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CAMEROON

Model Association Agreement For Petroleum Exploration
& Exploitation Dated 8 February 1980

ARTICLE 1 - DEFINITIONS

For purposes of this Agreement, the terms enumerated hereinbelow have the meanings defined in this Article 1.

AGREEMENT

This Association Agreement, containing nineteen (19) Articles and one (1) Appendix.

YEAR

The Cameroon budget year terminating June 30.

ASSOCIATION

The State and the Company associated in accordance with the provisions of the Agreement. The Association has no legal status.

OPERATING COSTS

Defined in Appendix A.

EFFECTIVE DATE

Defined in Article 2.7.

INVESTMENT EXPENDITURES

Defined in Appendix A.

SUBSIDIARY

As far as the Company is concerned,

and any entity in which

directly or indirectly controls an interest of at least fifty per cent (50%).

FINANCIAL CHARGES

All expenditures connected with the preparation, signing and application of the agreements entered into with lending institutions, including, in the case of the Company, any subsidiary, provided that

those agreements have received the prior approval of the State, which approval may not be denied without valid reason. Said expenditures shall embrace, without limitation, interests, commitment fees, commissions, royalties, taxes and stamp duties on the loan.

ASSOCIATED GAS

Natural gas which, if extracted, is produced simultaneously with liquid hydrocarbons and which is found in the reservoir either in gaseous state, but in physical contact with liquid hydrocarbons, or in solution with such liquid hydrocarbons.

NATURAL GAS

Any hydrocarbon or mixture of hydrocarbons in gaseous state which is extracted from the subsoil in its natural state.

LIQUID HYDROCARBONS

Any hydrocarbon or mixture of hydrocarbons other than natural gas.

START OF EXPLOITATION

The date of production of the first barrel sent into storage by the Association for commercial purposes.

EXPORT PRICE

The price or prices defined in Article 13.

INTERNATIONAL PRICE

The price to be applied to the purchases provided for in Article 8.5.

PRODUCTION

The total volume of liquid hydrocarbons delivered and available at the installations of the Association, excluding the volumes used in the production operations or lost.

ANNUAL MINING RENT

An amount established separately for each Exploitation Title and for each year, equal to the difference between:

- a) the value at export prices of the total production and
- b) the sum of the following items:
 - i) Operating costs, and
 - ii) an amount equal to two times the depreciations taken into account by the Company for the calculation of its taxable income, and
 - iii) the sum of the financial expenses borne by each of the parties.

NET INCOME

The amount of income actually collected by the Company and transferable out of the United Republic of Cameroon after payment of all taxes, imposts and royalties of any kind whatsoever, present or future, based on the operations of the Company in relation to an Exploitation Title and due the central or local Administrations in Cameroon.

INDEPENDENT THIRD PARTY

A buyer who is not a subsidiary of the Company and who is not linked to the seller by any arrangement which can be objectively proven to have an effect on the cash price provided for in the selling agreement.

EXPLOITATION TITLE

A Concession or Exploitation Permit, as defined in Articles 12 to 16 of Law 64/LF/3 of April 6, 1964, it being understood that the production of Exploitation Titles originating from the same Exploration Permit is considered as emanating from one and the same Exploitation Title.

MINING TITLE

An Exploration Permit, as defined in Article 11 of Law 64/LF/3 of April 6, 1964, and/or an Exploitation Title.

ARTICLE 2 - OBJECT AND EFFECTIVE DATE

- 2.1. The Agreement is entered into pursuant to Article 2 of Law No. 78/14 of December 29, 1978.
- 2.2. The Agreement is applicable, subject to 2.4 hereinbelow and within the limits:
- a) of the interest of the Company on the effective date of the Agreement and/or
 - b) of the interest of the Association,
- to each of the mining titles valid for hydrocarbons that the Company holds or may obtain on the territory where the sovereignty of the United Republic of Cameroon is exercised.
- 2.3. The Agreement defines the conditions under which the Company and the State are associated or will be associated in pursuing activities on the mining titles defined in 2.2.
- 2.4. In case of development and exploitation, the Agreement is applicable only to liquid hydrocarbons, without prejudice to Article 10.5.
- 2.5. It is understood that the Company is or may be connected with associates other than the State as far as interests in a given mining title are concerned. In that case, the provisions of the Agreement shall be applied only within the limits of the interest of the Association established under the terms of the Agreement.
- 2.6. No provision of the Agreement limits the right of the Company, under the conditions stipulated in Law 64/LF/3 of April 6, 1964, either to assign any part of its interest in a mining title or to acquire a new or additional interest in a mining title.
- 2.7. The effective date of the Agreement is December 28, 1979.
- 2.8. It is understood that the Establishment Convention of the Company shall be revised, notably, as stipulated in Article 28 of Law 78/24 of December 29, 1978, and/or that every other measure shall be taken

by the authorities of the United Republic of Cameroon for the provisions mentioned in the Agreement or necessary for its application to enter into effect as from the effective date.

ARTICLE 3 - RIGHTS TO MINING TITLES

- 3.1. The State and the Company shall each directly hold a joint interest in each mining title covered by the Agreement within the limits of the interest of the Association in said mining title.
- 3.2. The Association shall be entitled to a concession in each area of discovery, in accordance with the provisions of Article 11 of Law 64/LF/3 of April 6, 1964.
- 3.3. If the reserves initially estimated do not fulfill criteria to be defined to justify a 25-year concession, the Association may apply for an exploitation permit which shall be convertible into a concession, if the revaluation of reserves prior to the end of the first eight years of the exploitation permit justifies such conversion, at all times according to criteria to be defined by the Association pursuant to the mining legislation.

ARTICLE 4 - SHARES IN THE ASSOCIATION

- 4.1. The State and the Company shall each bear fifty per cent (50%) of expenditures of the Association, according to the provisions of Articles 5 and 6.
- 4.2. The respective rights of the State and of the Company to the liquid hydrocarbon production due the Association are defined in Article 8.
- 4.3. The assets acquired for purposes of the activities of the Association shall be joint property of the State and of the Company, each having a joint interest of fifty per cent (50%).

ARTICLE 5 - FINANCING OF EXPENDITURES

5.1. Exploration and Development

5.1.1. The Company shall advance or cause to be advanced in full the expenditures of exploration and development up to the start of exploitation of an exploitation title, in accordance with Article 5 of Law 78/14 of December 29, 1978, unless the State should decide to participate directly in the financing of its fifty per cent (50%) share of said expenditures.

5.1.2. At the request of the Company, the State shall sign in writing the commitments defined below to the lending institutions solicited by the Company to make loans involving development expenditures. Those commitments shall be the ones requested by said institutions in exchange for loans to finance the shares of expenditures of the State or of the Company or of both, and may include but not necessarily be limited to the following:

- a) In the case of loans involving the Company's share, acknowledgment of the rights of the lending institutions vis-a-vis the Company with respect to the loans;
- b) Acknowledgment of the loans and of the financing structures;
- c) Agreement on arrangements whereby the production is secured to guarantee repayment of the loans, including confirmation to the lending institutions that the amounts due them may be freely transferred out of the United Republic of Cameroon, according to the provisions of Cameroon legislation.

5.1.3. It is understood that the State will study, on recommendation of the Company, the advantage to the State of furnishing direct commitments to lending institutions concerning the State's share of the expenditures.

5.2. Expenditures as from the start of exploitation

As from the start of exploitation of a deposit lying within an exploitation title, the State and the Company shall each share and pay fifty per cent (50%):

a) of operating costs and

b) of subsequent investment expenditures (including secondary recovery projects),

relating to the exploitation title concerned.

5.3. Financial charges

5.3.1. The financial charges relating to financing of the expenditures of each party shall be borne by the party concerned.

5.3.2. The financial charges relating to the financing of exploration and development expenditures prior to the start of exploitation shall be included in said exploration or development expenditures.

5.3.3. The Company shall be entitled to borrow from any subsidiary in order to finance the expenditures to be committed under the Agreement, under normal commercial conditions and subject to the prior approval of the State, which may not be denied without valid reason.

5.3.3. The amount of development expenses advanced by the Company shall be borrowed from third party lending institutions; these loans may be contracted by the Company either directly or indirectly through its subsidiaries, it being understood that the participation of a subsidiary shall not entail additional costs.

ARTICLE 6 - REIMBURSEMENT OF ADVANCES

6.1. Principle

The State shall reimburse its share of expenditures advanced by or on behalf of the Company pursuant to Article 5.1.1, so that the State bears fifty per cent (50%) of the expenditures of the Association under Article 4.1.

6.2. Reimbursable expenditures

- 6.2.1. The amount to be reimbursed by the State according to 6.1 above shall include 50% of all the expenditures relating to the exploration permit concerned and prior to the decision to develop (including the expenditures incurred in the areas of the original permit to have been returned) plus all development expenditures.
- 6.2.2. Reimbursement by the State shall include its share of the capital contributed as well as the corresponding financial charges.
- 6.2.3. Barring application of 6.4.3, the State shall reimburse the Company for the additional financial charges incurred by the Company in case of delay in the reimbursements due by the State in relation to the scheduled defined by agreement between the parties under the terms of 6.4.2.
- 6.2.4. All expenditures prior to the effective date of the Agreement shall be subject to expert examination by an independent firm of auditors designated by agreement of the parties.

6.3. Form of reimbursement

- 6.3.1. The State shall reimburse the amounts due on account of 6.1,

either in kind, by assigning a share of the State's rights to the production subject to Article 8.2, or in cash.

6.3.2. In case of reimbursement in kind, the quantity of hydrocarbons to be received by the Company shall be defined by valuing the hydrocarbons at the price fixed by agreement of the parties, barring which reimbursement shall be made in cash.

6.3.3. The State shall notify the Company every year, six months in advance, whether reimbursement will be made, in whole or in part, in kind or in cash.

6.4. Period of reimbursement

6.4.1. The system of reimbursement shall be such that the period of reimbursement of the sums due by the State shall not exceed the estimated duration of production of the exploitation title concerned, nor the terms of repayment by the Company of the loans it might have contracted, with State approval, to finance the advances made to the State.

6.4.2. The amounts to be reimbursed and the schedules of reimbursement shall be defined case by case, taking into account the provisions of this Article 6. The schedule of reimbursement for the exploration expenditures shall be different from that for the development expenditures.

6.4.3. Reimbursement shall cease as soon as there is no longer any production within the original exploration permit concerned. Subject to this limitation, reimbursement of the advances concerning a given exploitation title shall be assured from the production of other exploitation titles lying within the same exploration permit in case of insufficient production of the exploitation title concerned.

6.4.4. Barring possible agreement under Article 9, the State shall earmark to the reimbursements defined in this Article 6 and to payment of the expenditures referred to in Article 5.2, an amount not exceeding the difference between:

- a) the revenues obtained by the States from disposition of the share of the production due the State under the terms of Article 8.1, and
- b) the revenues obtained by the State from disposition of the forty per cent (40%) of the production that the State may reserve for itself, as stipulated in Article 8.2.

6.4.5. It is stipulated that the State is not bound to earmark to the reimbursements and payments referred to in 6.4.4 the total amount of the difference defined in said 6.4.4.

ARTICLE 7 - SHARING OF MINING RENT

- 7.1. The Company shall receive each year and for each exploitation title an income before corporation taxes and proportional tax equal to 25.31% of the mining rent from the exploitation title concerned.
- 7.2. In case the proportional royalty rate should not make it possible to fulfill the conditions of 7.1, the amount of said royalty shall be adjusted so that the Company will receive the net income provided for in 7.1.
- 7.3. In case the application of Article 8.1 should not make it possible to fulfill the conditions of 7.1 and barring agreement of the parties, when the time comes, on any other arrangement leading to the same result, the State shall assign to the Company, in the course of the year concerned, liquid hydrocarbons in quantities and under assignment conditions such that the Company will actually receive the net income specified in 7.2.

ARTICLE 8 - ACCESS TO AND DISPOSITION OF PRODUCTION

8.1. For each exploitation title, the rights to the liquid hydrocarbon production shall vary with the cumulative total production of the exploitation title concerned and are defined as follows:

<u>Cumulative production</u> <u>in millions of</u> <u>metric tons</u>	<u>Percentage Rights</u>	
	<u>State</u>	<u>Company</u>
Up to 15 MT	60%	40%
From 15 to 30 MT	65%	35%
Beyond 30 MT	70%	30%

- 8.2. The State shall be entitled to reserve for itself, out of its rights to the production, a volume representing not more than forty per cent (40%) of the total production.
- 8.3. The Company shall be free to dispose of its rights to the production (and of any part of the right of the State which may be assigned to it), subject to its obligations to supply the needs of Cameroon and subject to the regulations enacted by virtue of Article 20 of Law 64/LF/3 of April 6, 1964.
- 8.4. The Company is bound to supply the needs of Cameroon at the export price, to the extent that the State's right to the production, defined in 8.1, should not be sufficient. This commitment shall not obligate the Company to supply a proportion of its rights to the production of a given exploitation title greater than the proportion of the total production of said exploitation title out of the total production of Cameroon.
- 8.5. The Company shall have a preferential right of purchase at the international price of the State's right to the production in excess of the needs of Cameroon, including the volume mentioned in 8.2 above. This right must be exercised for periods of at least six (6) consecutive months with at least six (6) months notice prior to the start of the period concerned. The international price applicable shall

be established by agreement of the parties not later than the deadline for exercise of the right.

- 8.6. The State and the Company shall define in due time, prior to the start of exploitation of an exploitation title, the procedures for organizing the taking of delivery of production and establishment of the quantities available for each of them.

ARTICLE 9 - NEGOTIATION

- 9.1. In case technical or financial factors concerning an exploitation title should not make possible its development or the commitment of further expenditures, under conditions acceptable to the parties, taking into account the provisions of the Agreement and, notably, Articles 6, 7 and 8, the State and the Company shall negotiate to find a solution acceptable to both parties.
- 9.2. Nothing in the Agreement shall be interpreted as obligating the Company to invest in or to advance funds for the development of a discovery of liquid hydrocarbons if the Company should feel that the economic conditions applicable to said development are not sufficiently attractive to justify such investments or advances.
- 9.3. If the parties do not find the solution provided for in 9.1, the Company shall not be bound to the work financing obligations provided for in Article 5, and the Company shall be reimbursed for its expenditures at cost, in case the State should proceed with the development of said exploitation title alone or with third parties within ten (10) years following the inability to find a solution. That reimbursement shall begin the moment the State obtains production revenues from said exploitation title and shall relate to the expenses which the Company has been unable to recover from the production of other exploitation titles.

9.4. At the end of ten (10) years after the start of exploitation of an exploitation title, if appropriate, the State and the Company shall negotiate new conditions for the exploitation title concerned.

ARTICLE 10 - DIRECTION AND MANAGEMENT OF THE OPERATIONS

- 10.1. For each mining title, the State, the Company and the possible other partners of the Company in the mining title concerned shall choose, according to the procedures referred to in 10.3, which of them is to be the operator.
- 10.2. Under the conditions to be defined in the procedures provided for in 10.3, the State and the Company or their representatives shall participate in direction of the operations and shall furnish the personnel, equipment and foreign contractors necessary, as well as petroleum industry expertise.
- 10.3. The State and the Company shall establish procedures of consultation and collaboration to assure the efficient conduct of operations according to the best practices of the international petroleum industry, as well as an accounting organization for the activities of the Association.
- 10.4. Associated gas
- 10.4.1. It is specified that the Operator shall have the right to determine, in accordance with the rules of the art of the petroleum industry, the quantities of associated gas necessary for the operations of the Association, including, without limitation, the reinjection of said associated gas to assist the production and recovery of liquid hydrocarbons.
- 10.4.2. The Association may use the quantities of associated gas referred to in 10.4.1 and shall not be liable for any charge, tax, impost or royalty on that account.

10.4.3. Subject to the agreement of the parties, within the framework of the procedures provided for in 10.3, any associated gas may be treated in order permanently to separate any liquid hydrocarbon therefrom.

ARTICLE 11 - TAXES AND IMPOSTS

- 11.1. The tax system applicable to the Company is defined and guaranteed by its Establishment Convention, the terms of which shall take into account the provisions of Laws 78/14 and 78/24 of December 29, 1978, as well as the terms enumerated in the Agreement.
- 11.2. The Company shall be liable for income tax in accordance with Article 24 of Law 78/24 of December 29, 1978. It shall pay that tax solely on taxable income derived from disposition of the production due it under Article 8.1.
- 11.3. All surface royalties shall be deductible for the computation of taxable income.
- 11.4. The depreciation rates applicable for the computation of taxable income shall be those specified in Appendix A.
- 11.5. The tax referred to in 11.2 is a direct tax in the sense of Article 37 of Law 64/LF/4 of April 6, 1964. It follows that the Company shall benefit from the exemptions provided for in said Article 37.
- 11.6. Notwithstanding the provisions of Section 11.5 and of Article 24 of Law 78/24 of December 29, 1978, the Company shall be subject to the corporation tax at the rate specified in the General Tax Code and shall be liable to the proportional tax specified in the General Tax Code on its net profits after payment of the corporation tax. For administration of the proportional tax, the annual profit shall be deemed as having been distributed two weeks before the deadline for payment of the corporation tax for the year considered.

ARTICLE 12 - PROPORTIONAL ROYALTY

12.1. The proportional royalty shall be due by the Company on the share of the production coming to it pursuant to Article 8.1, under the conditions of Article 25 of Law 64/LF/4 of April 6, 1964. However, the amount of royalty shall be computed on the production of each exploitation title, taking into account, if appropriate, the provisions of Article 7.2.

ARTICLE 13 - EXPORT PRICE

13.1. The export price for liquid hydrocarbons shall be established FOB Cameroon port of loading and must be in line with the official prices for long-term export contracts entered into between independent third parties and covering crudes of similar quality, the necessary corrections being introduced in order to take into account the characteristics of the different transactions (quality, location, delivery, transport and payment conditions).

13.2. The export price of liquid hydrocarbons shall be the subject of round table negotiations between the parties. It shall be set quarterly at the beginning of the relevant quarter.

13.3. The export price of liquid hydrocarbons so set shall be the posted price referred to in paragraph 2 of Article 24 of Law No. 78/24 of December 29, 1978.

ARTICLE 14 - SURFACE ROYALTIES AND FEES

14.1. Surface royalties and fees for the exploration permits shall be paid in full by the Company and shall not be included in the expenses reimbursable by the State.

14.2. The Company and the State shall each pay fifty per cent (50%) of the surface royalties and fees due on the interest of the Association in each exploitation title.

ARTICLE 15 - NONDISCRIMINATION

In case the State should conclude with another person an association agreement that the Company should deem more advantageous to that person than the Agreement is to the Company, the terms of the Agreement shall be revised in order to give the Company the benefit of equivalent advantages.

ARTICLE 16 - SETTLEMENT OF DISPUTES

- 16.1. The parties shall endeavor to settle all disputes by amicable agreement.
- 16.2. Barring a solution by amicable agreement, the parties are expressly bound to submit to arbitration, as stipulated in the "Convention on Settlement of Investment Disputes Between States and Subjects of Other States," dated March 18, 1965, ratified by the United Republic of Cameroon under the terms of Law 66/LF/13 of August 30, 1966 and of Decree No. 66/DF/454 of the same date, and as sole method of settlement, all disputes that might arise out of the interpretation or performance of the Agreement.
- 16.3. With respect to the arbitration procedure, it is agreed that the submissions of the parties may be made either in French or in English. The decision shall be drawn up in both languages.

ARTICLE 17 - FORCE MAJEURE

- 17.1. No delay nor failure of a party to discharge its obligations under the Agreement shall constitute a breach of the Agreement nor afford the right of claim against said party, to the extent that the delay or failure is attributable to circumstances that cannot be reasonably controlled by the party concerned.
- 17.2. The party affected by such circumstances shall notify the other party thereof without delay and do its best to resume performance of its obligations as soon as possible.

ARTICLE 18 - TRANSFER

The Company may transfer these rights and obligations under the Agreement, in whole or in part, to any subsidiary, with the authorization of the State, which may not be refused without valid reason.

ARTICLE 19 - DOMICILE AND NOTICES

19.1. For purposes of the Agreement, the parties elect domicile at the following addresses, where all notices may validly be served:

THE STATE

at the office of the Ministry of the Economy and Planning
Yaounde

- 19.2. The above addresses may be changed by notice given by registered mail.
- 19.3. All notices shall be given in writing, either by letter or by telex or telegram.

Done in Yaounde, February 8, 1980

in two originals

FOR THE UNITED REPUBLIC OF CAMEROON

-Seal-

Sgd.: Youssoufa Dacuda

FOR

APPENDIX A

EXPENSES AND DEPRECIATIONS

1. The investment expenses are expenses pertaining to fixed assets under the terms of the Accounting Plan and the General Tax Code of the United Republic of Cameroon.
2. All of the expenses incurred prior to start of exploitation are investment expenses, including the financial charges referred to in Article 5.3.2 of the Agreement.
3. The expenses incurred after start of exploitation which are not investment expenses correspond either to operating costs or to financial charges. Said expenses of a given year are deductible in the same year for computation of the taxable income of the Company.
4. The fixed assets shall be depreciated for computation of the taxable income of the Company by applying the following annual rates as from the starting date of exploitation or, in case of jobs executed subsequently, as from the date of introduction of the asset in service or of cessation of the jobs concerned.

These rates may be adjusted by agreement of the parties if the actual duration of use of the equipment is less than that corresponding to the rates set below. Those adjustments shall take place, notably, in case of accidental losses, more rapid wear of equipment or shorter exploitation than that taken as a basis for setting the rates below.

NATURE OF FIXED ASSETS TO BE DEPRECIATED

ANNUAL DEPRECIATION RATE

Construction:

Concrete buildings and structures for shops, offices, warehouses, garages, laboratories, training, housing, social services and athletic facilities, commissaries, hospitalization, meeting halls 5%

Metal frame buildings 6%

Sheds and all work site buildings, detachable or mobile 20%

Semiportable light structures without foundations 20%

Interior fittings of shops 10%

Office machines 20%

Office and house furniture 15%

Telephone 10%

Loading and storage installations:

Storage installations 10%

Except for pipe yards 20%

Loading pier 3%

Loading installations, floating pipes 20%

Vehicles and means of access:

Civil engineering equipment 30%

Motor vehicles and trailers 35%

Except for fire trucks, repair vans and cement trucks 20%

River transportation:

Shallops 20%

Tug boats, push boats, tank barges, lighters 10%

Means of access:	
Means of access to geophysical works and to nonproducing wells	50%
Means of access to producing wells	20 to 100%
Other fixed assets:	
Water and compressed air distribution	10%
Electric power distribution	10%
Power transmission lines:	
Poles	4%
Other items	8%
Transformers:	
Buildings and stationary equipment	5%
Mobile equipment	10%
Stationary or mobile machinery:	
Compressors	10%
Miscellaneous motors and pumps	15%
Machine tools	10 to 15%
Small tools	30%
Stationary laboratory equipment	10%
Mobile laboratory equipment, survey equipment	20%
Camp equipment	50%
Underground works and bore-holes:	
Nonproducing wells	50%
Producing wells	20 to 100%

Transportation equipment:	
Internal pipelines	20%
External pipelines	7.5%
Drilling equipment:	
Drilling rigs	20%
Drill pipe	33%
Drill tools	33%
Diesel engines	20%
Derrick equipment, gear	33%
Offshore equipment:	
Drilling barge	15%
Stationary platform	15%
Mobile platform	15%
Underwater wellheads and supports	20%
Marine collector lines	20%
Main lines	10%
Offshore storage	20%
Mooring and loading buoys	25%
Underwater loading lines	20%
Platform equipment	15%
Intangible assets:	
Geological and geophysical exploration expenses	20%

5. In case the Company should not be able to deduct in a given year all of the amounts deductible according to Points 3 and 4 above,

taking into account its income and the provisions of the Agreement, the undeducted balance shall be carried over and deducted in computation of the taxable income of the following year.

6. It is stipulated that the Company may amortize all prospecting expenses incurred on a given Exploration Permit out of the income from any production of an Exploitation Title situated inside the original perimeter of said Exploration Permit.
7. It is stipulated that for calculation of the mining rent, the terms Operating Costs and Investment Expenditures exclude all taxes, imposts and royalties of any kind whatsoever due by the Company to the central or local authorities of Cameroon.

BARROU
CONFIDENTIAL