned obligations and such assignment shall not interfere with the performance of the Petroleum Operations.



Article 24

Environmental Protection and Safety

- 24.1 In the performance of the Petroleum Operations, the Operator shall be strictly subject to the laws, decrees and regulations on environmental protection and safety promulgated by the Chinese Government and make its best efforts to prevent pollution and damage to the atmosphere, oceans, rivers, lakes, harbours and land, and secure the safety and health of the operating personnel. The Operator shall use all reasonable endeavors to eliminate promptly any pollution occurring in the performance of the Petroleum Operations and minimize its consequences. Economic losses caused by any pollution shall be charged to the joint account, unless otherwise provided in Article 8.4 hereof.
- 24.2 When competent authorities under the Chinese Government assign any person to inspect environmental protection and safety within the scope of the Petroleum Operations according to the laws, decrees, rules and regulations, the Operator shall provide all necessary facilities and assistance to enable the inspectors to carry out such inspection smoothly.
- 24.3 In the performance of the Petroleum Operations in any fixed fishing net casting area and/or aquatic breeding area, the Operator shall make prior contact with the appropriate authorities of the Chinese Government.

Article 25

Force Majeure

- 25.1 No party to the Contract shall be considered in default of the performance of any of its obligations hereunder, if any failure to perform or any delay in performing its obligations is in conformity with all the events described as follows:

The performance of any obligations hereunder is prevented, hindered or delayed because of any event or combination of events which could not be foreseen and/or which is beyond the control of such party;



Any such event or combination of events is the direct cause of preventing, hindering or delaying of such party's performance of its obligations hereunder; and

When any such event or combination of events has occurred, such party has taken all reasonable actions to overcome any cause that prevents, hinders or delays performance of its obligations and in so far as is practicable continued to perform its obligations hereunder.

25.2 Notice of any event of force majeure and the conclusion thereof shall forthwith be given to the other party by the party claiming force majeure.

25.3 In the event of force majeure, the Parties shall immediately consult in order to find an equitable solution thereto and shall use all reasonable endeavors to minimize the consequences of such force majeure.

25.4 If the Petroleum Operations in the Contract Area are partially or entirely suspended as a result of the force majeure referred to in Article 25.1 herein, the period of the Petroleum Operations may be extended by a period not exceeding the corresponding period of such suspension. Within fifteen (15) days following the end of each Calendar Year, the Operator shall report to JMC in writing on the suspension of the Petroleum Operations caused by force majeure, if any, during the preceding Calendar Year.

Article 26

Consultation and Arbitration

26.1 The Parties shall make their best efforts to settle amicably through consultation any dispute arising in connection with the performance or interpretation of any provision hereof.

26.2 Any dispute mentioned in Article 26.1 herein that has not been settled through such consultation within ninety (90) days after the dispute arises may be referred



to arbitration at the request of and by either party to the Contract. The arbitration shall be conducted in accordance with the following provisions:

26.2.1 If agreed upon by the Parties, such dispute shall be referred to arbitration conducted by the China International Economic and Trade Arbitration Commission in accordance with the arbitration rules thereof.

26.2.2 If the Parties fail to reach an agreement on the arbitration arrangement mentioned in Article 26.2.1 herein, the Parties shall establish an ad hoc arbitration tribunal to conduct arbitration in accordance with the following provisions:

26.2.2.1 The ad hoc arbitration tribunal shall consist of three (3) arbitrators.

The Parties shall each appoint an arbitrator and the two arbitrators so appointed shall designate a third arbitrator. If one of the Parties does not appoint its arbitrator within sixty (60) days after the first appointment, or if the two arbitrators once appointed fail to appoint the third within sixty (60) days after the appointment of the second arbitrator, the relevant appointment shall be made by the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden.

26.2.2.2 The third arbitrator shall be a citizen of a country which has formal diplomatic relations with both the People's Republic of China and any home country of the companies comprising the Contractor, and shall not have any economic interests or relationship with the Parties.

26.2.2.3 The place of arbitration shall be determined by the Parties through consultation or, failing the agreement of the Parties, by the majority of arbitrators of the ad hoc arbitration tribunal.

26.2.2.4 The ad hoc arbitration tribunal shall conduct the arbitration in accordance with the arbitration rules of United Nations



Commission on International Trade Law, (“UNCITRAL”) of 1976. However, if the above-mentioned arbitration rules are in conflict with the provisions of this Article 26 including the provisions concerning appointment of arbitrators, the provisions of this Article 26 shall prevail.

- 26.3 Both the Chinese and English languages shall be official languages used in the arbitral proceedings. All hearing materials, statements of claim or defense, award and the reasons supporting them shall be written in both Chinese and English.
- 26.4 Any award of the arbitration shall be final and binding upon the Parties.
- 26.5 The right to arbitrate disputes under the Contract shall survive the termination or cancellation of the Contract.

Article 27

Effectiveness, Termination and Cancellation of the Contract

- 27.1 After the Contract is signed, it shall be approved by the Ministry of Commerce of the People’s Republic of China. The date of such shall be the effective date of the Contract. The above mentioned approval shall be notified by CNOOC to the Contractor as soon as possible.
- 27.2 All annexes to the Contract shall be regarded as integral parts of the Contract. If there is any inconsistency between the provisions of the annexes and the main body of the Contract, the main body of the Contract shall prevail. All references to the “Contract” hereof refer to the main body of the Contract.
- 27.3 If, in the course of implementation of the Contract, the Parties decide through consultation to make amendment of or supplement to any part of the Contract, a written agreement signed by the authorized representatives of the Parties shall be required. Significant modifications shall require a written approval from the

Ministry of Commerce of the People's Republic of China. Such agreement shall be regarded as an integral part of the Contract.

27.4 The Contract shall terminate under any of the following circumstances:

27.4.1 exercise of the Contractor's election to terminate the Contract under Article 6.1(c) hereof;

27.4.2 failure to discover any commercial oil or gas reservoir within the Contract Area prior to the expiration of the exploration period or the extended exploration period granted under Article 4.3 or 18.2.2.1 hereof;

27.4.3 if there is only one (1) commercial Oil Field or Gas Field in production in the Contract Area, on termination of the production period of such Field;

27.4.4 if there are two (2) or more commercial Oil Fields or Gas Fields in production in the Contract Area, on termination of the production period of the Field with the latest termination date; or

27.4.5 at the end of the last day of the thirtieth (30th) Contract Year from the Date of Commencement of the Implementation of the Contract, unless the production period is extended by approval of the responsible authorities of the Chinese Government under Article 4.5 hereof or unless otherwise stipulated in Article 4.6.1, 18.2.1.2 or 25.4 hereof.

27.5 Before the expiration of the first phase of the exploration period as specified in Article 4.2 hereof, the Contractor shall not propose termination of the Contract unless the Contractor has fulfilled the minimum exploration work commitment for the first phase of the exploration period ahead of time.

27.6 If either party to the Contract commits a material breach of the Contract, the other party to the Contract shall have the right to demand that such breach be remedied within a reasonably specified period of time. If such breach is not remedied within such period of time, the complaining party shall have the right to cancel the Contract by giving ninety (90) days' written notice to the defaulting party.

However, such material breach of the Contract and unremedied material breach shall have been judged by the final award of arbitration in accordance with Article 26 hereof.

Article 28
The Applicable Law

- 28.1 The validity, interpretation and implementation of the Contract shall be governed by the laws of the People's Republic of China. Failing the relevant provisions of the laws of the People's Republic of China for the interpretation or implementation of the Contract, the principles of the applicable laws widely used in petroleum resources countries acceptable to the Parties shall be applicable.
- 28.2 If a material change occurs to the Contractor's economic benefits after the effective date of the Contract due to the promulgation of new laws, decrees, rules and regulations or any amendment to the applicable laws, decrees, rules and regulations made by the Government of the People's Republic of China, the Parties shall consult promptly and make necessary revisions and adjustments to the relevant provisions of the Contract in order to maintain the Contractor's normal economic benefits hereunder.

Article 29
Language of Contract and Working Language

- 29.1 The text of the Contract, annexes and supplementary documents attached hereto shall be written in both Chinese and English languages, and both versions shall have equal force and effect.
- 29.2 The Parties agree that both Chinese and English shall be used as working languages. After the effective date of the Contract, technical documents and information concerning the Petroleum Operations hereunder shall, in general, be



written in English except for technical documents and information available previously and from Third Parties.

Unless otherwise agreed by CNOOC, documents and information in respect of administration shall be written in both Chinese and English. Forms for production and other reports and records shall be printed with headings in both Chinese and English and may be filled out in either Chinese or English.

Article 30
Miscellaneous

- 30.1 All notices and documents required hereunder shall be deemed to have been properly given and delivered to either party to the Contract only when received.
- 30.2 Notices and documents shall be delivered by hand or sent by mail, registered airmail or telex or facsimile transmission to the address hereunder specified:



Address of CNOOC	Address of the representative of the Contractor
China National Offshore Oil Corporation No 25, Chaoyangmenbei Dajie, Dongcheng District, Beijing, China Postal Code: 100010 P.O. Box 4705, Beijing, China Tel: 8610-84521178 Fax: 8610-84523879 For the attention of: Mr. Zhao Liguo The representative appointed by CNOOC	Primeline Energy China Limited Hong Kong Parkview 88 Tai Tam Reservoir Road Hong Kong, China Tel: +852 2810 5511 Fax: +852 2810 0667 For the attention of: Mr. Victor Hwang The representative appointed by PECL Primeline Petroleum Corporation Hong Kong Parkview 88 Tai Tam Reservoir Road Hong Kong, China Tel: +852 2810 5511 Fax: +852 2810 0667 For the attention of: Mr. Victor Hwang The representative appointed by PPC

30.3 Each party to the Contract may change its address or representative by a written notice to the other party to the Contract.

30.4 Companies comprising the Contractor have the following percentages of participating interests as of the effective date of the Contract.

(I) Primeline Energy China Limited – seventy five percent (75%)

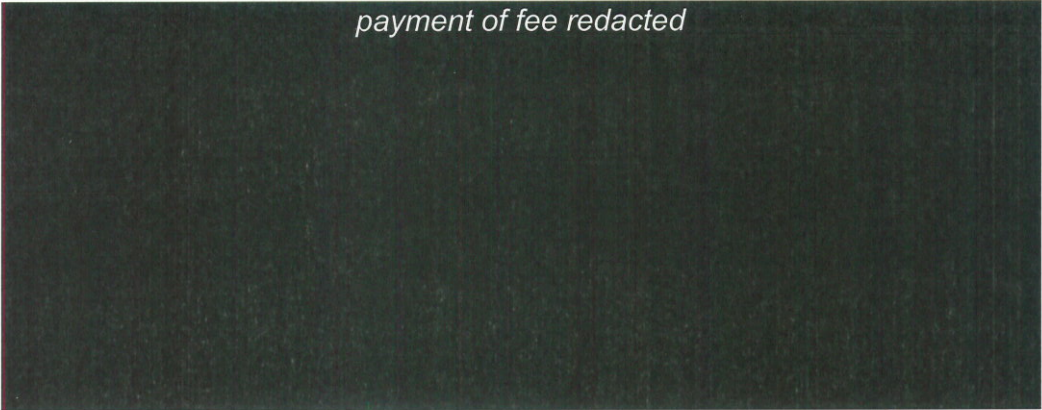
(II) Primeline Petroleum Corporation – twenty five percent (25%)

Subject to Article 30.6 herein, the rights and obligations of each company comprising the Contractor hereunder may, as between themselves, be varied by the operating agreement between such companies and the Contractor shall advise CNOOC in writing of any expected variation and thereafter, of the actual variation.

If such variation leads to the transfer of the Operatorship or the companies comprising the Contractor have made a decision to change the Operator, the Operator referred to in Article 8.1 hereof may be replaced after obtaining a written consent from CNOOC.

30.5

payment of fee redacted



30.6 Companies comprising the Contractor signing the Contract with CNOOC agree to undertake the obligations of the Contractor under the Contract jointly and severally.

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THIS CONTRACT is signed on this 15th day of June, 2012 in Qingdao by the authorized representatives of the Parties hereunder:

China National Offshore Oil Corporation

By: _____

Name: Zhao Liguo

Title: General Counsel

Primeline Energy China Limited

Primeline Petroleum Corporation

By: _____

By: _____

Name: Victor Hwang


Name: Victor Hwang

Title: Chairman

Title: Chairman

THIS CONTRACT is signed on this 15th day of June, 2012 in Qingdao by the authorized representatives of the Parties hereunder:

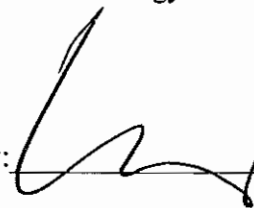
China National Offshore Oil Corporation

By:  _____

Name: Zhao Ligu

Title: General Counsel

Primeline Energy China Limited

By:  _____

Name: Victor Hwang


Title: Chairman

Primeline Petroleum Corporation

By:  _____

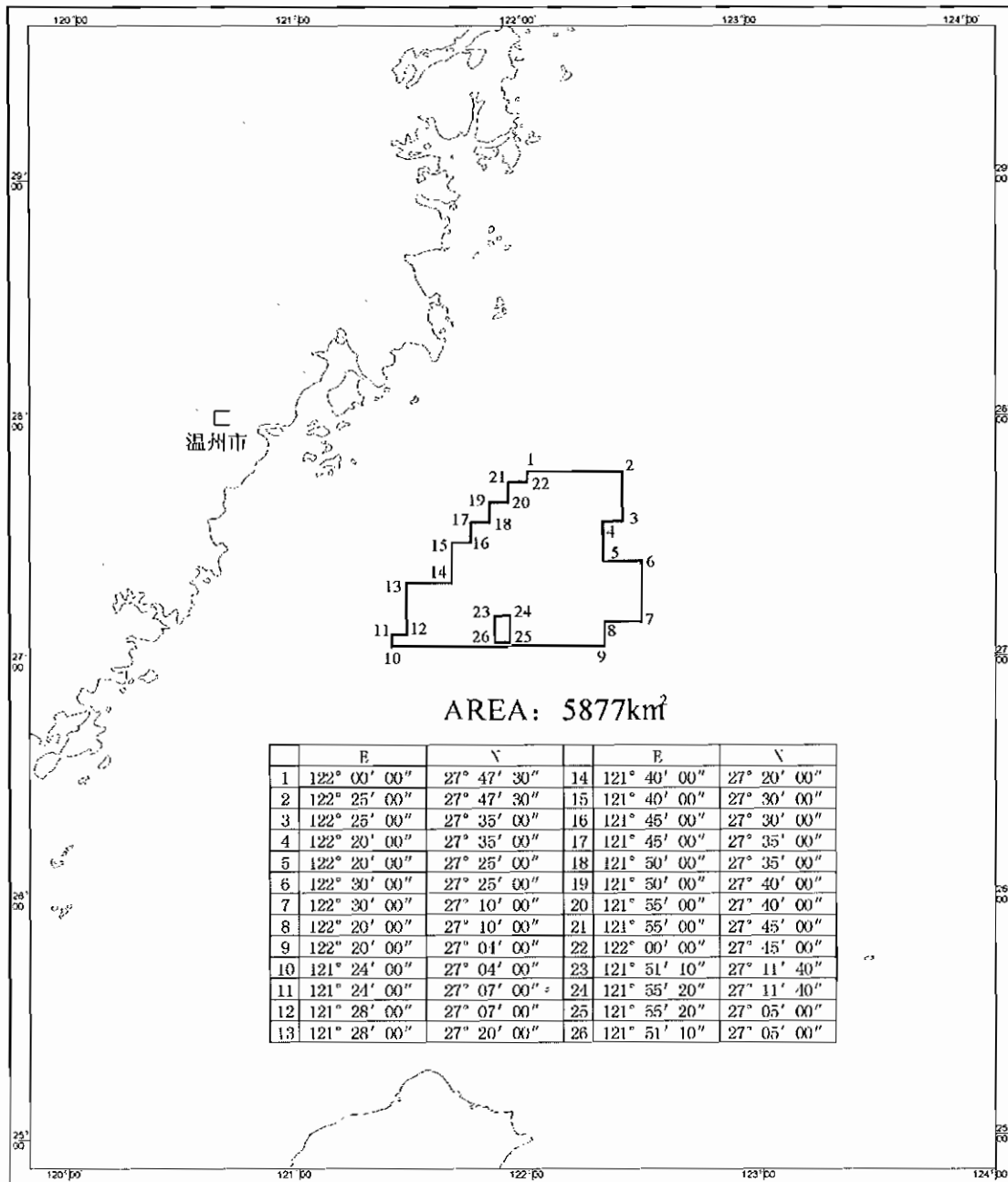
Name: Victor Hwang

Title: Chairman


AB

ANNEX I

Geographic Location and Co-ordinates of Connection Points
Of Boundary Lines of the Contract Area



ATB

ANNEX II

ACCOUNTING PROCEDURE

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Article 1	General Provisions
Article 2	Definitions
Article 3	Cash Calls
Article 4	Accounting and Management of Material
Article 5	Expense Accounting
Article 6	Recovery of Costs, Expenses and Deemed Interest
Article 7	Accounting Reports
Article 8	Audit
Article 9	The Transfer Procedure for the Joint Account

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Article 1
General Provisions

1.1 This Accounting Procedure is an integral part of the Contract. The definitions set forth in Article 1 of the Contract are equally applicable to this Accounting Procedure. The definitions and provisions in this Accounting Procedure have the same force and effect as those in the Contract. If the provisions in this Accounting Procedure are in conflict with those in the Contract, the provisions in the Contract shall prevail.

1.2 Purpose:

The purpose of this Accounting Procedure is to establish equitable control methods for determining charges and credits applicable to the Petroleum Operations according to the relevant provisions of the "Petroleum Regulations" and of the Contract, including guidelines for accounting settlements in respect of managing funds and materials, financing, Accounting Records, and for compiling accounting statements.

The Operator shall neither gain nor lose in relation to the other parties by means of the fact that it acts as the Operator.

1.3 Accounting Methods: The double-entry method of accounting shall be used in this Accounting Procedure.

1.4 Working Language: Pursuant to the provisions of Article 29 of the Contract, Chinese or English shall be used as the working languages for the Accounting Records and analyses of financial conditions in respect of the Joint Account, at the Operator's option.



1.5 Currency for accounting:

The U.S. dollars shall be the unit of currency for accounting in the Joint Account and shall be the currency for the investments and reimbursements under the Contract. In case currencies other than U.S. dollars are used to carry out business activities, the relevant bank accounts and other current asset and current liability accounts shall be kept both in U.S. dollars and in the currencies used.

1.6 Currency translation:

For the purpose of accounting, currency translation entered into the Joint Account shall be made in accordance with the following guidelines:

The rate of exchange to be used for the conversion into U.S. dollars of cash calls received in Renminbi shall be the arithmetic average of buying and selling rates of exchange applicable to any individual or commercial entity quoted by the Bank of China at 11:00 a.m. on the date of receipt of such cash call. If the relevant date is a non-business day of the Bank of China, the rate quoted on the previous working day by the Bank of China shall apply.

All other transactions recorded in the Joint Account which are made in Renminbi shall be translated into and recorded in U.S. dollars at the rate of exchange as quoted above on the last working day of the previous month, while those transactions which are made in currencies other than Renminbi and U.S. dollars shall be recorded in U.S. dollars at the actual cost in U.S. dollars of effecting the transaction.

Neither CNOOC nor the companies comprising the Contractor shall experience an exchange gain or loss, at the expense or benefit of the other party.

The Operator shall make its best efforts to minimize any exchange loss.

All gains or losses from currency conversion or translation shall be recorded in the Joint Account.



1.7 Accounting Records and statements:

1.7.1 All Accounting Records related to the Petroleum Operations shall be established and maintained by the Operator within the territory of the People's Republic of China.

1.7.2 All vouchers, accounts, books and statements shall be prepared in accordance with the Petroleum Operations Accounting System established by CNOOC.

1.7.3 Annual accounting statements and important accounting books, including asset records, cash or bank journals, general and subsidiary ledgers, balance sheets, and gross oil production allocation statements shall be maintained for the term of the Contract as per Article 4.7 of the Contract, or for any further period if required by the laws and regulations of the People's Republic of China. Other accounting vouchers and books shall be kept for fifteen (15) years. Quarterly and monthly statements shall be maintained for five (5) years.

Upon the expiration of the custody period, a list shall be made of the accounting files to be disposed of. Disposal shall only be made after the approval of CNOOC. The list of the accounting files disposed of shall be maintained with the annual accounting statements.

Article 2

Definitions

The terms used in this Accounting Procedure shall have the definitions ascribed to them as follows:

2.1 "Accounting Records" means all accounting books, source documents, original vouchers, approved documents, analytical data, work papers and accounting statements maintained for the Petroleum Operations.



- 2.2 "Accounting System" means the Petroleum Operations Accounting System prepared by CNOOC, specifying the accounting titles to be used by the Operator and instructions for implementation, forms and contents of various accounting statements and their preparation methods, including a material classification section, a definition of Controllable Material, standards for itemizing assets and the provisions for fixed asset accounting. If the contents of the Accounting System are in conflict with the provisions of the Accounting Procedure, the provisions of the Accounting Procedure shall prevail.
- 2.3 "Material" means materials, tools, facilities, equipment and consumables procured, leased or otherwise acquired and held for Petroleum Operations.
- 2.4 "Joint Account" means accounts established by the Operator for the implementation of the Contract to record all debits and credits related to the Petroleum Operations.
- 2.5 "Controllable Material" means the Material referred to in the Accounting System described in Article 2.2 of this Accounting Procedure.
- 2.6 "LIBOR" means the six (6) month term London Inter-Bank Offered Rate of US Dollars which appears on Telerate Page 3750 at 11:00 a.m. Greenwich Mean Time on the first business day of the relevant period.
- 2.7 "Investing Party" means any of the Parties that are contributing the funds for the Petroleum Operations in accordance with their participating interest determined pursuant to the relevant provisions of the Contract.

Article 3

Cash Calls

- 3.1 Except as otherwise provided in the Contract, the Contractor shall provide all the exploration costs for the Exploration Operations according to the provision of Article 12.1.1 of the Contract; and all the Investing Parties shall provide the

development costs for the Development Operations in proportion to their respective participating interests as provided in Article 12.1.2 of the Contract. In accordance with each approved annual budget, the Operator shall issue monthly cash call notices to each Investing Party to provide the Operator with funds to cover the planned expenditure of the next month. Whether or not the cash call notices for the exploration costs are to be issued shall be at the option of the Operator.

3.2 Development Operations cash call and default:

3.2.1 According to the needs of the Petroleum Operations, the Operator shall regularly issue monthly cash call notices within the amount of approved annual budget to request each Investing Party to respectively make advances as specified by the Operator. The Operator shall, before twenty (20) days prior to the commencement of each month, issue cash call notices for the development costs and each Investing Party shall provide its percentage share of funds according to the requirement and within the time limit specified in the cash call notice, but no sooner than the first day of the month for which cash is called. Each Investing Party shall transfer its percentage share of funds to the Operator's bank account(s) established particularly for the Joint Account. Such bank account(s) will in all cases be interest bearing account(s).

Any excessive or deficient advances made by each Investing Party for any month shall be adjusted in the next cash call.

In case that the Operator, owing to the needs of the Petroleum Operations, has to incur expenditures which are unforeseen in the cash call for any month, written notices shall be issued to all the Investing Parties who shall finance their own shares for additional amount within ten (10) days following the receipt of the written notice.

3.2.2 Interest shall be paid by CNOOC or the companies comprising the Contractor failing to pay its share of funds on the due date specified in the cash call at LIBOR on delinquent date plus 5% on the delinquency of less than one (1) month and thereafter at the average seven (7) LIBOR rate ruling throughout each subsequent month plus 5%, such interest being compounded on a monthly basis throughout the period of the delinquency. The non-defaulters shall make up the delinquent portion on behalf of the defaulters. When the defaulters advance cash to meet both their delinquent portion and accrued interest thereon, the Operator shall reimburse the non-defaulters who made up the delinquent portion.

All amount advanced by the non-defaulting parties plus accrued interest not reimbursed by the defaulting party shall constitute a debt due from the defaulting party to the non-defaulting parties who shall be entitled to all remedies at law and equity. The Operator on behalf of the non-defaulting parties is entitled to take the defaulting party's share of the Annual Gross Production of Crude Oil and apply the proceeds of the sale of such Crude Oil against all sums due and payable by the defaulting party including accrued interest. Any excess funds remaining from such proceeds after deduction of all amounts due including interest and the costs, charges and expenses incurred by the Operator in connection with such sale, shall be paid over to the defaulting party. Any deficiency remaining due, after deducting the proceeds of sale shall remain an obligation of the defaulting party and may be collected as any other debt.

3.3 Each monthly cash call notice shall clearly indicate the following information:

3.3.1 Annual development costs to be shared by each Investing Party as shown in the approved annual budget.

3.3.2 Amount of funds advanced by each Investing Party at the end of the month prior to the month in which the call is prepared and the actual expenditures recorded and actual balance (i.e. funds unused) in the Joint Account,

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accompanied by the bank statements related to the Joint Account for the previous month.

- 3.3.3 The estimated expenditure which will be charged to the Joint Account in the month of the cash call (the estimate expenditure shall be itemized in accordance of the annual budget).
 - 3.3.4 Amount of funds to be called from each Investing Party and the estimated amounts of funds to be called in the following two (2) months.
 - 3.3.5 The clear indication of requirement for the date when funds are to be provided, the amount of funds, currency account number, name of the account, the recipient bank and its address.
- 3.4 On the Date of Commencement of Commercial Production of an Oil Field and/or Gas Field, any development investment for the Oil Field and/or Gas Field advanced by the Investing Party not expended or not to be expended shall be returned to each of the Investing Parties in proportion to its share.
- 3.5 In accordance with Article 12.1.3 of the Contract, the cash for the Production Operations undertaken by the Parties jointly and approved by the JMC shall be provided by all the Investing Parties to the Contract in proportion to their respective participating interests in the development costs and shall bear no Deemed Interest. Based on the needs of the Production Operations, the Operator may make timely adjustments of the amount of cash to be provided by all the Investing Parties to the Contract. The Operator shall issue cash call notices quarterly to call for cash for the Production Operations. In proportion to its share, each Investing Party shall respectively provide advances on a monthly basis in accordance with requirements and within the time limit specified in the cash call notice of the current month.

In case that the Operator, owing to the needs of the Petroleum Operations, has to incur expenditures which are unforeseen in the cash call for any month, written notices shall be issued to all the Investing Parties who shall finance their own

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shares for additional amount within ten (10) days following their receipt of such written notices.

3.6 According to the requirement of the Petroleum Operations, the Operator shall indicate in any cash call notices the U.S. dollar equivalent of the total cash called. The Operator shall also specify the amounts of Renminbi and U.S. dollars required as estimated to make payment. CNOOC shall provide the advance of its own share either in Renminbi or in Renminbi and U.S. dollars with respect to the amount called for by the Operator, but CNOOC's funding in Renminbi shall not exceed the total amount of Renminbi called for by the Operator in any cash call notice. The Contractor shall provide the advance of its own share in U.S. dollars.

3.7 Provisions for recording the sources of funds:

3.7.1 Funds for exploration costs, development costs and operating costs, when received, pursuant to each cash call shall be credited against the relevant accounts of the Investing Parties in the Joint Account.

3.7.2 In case either party to the Contract decides to develop an Oil Field and/or Gas Field for its sole account pursuant to Article 11.6 and/or Article 18.2.2 of the Contract, or undertakes any other operation for its sole account, the funds required shall be financed and accounted for separately.

3.7.3 The Contractor shall, within twenty (20) days after the date of submission to CNOOC of a written notice expressing its decision to participate in the development of an Oil Field developed solely by CNOOC, pay CNOOC in cash the amounts stipulated in Article 11.6.1 of the Contract.

3.7.4 In accordance with Article 6.3 of the Contract, if the Contractor opts to terminate the Contract as provided in Article 6.1(c) of the Contract or if the phase is the last exploration phase, the Contractor shall, within thirty (30) days from the date of its decision to terminate the Contract or thirty (30) days from the date of the expiration of the exploration period, pay CNOOC in U.S. dollars the unfulfilled balance of the minimum

exploration work commitment (or of the new commitment) for the exploration phase, converted into cash. The detailed method by which the unfulfilled balance of the minimum exploration work commitment is converted into U.S. dollars is that the actual average unit cost, excluding the abnormal drilling costs such as those of the sidetrack, fishing, severe loss of mud circulation etc. (i.e. U.S. \$/kilometre of seismic line; U.S. \$/meter of drilling footage), of the last portion of a seismic line shot under the Contract or of the last well drilled is multiplied by the unfulfilled amount of the minimum exploration work commitment. The formula for such calculation is as follows:

$$I = A_c \times P_u$$

in which:

I = converted cash amount of the unfulfilled balance of the minimum exploration work commitment;

A_c = actual average unit cost of the last portion of a seismic line shot or of the last well drilled; and

P_u = the unfulfilled amount of the minimum exploration work commitment, the unfulfilled amount in respect of seismic line is the difference between the kilometers specified in Article 6.2 of the Contract and actual kilometers of the seismic line. The unfulfilled footage of a Wildcat is footage or aggregate of well or wells which has or have to be fulfilled but not yet been fulfilled as specified in Article 6.2 of the Contract.

Article 4

Accounting and Management of Material

4.1 Procurement of Material:

The procurement of Material shall be implemented in accordance with the procedure specified in Articles 15.1 and 7.6 of the Contract. In order to prevent overstocking of Material, the Operator shall use all reasonable best efforts to ensure that the procurement of Material shall be made in accordance with the Material procurement plans and that the quality of Material conforms to specifications and prices are fair and reasonable. The Operator does not warrant the Material furnished beyond, or back of, the supplier's or manufacturer's guarantee.

4.2 Costs of procuring Material:

The costs of Material purchased shall be the invoice prices less discounts plus related transportation and other expenses, including expenses for freight to the port of destination, insurance premiums proportion to with the Material covered, fees of forwarding agents, duties, fees, handling expenses from shipside to and within any water terminal warehouse or yard, and any other reasonable expenses actually paid and expenses of inland transportation.

4.3 The following provisions shall be applied for pricing Material furnished from the stocks of the Parties and/or their Affiliates for use in the Petroleum Operations:

(1) New Material:

New Material shall be priced on the basis of current market value plus expenses in moving such Material directly to the job-site where Material is used.

(2) Used Material:

(A) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be priced by the Parties, and the ceiling price shall not exceed seventy-five percent (75%) of the current value of new Material.

(B) Material which, after being reconditioned, will be further serviceable for its original function shall be priced by the Parties, and the ceiling price shall not exceed fifty percent (50%) of the current value of new Material.

(C) Used Material which can not be classified as (A) or (B) above shall be priced by the Parties through discussions at a value commensurate with its use.

(D) If the Operator wishes to use a method other than the above for pricing used Material, such other method shall be agreed upon in advance by the Parties through consultations.

4.4 Price determination and leasing expense calculation method for properties purchased or leased from other contract areas:

The Operator may lease equipment and facilities and purchase Material and fuel from other contract areas. The Operator shall charge the leasing expenses or purchase price as agreed upon by the Operator and its suppliers. Such leasing expenses or purchase prices shall not exceed those currently prevailing in similar contract areas.

4.5 For certain Material which is in short supply in the world markets and difficult to procure at published market prices and the lack of which will hinder normal operations, the Operator may, after the approval of JMC, purchase such Material urgently needed by the Petroleum Operations and charge actual purchase costs to the Joint Account.

4.6 Disposal of equipment and Material:

The Operator shall not dispose or sell Material with book value exceeding Ten Thousand U.S. dollars (U.S. \$10,000) without the prior consent of the Parties. The Operator shall use all reasonable endeavors to minimize losses in the disposal of or sales of such Material.

Sales of properties to Third Parties shall be recorded in accordance with actual sales income. No guaranty or warranty for Material sold or disposed of under this Article shall be given by the Operator to any purchaser.

4.7 Accounting for Material:

The costs of Material which is procured by the Operator and is directly used at the job-site shall be charged to the respective accounts of exploration costs, development costs or operating costs at actual purchase prices (as defined in Article 4.2 herein) and on the basis of the intended use of Material. Should such Material subsequently be used other than as intended, the relevant charges shall be transferred from the original cost accounts to the appropriate cost accounts.

Material for general use which is first stored in warehouses or which is first stored on supply boats used as warehouses shall be subject to inventory control procedures.

The quantities, unit prices and total value shall be recorded for Material in inventory using perpetual inventory methods. Material in stock shall be priced at purchase costs and the Operator, upon the commencement of or during the Contract period, has the freedom to choose one of the following pricing methods such as FIFO, weighted average method and moving average method etc. for Material to be transferred out of the stock. Accounts for inventory Material shall be regarded as exploration cost, development cost or operating cost and shall be recovered in accordance with Article 12.2 of the Contract.

At the request of any non-Operator, the Operator shall furnish to the non-Operator a detailed statement of Controllable Material.

The Operator shall conduct physical inventory of Material in warehouses and supply boats used as warehouses prior to the annual final accounts or whenever depending upon the actual situation. The Operator shall give a written notice to the JMC sixty (60) days before the date of proposed physical inventory in order to enable the non-Operator for participation and failure to participate by any non-Operator in the physical inventory shall be regarded as approval of the physical inventory conducted by the Operator.

If any gain or loss is found as a result of the physical inventory, the Operator shall compile a detailed statement of the gain or loss and attach to it an explanation for the gain or loss, which shall be submitted to the JMC for examination and approval.

- 4.8 In accordance with Article 17.1 of the Contract, the Operator shall exercise strict control over the fixed assets of the Petroleum Operations and set up accounts and record cards, and shall conduct physical inventory of the fixed assets at year-end or whenever depending upon the actual situation to make sure that the book records, card records and physical fixed assets are in conformity. In case that any damage and loss arises to the fixed assets, the Operator shall determine the reasons and submit them to the JMC for examination and approval.

Article 5

Expense Accounting

5.1 Rules for Accounting

- 5.1.1 According to the provisions of Articles 12.1.1, 12.1.2 and 12.1.3 of the Contract, all development costs and operating costs of the Parties as well as the Contractor's exploration costs shall be recorded in the Joint Account separately.



The Operator shall establish and maintain three separate accounts, namely:

5.1.1.1 exploration costs account

5.1.1.2 development costs account and

5.1.1.3 operating costs account

in which shall be reflected all charges and costs as classified pursuant to Articles 5.2 and 5.3 of this Accounting Procedure.

5.1.2 If either CNOOC or the Contractor, in accordance with Article 11.6.1, 11.6.2 or 18 of the Contract, makes the decision to develop an Oil Field and/or Gas Field for its sole account or to undertake any other operation for its own account, the relevant costs shall be accounted for separately.

5.1.3 All items related to the Petroleum Operations such as discounts, deductions, allowances, interest income, gains from various services, indemnities from insurance and other miscellaneous income by the Operator, shall be credited to the relevant expense accounts.

5.1.4 All direct services or research work (including personnel) provided by the superior organizations or Affiliates of CNOOC or of the Contractor and by the Third Parties for the Petroleum Operations shall be subject to the form of work order procedures in advance and shall be charged to the Joint Account after verification of the relevant invoices.

Work Order Procedure shall be established through consultations at JMC meetings by both Parties within three (3) months as of the Date of Commencement of the Implementation of the Contract. The rates charged for direct services or research work (including personnel cost) provided by the superior organizations or Affiliates of CNOOC or of the Contractor shall be on the basis of actual costs incurred and more competitive when compared with the rates of similar services furnished by the Third Parties. The Operator shall, in accordance with Article 15 of the Contract, give

priority to use direct services or research work (including personnel) provided by CNOOC.

5.2 Cost items:

The following items shall be chargeable to the Joint Account by Operator's net cost.

5.2.1 Subcontractor charges:

The charges paid to Subcontractors in accordance with contracts signed between the Operator and Subcontractors.

5.2.2 Personnel expenses:

The contents and control of personnel expenses shall be as stipulated in Article 19.3 of the Contract.

5.2.3 Travel and living expenses:

Travel and living expenses paid according to Article 19 of the Contract to the personnel involved in the Petroleum Operations.

5.2.4 Material expenses:

Expenses paid in accordance with Article 4 of this Accounting Procedure to purchase Material for use in the Petroleum Operations.

5.2.5 Relocation and transportation expenses:

Relocation and transportation expenses for personnel involved in the Petroleum Operations to be relocated into or out of the People's Republic of China and transferred from job-site to job-site within the People's Republic of China.

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5.2.6 Maintenance, repair and leasing expenses:

Expenses for maintenance, repair or replacement of the properties used in the Petroleum Operations and leasing expenses paid for leased properties and equipment.

5.2.7 Insurance premiums:

Necessary net payment made for the insurance of Petroleum Operations and related costs and expenses.

5.2.8 Legal expenses:

In order to protect the interests of the Parties, all costs or expenses paid for attorney's fees, litigation or investigation, including expenses in securing evidence, mediation and settlements. The expenses for handling legal matters incurred for the interests of any party to the Contract shall be borne solely by such party.

5.2.9 Taxes:

All taxes paid according to the tax laws of the People's Republic of China, except for those which do not belong to the scope of expenditures in the Joint Account the income taxes, Value Added Tax and Resources tax to be paid by the companies comprising the Contractor or CNOOC and individual income tax to be paid by employees and other related costs.

5.2.10 Energy expenses:

All costs in respect of fuel, electricity, heat, water or other energy used and consumed for the Petroleum Operations.

The costs of Crude Oil and/or Natural Gas produced and used in any Oil Field and/or Gas Field (provided the Parties have the same interests in such Fields) within the Contract Area by the Operator for the performance



of the Development Operations and Production Operations or for well stimulation or for maintaining the reservoir pressure shall not be charged. However, the costs of transporting such Crude Oil and/or Natural Gas to their points of use shall be charged under this item.

5.2.11 Field office facility charges:

The costs and expenses of establishing, maintaining and operating any offices, camps or housing facilities necessary for the performance of job-site operations, including the costs of any office used by staff directing such operations (calculated by apportioning office costs and expenses on the basis of space occupied by such staff).

5.2.12 Communication charges:

The costs of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities between the Contract Area and the base facilities.

5.2.13 Ecological and environmental protection charges:

All charges for any measures undertaken for the Petroleum Operations within the Contract Area as required by relevant statutory regulations or pursuant to programs agreed by the Parties.

5.2.14 Service charges

5.2.14.1 Technical service charges:

The charges paid for services such as rock specimen analysis, oil quality tests, geological evaluation, data processing, design and engineering, well site geology, drilling supervision and special research programs and other technical services.

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5.2.14.2 General service charges:

General service charges refer to professional consultant charges incurred for the common interests of both Parties and charges for other services to obtain original data needed for Petroleum Operations from outside sources, except legal service.

5.2.14.3 CNOOC's assistance charges:

- (A) The charges for the assistance provided by CNOOC for the Contractor to carry out the Petroleum Operations in accordance with Article 9 of the Contract. The charges for services provided by CNOOC according to Article 9.1.5 of the Contract in respect of services not chargeable to the Joint Account shall not be charged to the Joint Account.
- (B) For all assistance to be provided by the head office organization of CNOOC in Beijing to the Contractor in the course of the Development Operations and the Production Operations before CNOOC takes over the said Production Operations, CNOOC shall charge an administrative fee of Three Hundred Thousand U.S. dollars (U.S.\$ 300,000) for each Calendar Year. If the whole process of the Development Operations conducted for any Oil Field in any Calendar Year is less than twelve (12) calendar months, the administrative fee for such Calendar Year shall be calculated in proportion to the actual calendar month(s) spent thereon (if the actual time spent thereon in any calendar month is less than thirty (30) days, the calculation shall be made based on a full calendar month. The aforesaid administrative fee



shall be paid respectively on June 1 and Dec. 1 each Calendar Year, with One Hundred Fifty Thousand U.S. dollars (U.S.\$ 150,000) for each time.

5.2.15 Damages and losses to the assets:

All costs and expenses necessary for the repair, replacement or supplement of assets resulting from damages or losses incurred by fire, flood, storm, theft or any other force majeure causes, excluding the losses specified in Article 8.4 of the Contract, which shall be borne by the Operator alone.

5.2.16 Personnel training costs:

Costs incurred for personnel training pursuant to Article 16 of the Contract.

5.2.17 Miscellaneous expenses:

Any reasonable miscellaneous expenses needed for the Petroleum Operations excluded in the above items of expenses, such as bank charges, books, stationery and conference expenses as well as other reasonable expenses.

5.2.18 Overhead:

Overhead refers to the costs for the managerial and operational services provided by the Operator's superior management organizations for the Petroleum Operations, including management, administration, accounting, treasury, intercompany audit, tax, legal matters, employee relations, financing, the collection of electronic data and costs which not chargeable under Article 5.1.4 of this Accounting Procedure for general consultation such procurement, planning, design, research and operational activities etc. The overhead shall be calculated in accordance with the following tiers and based on the sum of the total actual costs from Article 5.2.1 through Article 5.2.17 and Article 5.2.19 of this Accounting Procedure, but not



including CNOOC's assistance charges under Article 5.2.14.3 of this Accounting Procedure.

The Overhead Rates for the Exploration Operations

Direct Costs for Exploration (U.S. \$./Year)		Percentage Rate %
First Tier	0 to 5,000,000	5%
Second Tier	5,000,001 to 15,000,000	3%
Third Tier	15,000,001 to 25,000,000	2%
Fourth Tier	over 25,000,000	1%

The Overhead Rates for the Development Operations

Direct Costs for Development (U.S. \$./Year)		Percentage Rate %
First Tier	0 to 5,000,000	2.5%
Second Tier	5,000,001 to 10,000,000	1.5%
Third Tier	10,000,001 to 20,000,000	1.0%
Fourth Tier	20,000,001 to 30,000,000	0.5%
Fifth Tier	Over 30,000,000	0.25%

The overhead rate for the Production Operations shall be of one point eight percent (1.8%) of the total amount of the direct costs for the Production Operations in each Calendar Year and shall be calculated in accordance with the calculation method referred to in the provisions of the last paragraph of Article 5.2.18 herein.

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The costs and expenses for offices established by the Operator within the Chinese territory which are not specifically dedicated to the Petroleum Operations shall be allocated by the Operator to the Petroleum Operations within the Contract Area or to other beneficiary Parties, including the Contractor, on the basis of actual service time recorded, or may be allocated by other methods agreed upon by the Parties. The amount of allocation charged to the Petroleum Operations within the Contract Area shall be included in the cost item of Article 5.2.19 of this Accounting Procedure. The costs and expenses incurred by the offices established by the Operator and its superior organizations outside the Chinese territory (excluding costs and expenses chargeable under Article 5.1.4 of this Accounting Procedure) has been included in the overhead and shall not be again charged to the Joint Account.

On the last working day of each month, the Operator shall make provision into the Joint Account for the overhead fees for the current month, calculated on the basis of cumulative actual expenditure for the Calendar Year to that date and payment shall be made from the Joint Account on the last working day of the following month. The final adjustment of the overhead shall be made at the end of the Calendar Year in respect to any difference between the actual payment by the Joint Account and the total overhead for that Calendar Year calculated on the annual cumulative actual investment expenditure at the end of such year. Any excess shall be refunded and deficiencies made good.

5.2.19 General and administrative expenses:

General and administrative expenses refer to the administrative expenses incurred for any offices established by the Operator within the Chinese territory and for the JMC and its subordinate bodies for the performance of the Petroleum Operations.



- 5.3 Except as otherwise provided in this Accounting Procedure the allocation of common costs and expenses for each item of operations shall be charged in proportion to the exploration costs, development costs and operating costs actually incurred in each month.
- 5.4 With respect to the expenditures or excess expenditures as mentioned in Article 10.2.4(b) of the Contract which are determined by the JMC to be unreasonable, the JMC will form an expert group for further investigation to determine whether they shall be charged to the Joint Account or shall be borne by the Operator alone before the year-end final closing of accounts.

Article 6

Recovery of Costs, Expenses and Deemed Interest

- 6.1 According to the provisions of Article 12.2.2 of the Contract, exploration costs shall bear no interest.
- 6.2 The calculation of Deemed Interest on the development costs:

Deemed Interest on the development costs shall be calculated at the specified rate from the first day after the end of the month in which the development funds of any of the Investing Parties have been received in the Operator's bank account for the Joint Account in accordance with the provisions of Article 12.2.3 of the Contract.

There are three hundred and sixty-five (365) days in each Calendar Year for the interest calculation and the interest shall be compounded once each Calendar Year on December 31 based on the actual number of days eligible for the interest.

Worked Example:

Development Costs ____ US \$100 received on tenth of March

US \$100 received on twentieth of March

The aggregate amount received in March is US \$ 200.

Deemed Interest shall be calculated from the first of April through the end of such Calendar Year with a total number of two hundred and seventy-five (275) days.

$$\text{Formula: Interest} = \text{US } \$200 \times 9\% \times \frac{275 \text{ days}}{365 \text{ days}}$$

At the end of the year interest is added to the capital and interest runs thereon until cost recovery is fully achieved, i.e. interest is compounded at year end.

6.3 Recovery of exploration costs, development costs with Deemed Interest thereon and operating costs.

6.3.1 In accordance with the provisions of Article 12.2.2 of the Contract, the exploration costs shall be recovered from the Oil Fields and/or Gas Fields within the Contract Area which have been developed and are producing and the Contractor has participated in the development of said Oil Fields and/or Gas Fields.

6.3.2 In accordance with the provisions of Articles 12.2.1, 12.2.3.1 and 12.3 of the Contract, the principal of development costs and Deemed Interest thereon and operating costs, respectively, of each Oil Field and/or Gas Field shall be recovered only from the production of each respective Oil Field and/or Gas Field.

6.3.3 As at the date of completing each lifting of Crude Oil, the Operator shall make the separate records into the Joint Account for the appropriate reimbursements of the principal of exploration costs, development costs with Deemed Interest thereon and operating costs respectively in accordance with Article 12.2 of the Contract. Written notices shall be sent by the Operator to CNOOC and the Investing Parties at the same time.



- 6.4 In accordance with provisions of Article 19.1 of the Contract, the Operator shall establish complete books for recording the volume and value of Crude Oil and/or Natural Gas, precisely reflecting the production and the disposal of the Crude Oil and/or Natural Gas within the Contract Area.
- 6.5 Crude oil production in each Calendar Year for each Oil Field within the production period shall be accounted according to the allocation proportions specified in Article 13 of the Contract and at the Crude Oil price determined pursuant to Article 14.4 of the Contract. The amount of the Non-associated Natural Gas in each Calendar Year within the production period shall be accounted for in accordance with the provisions specified in Article 18 of the Contract.

Article 7
Accounting Reports

- 7.1 The Operator shall provide relevant accounting reports and statements based on the Accounting System to CNOOC and each company comprising the Contractor. Monthly reports shall be submitted within thirty (30) days after the end of each month, quarterly reports within forty-five (45) days after the end of each Calendar Quarter and annual reports within forty-five (45) days after the end of each Calendar Year. Monthly, quarterly and annual reports shall be submitted in accordance with the requirements and formats specified in the Accounting System.
- 7.2 Any Investing Party to the Contract may require the Operator to allow its staff to have access to the Joint Account Accounting Records relating to the application of expenses in the stipulated custody period, upon giving thirty (30) days notice but such access shall not unduly hinder Operator's normal operations.

Article 8

Audit

- 8.1 Audits shall be carried out in accordance with Article 19.2 of the Contract.
- 8.2 The expenses of audits for any non-Operators shall be borne by any non-Operator which conducts the audit. Expenses for any joint audit conducted by the non-operator shall be allocated in proportion to their respective participating interests in the development costs.

Article 9

The Transfer Procedure for the Joint Account

- 9.1 When the Exploration operations are successful and the Contract Area enters the development period, the Operator shall conduct an inventory and check of all properties and accounts for CNOOC. When each Oil Field and/or Gas Field within the Contract Area goes from development into production, when the Contractor terminates the Contract, an inventory and check of all properties and accounts shall be conducted.

If the Contract Area is entered into the development period or the production period, the Operator (after taking an inventory of all properties by all Investing Parties) shall make a proposal to JMC, and the JMC shall approve the remaining equipment and materials needed for the Petroleum Operations of the following period, and shall be carried forward to the next period in book values in Joint Account, but, the Operator shall be responsible for handling the equipment and materials not needed for Petroleum Operations, the gains or losses derived from such disposal shall be adjusted against the original accounts in accordance with its own share of the Investing Party in proportion to the overall investment amount of all Investing Parties.

If the Contract terminates, the method of an inventory to all of the remaining equipment and materials as mentioned above, the gains and losses derived from

such disposal shall be adjusted against the accounts of the original Investing Party in accordance with the above mentioned methods.

- 9.2 In accordance with the provisions of Article 8.7 of the Contract, when CNOOC becomes the Operator of all the Oil Fields and/or Gas Fields within the Contract Area, the former Operator shall transfer to CNOOC all the Accounting Records relating to the Joint Account.
- 9.3 In accordance with the provisions of Article 8.7 of the Contract, when CNOOC becomes the Operator of a single Oil Field and/or Gas Field, the former Operator shall transfer to CNOOC the Accounting Records relating to the development and operating costs of that Field as contained in the Joint Account. The Accounting Records relating to the exploration costs of the Contract Area shall be retained by the Operator until the total exploration costs of the Contract Area have been recovered. Copies shall be provided by the Operator to CNOOC if required by CNOOC.
- 9.4 Upon the termination of the Contract, the Operator shall transfer all the relevant vouchers, books and statements over to CNOOC for custody.
- 9.5 In conducting the transfer of the accounting books and inventory and check of all the properties in accordance with the provisions of this Accounting Procedure, the implementation procedure for the transfer and verification, the accounting files to be transferred and accounting matters to be settled as well as other details shall be negotiated and agreed in advance between the Operator and CNOOC. The transfer procedure shall be completed within the time period agreed upon by the Parties. Thereafter, owing to the needs of any Investing Party to the Contract, CNOOC shall allow that party's staff access to the Accounting Records within the relevant Accounting Records custody period and provide them with duplicates, if necessary.

ANNEX III

*specifics of obligations regarding
employment and payment of
personnel redacted*

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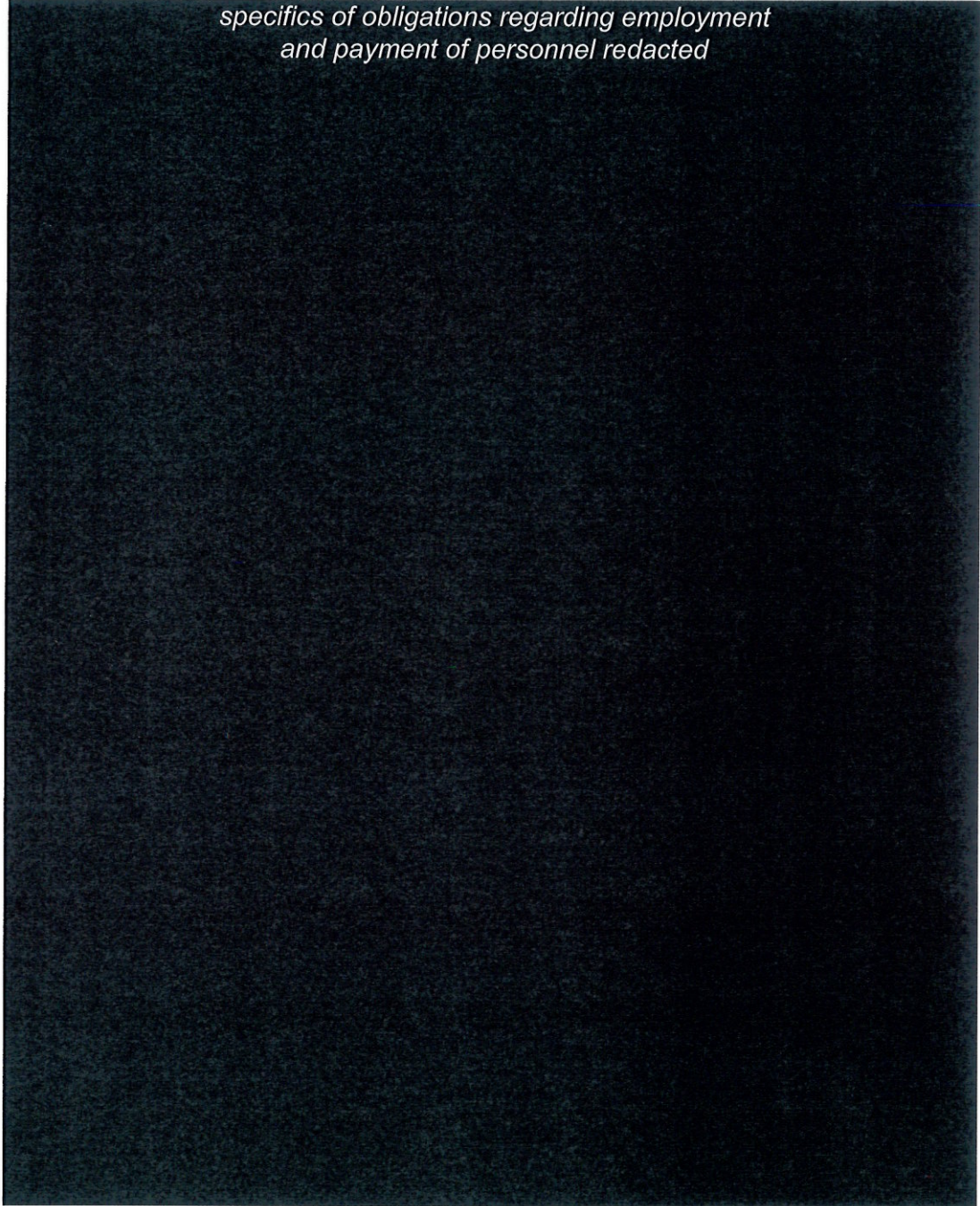
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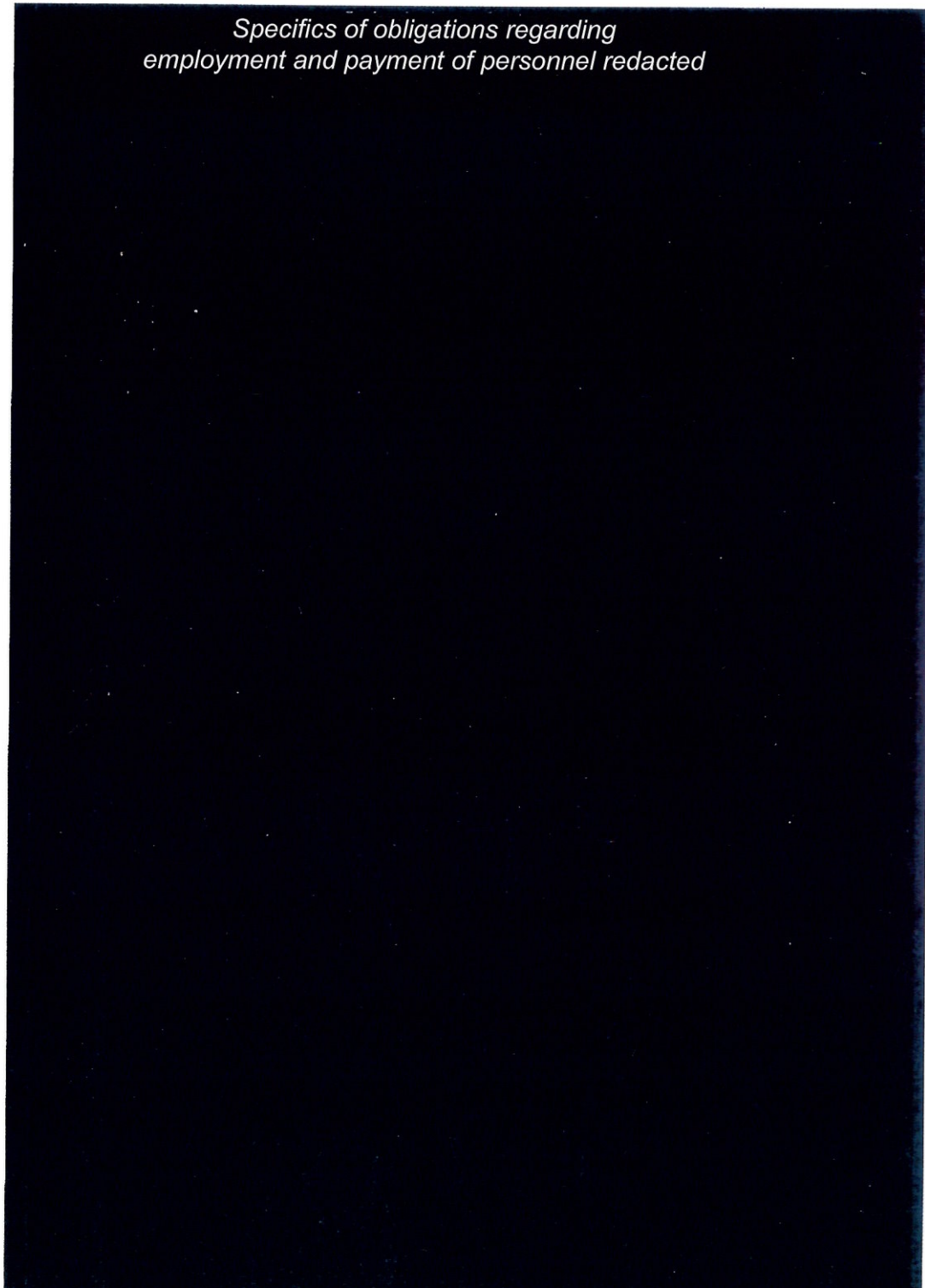
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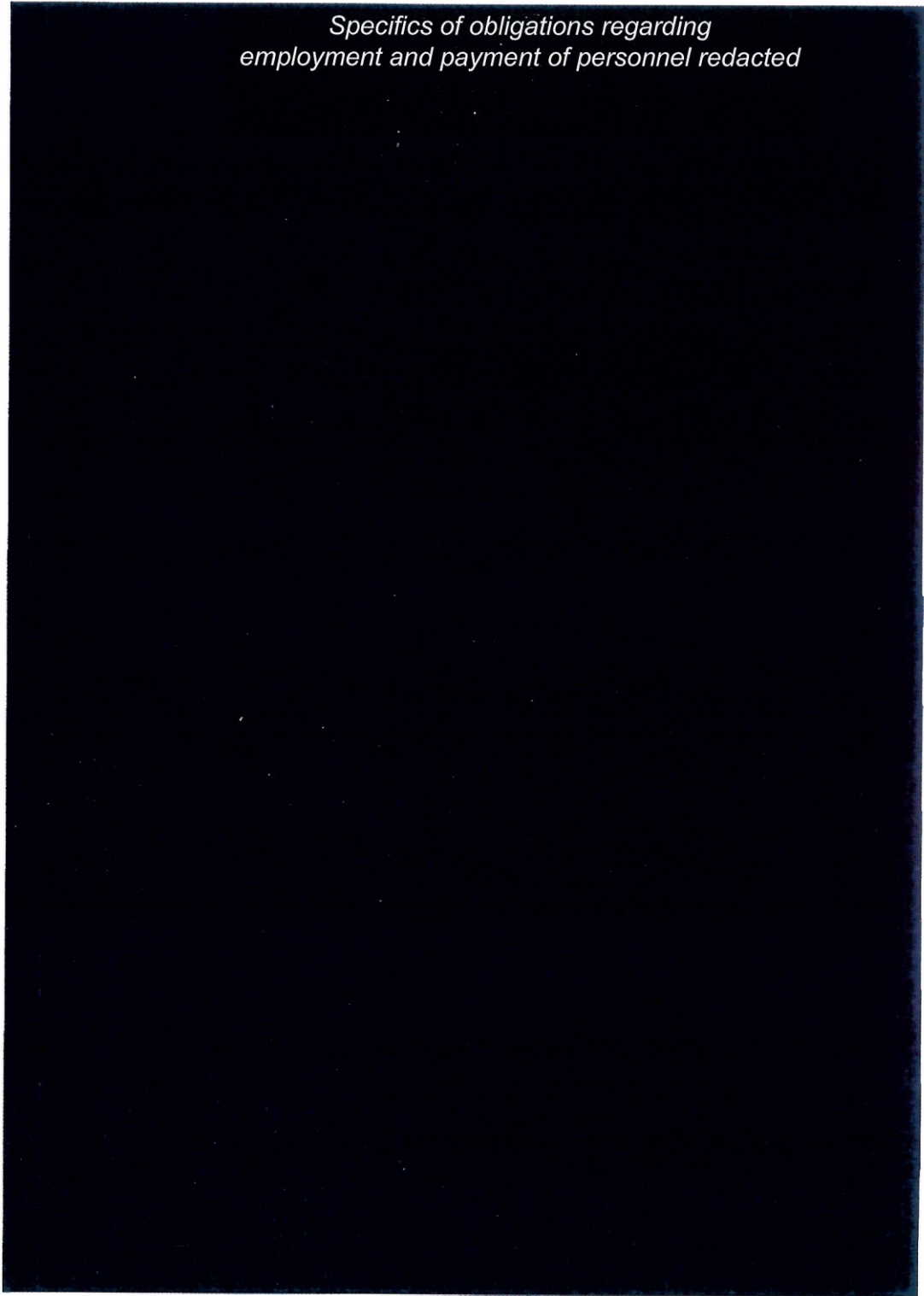
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