

Republic of the Philippines
PETROLEUM BOARD
Manila

SERVICE CONTRACT

between

THE PETROLEUM BOARD

and

PHILIPPINES-CITIES SERVICE, INC.

HUSKY (PHILIPPINES) OIL, INC.

ORIENTAL PETROLEUM AND MINERALS
CORPORATION

PHILIPPINE-OVERSEAS DRILLING & OIL
DEVELOPMENT CORPORATION

BASIC PETROLEUM AND MINERALS, INC.

LANDOIL RESOURCES CORPORATION

WESTRANS PETROLEUM, INC.

PHILIPPINE NATIONAL OIL COMPANY

THIS CONTRACT, made and entered into this 17th day of December,
1975 in the City of Manila by and between THE PETROLEUM BOARD,
established pursuant to "THE OIL EXPLORATION AND DEVELOPMENT ACT
OF 1972", as First Party.

and

R. A. H.
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PHILIPPINES-CITIES SERVICE, INC., a corporation
organized and existing under the laws of the State of
Delaware, U.S.A., with principal office at Houston,
Texas, U.S.A. (hereinafter called "CITIES").

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HUSKY (PHILIPPINES) OIL, INC., a corporation
organized and existing under the laws of the State of
Delaware, U.S.A., with principal office at Cody, Wyoming,
U.S.A. (hereinafter called "HUSKY").

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ORIENTAL PETROLEUM AND MINERALS CORPORATION,
a corporation organized and existing under the laws of the
Philippines, with principal office at Suite 12-E, G.E.
Antonino Building, T.M. Kalaw Street, Ermita, Manila,
(hereinafter called "ORIENTAL").
[Signature]

PHILIPPINE-OVERSEAS DRILLING & OIL DEVELOPMENT CORPORATION, a corporation organized and existing under the laws of the Philippines with principal office at Philex Building, Brixton Road, Pasig, Rizal, (herein called "PHILODRIL").

BASIC PETROLEUM AND MINERALS, INC., a corporation organized and existing under the laws of the Philippines with principal office at Suite 700, Sarmiento Building, Ayala Avenue, Makati, Rizal, Philippines (herein called "BASIC").

LANDOIL RESOURCES CORPORATION, a corporation organized and existing under the laws of the Philippines with principal office at 2nd Floor, Zaragosa Building, Gamboa Street, Legaspi Village, Makati, Rizal, Philippines, (herein called "LANDOIL").

WESTRANS PETROLEUM, INC., a corporation organized and existing under the laws of the State of Delaware, United States, with principal office at 250 Park Avenue, New York (herein called "WESTRANS").

PHILIPPINE NATIONAL OIL COMPANY, a corporation organized and created under the laws of the Philippines, with principal office at Petrophil Building, Makati Avenue, Makati, Rizal (herein called "PNOC").

as second party, whose respective interests are set forth in Annex "A" attached hereto, hereinafter collectively referred to as "CONTRACTOR", and the PETROLEUM BOARD and CONTRACTOR, hereinafter referred to collectively as the "Parties".

WITNESSETH:

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WHEREAS, The Oil Exploration and Development Act of 1972 (hereinafter called "The Act") declares it to be the policy of the State to hasten the discovery and production of indigenous petroleum; and

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WHEREAS, Under the provision of the Act, the Government of the Republic of the Philippines may explore for and produce indigenous petroleum under service contracts as provided in the Act; and

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WHEREAS, In the pursuance of its above-stated policy the government acting through the Petroleum Board wishes to avail itself of the resources of the Contractor through a service contract under which Contractor will furnish the necessary services and technology and will provide financing

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WHEREAS, Contractor wishes to enter into such a service contract covering the Contract Area as hereinafter defined; and

WHEREAS, Contractor has the financial resources, technical competence and professional skills necessary to carry out the Petroleum Operations;

NOW, THEREFORE, In consideration of the payment of Sixty Thousand Dollars (\$60,000) to be paid by Contractor to The Petroleum Board during the First Quarter of 1976 for use by Philippine National Petroleum Center, such amount at the option of the Petroleum Board may be substituted in materials and equipment of equivalent value, and of the mutual covenants and conditions herein contained, it is hereby stipulated and agreed as follows:

SECTION I
SCOPE

- 1.1 This Contract is a service contract entered into pursuant to Section 7 of the Act with all necessary services, technology and financing to be furnished by Contractor in accordance with the provisions herein contained. The Contractor shall undertake and execute the Petroleum Operations contemplated hereunder.
- 1.2 Contractor shall be responsible to the Petroleum Board for the execution of such Operations in accordance with the provisions of this Contract, and is hereby appointed and constituted the exclusive party to conduct the Petroleum Operations. The Petroleum Board shall have the right to require performance of any or all obligations under this Contract against any or all of the second parties. Provided that in the event of non-performance of any of such obligations, the Petroleum Board will have recourse to the Bond or Guarantee referred to in Section 6.1 and payment to the Petroleum Board under such Bond or Guarantee shall relieve any

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- 1.3 Contractor shall assume all exploration risks such that if no Petroleum in Commercial Quantity is discovered and produced, it will not be entitled to reimbursement.
- 1.4 During the term of this Contract the total production achieved in the conduct of such Operations shall be accounted for between the Parties in accordance with Section VII hereof.
- 1.5 Pursuant to the provisions of any Operating Agreement which may be entered into by and among appropriate parties, CITIES shall be designated as the initial Operator for carrying out the Petroleum Operations under this Contract in accordance with the terms of such Operating Agreement. Notices communicated in accordance with this Contract to the Operator from The Petroleum Board shall constitute notice to CONTRACTOR.

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SECTION II
DEFINITIONS

In the text of this Contract, the words and terms defined in Section 3 of the Act shall, unless otherwise specified herein, have meaning in accordance with such definitions.

2.1 Contract Area means at any time the Area within the mining territory of the Republic of the Philippines which is the subject of this Contract. The Contract Area is outlined and more particularly described in Annex "A" attached hereto.

2.2 Petroleum means any mineral oil, hydrocarbon gas, bitumen, asphalt, mineral gas and all other similar or naturally associated substances with the exception of coal, peat, bituminous shale and/or other stratified mineral fuel deposits.

2.3 Crude Oil or Crude means oil in its natural state before the same has been refined or otherwise treated. It does not include oil produced through destructive distillation of coal, bituminous shale or other stratified deposits, either in its natural state or after the extraction of water, and sand or other foreign substances therefrom.

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2.4 Natural Gas means gas obtained from boreholes and wells and consisting primarily of hydrocarbons.

2.5 Casinghead Petroleum Spirit means any liquid hydrocarbons obtained from natural gas by separation or by any chemical or physical process.

2.6 Petroleum Operations or Operations means searching for and obtaining Petroleum within the Philippines through drilling and pressure or suction or the like, and all other operations incidental

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(Contd. from page 5 - no. 2.6)

thereto. It includes the transportation, storage, handling and sale (whether for export or domestic consumption) of Petroleum so obtained but does not include any: (1) transportation of Petroleum outside the Philippines; (2) processing or refining at a refinery; or (3) any transactions in the products so refined.

2.7 Petroleum in Commercial Quantity means Petroleum in such quantities which will permit its being economically developed as determined by the Contractor after taking into consideration the location of the reserves, the depths and number of wells required to be drilled and the transport and terminal facilities needed to exploit the reserves which have been discovered.

2.8 Operating Expenses means the total expenditures incurred by the Contractor both within and without the Philippines in Petroleum Operations pursuant to this Contract and determined in accordance with the Accounting Procedure attached hereto and made part hereof as Annex "B".

These expenses will include but not be limited to the cost of seismic surveys, geological studies, drilling and equipping wells, engineering studies, construction of well platforms, tank batteries, pipelines, systems and terminals and the cost of operating and maintaining all such facilities.

2.9 Effective Date means the date of the execution of this Contract by the Parties.

2.10 Foreign Exchange means currency other than that of the Republic of the Philippines that are freely convertible into gold or currencies eligible to form part of the country's international reserves or currencies acceptable to the Petroleum Board and to the Contractor.

2.11 Calendar Year or Year means a period of twelve (12) consecutive months commencing with January 1 and ending on the following December 31, according to the Gregorian Calendar.

2.12 Contract Year means a period of twelve (12) consecutive months according to the Gregorian Calendar counted from the Effective Date of this Contract or from the anniversary of such Effective Date.

2.13 Production Area means that portion of the Contract Area where all reservoirs containing Petroleum in Commercial Quantity are delineated by the Contractor in consultation with the Petroleum Board.

2.14 Gross Income means the gross proceeds from the sale of crude, natural gas or casinghead petroleum spirit produced under the Contract and sold during the taxable year at posted or market price, as the case may be, all as determined pursuant to Section VII, and such other income which are incidental to and arising from any one or more of the Petroleum Operations of the Contractor.

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2.15 Posted Price means the FOB price established by the Contractor and the Petroleum Board for each grade, gravity and quality of Crude Oil offered for sale to buyers generally for export at the particular point of export, which price shall be based upon geographical location and the fair market export values for Crude Oil of comparable grade, gravity and quality.

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2.16 Market Price means the price which is realized for Petroleum produced under this Contract if sold in a transaction between independent persons dealing at arm's length in a free market.

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2.17 Barrel means 42 U.S. gallons or 9702 cubic inches at a temperature

2.18 Government means the Government of the Republic of the Philippines.

2.19 Filipino Participation Incentive means the allowance of seven and one-half percent of Posted or Market Price, as the case may be, which is granted to Contractor to be applied as provided in Section VIII below.

2.20 Affiliate means (a) a company in which a Contractor holds directly or indirectly at least fifty percent (50%) of its outstanding shares entitled to vote; or (b) a company which holds directly or indirectly at least fifty percent (50%) of the Contractor's outstanding shares entitled to vote; or (c) a company in which at least fifty percent (50%) of its shares outstanding and entitled to vote are owned by a company which owns directly or indirectly at least fifty percent (50%) of the shares outstanding and entitled to vote of the Contractor.

2.21 Crude Oil Exported shall include not only Crude Oil exported as such but also indigenous Crude Oil refined in the Philippines for export.

2.22 Contract means this service contract.

2.23 Philippine Corporation means a corporation organized under Philippine laws at least sixty percent (60%) of the capital of which is owned and held by citizens of the Philippines.

2.24 Taxable Net Income means the Gross Income less the deductions provided in Sub-section 8.1 below.

SECTION III
TERM

3.1 The exploration period under this Contract shall be seven (7) years from the Effective Date, extendible for three (3) years if (a) the Contractor has not been in default in its exploration work obligations and other obligations; (b) has drilled a minimum of 30,000 feet of test wells and (c) has provided a work obligation for the extension acceptable to the Petroleum Board, after which time this Contract shall automatically terminate unless Petroleum has been discovered by the end of the tenth year and the Contractor requests a further extension of one (1) year to determine whether the discovery is in Commercial Quantity, in which event, another extension of one (1) year for exploration will be granted.

3.2 Where Petroleum in Commercial Quantity is discovered during the exploration period, this Contract shall, as to any Production Areas delineated pursuant to sub-section 6.1 (b) below, remain in force during the balance of the exploration period or any extension thereof and for an additional period of twenty-five (25) years, thereafter renewable for a period not exceeding fifteen (15) years under such terms and conditions as may be agreed upon by the Parties at the time of the renewal.

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SECTION IV
EXCLUSION OF AREAS

4.1 On or before the end of the fifth Contract Year, Contractor shall surrender twenty-five percent (25%) of the initial Contract Area.

4.2 On or before the end of the initial seven (7) years exploration period, if Contractor elects to extend the period for an additional three (3) years, Contractor shall surrender an additional area equal to twenty-five percent (25%) of the initial Contract Area.

4.3 In the event that Contractor has delineated any Production Areas pursuant to Sub-section 6.1 (b) below, the extent of such Production Areas shall be deducted from the initial Contract Area for the purpose of determining the size of such area that must be surrendered pursuant to Sub-sections 4.1 and 4.2 above.

4.4 If Petroleum in Commercial Quantity has been discovered during the exploration period, or any extension thereof, the Contractor may retain after the exploration period and during the effectivity of the Contract, twelve and one-half percent (12-1/2%) of the Initial area in addition to the delineated Production Area:

Provided, however, That the Contractor shall pay annual rentals on such twelve and one-half percent retained area of twenty (20) pesos per hectare or fraction thereof: Provided, finally, That such annual rentals shall be reduced by the amount spent by Contractor for exploration on such retained area during the Contract Year.

4.5 Contractor shall have the right, on at least thirty (30) days written notice to the Petroleum Board, to surrender all or any portion of the Contract Area. Any portion so surrendered shall be credited against that portion of the Contract Area which

Contractor is next required to surrender under the provisions

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of Sub-sections 4.1 and 4.2 hereof. The areas being surrendered shall be of sufficient size and convenient shape to enable Petroleum operations to be conducted thereon.

4.6 In case the Contractor surrenders or abandons wholly or partly the area covered by this Contract within two (2) years from its Effective Date, it shall in respect of the abandoned area pay the Government the amount it should have spent, but did not, for exploration work during said two (2) years as specified under Section 5.1, for which payment, among other obligations, the performance guarantee posted by the Contractor shall be answerable.

4.7 With respect to the mandatory surrenders pursuant to Sub-sections 4.1 and 4.2 as qualified by Sub-section 4.3, Contractor shall advise the Petroleum Board of the portion to be surrendered at least thirty (30) days in advance of the date of surrender. The areas being surrendered shall each be of sufficient size and convenient shape to enable the Petroleum Operations to be conducted thereon.

4.8 All areas surrendered shall conform to the Petroleum Board's blocking system by which this Contract Area was determined.

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SECTION V
WORK PROGRAM AND EXPENDITURES

5.1 During each Contract Year, Contractor shall be obligated to spend not less than the amounts and fulfill not less than the Work Commitments as specified below in connection with Petroleum Operations including the direct prosecution of exploration work under this Contract:

<u>CONTRACT YEAR</u>	<u>WORK COMMITMENT</u>	<u>AMOUNT</u>
Years 1 and 2	Drill one (1) well	US\$2,500,000
Year 3	Drill one (1) well	2,500,000
Year 4	Drill one (1) well	1,500,000
Year 5	None	2,000,000
Year 6	Drill one (1) well	2,750,000
Year 7	Drill one (1) well	2,750,000

Provided, however, Contractor shall have the right, by giving written notice to the Petroleum Board at least thirty (30) days prior to the end of the Second (2nd) Contract Year or any subsequent Contract Year, to surrender the Contract Area and thereby be relieved of all subsequent obligations, Provided further, if during any Contract Year, Contractor shall spend more than the amount of money required to be spent by Contractor or drill more wells than are required to be drilled, the excess may be credited against the amount of money or wells required of the Contractor during the succeeding Contract Years and Provided further, That should the Contractor fails to comply with the work obligations provided for in this Contract for any Contract Year, it shall pay to the Government the amount it should have spent but did not in direct prosecution of its work obligations. For purposes of this proviso, failure to meet a commitment to drill a well shall be deemed

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(Contd. from page 12 Section V-5, 1)

a failure to spend the amount committed above which is left unspent or One Million Five Hundred Thousand U.S. Dollars (US\$1,500,000.00) whichever is higher. Provided, finally, That the Contractor shall commence drilling within three (3) months after the effective date of this Contract.

5.2 Within a period of three (3) months after the Effective Date of this Contract and three (3) months prior to the beginning of each succeeding Contract Year, Contractor shall prepare and submit a Work Program and Budget for the Contract Area setting forth the Petroleum Operations which Contractor proposes to carry out during the ensuing Contract Year and shall advise the Petroleum Board of any significant changes thereon.

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SECTION VI
RIGHTS AND OBLIGATIONS OF THE PARTIES

6.1 Contractor shall have the following obligations:

- (a) Perform all Petroleum Operations and provide all necessary services, technology and financing in connection therewith; Provided, That no foreign exchange requirements of the Operations shall be funded from the Philippine banking system. ✓
- (b) Upon each discovery of Petroleum in quantities that may be commercial as determined by the Contractor, delineate in consultation with the Petroleum Board the reservoir in a prudent and diligent manner and in accordance with good oil field practices within a six (6) month period or such additional period as Contractor may demonstrate to the Petroleum Board to be reasonably necessary to effect such delineation. If after such delineation, it is determined that the reservoir contains Petroleum in Commercial Quantity, the area so delineated shall constitute a Production Area.
- (c) Be subject to the provisions of laws of general application relating to labor, health, safety, and ecology;
- (d) Once Petroleum in Commercial Quantity is discovered, operate the field in accordance with accepted good oil field practices using modern and scientific methods to enable maximum economic production of Petroleum; avoiding hazards to life, health and waters; and pursuant to an efficient and economic program of operation;
- (e) Furnish the Petroleum Board promptly with geological and other information, data and reports relative to the operation except for proprietary techniques used in developing said information, data and reports, such information shall remain

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- (f) Maintain detailed technical records and accounts of its operation;
- (g) Conform to regulations regarding, among others, safety, demarcation of the Contract Area, non-interference with the rights of other petroleum, mineral and natural resources operators;
- (h) Maintain all meters and measuring equipment in good order and allow access to these as well as to the exploration and production sites and operations to inspectors authorized by the Petroleum Board;
- (i) Allow examiners of the Bureau of Internal Revenue and other representatives authorized by the Petroleum Board at all reasonable times full access to accounts, books, and records relating to Petroleum Operations hereunder for tax and other fiscal purposes;
- (j) Be subject to Philippine income tax;
- (k) Give priority in employment to qualified personnel in the municipality or municipalities or province where the exploration or production operations are located.
- (l) Within sixty (60) days after the Effective Date of the Contract, post a bond or other guarantee of sufficient amount in favor of the Government and with surety or sureties satisfactory to the Petroleum Board, conditioned upon the faithful performance by the Contractor of any or all of the obligations under and pursuant to this Contract; and
- (m) After commercial production commences in the Contract Area, supply from such production a portion of the domestic requirements of the Republic of the Philippines on a pro-rata basis, which portion shall be sold at Market Price and shall be determined as follows: In respect of each

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Year multiply the total quantity of Crude Oil required for domestic consumption by the ratio of the total quantity of Crude Oil produced from the Contract Area to the entire Philippine production of Crude Oil.

6.2 Contractor shall have the following rights:

- (a) Exemption from all taxes except income tax;
- (b) Exemption from payment of tariff duties and compensating tax on the importation into the Philippines of all machinery, equipment, spare parts and all materials required for and to be used exclusively by Contractor or subcontractor in Petroleum Operations on the conditions that said machinery, equipment, spare parts and materials of comparable price and quality are not manufactured domestically, are directly and actually needed and will be used exclusively by the Contractor in its operations or in the operations for it by a subcontractor; are covered by shipping documents in the name of the Contractor to whom the shipment will be delivered direct by the customs authorities; and the prior approval of the Petroleum Board was obtained by the Contractor before the importation of such machinery, equipment, spare parts and materials which approval shall not be unreasonably withheld; Provided, however, That the Contractor or its subcontractor may not sell, transfer, or dispose of such machinery, equipment, spare parts and materials within the Philippines without the prior approval of the Petroleum Board and payment of taxes due the Government: Provided, further, That should the Contractor or its subcontractor sell, transfer or dispose of these machinery, equipment, spare parts or materials within the

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Philippines without the prior consent of the Petroleum Board, it shall pay twice the amount of the tax exemption granted: Provided, finally, That the Petroleum Board shall allow and approve the sale, transfer, or disposition of the said items within the Philippines without tax if made (1) to another contractor; (2) for reasons of technical obsolescence; or (3) for purposes of replacement to improve and/or expand operations of the Contractor;

(c) Exemption upon approval by the Petroleum Board from laws regulations and/or ordinances restricting the (1) construction, installation, and operation of power plant for the exclusive use of the Contractor if no local enterprise can supply within a reasonable period and at reasonable cost the power needed by the Contractor in its Petroleum Operations, (2) exportation of machinery and equipment which were imported solely for its Petroleum Operations when no longer needed therefor;

(d) Exemption from publication requirements under Republic Act Numbered Five thousand four hundred fifty-five; and the provisions of Republic Act Numbered Sixty-one hundred and seventy-three with respect to the exploration production, exportation or sale or disposition of Crude Oil discovered and produced in the Philippines;

(e) Exportation of Petroleum subject to the obligation to supply a portion of domestic requirement as provided in Section 6.1 (m) above;

(f) Entry, upon the sole approval of the Petroleum Board which shall not be unreasonably withheld, of alien technical and specialized personnel (including the immediate members of their families), who may exercise their professions solely for the Petroleum Operation of the Contractor: Provided,

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That if the employment or connection of any such alien with Contractor ceases, the applicable laws and regulations on immigration shall apply to him and his immediate family: Provided, further, That Filipinos shall be given preference to positions for which they have had adequate training; and Provided, finally, That the Contractor shall adopt and implement a training program for Filipinos along technical or specialized lines, in accordance with the provisions of Section XIII hereof;

- (g) Rights and obligations in this Contract shall be deemed as essential considerations for the conclusion thereof and shall not be unilaterally changed or impaired;
- (h) Be entitled to (1) repatriate over a reasonable period the capital investment actually brought into the country in Foreign Exchange or other assets and registered with the Central Bank; (2) retain abroad all Foreign Exchange representing proceeds arising from exports accruing to the Contractor over and above (a) the Foreign Exchange to be converted into pesos in an amount sufficient to cover the costs of Contractor's Petroleum Operations payable in Philippine Currency and (b) revenues due the Government on such crude; (3) convert into Foreign Exchange and remit abroad at prevailing rates no less favorable to Contractor than those available to any other purchaser of foreign currencies, any excess balances of their peso earnings from petroleum production and sale over and above the working current balances they require; and (4) convert foreign exchange into Philippine currency for all purposes in connection with its petroleum operations at prevailing rates no less favorable to Contractor than those available

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- (i) Have at all times the right of ingress to and egress from the Contract Area and to and from facilities wherever located;
- (j) Subject to such restrictions as the Petroleum Board may impose, have the right to use and have access to all geological, geophysical, drilling, well, production and other information held by the Petroleum Board or by any other governmental agency, relating to the Contract Area including well location maps, which information and maps the Petroleum Board is not under obligation to keep Confidential.

6.3 In addition to the rights outlined in Section 6.2 above, Contractor shall have a Filipino Participation Incentive of seven and one-half (7-1/2%) percent, subject to the provisions of Section 2.19 hereof.

6.4 The Petroleum Board shall assume and pay on behalf of Cities, Husky and Westrans and their shareholders and the other parties contractor out of the net proceeds attributable to a portion of the production which is specifically retained for inclusion in the Petroleum Board's net proceeds as described in section 7.3 (a) for that purpose, all income taxes payable to the Republic of the Philippines based on income or profits and with respect to Cities, Husky and Westrans, all dividends, withholding, and other taxes imposed by the Government of the Philippines on the distribution of income or profits to their respective shareholders, derived from Petroleum Operations. The Petroleum Board shall furnish to each of the companies, jointly referred to as Contractor, the respective official receipts issued in the name of each company separately by any duly empowered Government authority, acknowledging the payment of said taxes. *new*

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SECTION VII
RECOVERY OF OPERATING EXPENSES AND ACCOUNTING
FOR PROCEEDS OF PRODUCTION

7.1 Contractor, if authorized by the Petroleum Board to market the Petroleum Board's share of Petroleum produced and saved from the Contract Area, shall account for the proceeds from such sales as provided in this Section VII. Contractor shall have the right and privilege of receiving in kind and disposing of petroleum produced and saved from the Contract Area equal to the sum of (1) its fee of the net proceeds as provided in 7.3 (a) below and, (2) the Filipino Participation Incentive Allowance, as well as the Petroleum allocated to the recovery of Operating Expenses as described in Section 7.2.

7.2 In each Year Contractor will recover from the gross proceeds resulting from the sale of all Petroleum produced under this Contract an amount equal to all Operating Expenses: Provided, That the amount so recovered shall not exceed Sixty (60%) Per Cent of the gross proceeds from production in any Year: Provided, further, That if in any year the operating costs exceeds Sixty (60%) Per Cent of the gross proceeds from the production, or there are no gross proceeds, then the unrecovered expenses shall be recovered from the gross proceeds in succeeding years.

7.3 (a) The net proceeds from the Contract Area shall be divided between the Petroleum Board and Contractor on the basis set out below:

	<u>Petroleum Board</u>	<u>Contractor</u>
On Production from 0 to 75,000 BOPD	62.5%	37.5%
On Production from 75,000 to 125,000 BOPD	65%	35%
On Production above 125,000 BOPD	70%	30%

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- (b) For the purpose of this Section VII, net proceeds means the difference between gross income and the sum of the operating expenses recovered pursuant to Section 7.2 and the Filipino Participation Incentive Allowance. ✓
- (c) If the Contractor has been authorized to market the Petroleum Board's share of production, it shall on or before the last day of the month following each quarter, // 30 days remit to the Petroleum Board an amount equal to the Petroleum Board's net proceeds interest calculated from (a) above of estimated net proceeds from the Petroleum Operations in said quarter. This payment shall be calculated in accordance with the U.S. dollar amounts recorded in the books and accounts pursuant to Section XV. The payment corresponding to the first quarter of the calendar year, shall include any adjustments on Government's share of the preceding calendar year. ✓
- (d) The Petroleum Board shall be entitled to receive in kind petroleum equal in value to the net proceeds to which they are entitled by (a) above, Provided, sufficient notice is given to Contractor so as not to interfere with existing Crude Sales Contracts. ✓

7.4 If the Petroleum Board and the Contractor elect to take their respective shares in kind, the Parties to this Contract will enter into separate agreement providing among others, for the manner and form of deliveries and appropriate quarterly adjustments. ✓

7.5 For the purpose of determining gross proceeds, Petroleum shall be valued as follows:

- (a) All Crude Oil sold for consumption in the Philippines shall be valued at Market Price for such crude oil. ✓

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- (b) All Crude Oil exported shall be valued at the Posted Price.
- (c) All Natural Gas and/or Casinghead Petroleum Spirit exported or sold for consumption in the Philippines shall be valued at the prevailing Market Price thereof.
- (d) Reasonable commissions or brokerages incurred in connection with sales to third parties, if any; shall be deductible from gross proceeds but shall not exceed the customary and prevailing rate.

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SECTION VIII
INCOME TAXES

8.1 Contractor shall be liable each taxable year for Philippine income tax under the provisions of the National Internal Revenue Code and the Oil Exploration and Development Act of 1972.

The Contractor's gross income shall consist of:

- (a) Gross proceeds determined in accordance with Section 7.5 above, and
- (b) Such other income which is incidental to and/or arising from any Petroleum Operation or other aspects of the Contract.

In computing the Taxable Net Income, Contractor shall be allowed the following deductions:

- (a) Filipino Participation Incentive, and
- (b) Operating Expenses recovered pursuant to Section 7.2 above.

8.2 In ascertaining the Contractor's taxable net income, no deduction from gross income shall be allowed in respect of any interest or other consideration paid or suffered in respect of the financing of its Petroleum Operations.

8.3 Each individual company comprising Contractor shall render to the Petroleum Board a return for each taxable year in duplicate in such forms and manner as provided by law setting forth its gross income and the deductions herein allowed. Provided, however, that in no event shall the total tax liability of the companies comprising Contractor be less than if a single return been filed on behalf of Contractor. The returns shall be filed by the Petroleum Board with the Commissioner of Internal Revenue or his deputies or other persons authorized by him to receive such returns within the period specified in the National Internal

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8.4 The Petroleum Board, upon payment by it of each company comprising Contractor's respective income taxes shall procure official receipts evidencing such payment. Each of the second parties shall be subject to tax separately on its share of income and The Petroleum Board shall supply each with an individual receipt in its own name.

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SECTION IX
PAYMENTS

9.1 All payments which this Contract obligates Contractor to make to the Petroleum Board shall be in Foreign Exchange at a bank to be designated by the Petroleum Board and agreed upon by the Central Bank of the Philippines except that Contractor may make such payments in Philippine Pesos to the extent that such currency is realized as a result of the domestic sale of Crude Oil or Natural Gas. All such payments shall be translated at the applicable exchange rates as defined in the Accounting Procedure attached hereto as Annex "B".

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SECTION X
NATURAL GAS

10.1 After meeting requirements for Operations, priority shall be given to supplying prospective demand for Natural Gas in the Philippines. Any Natural Gas produced from the Contract Area to the extent not used in operations hereunder, may be flared if the processing or utilization thereof is not deemed economical by Contractor or required by Contractor for secondary recovery operations, including repressuring and recycling: Provided, That the Petroleum Board may take and utilize such Natural Gas that would otherwise be flared, in which event all costs of taking and handling such Natural Gas will be for the sole account and risk of the Petroleum Board.

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SECTION XI
ASSETS AND EQUIPMENT

- 11.1 Contractor shall acquire for the Petroleum Operations only such assets as more reasonably estimated to be required in carrying out the Petroleum Operations.
- 11.2 All materials, equipment, plants and other installations erected or placed on the Contract Area of a movable nature by the Contractor shall remain the property of the Contractor unless not removed therefrom within one year after the termination of this Contract in which case, ownership shall be vested with the Petroleum Board.
- 11.3 Contractor may also utilize in the Petroleum Operations equipment owned and made available by Contractor and charges to the Petroleum Operations account for use of such equipment shall be made as provided in the Accounting Procedure.

[Handwritten signature] *From* *ARH*

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ARH

SECTION XII
CONSULTATION AND ARBITRATION

12.1 Disputes, if any, arising between the Petroleum Board and Contractor relating to this Contract or the interpretation and performance of any of the clauses of this Contract, and which cannot be settled amicably, shall be settled by arbitration. The Petroleum Board on the one hand and Contractor on the other hand shall each appoint one arbitrator and so advise the other Party and these two arbitrators will appoint a third. If either Party fails to appoint an arbitrator within thirty (30) days after receipt of a written request of the other Party to do so, such arbitrator shall, at the request of the other Party, if the Parties do not otherwise agree, be appointed by the President of the International Chamber of Commerce. If the first two arbitrators appointed as aforesaid fail to agree on a third within thirty (30) days following the appointment of the second arbitrator, the third arbitrator shall, if the Parties do not otherwise agree, be appointed, at the request of either Party, by the President of the International Chamber of Commerce. If an arbitrator fails or is unable to act, his successor will be appointed in the same manner as the arbitrator whom he succeeds. Unless the Parties agree otherwise, the Philippines shall be the venue of the arbitration proceedings.



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12.2 The decision of a majority of the arbitrators shall be final and binding upon the Parties. Judgment upon the award rendered may be entered in any court having jurisdiction or application may be made to such court for a judicial acceptance of the award and an order of enforcement, as the case may be.

12.3 Except as provided in this Section, arbitration shall be conducted in accordance with the Rules of Arbitration of the International

SECTION XIII
EMPLOYMENT AND TRAINING OF PHILIPPINE PERSONNEL

- 13.1 Contractor agrees to employ qualified Filipino personnel in the Operations and after commercial production commences will undertake, upon prior approval of the Petroleum Board, the schooling and training of Filipino personnel for labor and staff position, including administrative, technical and executive management positions. Contractor shall undertake upon prior approval of the Petroleum Board a program of training assistance for Petroleum Board personnel.
- 13.2 Costs and expenses of training Filipino personnel for Contractor's own employment shall be included in Operating Expenses. Costs and expenses of a program of training for Petroleum Board's personnel shall be borne on a basis to be agreed upon by the Petroleum Board and Contractor.

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SECTION XIV
TERMINATION

This Contract shall be terminated and Contractor shall be relieved of its obligations:

- 14.1 As provided in Section 3.1 hereof; or
- 14.2 On expiration of the terms, or extension thereof provided for in Sub-Section 3.2 hereof; or
- 14.3 Upon surrender by Contractor of the entire Contract Area pursuant to Sub-Sections 4.5 and 5.1, subject to the provisions of Sub-Section 4.6 hereof.
- 14.4 Upon payment under the Bond or Guarantee as referred to in Sub-Section 1.2 hereof when such payment is required under the provisions of this Contract.

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SECTION XV
BOOKS AND ACCOUNTS AND AUDITS

15.1 Books and Accounts

Contractor shall be responsible for keeping complete books and accounts, both in United States and Philippine currency, reflecting all transactions in connection with Petroleum Operations in accordance with Accounting Procedure attached hereto as Annex "B".

15.2 Audits

The Petroleum Board shall have the right to inspect and audit Contractor's books and accounts relating to this Contract for any Calendar Year within the one (1) year period following the end of such Calendar Year. Any such audit will be completed within twelve (12) months after its commencement. Any exception must be made in writing within sixty (60) days following the completion of such audit and failure to give such written exception within such time shall establish the correctness of Contractor's books and accounts for the period of such audit.

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SECTION XVI
OTHER PROVISIONS

16.1 Notices

Any notice required or given by either party to the other party shall be in writing and shall be effective when a copy thereof is handed to or served upon the Party's duly designated representative or the person in charge of the office or place of business; or when sent by registered mail, notice shall be effective upon actual receipt by the addressee, but if he fails to claim his mail from the post office within five (5) days from the date of the first notice of the postmaster, service shall take effect at the expiration of such time. All such notices shall be addressed to:

To the first Party -

The Chairman of the Petroleum Board
c/o Petrophil Building
Makati Avenue, Makati, Rizal

To the second Party -

Philippines-Cities Service, Inc.
2nd floor CMS Building
2293 Pasong Tamo Extension
Makati, Rizal

Any Party may substitute or change such address on written notice thereof to the others.

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16.2 Governing Law

The laws of the Republic of the Philippines shall apply to this Contract.

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16.3 Suspension of Obligations

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(a) Any failure or delay on the part of either Party in the performance of its obligations or duties hereunder shall be excused to the extent attributable to Force Majeure.
Law

(Contd. from page 32, Sec. XVI - 16.3)

- (b) If operations are delayed, curtailed or prevented by such causes, then the time for enjoying the rights and carrying out the obligations thereby affected, and all rights and obligations hereunder shall be extended for a period equal to the period thus involved, except that the term of this Contract as provided in Section III hereof shall not thereby be extended.
- (c) Force Majeure shall include Acts of God, unavoidable accidents, acts of war or conditions arising out of or attributable to war (declared or undeclared), laws, rules, regulations and orders by any Government or governmental agency, strikes lockouts and other labor disturbances, delays in transportation, floods, storms, and other natural disturbances, insurrections, riots, and other civil disturbances, and all other matters beyond the control of the Party concerned (other than rig availability): Provided, however, That as to the Petroleum Board only, laws, rules and regulations and orders by Government or any governmental agency of the Republic of the Philippines shall not constitute Force Majeure.
- (d) The Party whose ability to perform its obligations is so affected shall notify the other Party thereof in writing stating the cause and both Parties shall do all reasonably within their power to remove such cause.

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(Contd. from page 33)

16.4 Assignment

The rights and obligations of Second Party under this Contract shall not be assigned or transferred without the prior approval of the Petroleum Board; Provided, That with respect to the assignment or transfer of such rights and obligations to an Affiliate of the transferor, the approval thereof by the Petroleum Board shall be automatic, if the transferee is as qualified as the transferor to enter into such contract with the Government; Provided, further, That the Affiliate relationship between the original transferor or a company which holds at least Fifty (50%) Per Cent of the Contractor's outstanding shares entitled to vote and each transferee shall be maintained during the existence of the Contract; Provided, finally, That with respect to transfers of rights and obligations between Second Parties, as contemplated in Annex "A", notice to the Petroleum Board shall effect the transfer.

16.5 Petrochemical Facility

At such time as Contractor has established Commercial production, as defined in Section 2.7, Contractor will undertake technical and economic studies as to the feasibility of establishing a petrochemical facility in the Philippines to utilize a portion of said production. Contractor will conduct such studies at its sole cost and expense. To the extent that it is mutually agreed between all parties that such studies indicate that such facilities would be technically and economically feasible, Contractor will finance and construct or cause to be financed and constructed, such facility.

SECTION XVII
PAYMENTS BY CONTRACTOR

17.1 Contractor shall, within sixty (60) days following the declaration of a discovery of Petroleum in Commercial Quantity, pay to the First Party the total sum of U.S. \$250,000.

17.2 If and when there shall be produced from the Contract Area Twenty-five Thousand (25,000) barrels of oil per day (BOPD) at an average rate for thirty (30) consecutive days, Contractor shall, within a sixty (60) day period thereafter, pay to First Party the total sum of One Million U.S. Dollars (U.S. \$1,000,000) provided, it is understood that Contractor, in order to sustain said rate of 25,000 BOPD for said thirty (30) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil field practice prevalent in the industry.

17.3 If and when there shall be produced from the Contract Area Fifty Thousand (50,000) barrels of oil per day (BOPD) at an average rate for thirty (30) consecutive days, Contractor shall, within sixty (60) days following the expiration of said thirty (30) day period pay to First Party the total sum of One Million U.S. Dollars (U.S. \$1,000,000); provided, it is understood that Contractor, in order to sustain said rate of 50,000 BOPD for said thirty (30) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil field practice prevalent in the industry.

17.4 If and when there shall be produced from the Contract Area Seventy-five Thousand (75,000) barrels of oil per day (BOPD) at an average rate for thirty (30) consecutive days, Contractor shall, within sixty (60) days following the expiration of said

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
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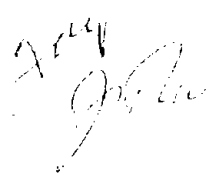
(Contd. i. page 35 - no. 17.4)

Two Million U.S. Dollars (U.S. \$2,000,000); provided, it is understood that Contractor, in order to sustain said rate of 75,000 BOPD for said thirty (30) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil field practice prevalent in the industry.

17.5 If and when there shall be produced from the Contract Area One Hundred Thousand (100,000) barrels of oil per day (BOPD) at an average rate for thirty (30) consecutive days, Contractor shall, within sixty (60) days following the expiration of said thirty (30) day period, pay to First Party the total sum of Three Million U.S. Dollars (U.S. \$3,000,000); provided, it is understood that Contractor, in order to sustain said rate of 100,000 BOPD for said thirty (30) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil field practice prevalent in the industry.





SECTION XVIII
EFFECTIVENESS

18.1 This Contract shall come into effect on the Effective Date.

18.2 This Contract shall not be annulled, amended or modified in any respect except by the mutual consent in writing of the Parties hereto.

IN WITNESS WHEREOF, the Parties hereto have executed this Contract as of the day and year first above written.

PHILIPPINES-CITIES SERVICE, INC.

THE PETROLEUM BOARD

By: *[Signature]* *ABH*

By: *[Signature]*

HUSKY (PHILIPPINES) OIL, INC.

ORIENTAL PETROLEUM AND MINERALS CORPORATION

By: *[Signature]*

By: *[Signature]*

PHILIPPINE-OVERSEAS DRILLING & OIL DEVELOPMENT CORPORATION

BASIC PETROLEUM AND MINERALS, INC.

By: *[Signature]*

By: *[Signature]* *[Signature]*

LANDOIL RESOURCES CORPORATION

WESTRANS PETROLEUM, INC.

By: *[Signature]*

By: *[Signature]* *[Signature]*

PHILIPPINE NATIONAL OIL COMPANY

By: *[Signature]*