

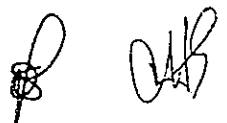
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PRODUCTION SHARING CONTRACT
BETWEEN
THE REPUBLIC OF EQUATORIAL GUINEA
AND
UMC EQUATORIAL GUINEA CORPORATION
(AREA D - OFFSHORE BIOCO)



TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
1. SCOPE AND DEFINITIONS	2
2. TERM, TERMINATION, AND CANCELLATION	7
3. EXCLUSION OF AREAS	14
4. WORK PROGRAM AND EXPENDITURES	16
5. CONDUCT OF PETROLEUM OPERATIONS BY CONTRACTOR	19
6. RIGHTS AND OBLIGATIONS OF THE PARTIES AND DETERMINATION OF PRODUCTION LEVELS	23
7. RECOVERY OF OPERATING COSTS, SHARING OF PRODUCTION, AND HANDLING OF PRODUCTION	28
8. VALUATION OF HYDROCARBONS	37
9. BONUSES AND SURFACE RENTALS	40
10. PAYMENTS	45
11. TITLE TO EQUIPMENT	46
12. UNIFICATION	47
13. ARBITRATION	49
14. BOOKS AND ACCOUNTS AND AUDITS	51
15. NOTICES	52
16. LAWS AND REGULATIONS	52
17. FORCE MAJEURE	53
18. TEXT	54
19. EFFECTIVENESS	54
Exhibit "A" - DESCRIPTION OF CONTRACT AREA	55
Exhibit "B" - MAP OF CONTRACT AREA	56
Exhibit "C" - ACCOUNTING PROCEDURE	57



PRODUCTION SHARING CONTRACT

THIS Contract, made and entered into on this 5th day of April, 1995 by and between The Republic of Equatorial Guinea (hereinafter sometimes referred to as the "State"), represented for purposes of this Contract by the Ministry of Mines and Energy of The Republic of Equatorial Guinea (hereinafter referred to as the "Ministry") and UMC Equatorial Guinea Corporation, a corporation organized and existing under the laws of the State of Delaware, U.S.A., having its registered office at 1201 Louisiana Street, Suite 1400, Houston, Texas, U.S.A., hereinafter referred to as the "Contractor", and represented for purposes of this Contract by Coy H. Squyres, its Executive Vice President - International. The State and the Contractor hereinafter are referred to either individually as "Party" or collectively as "Parties".

W I T N E S S E T H :

WHEREAS, that all Hydrocarbons existing within the territory of The Republic of Equatorial Guinea, including adjacent submerged lands, are national resources owned by The Republic of Equatorial Guinea; and

WHEREAS, that the State wishes to promote the development of Hydrocarbon deposits in and throughout the Contract Area and the Contractor desires to join and assist the State in accelerating the exploration and development of the potential resources within the Contract Area; and

WHEREAS, that the Contractor has the financial ability, technical competence and professional skills necessary to carry out the Petroleum Operations hereinafter described; and

WHEREAS, that in accordance with the Hydrocarbons Law of The Republic of Equatorial Guinea, agreements in the form of Production Sharing Contracts may be entered into between the State and foreign capital investors;

THEREFORE, in consideration of the undertakings and covenants herein contained, the Parties hereby agree as follows:

Section 1
SCOPE AND DEFINITIONS

1.1 SCOPE

This Contract is a Production Sharing Contract. In accordance with the provisions herein contained, the Ministry shall be responsible for managing the Petroleum Operations contemplated in this Contract.

The Contractor shall:

- (a) be responsible to the State as an independent contractor for the execution of the Petroleum Operations in accordance with the provisions of this Contract, and is hereby appointed and constituted the exclusive Person to conduct Petroleum Operations in the Contract Area for the term hereof;
- (b) provide all necessary capital, machinery, equipment, technology and personnel necessary for the conduct of Petroleum Operations;
- (c) bear the risk of Petroleum Operations Costs required in carrying out Petroleum Operations and shall therefore have an economic interest in the rapid development of the hydrocarbon deposits in the Contract Area. Such costs shall be included in Petroleum Operations Costs recoverable as provided in Section 7.

During the term of this Contract the total production achieved in the conduct of the Petroleum Operations shall be divided between the Parties in accordance with the provisions of Section 7.

1.2 DEFINITIONS

In this Contract, words importing the singular include the plural and vice versa, and except where the context otherwise indicates, shall have the meanings set forth in this Section. Words that are used but not defined herein, but that are defined in the Hydrocarbons Law, shall have the meanings set forth in the Hydrocarbons Law. The following capitalized terms shall have the following meanings when used in this Contract:

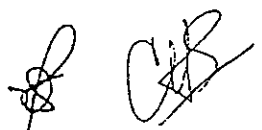
- (a) Person means any individual, corporation, partnership joint venture, association, trust, estate, unincorporated organization or government or any agency or political subdivision thereof.

- (b) Affiliated Company or Affiliate of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct, administer and dictate policies of such Person, through the ownership of fifty percent (50%) or more of the voting rights attributable to the shares of such Person; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.
- (c) Crude Oil means Hydrocarbons which are produced at the wellhead in liquid state at atmospheric pressure, crude mineral oil, asphalt and ozokerites and the liquid Hydrocarbons known as condensate and Natural Gas Liquids obtained from Natural Gas.
- (d) Natural Gas means all Hydrocarbons that at atmospheric conditions of temperature and pressure are in a gaseous phase except for Natural Gas Liquids as defined in Section 1.2(e). Included in this definition are wet mineral gas, dry mineral gas, wet gas and residue gas remaining after the extraction, processing or separation of liquid Hydrocarbons from wet gas, as well as non-hydrocarbon gas or gases produced in association with liquid or gaseous Hydrocarbons.
- (e) Natural Gas Liquids means those portions of Natural Gas which are liquified at the surface in field separators, field facilities or Natural Gas processing plants; Natural Gas Liquids include but are not limited to ethane, propane, butane and pentane.
- (f) Exploration Operations include geological studies; geophysical studies; aerial mapping; investigations relating to the subsurface geology; stratigraphic test drilling; exploration wells and appraisal wells; and related activities such as drillsite preparation, surveying, and all work necessarily connected therewith, that is conducted in connection with exploration for Crude Oil and/or Natural Gas.
- (g) Development and Production Operations means all operations other than Exploration Operations conducted to facilitate extraction and the production of Crude Oil and Natural Gas.

- (h) Exploration Expenditures means direct expenditures on Exploration Operations and overhead expenses made in connection with exploration of the Contract Area. These expenditures shall be determined in accordance with the Accounting Procedure attached hereto as Exhibit "C", but expenditures made within the area of a Field after Commercial Discovery has been declared shall be excluded.
- (i) Development and Production Expenditures means direct expenditures on Development and Production Operations and overhead expenses made in connection with the development of a Field, excluding expenditures made within the area of a Field before Commercial Discovery has been declared, all as determined in accordance with the Accounting Procedure attached hereto as Exhibit "C".
- (j) Petroleum Operations Costs means all costs and expenditures made and obligations incurred in carrying out Petroleum Operations hereunder, determined in accordance with the Accounting Procedure attached hereto as Exhibit "C" and made a part hereof.
- (k) Barrel means a quantity or unit of Crude Oil equal to 158.9874 liters (42 United States gallons) at a temperature of 15.56 degrees Centigrade (60 degrees Fahrenheit) under one atmosphere of pressure.
- (l) Field means an area within the Contract Area, as determined in accordance with Section 2.5.
- (m) Well means any opening in the ground or seabed made or being made by drilling or boring, or in any other manner, for the purpose of discovering and/or producing Crude Oil or Natural Gas, or for the injection of any fluid into an underground deposit, other than a seismic hole or a structure test hole or stratigraphic test hole.
- (n) Commercial Discovery means a discovery of Hydrocarbons that, in the judgment of the Contractor, can be produced commercially based on consideration of all pertinent operating and financial data.
- (o) Work Program means an itemized statement of the Petroleum Operations to be carried out in the Contract Area as set forth in Section 4.

- (p) Budget of Petroleum Operations Costs means the estimate of the costs of all items included in the Work Program.
- (q) Year means a period of twelve (12) consecutive months according to the Gregorian Calendar, and Calendar Year means a period of twelve (12) consecutive months commencing January 1 and ending on the following December 31, according to the Gregorian Calendar.
- (r) 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.
- (s) Gross Receipts means the sum of all proceeds of sales of Hydrocarbons from the Contract Area in any given Calendar Year.
- (t) Income Tax means that tax levied on net income of the Contractor pursuant to the Tax Law.
- (u) Calendar Quarter means a period of three consecutive months beginning January 1, April 1, July 1, or October 1 and ending March 31, June 30, September 30 or December 31, respectively.
- (v) Effective Date means the date of the approval of this Contract by the State as a law of The Republic of Equatorial Guinea in accordance with the provisions of the applicable law.
- (w) Foreign Exchange means currency acceptable to the Parties other than that of The Republic of Equatorial Guinea.
- (x) Hydrocarbons Law means Decree-Law No. 7 of 16 June 1981.
- (y) Contract Area means the geographic territory of The Republic of Equatorial Guinea the subject of this Contract from time to time. The initial Contract Area is described in Exhibit "A" and delineated in Exhibit "B" attached hereto and incorporated herein.
- (z) Royalty means ten percent (10%) of all the Crude Oil, and ten percent (10%) of all the Natural Gas produced and saved and sold from the Contract Area and not otherwise utilized in Petroleum Operations.

- (aa) Maximum Efficient Rate means the maximum rate of production of Crude Oil or Natural Gas, as the case may be, in a field, without excessive decline or loss of reservoir pressure, and in accordance with international petroleum industry practice and Section 6.3.
- (ab) Semester, as used in Section 7.8 means a period of six (6) consecutive months, commencing the first of January and the first of July of each Calendar Year.
- (ac) Arm's-Length Third-Parties Sales means sales by either Party under Hydrocarbon sales contracts with third parties which are not Affiliates of the selling Party and excluding sales involving all forms of total or partial non-cash consideration such as, without limitation, barter, Hydrocarbon exchanges, government-to-government deals, or restricted or distress transactions.
- (ad) Contractor's Share of Hydrocarbons means the aggregate of the Contractor's share of Net Hydrocarbons (as defined under Section 7.2) and that portion of Hydrocarbons for the recovery of the Petroleum Operations Costs.
- (ae) Delivery Point means (i) with respect to export sales of Crude Oil or Natural Gas Liquids the point f.o.b. Equatorial Guinean facility at which such Hydrocarbons reach the inlet flange of the lifting tankship's intake pipe, (ii) with respect to other sales of Hydrocarbons the point f.o.b. the Contractor's Equatorial Guinean facility at which the transfer to the purchaser of such Hydrocarbons takes place pursuant to the terms of the applicable sales contract, or (iii) such other point which may be agreed upon in writing by the Ministry and the Contractor.
- (af) Date of First Commercial Production means the date on which the first regular sales of Hydrocarbons are made from a Field.
- (ag) Residential Use means Natural Gas delivered in gaseous state to the domiciles of residents of The Republic of Equatorial Guinea.
- (ah) First Subperiod has the meaning ascribed thereto in Section 2.1(a).
- (ai) Second Subperiod has the meaning ascribed thereto in Section 2.1(a).
- (aj) Third Subperiod has the meaning ascribed thereto in Section 2.1(a)
- (ak) Area of Provisional Discovery has the meaning ascribed thereto in Section 2.3.
- (al) Section means a Section in this Contract unless the context provides otherwise.

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- (am) Initial Exploration Period means the period of six (6) consecutive Contract Years commencing with the Effective Date.
- (an) Facility Rules has the meaning ascribed thereto in Section 13.1.
- (ao) Center has the meaning ascribed thereto in Section 13.1.
- (ap) Convention has the meaning ascribed thereto in Section 13.1.
- (aq) Tax Law means Decree - Law No. 1/1986 as amended by Decree - Law No. 7/1988 as amended by Section 6.4.
- (ar) Area of Commercial Discovery means an area designated by Contractor under Section 2.5 which may contain one or more discoveries of Hydrocarbons.


Section 2

TERM, TERMINATION, AND CANCELLATION

- 2.1 The Contractor is authorized to conduct Exploration Operations during the term of this Contract as hereinafter provided:
 - (a) During the Initial Exploration Period, the Contractor is authorized to conduct Exploration Operations. The Initial Exploration Period shall be divided into three (3) subperiods. The First Subperiod shall have a term of two (2) Contract Years commencing with the Effective Date and shall be called the "First Subperiod". The Second Subperiod shall have a term of two (2) Contract Years commencing with the termination of the First Subperiod and shall be called the "Second Subperiod". The Third Subperiod shall have a term of two (2) Contract Years commencing with the termination of the Second Subperiod and shall be called the "Third Subperiod".
 - (b)(i) If the Contractor has fulfilled its obligations for the First Subperiod, the Contractor may elect to proceed into the Second Subperiod by filing an application to so proceed with the Ministry not less than thirty (30) days prior to the termination of the First Subperiod. If the Contractor files the application in accordance with this Section 2.1(b)(i), the Ministry shall grant to the Contractor the right to proceed into the Second Subperiod. In the event the Contractor does not file such application in accordance with this Section 2.1(b)(i); this Contract

shall terminate upon the termination of the First Subperiod and the Contractor shall surrender the Contract Area; provided, if the Contractor has declared an Area of Provisional Discovery or if the Contractor has declared a Commercial Discovery or a Field has been approved, this Contract shall not terminate on the termination of the First Subperiod and the Contractor shall retain that portion of the Contract Area covered by any Area of Provisional Discovery, the Area of Commercial Discovery and the area covered by a Field.

- (ii) If the Contractor has fulfilled its obligations for the Second Subperiod, the Contractor may elect to proceed into the Third Subperiod by filing an application to so proceed with the Ministry not less than thirty (30) days prior to the termination of the Second Subperiod. If the Contractor files the application in accordance with this Section 2.1(b)(ii), the Ministry shall grant to the Contractor the right to proceed into the Third Subperiod. In the event the Contractor does not file such application in accordance with this Section 2.1(b)(ii), this Contract shall terminate upon the termination of the Second Subperiod and the Contractor shall surrender the Contract Area; Provided, if the Contractor has declared an Area of Provisional Discovery or if the Contractor has declared a Commercial Discovery or a Field has been approved, this Contract shall not terminate on the termination of the Second Subperiod and the Contractor shall retain that portion of the Contract Area covered by any Area of Provisional Discovery, the Area of Commercial Discovery and the area covered by a Field.
- (c) If the Contractor has fulfilled its obligations during the Initial Exploration Period, the Contractor may elect to extend the Initial Exploration Period by filing an application for extension with the Ministry. The Initial Exploration Period may be extended as hereinafter provided:
 - (i) The Contractor may extend the Initial Exploration Period for one (1) Year commencing with the termination of the Third Subperiod upon filing an application for extension with the Ministry not less than thirty (30) days prior to the termination of the Third Subperiod and agreeing to drill at least one (1) exploratory Well during such one (1) Year extension in a



portion of the Contract Area in which the water depth at the location of the well is less than two hundred (200) meters deep;

- (ii) If the Contractor has elected under Section 2.1(c)(i) to extend the Initial Exploration Period for one (1) Year and has drilled at least one (1) exploratory Well in accordance with said Section, the Contractor may extend the Initial Exploration Period for a second Year commencing with the termination of the one (1) year extension granted in accordance with Section 2.1(c)(i) upon filing an application for extension with the Ministry not less than thirty (30) days prior to the termination of the one (1) Year extension granted under Section 2.1(c)(i) and agreeing to drill at least one (1) exploratory Well during such second extension in a portion of the Contract Area;
- (iii) The Contractor may extend the Initial Exploration Period for two (2) Years commencing with the termination of the Third Subperiod upon filing an application for extension with the Ministry not less than thirty (30) days prior to the termination of the Third Subperiod and agreeing to drill at least one (1) exploratory Well during such two (2) Year extension in a portion of the Contract Area in which the water depth at the location of the Well is two hundred (200) meters or greater;
- (iv) The Contractor may extend the Initial Exploration Period for three (3) Years commencing with the termination of the Third Subperiod upon filing an application for extension with the Ministry not less than thirty (30) days prior to the termination of the Third Subperiod if during the Initial Exploration Period the Contractor has given the Ministry notice that the Contractor has encountered indications of a substantial accumulation of Hydrocarbons and designated an Area of Provisional Discovery in accordance with Section 2.3, but such extension shall apply only to the Area of Provisional Discovery;
- (v) The Contractor may extend the Initial Exploration Period for two (2) Years commencing on the termination of the extension granted under

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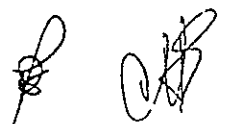
Section 2.1(c)(i), Section 2.1(c)(ii) or Section 2.1(c)(iii), as the case may be, upon filing an application for extension with the Ministry not less than thirty (30) days prior to the termination of the extension granted under Section 2.1(c)(i), Section 2.1(c)(ii) or Section 2.1(c)(iii), as the case may be, if the Contractor has encountered in a Well drilled during such extension, indications of a substantial accumulation of Hydrocarbons and designated an Area of Provisional Discovery in accordance with Section 2.3, but such extension shall apply only to the Area of Provisional Discovery;

- (vi) The Contractor may extend the Initial Exploration Period for one (1) Year commencing on the termination of the extension granted under Section 2.1(c)(i), Section 2.1(c)(ii) or Section 2.1(c)(iii), as the case may be, if the Contractor has encountered in a Well drilled during any such extension, a show of Hydrocarbons which the Contractor believes is sufficient to warrant further exploration drilling and the Contractor agrees to drill one (1) evaluation Well at a location mutually acceptable to the Contractor and the Ministry.

2.2 If no Commercial Discovery has been made:

- (a) During the Initial Exploration Period if the Contractor has not elected to extend the Initial Exploration Period in accordance with Section 2.1(c); or
- (b) During any extension of the Initial Exploration Period exercised by Contractor in accordance with Section 2.1(c);

this Contract shall terminate automatically in its entirety at the end of the Initial Exploration Period or at the end of the extension of the Initial Exploration Period which is the last to terminate, as the case may be. However, upon the submission of a request in accordance with the following sentence, an extension of six (6) months shall be granted by the Ministry in order that the Contractor may finish drilling and testing any Well actually being drilled or tested at the termination of the Initial Exploration Period or at the termination of any extension of the Initial Exploration Period, as the case may be. The Contractor shall submit to the Ministry not less than five (5) days prior to any



- such termination a request for extension if the Contractor believes that an operation which will qualify for an extension will be continuing on the date of termination and such extension shall be granted if drilling or testing is being so conducted.
- 2.3 Upon encountering indications of a substantial accumulation of Hydrocarbons in the Contract Area, the Contractor as soon as practicable will notify the Ministry of such indications, indicating in the notice the particular details of the location and the nature and indicated size of the accumulation. After giving such notification to the Ministry, the Contractor shall as soon as reasonably possible provide the Ministry a report of the results of any preliminary production tests carried out, including in the report, when appropriate, an estimate of the accumulation and the estimated extension of said discovery in the Contract Area. The estimated area shall be referred to as an "Area of Provisional Discovery".
- 2.4 Within each Area of Provisional Discovery the Contractor shall carry out evaluation work, including seismic work and drilling, as may be deemed appropriate by the Contractor. As soon as possible, but in any case not later than the termination of the Initial Exploration Period or the termination of the last extension under Section 2.1(c) or Section 2.2 to terminate, as the case may be, the Contractor will determine whether the discovery is a Commercial Discovery or whether two (2) or more of such discoveries may be included together to form one (1) Commercial Discovery.
- 2.5 When it is determined that a discovery of Hydrocarbons is a Commercial Discovery in accordance with Section 2.4, the Contractor will notify the Ministry and the Contractor will present to the Ministry for the Ministry's written approval, which approval will not be withheld unreasonably: (a) a report including a map showing the extent of the Area of Commercial Discovery within the Contract Area, which area, when said report is accepted by the Ministry, will constitute a Field notwithstanding that the Field may include one or more discoveries; (b) a Work Program, for development of the Field, including an estimate of the Development and Production Expenditures necessary for the development of the Field; (c) the rate at which the Contractor intends to produce the Field; (d) the Contractor's opinion whether the Field will primarily produce Crude Oil or primarily produce Natural Gas; and, (e) the schedule of the most accelerated program

consistent with accepted international petroleum industry practice for implementation of the Contractor's Work Program. If the Ministry has not rejected the reports and information set forth in this Section 2.5 within ninety (90) days after receipt thereof, it shall be deemed that the Ministry has granted its written approval to such reports and information.

2.6 This Contract will continue in existence with respect to each Field which primarily produces Crude Oil for a period of thirty (30) Years from the date on which the Contractor, in accordance with the provisions of Section 2.5, notifies the Ministry that the discovery is a Commercial Discovery. This Contract will continue in existence with respect to each Field which primarily produces Natural Gas for a period of fifty (50) Years from the date the Contractor, in accordance with the provisions of Section 2.5, notifies the Ministry that the discovery is a Commercial Discovery. In case of one or more new Commercial Discoveries as a result of new exploratory drilling into formations which underlie or overlie any of the formations included in a Field or into other deposits which may be encountered within an extension of the area of a Field, such formations and deposits will constitute only one Field, and the Field will be defined or redefined as may be necessary, to incorporate all of the underlying and overlying formations and all the deposits located within the extension of the area of the original Field and the provisions of Section 2.5 shall apply mutatis mutandis to any such new Commercial Discovery.

2.7 The Contractor shall have the right to terminate this Contract totally or partially:

- (a) with respect to any part of the Contract Area other than a Field then producing or that prior thereto had produced Crude Oil or Natural Gas upon giving the Ministry ninety (90) calendar days' written notice of its intention to do so; and
- (b) with respect to any Field then producing or that prior thereto had produced Crude Oil or Natural Gas, upon giving the Ministry one hundred eighty (180) calendar days' written notice of its intention to do so.

2.8 Subject to Sections 2.9 and 2.10, the State shall have the right to cancel this Contract upon giving the Contractor sixty (60) calendar days' written notice of its intention to do so specifying the matter causing such right to arise, if the Contractor:

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- (a) fails to make any monetary payment required by the laws of the State or under this Contract for a period of thirty (30) calendar days after the due date for such payment;
- (b) fails to comply with any other material obligation that it has assumed under this Contract;
- (c) fails to comply with any acts, regulations, orders or instructions issued in conformance with this Contract by the Ministry, or any governmental department or agency of The Republic of Equatorial Guinea;
- (d) suspends its payments under this Contract; or
- (e) subject to the provisions of Section 4.5, has not commenced production from a Field within the period of time specified in the development Work Program according to the terms and conditions specified in Section 2.5.

The State's right to cancel this Contract under this Section 2.8 shall be suspended when the matter causing such right to arise is in dispute or in arbitration prior to the date of the aforesaid State's written notice to the Contractor.

- 2.9 If the circumstance or circumstances that result in cancellation under Sections 2.8(a), 2.8(b), 2.8(c), 2.8(d) or 2.8(e) are remedied by the Contractor within the sixty (60) calendar day period following the notice of termination as aforesaid, or if before the expiry date of said sixty (60) calendar day period the Contractor has notified the Ministry and/or the State of its intention to submit the matter for arbitration in accordance with Section 13, then the State may not cancel this Contract upon the expiration of said sixty (60) calendar days.
- 2.10 If the circumstance or circumstances that would otherwise result in cancellation under Sections 2.8(a), 2.8(b), 2.8(c) or 2.8(e) are the result of Force Majeure, then the State may not cancel this Contract so long as Force Majeure continues and for such period thereafter as the Ministry and the Contractor may determine reasonable.
- 2.11 The termination or cancellation of this Contract, for whatever reason, shall be without prejudice to the obligations incurred and not discharged by either Party before the termination of this Contract.

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- 2.12 In the event of cancellation pursuant to Section 2.8, the Ministry may require the Contractor to continue Crude Oil or Natural Gas production activities for the account of the State under the terms of this Contract until the right to continue such production has been transferred to another Person. If the Contractor so continues, this Contract shall be deemed to remain in full force and effect including the Contractor's rights under Section 7 until the rights and obligations of Contractor under this Contract have been transferred to another Person.
- 2.13 Within ninety (90) calendar days after the termination of this Contract, unless the Parties have agreed to an extension of this period, the Contractor shall have the obligation to take any reasonably necessary action as directed by the Ministry, including the cessation or continuation of Petroleum Operations to prevent pollution, environmental damage or a hazard to human life or third-party property.
- 2.14 As regards operations of appraisal, development and/or production under this Contract and if the Contractor has notified the Ministry that in its opinion and in accordance with accepted international petroleum industry practice, technological know-how or adequate equipment or material are not economically available for the carrying out of said operations at a cost acceptable to the Contractor, then the term of this Contract and each of the periods prescribed hereunder shall be extended by a period of three (3) Years commencing on the expiry date of the Initial Exploration Period and of each of the extensions provided for in this Contract unless a longer extension period is mutually agreed in writing between the Parties.

Section 3

EXCLUSION OF AREAS

- 3.1 Subject to Section 3.3, on or before the end of the Second Subperiod, the Contractor shall surrender forty percent (40%) of the original Contract Area.
- 3.2 Subject to Section 3.3, on or before the end of the Third Subperiod, if the Contractor elects to extend the Initial Exploration Period pursuant to Section 2.1(c), the Contractor shall surrender an additional area equal to twenty-five percent (25%) of the original Contract Area.

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- 3.3 The Contractor shall not be obligated to surrender any portion of the original Contract Area which is included in an Area of Provisional Discovery or an Area of Commercial Discovery or a Field. The Contractor's surrender obligations under Section 3.1 and Section 3.2 shall apply to the area remaining after excluding from the original Contract Area the areas declared to be an Area of Provisional Discovery, an Area of Commercial Discovery and the area of a Field and, for the purpose of Section 3.2, areas previously surrendered by the Contractor pursuant to Section 3.1.
- 3.4 That portion of the Contract Area which is not included in an Area of Provisional Discovery, an Area of Commercial Discovery or an area of a Field which is remaining after the mandatory surrenders as set forth in this Section 3, shall remain subject to this Contract so long as an extension to the Initial Exploration Period granted under Section 2.1(c)(i), Section 2.1(c)(ii), Section 2.1(c)(iii) or Section 2.1(c)(vi) is in effect.
- 3.5 The Contractor may surrender any portion of the Contract Area, and such portion shall then be credited against that portion of the Contract Area which the Contractor is next required to surrender under the provisions of Sections 3.1 and 3.2.
- 3.6 The Contractor shall notify the Ministry prior to the date of surrender of the description and area to be surrendered. Each surrender shall be constituted of no more than two (2) areas of a simple geometrical shape delineated in degrees and minutes of longitude and latitude except where the boundaries of the contract Area or an area designated within the Contract Area will not permit such degrees and minutes.
- 3.7 The Contractor shall plug and abandon all Wells on the area to be surrendered in accordance with accepted international petroleum industry practices.
- 3.8 No surrender made in accordance with this Section 3 shall relieve the Contractor of the obligation to pay surface rentals accrued or of the obligation to make payments due and payable as a result of exploration and development activities conducted through the date of surrender.

Section 4

WORK PROGRAM AND EXPENDITURES

4.1 The Contractor shall be entitled to employ any person qualified in the judgment of the Contractor to undertake on its behalf such geological and geophysical surveys, drilling or similar investigations as it may decide to undertake. Any subcontractor retained by the Contractor shall have the necessary professional experience to perform the task to be assigned and shall be required, by written agreement with the Contractor, to abide by all relevant terms of this Contract and all applicable laws and regulations of The Republic of Equatorial Guinea. Within thirty (30) calendar days after a subcontractor is retained, the Contractor shall advise the Ministry of the name and address of such subcontractor.

4.2 The Contractor shall commence Petroleum Operations under this Contract not later than ninety (90) days after the Effective Date. The Contractor undertakes during the Initial Exploration Period to carry out the following minimum Work Program:

(a) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

(b) Drill at least one (1) exploratory Well during the Second Subperiod;

(c) Drill at least one (1) exploratory Well during the Third Subperiod;

If during any Subperiod or extension of the Initial Exploration Period the Contractor carries out work in excess of the minimum Work Program for that Subperiod or period of extension, then such excess work shall be offset against the Work Program for the next succeeding Subperiod or period of extension of the Initial Exploration Period.

4.3 In order to carry out the exploration obligations set forth in Section 4.2(b), Section 4.2(c) and Sections 2.1(c)(i), 2.1(c)(ii) and 2.1(c)(iii), the Contractor shall expend at least the following amounts:

(a) [REDACTED]
[REDACTED]
[REDACTED]



(b) [REDACTED]

(c) [REDACTED]

(d) If at the end of any Subperiod of the Initial Exploration Period or the end of an extension of the Initial Exploration Period under Section 2.1(c)(i), Section 2.1(c)(ii) or Section 2.1(c)(iii), the Contractor has performed its work commitments included in the minimum Work Program as provided in Section 4.2 and the amount expended by the Contractor is less than the sum specified for such period in this Section 4.3, the Contractor shall be deemed to have fulfilled its investment obligation relating to that period. If (i) at the end of any Subperiod of the Initial Exploration Period, (ii) at the end of any extension of the Initial Exploration Period, or (iii) upon the date of termination of this Contract, as the case may be, the Contractor has not expended a sum of money at least equal to the minimum expenditure for Petroleum Operations required under this Section 4.3 to be expended at the applicable time and has not performed the minimum Work Program as provided in Section 4.2 or in Sections 2.1(c)(i), 2.1(c)(ii) or 2.1(c)(iii), as the case may be, [REDACTED]

(e) Unless the Parties otherwise agree in writing, each Well to be drilled by Contractor that is a part of a minimum Work Program under this Contract shall be drilled to a depth not less than the depth for such Well set forth in the Work Program and Budget of Petroleum Operations Costs notwithstanding that the performance of such minimum Work Program may result in Contractor exceeding the expenditure amount set in Section 4.3 of such minimum Work Program;



Provided, a Well may be drilled to a lesser depth if the continuation of drilling in accordance with good international petroleum industry practice is prevented by (i) encountering basement, (ii) danger due to the existence of abnormal formation pressure, (iii) formations the hardness of which prevent the continuation of drilling or (iv) petroleum formations the drilling of which requires, for the protection of such formations, the setting of casing which will prevent the minimum depth from being reached.

4.4 Not less than ninety (90) calendar days prior to the beginning of each Calendar Year or at such other time as otherwise mutually agreed by the Parties, the Contractor shall prepare and submit for approval to the Ministry a Work Program and Budget of Petroleum Operations Costs for the Contract Area setting forth the Petroleum Operations the Contractor proposes to carry out during the ensuing Calendar Year. Approval by the Ministry of the proposed Work Program and Budget of Petroleum Operations Costs will not be unreasonably withheld or delayed and shall be notified to the Contractor not later than sixty (60) calendar days prior to the beginning of each Calendar Year. Failing such notification to the Contractor within said sixty (60) days, approval by the Ministry shall be deemed given at the end of said period.

4.5 [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

4.6 The Parties further recognize that in the event of an emergency or extraordinary circumstances requiring immediate action, either Party may take all actions it deems proper or advisable to protect its interests and those of its employees and any costs so incurred by the Contractor shall be included in the Petroleum Operations Costs. Costs incurred by the Contractor related to cleaning up pollution or damage shall be included in Petroleum Operations Costs to the extent such costs are not recovered by the Contractor by way of insurance settlement.



- 4.7 Within ninety (90) calendar days after the expiration of a Calendar Year, the Contractor shall submit to the Ministry detailed accounts showing the Petroleum Operations Costs the Contractor has incurred during the past Calendar Year. The accounts shall be certified by an independent outside accountant acceptable to both Parties. It is understood that the Ministry at its own cost retains the authority to review and audit occasionally the Contractor's books with respect to Petroleum Operations conducted hereunder. Such audit right will terminate two (2) Years after closure of the subject Year's accounts. Any exceptions to the Contractor's accounts must be officially communicated to the Contractor within three (3) Years of the closure of the subject Year's accounts.

Section 5

CONDUCT OF PETROLEUM OPERATIONS BY CONTRACTOR

- 5.1 The Contractor shall conduct the Petroleum Operations diligently and in accordance with accepted international petroleum industry practices designed to enable production of Crude Oil at the Maximum Efficient Rate or such other lower rate as may be agreed in writing with the Ministry and production of Natural Gas as specified in Section 6.3. The Contractor shall have the right to set with the agreement of the Ministry the minimum production level for any Field which the Contractor has developed or plans to develop giving due consideration to the economic factors involved in Field development and in accordance with this Section 5.1 and Sections 5.2 and 6.3. The Contractor shall ensure that all equipment, plant and installations used by the Contractor comply with generally accepted engineering norms and are of proper and accepted construction and are kept in optimal working order.
- 5.2 The Contractor shall in particular take all reasonable steps necessary:
- (a) to ensure that Crude Oil or Natural Gas discovered and produced within the Contract Area does not escape or is not in any other way wasted; except as specified in Section 5.3;
 - (b) to prevent damage to adjoining or adjacent Crude Oil or Natural Gas-bearing strata;

- (c) to prevent the unintentional entrance of water through Wells to Crude Oil or Natural Gas-bearing strata;
- (d) to prevent damage to adjoining or adjacent water bearing strata;
- (e) to conduct all Petroleum Operations under this Contract in accordance with applicable law and regulations and in a manner that does not conflict with obligations imposed on The Republic of Equatorial Guinea by international law;
- (f) to take necessary precautions for protection of navigation and fishing and to prevent pollution of the sea or rivers;
- (g) to indemnify, defend and save the State harmless against all claims, losses and damage of any nature whatever, including without limitation, claims for loss or damage to property or injury to persons caused by, or resulting from, any operation in the Contract Area conducted by or on behalf of the Contractor and any costs so incurred by the Contractor shall be included in the Petroleum Operations Costs less any costs recovered by the Contractor by way of insurance settlement; Provided, that the Contractor shall not be held responsible to the State under this subsection for any loss, claim, damage, or injury caused by, or resulting from any negligent action of personnel of the Ministry and/or the State; and
- (h) (i) to drill wells in accordance with good international petroleum industry practice and, (ii) to protect the interest of the State against the drainage of Hydrocarbons which may occur as a result of the production of Hydrocarbons by third parties from the portion of a reservoir of a Field which extends outside the Contract Area.

5.3 In the event the Contractor makes a Commercial Discovery of Natural Gas, the Contractor shall undertake a feasibility study to ascertain the possible commercial uses of such Natural Gas. All the costs and expenses in respect of such feasibility study shall be included in Petroleum Operations Costs. The Ministry shall approve flaring of Natural Gas as a necessary part of Crude Oil production in accordance with good international petroleum industry practice or when existing technical and financial circumstances require the flaring of Natural Gas. All amounts of Crude Oil and Natural


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Gas Liquids required by Article 15 of Decree Law 7/1981 to be sold to the State by the Contractor shall be priced in accordance with Section 8.2(a).

- 5.4 If the Ministry reasonably determines that any works or installations erected by the Contractor or any operations undertaken by the Contractor endanger persons or third-party property or cause pollution or harm marine life to an unacceptable degree, the Ministry will order the Contractor to take opportune remedial measures within a reasonable period established by the Ministry and to repair any damage to the environment. If the Ministry deems it necessary, it also will order the Contractor to discontinue the Petroleum Operations in whole or in part until the Contractor has taken such remedial measures or has repaired any damage.
- 5.5 To ensure that the Contractor shall meet its obligations to third parties or to State agencies that might arise in the event of damage or injury (including environmental damage or injury) caused by Petroleum Operations, notwithstanding the damage is accidental, the Contractor shall maintain in force a third-party liability insurance policy, the issue, coverage and terms of which are approved in writing by the Ministry prior to the Effective Date. To the extent such third-party liability insurance is unavailable, or is not obtained, or does not cover part or all of any claim or damage caused by or resulting from Petroleum Operations, the Contractor shall defend, indemnify and hold harmless the Ministry and the State except for loss, claim, damage or injury caused by, or resulting from, any negligent action of personnel of the Ministry and/or the State. Any costs so incurred by the Contractor shall be included in the Petroleum Operations Costs less any costs recovered by the Contractor by way of insurance settlement.
- 5.6 If, after the Effective Date, others are granted permits or licenses within the Contract Area concerning the exploration/production of any minerals or other substances other than Crude Oil or Natural Gas, the Contractor shall use its reasonable efforts to avoid obstruction or interference with such licensees' operations within the Contract Area. The Ministry shall use its best efforts to ensure that operations of third parties do not obstruct the Contractor's Petroleum Operations within the Contract Area.
- 5.7 The Contractor shall provide acceptable working conditions and living accommodations in accordance with generally accepted petroleum industry practice and access to medical

attention and nursing care for all personnel employed by it or its subcontractors in Petroleum Operations.

- 5.8 The Contractor's Well design and conduct of drilling, including but not limited to the Contractor's casing, cementing and drilling programs shall be in accordance with generally accepted petroleum industry practice.
- 5.9 Every Well shall be identified by a number, which number shall be shown on maps, plans and similar records that the Contractor is required to keep. The Ministry shall at once be notified of any change of the identification numbers.
- 5.10 No Well shall be drilled through any vertical boundary of the Contract Area without the consent of the Ministry. A directional Well drilled under the Contract Area from a surface location on nearby land not covered by the Contract shall be deemed to have the same effect for all purposes of the Contract as a Well drilled from a surface location on the Contract Area. In such circumstances and for purposes of this Contract, production of Crude Oil or Natural Gas from the Contract Area through a directional Well not drilled on the Contract Area, or drilling or reworking of any such directional Well, shall be considered production or drilling or reworking operations (as the case may be) on the Contract Area for all purposes of this Contract. Nothing contained in this Section 5.10 is intended or shall be construed as granting to the Contractor any leasehold interests, licenses, easements, or other rights which the Contractor may have to acquire lawfully under the Hydrocarbons Law or from the Ministry or third parties.
- 5.11 Before commencing any work on the drilling of any Well covered by a Work Program and Budget of Petroleum Operating Costs or recommencing work on any Well on which work has been discontinued for more than six (6) calendar months, the Contractor shall give the Ministry not less than seven (7) calendar days' written notice.
- 5.12 Before abandoning any producing or previously producing Field, the Contractor shall give not less than ninety (90) calendar days' notice to the Ministry of its intention to abandon. Upon receipt of such notice, the Ministry may elect at any time within the notice period to assume operation of the Well or Wells proposed for abandonment. Failure to so elect by notice to the Contractor in writing within the aforementioned period shall be deemed approval of the Contractor's proposal to abandon.




- 5.13 The Contractor shall securely plug any Well that it intends to abandon, and that the Ministry does not elect to operate in accordance with Section 5.12, to prevent pollution, subsea damage and possible damage to the deposit.
- 5.14 In the event the Contractor installs facilities or other structures or equipment outside the Contract Area but prior to the point of export of Hydrocarbons, such operation shall be deemed to be Petroleum Operations.

Section 6

RIGHTS AND OBLIGATIONS OF THE PARTIES AND DETERMINATION OF PRODUCTION LEVELS

- 6.1 Subject to the provisions of Sections 6.1(e) and 6.1(f) which shall apply to each Person constituting the Contractor, the Contractor shall:
- (a) advance all necessary funds and purchase or lease all material, equipment and supplies required to be purchased or leased in connection with the Petroleum Operations;
 - (b) furnish all technical aid, including foreign personnel, required for the performance of the Petroleum Operations;
 - (c) furnish all other funds for the performance of the Petroleum Operations as may be required, including payment to foreign entities that perform services as subcontractors;
 - (d) retain control of all leased property paid for with Foreign Exchange and brought into The Republic of Equatorial Guinea under the rules of temporary importation, and as such, shall be entitled to freely remove same from The Republic of Equatorial Guinea in accordance with the Law of Hydrocarbons;
 - (e) have the right to freely sell, assign, transfer, convey or otherwise dispose of any part or all of the rights and interest under this Contract to any Affiliated Company;
 - (f) have the right to sell, assign, transfer, convey or otherwise dispose of all or any part of its rights and interests under this Contract to Persons other than Affiliated

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Companies with the prior written consent of the Ministry which consent shall not be unreasonably withheld or delayed;

- (g) have the right at all times of ingress and egress from the Contract Area and any facilities used in the Petroleum Operations, wherever located;
- (h) jointly own with the Ministry all data resulting from Petroleum Operations;
- (i) submit in suitable form to the Ministry copies of all original geological, geophysical, drilling, Well, production and other data, reports, interpretations and maps, and cuttings of all samples that have been obtained or compiled during the term hereof;

(j) [REDACTED]

- (k) appoint an authorized representative for The Republic of Equatorial Guinea with respect to this Contract, who shall have an office in Malabo;



- (l) give preference to goods and services that are produced in The Republic of Equatorial Guinea or rendered by citizens of The Republic of Equatorial Guinea, provided such goods and services are offered at equally advantageous conditions with regard to quality, price, and immediate availability in the quantities required;
- (m) pay to the State the Income Tax imposed on it pursuant to the Tax Law;
- (n) pay to the State the Royalty imposed upon it pursuant to the terms and conditions of this Contract;
- (o) except as provided in Section 7.10, have the right during the term hereof to freely lift, dispose of and export its share of Crude Oil, and retain abroad the Foreign Exchange proceeds obtained therefrom;
- (p) have the right to make direct payments from its offices for the purchase of goods and services to be imported into Equatorial Guinea for Petroleum Operations carried out by the Contractor as well as for the needs related to Petroleum Operations of the Contractor's expatriate employees and foreign subcontractors;
- (q) have the right to borrow money outside of Equatorial Guinea and to open bank accounts in foreign currencies outside of Equatorial Guinea for the deposit of its sales and all other proceeds and to keep, utilize and freely dispose of funds deposited in such bank accounts; funds transferred by the Contractor between Equatorial Guinea and other countries shall not be subject to the charges on remittances abroad as provided in the Tax Law, and to the corresponding commissions excluding any transaction charges normally made by a bank not owned by the State that is handling a transfer of funds;
- (r) any subcontractor of the Contractor and any of the expatriate personnel of the Contractor or of any of its subcontractors, shall be entitled to receive in any currency other than Equatorial-Guinean currency the whole or any part of its compensation outside The Republic of Equatorial Guinea; and
- (s) have the right to trade or otherwise use all the data and information obtained in connection with the Petroleum Operations.

The provisions of Sections 6.1(p) and 6.1(q) shall also apply to Affiliates of the Contractor and to the Contractor's subcontractors whose place of business is located outside of Equatorial Guinea and who are not permanently established in Equatorial Guinea or do not have established residence in Equatorial Guinea for providing services to the Contractor as well as to Persons trading any Crude Oil produced from the Contract Area.

6.2 The Ministry shall:

- (a) except with respect to the Contractor's obligation to pay Income Tax as set forth in Section 6.1(m), assume and discharge all other taxes to which the Contractor and the Affiliates of each Person constituting the Contractor and the employees and consultants of each would otherwise be subject, including transfer tax, import and export duties on materials, equipment and supplies brought into The Republic of Equatorial Guinea by the Contractor, its contractors and subcontractors and the employees and consultants of each; and exactions in respect of property, capital, net worth, operations, remittances or transactions under the Tax Law whether payable by the Contractor or its subcontractors (whether exacted directly or by the requirement of stamp taxes on documents or the use of sealed paper), including any tax or levy on or in connection with operations performed hereunder by the Contractor and its subcontractors. The Ministry shall not be obliged to pay the Contractor's Royalty, Income Tax, nor taxes on tobaccos, liquor and personnel income tax; nor shall it be obliged to pay the Income Tax and other taxes not listed in the preceding sentence payable by the Contractor's subcontractors. The obligations of the Ministry hereunder shall be deemed to have been complied with by the delivery to the Contractor within one hundred twenty (120) calendar days after the end of each Calendar Year, of documentary proof in accordance with fiscal laws of The Republic of Equatorial Guinea that liability for the above mentioned taxes has been satisfied. Subject to the exceptions set forth in this Contract, the Contractor's subcontractors shall be individually liable to The Republic of Equatorial Guinea for the payment of their tax obligations;

- (b) otherwise assist and expedite the Contractor's execution of the Work Program by supplying or otherwise making available all necessary visas, work permits, import licenses, and rights of way and easements as may be required by the Contractor or its subcontractors and made available from the resources under the Ministry's control;
 - (c) have title jointly with the Contractor to all original data resulting from the Petroleum Operations including but not limited to geological, geophysical, petrophysical, engineering, Well logs, completion logs, status reports, samples and any other data that the Contractor may compile or obtain during the term hereof; Provided, however, that the Contractor may retain copies of such data and further provided that such data shall not be disclosed to third parties without the consent of the Contractor while this Contract remains in force. However, for the purpose of obtaining new offers, the Ministry may show any other Person geophysical and geological data with respect to that part or parts of the Contract Area adjacent to the area of such new offers;
 - (d) have the right at all reasonable times to inspect the Contractor's Petroleum Operations, Hydrocarbon measuring devices, logs, plans, maps, and records relating to Petroleum Operations and surveys or investigations on or with regard to the Contract Area. The Ministry shall make every effort to coordinate inspection activities to avoid interference with Petroleum Operations;
 - (e) provide the Contractor with State land for shore facilities free of charge if such land is available. Such land will remain in State's ownership; and
 - (f) furnish to Contractor all geological, geophysical, drilling, Well (including Well location maps), production and other information held or contractually or otherwise owned by the Ministry or by any other State agency or enterprise, or enterprise in which the State participates, relating to the Contract Area.
- 6.3 The Contractor shall produce Crude Oil from the Contract Area at the Maximum Efficient Rate or at such lower rate of production as may be mutually agreed upon in writing from time to time by the Contractor and the Ministry. The Contractor and the Ministry shall conduct a review of the Contractor's production programs prior to the

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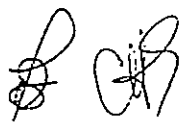
commencement of production from any Field and establish at that time by agreement the Maximum Efficient Rate or such other lower rate of production and the production rate for Natural Gas and the dates on which the Maximum Efficient Rate or lower rate of production and the production rate for Natural Gas will be reviewed and established in the future. In the case of Natural Gas, the production level shall not be less than that required to satisfy any contracts then in existence for the sale of Natural Gas or that are required by the Contractor in accordance with Section 5.1.

- 6.4 Because of the nature of Petroleum Operations and the long period between the Effective Date and the commencement of production of Hydrocarbons, a loss incurred during a Calendar Year shall be carried forward to subsequent Calendar Years until such loss has been completely utilized.

Section 7

RECOVERY OF OPERATING COSTS, SHARING OF PRODUCTION, AND HANDLING OF PRODUCTION

- 7.1 The respective production shares of the State and the Contractor of Hydrocarbons produced and saved shall be determined in accordance with the definitions and procedures set forth in this Section 7.
- 7.2 After making Royalty payments to the State, the Contractor shall be entitled to recover all Petroleum Operations Costs out of the sales proceeds or other disposition of Hydrocarbons produced and saved hereunder and not used in Petroleum Operations. Any Hydrocarbons remaining after making the Royalty payments to the State and after all Petroleum Operations Costs are recovered by the Contractor shall be referred to hereinafter as "Net Hydrocarbons." Net Hydrocarbons shall be shared between the State and the Contractor in accordance with the procedures outlined below, which are designed to ensure total cost recovery by the Contractor, followed by an escalation of the State's share based on increases in the Contractor's pre-tax rate of return, as set forth in the following tables:



(a) With respect to wellheads located in water depths less than two hundred (200) meters and production is from a reservoir all of which is located less than four thousand (4,000) meters below sea level:

██████████	██████████	██████████
██████████	██████████	██████████
██████████	██████████	██████████
██████████	██████████	██████████
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██████████	██████████	██████████

(b) With respect to wellheads located in water depths less than two hundred (200) meters and production is from a reservoir of which all or a portion thereof is located four thousand (4,000) meters or more below sea level:

██████████	██████████	██████████
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██████████	██████████	██████████
██████████	██████████	██████████

(c) With respect to wellheads located in water depths two hundred (200) meters or greater:

i = the percentage change for the Calendar Year in question in the index of U.S. Consumer prices as reported for the first time in the monthly publication "International Financial Statistics" of the International Monetary Fund.

(b) In any Calendar Year in which FSA(Y) is negative, the State's share of Net Hydrocarbons determined with reference to the First Share Account shall be zero.

(c) [REDACTED]

(d) In the first Calendar Year and in any Calendar Year immediately subsequent to a Calendar Year in which FSA(Y) is positive, for purposes

of applying the formula set forth in subsection (a) of this Section 7.4.1, FSA(Y-1) shall be equal to zero.

7.4.2 Second Share Account

(a) For purposes of the calculation to be made for the Second Share Account, the following formula shall be used:

$$\text{SSA}(Y) = \frac{\text{SSA}(Y-1) \times (1 + \frac{\text{NCF}}{\text{GAS I}} - i)}{1 + \frac{\text{NCF}}{\text{GAS I}} - i}$$

- Where:
- SSA = Second Share Account
 - Y = the Calendar Year in question
 - NCF = Net Cash Flow
 - GAS I = Value of State Share of Net Hydrocarbons determined with reference to the First Share Account
 - i = the percentage change for the Calendar Year in question in the index of U.S. consumer prices as reported for the first time in the monthly publication "International Financial Statistics" of the International Monetary Fund.

(b) In any Calendar Year in which SSA(Y) is negative, the State's share of Net Hydrocarbons determined with reference to the Second Share Account shall be zero.

(c) [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

(d) In the first Calendar Year and in any Calendar Year immediately subsequent to a Calendar Year in which SSA(Y) is positive, for purposes of applying the formula set forth in subsection (a) of this Section 7.4.2, SSA(Y-1) shall be equal to zero.

(7.4.3) Third Share Account

(a) For purposes of the calculation to be made for the Third Share Account, the following formula shall be used:

[REDACTED]

$$TSA(Y) = \frac{NCF(Y) - GAS I(Y) - GAS II(Y)}{1 + i}$$

- Where: TSA = Third Share Account
- Y = the Calendar Year in question
- NCF = Net Cash Flow
- GAS I = Value of State Share of Net Hydrocarbons determined with reference to the First Share Account
- GAS II = Value of State Share of Net Hydrocarbons determined with reference to the Second Share Account
- i = the percentage change for the Calendar Year in question in the index of U.S. consumer prices as reported for the first time in the

monthly publication "International Financial Statistics" of the International Monetary Fund.

(b) In any Calendar Year in which $TSA(Y)$ is negative, the State's share of Net Hydrocarbons determined with reference to the Third Share Account shall be zero.

(c) [REDACTED]

(d) In the first Calendar Year and in any Calendar Year immediately subsequent to a Calendar Year in which $TSA(Y)$ is positive, for purposes of applying the formula set forth in subsection (a) of this Section 7.4.3, $TSA(Y-1)$ shall be equal to zero.

7.4.4 Total State Share

The total State Share of Net Hydrocarbons in any Calendar Year shall be the sum of the State Share of Net Hydrocarbons determined with reference to the First

Share Account, the Second Share Account and the Third Share Account for such Calendar Year.

7.4.5 Conversion of Natural Gas

For the sole purpose of making the computation in Sections 7.4.1(c), 7.4.2(c) and 7.4.3(c) based upon the production of Hydrocarbons, the quantities of Natural Gas included in such total production shall be expressed as Barrels of Crude Oil by converting Natural Gas to Crude Oil using a formula under which six thousand cubic feet of Natural Gas measured at a temperature of 60°F and at an atmospheric pressure of 14.65 psi are deemed to equal one (1) Barrel of Crude Oil, unless otherwise agreed in writing by the Parties.

- 7.5 The Contractor, if so directed by the State, shall be obligated to market all Crude Oil produced and saved from the Contract Area subject to the provisions hereinafter set forth.
- 7.6 Except as provided in Section 7.10, the Contractor shall be entitled to take and receive and freely export the Contractor's Share of Hydrocarbons.
- 7.7 Title to the Contractor's Share of Hydrocarbons under this Section 7 shall pass to and absolutely rest in the Contractor at the Delivery Point.
- 7.8 If the State elects to take any of its share of Hydrocarbons in kind, it shall so notify the Contractor in writing not less than ninety (90) calendar days prior to the commencement of each Semester of each Calendar Year specifying the quantity that it elects to take in kind, such notice to be effective for the ensuing Semester of that Calendar Year (provided, however, that such election shall not interfere with the proper performance of any Crude Oil sales agreement for Crude Oil produced within the Contract Area that the Contractor has executed prior to the notice of such election). Failure to give such notice shall be conclusively deemed to evidence the election not to take in kind.
- 7.9 If the State is deemed to have elected under Section 7.8 not to take and receive in kind the State's share of Crude Oil, then the State may direct the Contractor to market or buy the State's share of production, whichever the Contractor shall elect to do; Provided, however, the price paid the State for its share of production shall be the proceeds received by the Contractor for the sale thereof less any expenses incurred to make such

sale. It is understood that expenses for selling Crude Oil will be shared by the State and the Contractor. If the Contractor acts as the State's selling agent, the Contractor will pay the State for production sold on the State's behalf promptly after receipt of payment from the purchaser of the State's production.

7.10 In addition to the State's production share in accordance with the terms of this Contract, the Contractor is obligated to sell to the State, if requested in writing, a portion of the Contractor's share of Net Crude Oil for the final internal consumption in The Republic of Equatorial Guinea in accordance with Article 15 of the Hydrocarbons Law. Net Crude Oil as used in this Section 7.10 means the portion of Net Hydrocarbons made up of Crude Oil. The price paid the Contractor for such portion of Crude Oil for final internal consumption in The Republic of Equatorial Guinea shall be the market price determined in accordance with Section 8. Detailed procedures governing sales contemplated in this Section 7.10 shall be established at a later stage by way of a separate general agreement between the Parties.

7.11 The Contractor and State shall endeavor to promote and develop a market for Natural Gas discovered in the Contract Area. Should a Natural Gas discovery be developed and exploited pursuant to Section 7.11(a), all sales of Natural Gas, excluding those covered in Section 5.3, shall be equivalent to Arm's-Length Third-Parties Sales. Natural Gas pricing will be agreed upon by Parties pursuant to Section 8.4, and revenues from such Natural Gas Sales will be included in Gross Receipts and divided between State and the Contractor in accordance with Section 7.4.

(a) In the event that the State and the Contractor consider a Natural Gas discovery is capable of being exploited commercially, the State and the Contractor shall, taking into account all pertinent operating and financial data, use all reasonable endeavors to reach agreement on the terms and conditions whereupon the Contractor will carry out development and exploitation operations on such discovery. The basis upon which such development and exploitation will be carried out, including the method of valuing and pricing Natural Gas shall be agreed between the State and the Contractor before the Contractor initiates the operations contemplated by the foregoing.

(b) In no case shall the Contractor be under the obligation to carry out appraisal operations of a Natural Gas Discovery.

7.12 In the event that the Contractor considers that the processing and utilization of Natural Gas is not economical, the State may choose to take and utilize such Natural Gas that would otherwise be flared, in accordance with the provisions of Section 8.4(b). All costs and risk of taking and handling will be for the sole account and risk of the State.

Section 8

VALUATION OF HYDROCARBONS

- 8.1 For the purposes of determining the quantity of the Contractor's Share of Hydrocarbons, such Hydrocarbons shall be valued at the net realized price f.o.b. Delivery Point determined as provided in this Section 8. The same market price, which reflects sale realizations, shall also be used in determining the Royalty and the Contractor's Income Tax.
- 8.2 Crude Oil sold in Arm's-Length Third-Parties Sales shall be valued as follows:
- (a) All Crude Oil taken by the Contractor, including its share and the share for the recovery of Petroleum Operations Costs, and sold in Arm's-Length Third-Parties Sales shall be valued at the net realized price f.o.b. Republic of Equatorial Guinea received by the Contractor for such Crude Oil.
 - (b) All of the State's Crude Oil taken by the Contractor and sold to third parties shall be valued at the net realized price f.o.b. Republic of Equatorial Guinea received by the Contractor for such Crude Oil.
- 8.3 Crude Oil sold other than in Arm's-Length Third-Parties Sales shall be valued as follows:
- (a) By using the weighted average per unit price received by the Contractor and the State in Arm's-Length Third-Parties Sales, net of commissions and brokerages

paid in relation to such Arm's-Length Third-Parties Sales, during the three (3) calendar months preceding such sale, adjusted as necessary for quality, grade and gravity, and taking into consideration any special circumstances with respect to such sales; and

- (b) If no Arm's-Length Third-Parties Sales have been made during such period of time, then on the basis used to value Crude Oil of similar quality, grade and gravity and taking into consideration any special circumstances with respect to sales of such similar Crude Oil.

8.4 Natural Gas shall be valued as follows:

- (a) Sales to Third Parties - Price of Natural Gas sold in Arm's-Length Third-Parties Sales shall be agreed upon by all Parties giving due consideration to economic, developmental and financial data as well as the intrinsic fuel value represented by the Natural Gas. Such Natural Gas shall be valued at the net realized price at the Delivery Point received by the Contractor for such Natural Gas.
- (b) The State may take at the Delivery Point any Natural Gas which would otherwise be flared using the following schedule and pricing:
 - (i) Royalty Natural Gas (already belonging to the State);
 - (ii) Natural Gas used for generation of electricity for municipal and residential usage, if available, can then be taken free of charge;
 - (iii) Natural Gas used for generation of electricity for industrial purposes and projects will be priced equal to fifty percent (50%) of the equivalent fuel oil value based on import price of fuel oil f.o.b. Equatorial Guinea, unless otherwise mutually agreed to by the Contractor and the State. The use of this Natural Gas, however, should not reduce or interfere with any higher priced Arm's-Length Third-Parties Sales. All Arm's-Length Third-Party Sales of Natural Gas will be conducted by the Contractor.

8.5 Commissions or brokerages incurred in connection with Arm's-Length Third-Parties Sales, if any, shall not exceed the customary and prevailing rate.

8.6 During any given Calendar Year, the handling of production (i.e., the implementation of the provisions of Section 7. and the proceeds thereof) shall be provisionally dealt with

on the basis of the relevant Work Program and Budget of Petroleum Operations Costs based upon estimates of quantities of Crude Oil to be produced, of internal consumption in The Republic of Equatorial Guinea, of marketing possibilities, of prices and other sale conditions as well as of any other relevant factors. Within sixty (60) calendar days after the end of said given Calendar Year, adjustments and cash settlements between the Parties shall be made on the basis of the actual quantities, amounts and prices involved, in order to comply with the provisions of this Contract.

8.7 In the event the Petroleum Operations involve the segregation of Crude Oils of different quality and/or grade and if the Parties do not otherwise mutually agree:

(a) any and all provisions of this Contract concerning valuation of Crude Oil shall separately apply to each segregated Crude Oil;

(b) each Crude Oil produced and segregated in a given Year shall contribute to:

(i) the "required quantity" destined in such Year to the recovery of all Petroleum Operations Costs pursuant to Section 7;

(ii) the "required quantity" of Crude Oil to which a Party is entitled in such Year pursuant to Section 7;

with quantities, each of which shall bear to the respective "required quantity" (referred to in (i) or (ii) above) the same proportion as the quantity of such Crude Oil produced and segregated in such given Year bears to the total quantity of Crude Oil produced in such Year from the Contract Area.

8.8 The Contractor shall give the Ministry notice as soon as reasonably possible after each sale by the Contractor of Crude Oil referred to in Section 8.2(a) and Section 8.2(b) excluding all sales of the Contractor's Share of Hydrocarbons.

8.9 The State may direct the Contractor to market all the Crude Oil produced and saved under this Contract in accordance with Section 7.5. Under Section 7.8 the State may elect to take a share of its Hydrocarbons in kind; and if the State is deemed under Section 7.8 to have elected to not take all of its Crude Oil in kind, the State, in accordance with Section 7.9, may direct the Contractor to market or buy that portion of the State's share of production that the State has not elected to take in kind. If the State directs the Contractor to dispose of all or any portion of the State's share of Crude Oil

under this Contract, the Contractor shall (i) advise the State of the price, terms and conditions of any Crude Oil sales agreement it is prepared to enter into covering the State's share of Crude Oil under this Contract and (ii) advise the State of the period of time during which the State may reply to the Contractor concerning such proposed Crude Oil sales agreement. Any sale of all or any part of the State's portion of Crude Oil shall not be for a term of more than one (1) Year without the State's written consent. During the period of time for reply specified by the Contractor, the State shall either agree that the State's Crude Oil is to be sold under the proposed sales agreement or it shall notify the Contractor that its share of Crude Oil is not to be sold under such price, terms and conditions and that the State will dispose of its share notwithstanding the prior notice under Section 7.9 that the Contractor should dispose of the State's share. A failure of the State to give notice to the Contractor within the stated time period shall be deemed to be an election by the State that the Contractor is to sell the State's share of Crude Oil under the notified price, terms and conditions.

Section 9

BONUSES AND SURFACE RENTALS

- 9.1 [REDACTED] shall pay the State the sum of One Hundred [REDACTED] as a signature bonus.
- 9.2 [REDACTED] and the second sixperiod and the Ministry grants to [REDACTED] the Contractor shall pay [REDACTED] of the second sixperiod the sum of One [REDACTED]
- 9.3 [REDACTED] with social and related projects in Equatorial Guinea to benefit the people of [REDACTED] shall spend One Hundred Thousand [REDACTED]

[REDACTED]

9.7 The Contractor shall pay to the State the following surface rentals:

(a) [REDACTED]

(b) [REDACTED]




[REDACTED]

(d) In the event the Contractor extends the Initial Exploration Period in accordance with Section 2.1(c)(i), Section 2.1(c)(ii) or Section 2.1(c)(iii); the provisions of Sections 9.7(b) and 9.7(c) shall apply mutatis mutandis to the calculation of surface rentals during any extension under Sections 2.1(c)(i), 2.1(c)(ii), or 2.1(c)(iii).

(e) The rentals payable in accordance with this Section 9.7 shall be payable until all the area covered by the Contract has been relinquished except for any Area of Provisional Discovery, Area of Commercial Discovery and area covered by a Field.

9.8

[REDACTED]



9.9

9.10 All payments required by this Section 9 shall be included in Petroleum Operations Costs, except those costs defined in Section 9.5 and 9.7.

Section 10

PAYMENTS

- 10.1 All payments that this Contract obligates the Contractor to make to the State shall be made to the Treasury of the State in United States Dollars currency, or at the Contractor's election, other currency acceptable to the State.
- 10.2 All payments due to the Contractor shall be made in United States Dollars currency, or at the State's election, other currencies acceptable to the Contractor, at a bank to be designated by the Contractor.
- 10.3 Unless otherwise specifically provided herein, any payments required to be made pursuant to this Contract shall be made within thirty (30) calendar days following the end of the month in which the obligation to make such payments occurs.

Section 11

TITLE TO EQUIPMENT

- 11.1 Fixed installations purchased by the Contractor or any of its subcontractors for use in Development and Production Operations will be the property of the State at the end of the term of this Contract and title thereto and risk thereof shall pass to and absolutely vest in the State at the end of the term of this Contract.
- 11.2 The provisions of Section 11.1 shall not apply to equipment of the Contractor which is not essential for the production of Hydrocarbons or any equipment which is leased or is owned or leased by the subcontractors of the Contractor. Said equipment may be freely exported from The Republic of Equatorial Guinea.
- 11.3 Notwithstanding anything to the contrary which may be contained or implied in this Article 11, the Contractor shall not less than three (3) Years prior to the anticipated date of any abandonment of a Field, submit a plan of abandonment of the area concerned. Such plan shall contain Contractor's estimate of the costs for such abandonment and the State and the Contractor shall meet and agree on such abandonment plan and estimated costs as well as the reserve account into which the money for estimated abandonment costs shall be deposited. Such account shall be established as an escrow account in a bank acceptable to the State and the Contractor. All funds deposited into the reserve account by the Contractor shall be in United States Dollars and shall be maintained in United States Dollars and shall be deemed to be Petroleum Operations Costs incurred during the Calendar Year in which the deposit was made. In the event the actual cost of abandonment is less than the reserve account balance, the remaining funds shall be



deemed to be income received in the Calendar Year during which abandonment was completed.

Section 12

UNIFICATION

- 12.1 (a) If a Field is designated within the Contract Area and such Field extends to other parts of The Republic of Equatorial Guinea in which other Persons have obtained a Contract for exploration and production of Crude Oil or Natural Gas, or in which another Contract has been granted to the Contractor, the Ministry may demand that the production of Crude Oil and/or Natural Gas be carried out in collaboration with the other the Contractors which own the interests in the other area.
- (b) If the Contractor discovers deposits of Crude Oil and/or Natural Gas within the Contract Area which are not economically recoverable but which may be declared commercially exploitable by the Contractor and other contractors of the State controlling areas in which other deposits have been found if the production includes those parts of the deposits which extend to areas controlled by such other contractors of the State, then the Ministry shall be entitled to request that the Contractor consult with such other contractors of the State with a view to determining in their sole discretion whether common production of Crude Oil and/or Natural Gas may be carried out.

- 12.2 If the Contractor and the other contractors of the State determine common commercial production may be carried out, the Contractor shall collaborate with the other contractors of the State in preparing a collective proposal for common commercial production of the deposits of Crude Oil and/or Natural Gas for approval by the Ministry.
- 12.3 If the proposal for common production has not been presented within the time period established, or if the Ministry does not approve that proposal, the Ministry may prepare or cause to be prepared for the account of the Persons involved, a plan for common production. If the Ministry adopts such plan, and the Contractor and other Persons involved reach agreement on such plan, the Contractor shall comply with all such conditions as agreed upon in such plan.
- 12.4 This Section 12 shall also be applicable to discoveries of deposits of Crude Oil or Natural Gas within the Contract Area that extend to areas that are not within the dominion of The Republic of Equatorial Guinea; Provided, that in those cases, the Ministry shall be empowered to impose the special rules and conditions which may be necessary to satisfy obligations under an agreement with international organizations or adjacent states, with respect to the production of such deposits of Crude Oil or Natural Gas.
- 12.5 Within one hundred eighty (180) calendar days following a request by the Ministry, the Contractor shall agree and proceed to operate under any cooperative or unitary plan for the development and operation of the area, Field or pool, or a part of the same, which includes areas covered by this Contract, which the Ministry deems feasible and necessary or advisable for purposes of conservation. If a clause of a cooperative or unitary development plan which has been approved by the Ministry and which by its terms

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affects the Contract Area or a part of the same, contradicts a clause of this Contract, the clause of the cooperative or unitary plan shall prevail.

Section 13

ARBITRATION

13.1 The Parties agree to submit any dispute, controversy, claim or difference arising out of or in connection with this Contract to arbitration under and in accordance with the Arbitration (Additional Facility) Rules in force on the Effective Date ("Facility Rules") of the International Center for Settlement of Investment Disputes ("Center"). As of the Effective Date, the State is not a Contracting State as that term is defined in the Convention on the Settlement of Investment Disputes between States and Nationals of Other States which entered into force on October 14, 1966 ("Convention"). Under this Contract, the Parties waive all exemptions with respect to arbitration and to all proceedings and actions that enforce the arbitral award, and the State hereby waives any right of sovereign immunity as to it and its property in respect of the enforcement and execution of any award rendered by an arbitral tribunal constituted pursuant to this Contract.

13.2 Each of the Parties agrees to and hereby gives its consent to the jurisdiction of the Center under Article 25 of the Convention in the event that the jurisdictional requirements "ratione personae" of this Article shall have been met at the time when arbitration proceedings are instituted under this Contract. In such event, the Parties agree to submit any dispute, controversy, claim or difference arising out of or in connection with this

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Contract to the Center in accordance with the Arbitration Rules in force on the Effective Date set forth by the Convention.

13.3 In the event of any dispute, controversy, claim or difference arising out of or in connection with this Contract, the Parties shall endeavor to settle such dispute amicably. If within thirty (30) days after a notice of such a dispute the Parties have not reached a settlement, the dispute shall at the request of either Party be referred to arbitration in accordance with this Section 13.

13.4 It is hereby agreed that the consent to the jurisdiction of the Center expressed above shall equally bind, any successor in interest to the present Government of The Republic of Equatorial Guinea and to the Contractor to the extent that the Center can assume jurisdiction over a dispute between such successor and the other Party.

13.5 It is hereby agreed that the right of the Contractor to request the settlement of a dispute by the Center or to take any step as a party to a proceeding pursuant to this Agreement shall not be affected by the fact that the Contractor has received partial compensation on the conditional or an absolute basis, from any third party (whether a private person, a state, a government agency or an international organization), with respect to any loss or injury that is the subject of the dispute; Provided, that The Republic of Equatorial Guinea may require evidence that such third party agrees to the exercise of those rights by the Contractor.

13.6 Any arbitral tribunal constituted pursuant to this Contract shall apply the law of The Republic of Equatorial Guinea and generally accepted principles of international law.

Such arbitral tribunal constituted pursuant to this Contract shall have the power to decide a dispute ex aequo et bono.

- 13.7 Any arbitration under this Section 13 shall be conducted by a tribunal constituted by three (3) arbitrators who shall not have the same nationality as the Parties. The arbitration shall be held in Geneva, Switzerland using the Spanish and English languages.

Section 14

BOOKS AND ACCOUNTS AND AUDITS

14.1 BOOKS AND ACCOUNTS

The Contractor shall be responsible for keeping complete books and accounts reflecting all Petroleum Operations Costs as well as monies received from the sale of Crude Oil and Natural Gas, consistent with modern petroleum industry practices and proceedings as described in Exhibit "C" attached hereto. Such books and accounts shall be maintained in United States Dollars. Should there be any inconsistency between the provisions of this Contract and the provisions of Exhibit "C", then the provisions of this Contract shall prevail.

14.2 AUDITS

The State shall have the right to inspect and audit the Contractor's books and accounts relating to this Contract in accordance with Section 4.7. In addition, the State may require the Contractor to engage the Contractor's independent accountants to examine, in accordance with generally accepted auditing standards, the Contractor's books and accounts relating to this Contract for any Calendar Year or perform such auditing

procedures as deemed appropriate by the State. A copy of the independent accountant's report or any exceptions shall be forwarded to the State within sixty (60) calendar days following the completion of such audit. Any costs incurred by the Contractor in complying with the provisions of this Section 14.2 shall be included in Petroleum Operations Costs.

Section 15

NOTICES

- 15.1 Any notices required or given by either Party to the other shall be deemed to have been delivered when properly acknowledged for receipt by the receiving Party. All such notices shall be addressed to:

The Ministry of Mines and Energy:

With Offices at: Malabo at the
Republic of Equatorial Guinea

Telephone #: 3405
Telex #: 9395405 EG
Facsimile #: 240-9-3353

The Contractor:

With Offices at: 1201 Louisiana, Suite 1400
Houston, Texas, U.S.A. 77002

Telephone #: (713) 654-9110
Facsimile #: (713) 653-5098

Either Party may substitute or change such address on written notice thereof to the other.

Section 16

LAWS AND REGULATIONS

16.1 For purposes of this Contract the laws of The Republic of Equatorial Guinea as existing and in force on the Effective Date of this Contract and generally accepted principles of international law shall govern this Contract.

Section 17

FORCE MAJEURE

17.1 Except as otherwise provided in this Section 17.1, each Party shall be excused from complying with the terms of this Contract, except for the payment of monies then due, if any, for so long as such compliance is hindered or prevented by riots, strikes, wars (declared or undeclared), insurrections, rebellions, terrorist acts, civil disturbances, dispositions or orders of governmental authority, whether such authority be actual or assumed, acts of God, inability to obtain labor, equipment, supplies or fuel, shortages of or delays in transportation or by act or cause that is reasonably beyond the control of such Party, such cases being herein sometimes called "Force Majeure." If any failure to comply is occasioned by a governmental law, rule, regulation, disposition or order of the Government of The Republic of Equatorial Guinea as aforesaid and the affected Party is operating in accordance with accepted international petroleum industry practice in the Contract Area and is making reasonable efforts to comply with such law, rule, regulation, disposition or order, the matter shall be deemed beyond the control of the affected Party except that the State cannot claim Force Majeure because of such act of the State. In the event that either Party hereto is rendered unable, wholly or in part, by any of these causes to carry out its obligations under this Contract, it is agreed that such Party shall give notice and details of Force Majeure in writing to the other Party within seven (7) calendar days after its occurrence. In such cases, the obligations of the Party giving the notice shall be suspended during the continuance of any inability so caused. Both parties shall do all things reasonably within their power to remove such cause.

Section 18

TEXT

- 18.1 This Contract embodies the entire agreement and understanding between the Contractor and the State relative to the subject matter hereof, and supersedes and replaces any provisions on the same subject in any other agreement, whether written or oral, between the Parties, made prior to the date of signature of this Contract.
- 18.2 This Contract is drawn up in the English and Spanish languages. If any question regarding the interpretation of the two texts arises, then the Spanish text shall prevail.

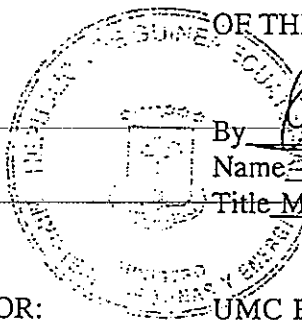
Section 19

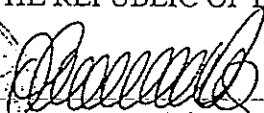
EFFECTIVENESS

- 19.1 This Contract shall come into effect on the Effective Date.
- 19.2 This Contract shall not be annulled, amended or modified in any respect, except by the mutual consent in writing of the Parties hereto.
- 19.3 The State shall promptly take all measures necessary to effect the approval of this Contract by an act having the force of law thereby providing that this Contract shall have force of law.

IN WITNESS WHEREOF, the Parties hereto have executed this Contract, in four (4) originals and in the English and Spanish languages, as of the day and year first above written.

THE MINISTRY OF MINES AND ENERGY
OF THE REPUBLIC OF EQUATORIAL GUINEA



By 
Name: Juan Oló Mbá Nseng
Title: Minister of Mines and Energy

THE CONTRACTOR: UMC EQUATORIAL GUINEA CORPORATION

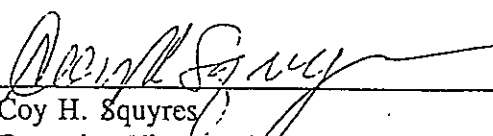
By 
Coy H. Squyres
Executive Vice President - International

EXHIBIT "A"

DESCRIPTION OF CONTRACT AREA "D"

	<u>Longitude</u>	<u>Latitude</u>
R1	8°28'28.8"	4°06'0.6"
R2	8°28'28.8"	3°58'21"
R3	8°26'58.8"	3°57'20.4"
R4	8°28'46.2"	3°54'33"
R5	8°34'57"	3°58'18"
R6	8°34'57"	3°50'00.6"
R7	8°26'9.6"	3°50'00.6"
R8	8°20'01.8"	3°54'39.6"
R9	8°17'15"	3°50'24"
R10	8°23'48.6"	3°45'00"
R11	8°15'00"	3°45'00"
R12	8°15'00"	3°59'24.6"
R13	8°16'02.4"	4°00'09"
R14	8°19'47.4"	4°03'10.8"
R15	8°20'16.8"	4°03'28.2"
R16	8°20'42.6"	4°03'40.2"



Exhibit "B"

Map of Contract Area

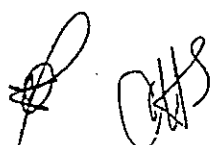
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Exhibit "C"

Attached to and made an integral part of the
Production Sharing Contract (the "Contract") between
THE STATE OF THE REPUBLIC OF EQUATORIAL GUINEA
ON THE ONE PART AND
UMC EQUATORIAL GUINEA CORPORATION, THE CONTRACTOR,
on the other part,
dated the 5th day of April, 1995

ACCOUNTING PROCEDURE

Section 1

General Provisions

1. Purpose

The accounting procedure herein provided for is to be followed and observed in the performance of either Party's obligations under the Contract to which this Exhibit is attached.

2. Accounts and Statements

The Contractor's accounting records and books will be kept in accordance with generally accepted and recognized accounting systems, consistent with accepted international petroleum industry practices and procedures. Books and reports will be maintained and prepared in accordance with methods established by the Ministry. The chart of accounts and related account definitions will be prescribed by the Ministry. Reports will be organized for the use of the Ministry in carrying out its management responsibilities under the Contract.

Section 2

Petroleum Operations Costs

1. Definition of Petroleum Operations Costs for Purposes of Recovery

For any Calendar Year in which commercial production occurs, Petroleum Operations Costs for recovery pursuant Section 7.2 of the Production Sharing Contract consist of:

- (a) current Calendar Year's non-capital costs,

- (b) current Calendar Year's capital costs,
- (c) interest as set forth in Section 3.3 below, and
- (d) all prior Year's unrecovered Petroleum Operations Costs.

2. Definition of Non-capital Costs

Non-capital costs means those Petroleum Operations Costs incurred that relate to current Calendar Year's operations. In addition to costs relating only to current operations, the cost of surveys and the intangible costs of drilling exploration and development Wells, as described in Sections 2(c), 2(d) and 2(e) below, will be classified as non-capital costs. Non-capital costs include, but are not limited to the following which may be incurred by the Contractor or with a third party or with an Affiliate of a party constituting Contractor:

- (a) Labor, materials and services used in day to day Crude Oil Well operations, Crude Oil Field production facilities operations, secondary recovery operations, storage, handling, transportation, and delivery operations, Natural Gas Well operations, Natural Gas Field production facilities operations, Natural Gas transportation, and delivery operations, Natural Gas processing auxiliaries and utilities, and other operating activities, including repairs and maintenance.
- (b) Office, services and general administration--General services including technical and related services, material services, transportation, rental of specialized and heavy engineering equipment, site rentals and other rentals of services and property, personnel expenses, public relations, and other expenses abroad.
- (c) Development and Production drilling--Labor, materials and services used in drilling Wells with the object of penetrating a proven reservoir, including the drilling of delineation Wells as well as re-drilling, deepening or re-completing Wells, and access roads, if any, leading directly to Wells.
- (d) Exploratory Drilling--Labor, materials and services used in the drilling of Wells; with the object of finding unproven reservoirs of Crude Oil and Natural Gas, and access roads, if any, leading directly to Wells.
- (e) Surveys--Labor, materials and services used in aerial, geological, topographical, geophysical and seismic surveys, and core hole drilling.



- (f) Other exploration expenditures--Auxiliary or temporary facilities having lives of one (1) year or less used in exploration and purchased geological and geophysical information.
- (g) The signature bonus payable under Section 9.1 of the Production Sharing Contract, the bonus in respect of the Second Subperiod payable under Section 9.2 of the Production Sharing Contract, the sums payable concerning social programs and travel outside Equatorial Guinea under Sections 9.3 and 9.4, respectively, of the Production Sharing Contract, the production bonuses payable under Section 9.6 of the Production Sharing Contract, and the payments payable under Section 9.8 of the Production Sharing Contract.

3. Definition of Capital Costs

Capital Costs means expenditures made for items that normally have a useful life beyond the Year incurred. Capital costs include, but are not limited to, the following which may be incurred with a third party or with an Affiliate of a party constituting the Contractor:

- (a) Construction utilities and auxiliaries--Work shops, power and water facilities, warehouses, and field roads other than the access roads mentioned in Sections 2(c) and 2(d) above. Cost of Crude Oil jetties and anchorages, treating plants and equipment, secondary recovery systems, gas plants and steam systems.
- (b) Construction housing and welfare--Housing, recreational facilities and other tangible property incidental to construction.
- (c) Production Facilities--Offshore platforms (including the costs of labor, fuel, hauling and supplies for both the offsite fabrication and onsite installation of platforms, and other construction costs in erecting platforms and installing submarine pipelines), wellhead equipment, subsurface lifting equipment, production tubing, sucker rods, surface pumps, flow lines, gathering equipment, delivery lines and storage facilities.
- (d) Movables--Surface and subsurface drilling and production tools, equipment and instruments, barges, floating craft, automotive equipment, aircraft, construction equipment, furniture and office equipment and miscellaneous equipment.

Section 3

Accounting Methods to be Used to Calculate Recovery of Petroleum Operations Costs and Income Taxes

1. Depreciation

Depreciation will be calculated from the Calendar Year in which the asset is placed into service, with a full Year's depreciation allowed the initial Calendar Year. Depreciation of capital costs only for purposes of Income Tax Calculation will be calculated over four (4) Calendar Years using the straight line method. The un-depreciated balance of assets taken out of service will not be charged to Petroleum Operations Costs but will continue to depreciate based upon the lives described above, except where such assets have been subjected to unanticipated destruction, for example, by fire or accident.

2. Overhead Allocation

General and administrative costs, other than direct charges, allocable to this operation should be determined by a detailed study, and the method determined by such study shall be applied each Calendar Year consistently. The method selected must be approved by the Ministry, and such approval can be reviewed periodically by the Ministry and the Contractor.

3. Interest Recovery

Interest on loans obtained by a Party from Affiliated or parent companies or from third-party non-Affiliates at rates not exceeding prevailing commercial rates for investments in Petroleum Operations may not be recoverable as Petroleum Operations Costs but may be deducted from income when calculating the Contractor's Income Tax liability.

4. Inventory Accounting

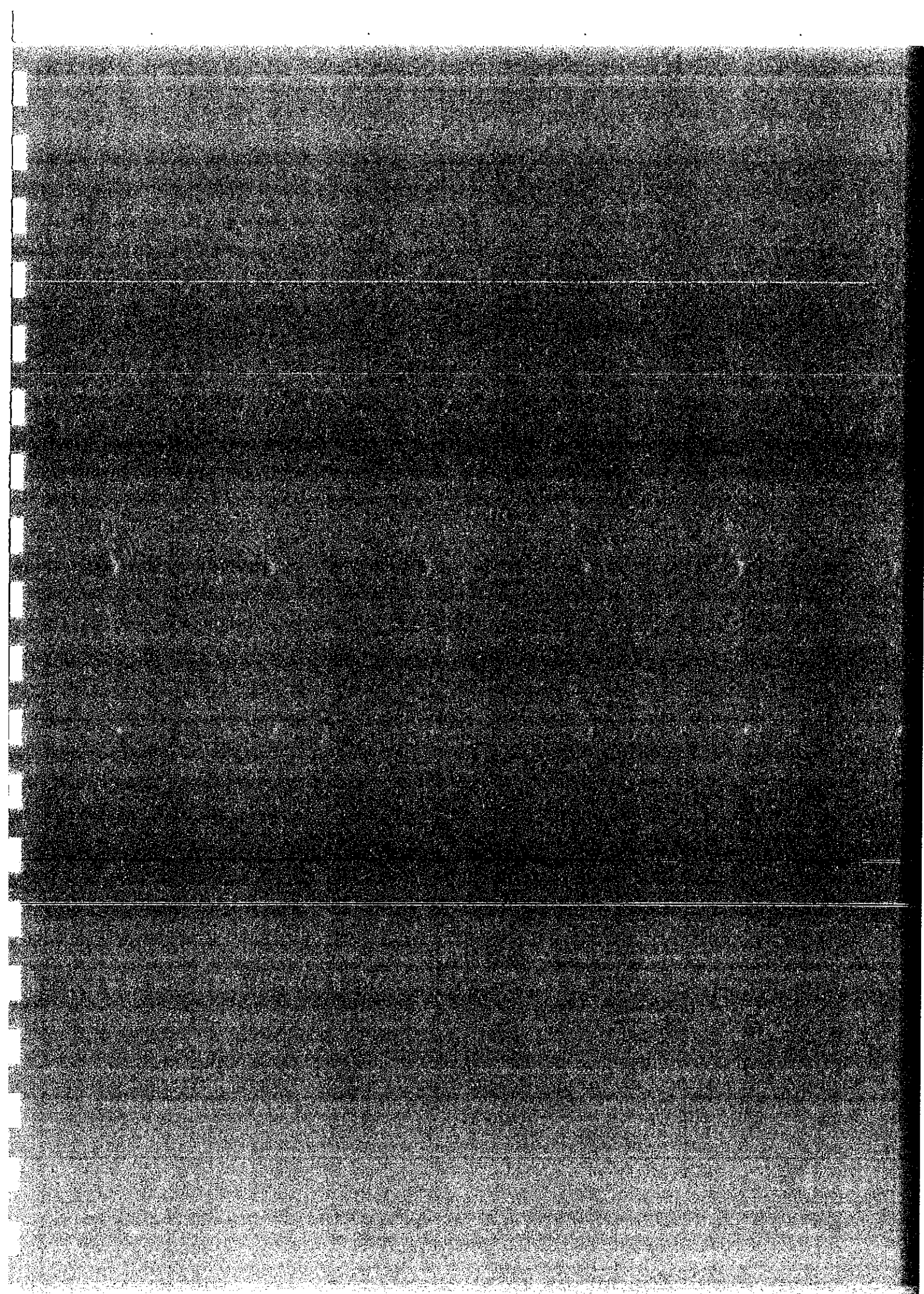
The costs of non-capital items purchased for inventory will be recoverable in the Calendar Year in which the items have been landed in The Republic of Equatorial Guinea.

5. Insurance and Claims


Petroleum Operations Costs shall include premiums paid for insurance normally required to be carried for the operations relating to the Contractor's obligations conducted under the Contract. All expenditures incurred and paid by the Contractor in settlement of any

and all losses, claims, damages, judgments, and other expenses, including monies relating to the Contractor's obligations under the Contract shall be included in Petroleum Operations Costs less any costs recovered by the Contractor by way of insurance settlement provided that such expenditures do not arise or result from the Contractor's proven gross negligence.

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**FIRST AMENDMENT TO
PRODUCTION SHARING CONTRACT
(AREA D - OFFSHORE BIOCO)**

 This First Amendment to Production Sharing Contract (this "Amendment") is made and entered into this 29 day of March, 1996 by and between The Republic of Equatorial Guinea (herein referred to as the "State"), represented for the purposes hereof by its Ministry of Mines and Energy (herein referred to as the "Ministry") on the one hand, and UMC Equatorial Guinea Corporation, a corporation organized and existing under the laws of the State of Delaware, U.S.A. (herein referred to as UMC), represented for the purposes hereof by Coy H. Squyres, its Executive Vice President - International and Yukong Limited, a corporation organized and existing under the laws of the Republic of Korea (herein referred to as "Yukong", represented for the purposes hereof by its authorized representative, on the other hand.

Recitals

A. The State and UMC heretofore entered into a Production Sharing Contract dated April 5, 1995 but having an effective date of April 17, 1995 covering the area described therein which is referred to as Area D - Offshore Bioco.

B. By letter dated August 24, 1995 the State, represented by the Ministry, accepted UMC's petition to acquire 120 kilometers of new 2-D seismic data and 1,000 kilometers of new 3-D seismic data in Area D in fulfillment of the First Subperiod minimum Work Program pursuant to Section 4.2(a) of the Contract.

 C. By an Assignment dated November 30, 1995 UMC assigned and undivided twenty-five percent (25%) of all of its rights, titles, interests and obligations in, to and under the Contract to Yukong, which Assignment was consented to by the Ministry as of that date. All of the interest of Contractor in the Contract is now owned and held by UMC, as to an

undivided seventy-five percent (75%) interest, and Yukong, as to an undivided twenty-five percent (25%) interest.

D. Pursuant to the request of the State, UMC, on behalf of itself and Yukong, has paid to the Ministry, on behalf of the State, Seventy-six Thousand Three Hundred Thirty-four United States Dollars (US \$76,334) for surface rentals under the Contract for the period from January 1, 1997 through December 31, 1997. In connection with such payment UMC and the Ministry agreed that certain amendments should be made to the Contract for the benefit of all Parties, and this Amendment sets forth the modifications to the Contract contemplated by the Parties.


E. Words or phrases defined in the Contract and used herein shall have the same meanings as set forth in the Contract unless the context otherwise provides.

Agreements

1. Section 3.1 of the Contract is amended in its entirety to read as follows:

3.1 The Contractor shall not be required to surrender any part of the original Contract Area prior to the end of the Third Subperiod.

2. The Ministry confirms that the seismic work referred to in Recital B above satisfies Contractor's obligations set forth in Section 4.2(a) of the Contract, and each Party acknowledges that the other has performed all obligations required to date in accordance with the terms of the Contract.



3. Except as amended hereby the Contract remains unchanged, and the parties acknowledge the Contract, as so amended, to be in full force and effect.

IN WITNESS WHEREOF, the Parties have executed this Amendment in three (3) originals in the English and Spanish languages as of the date first above written.

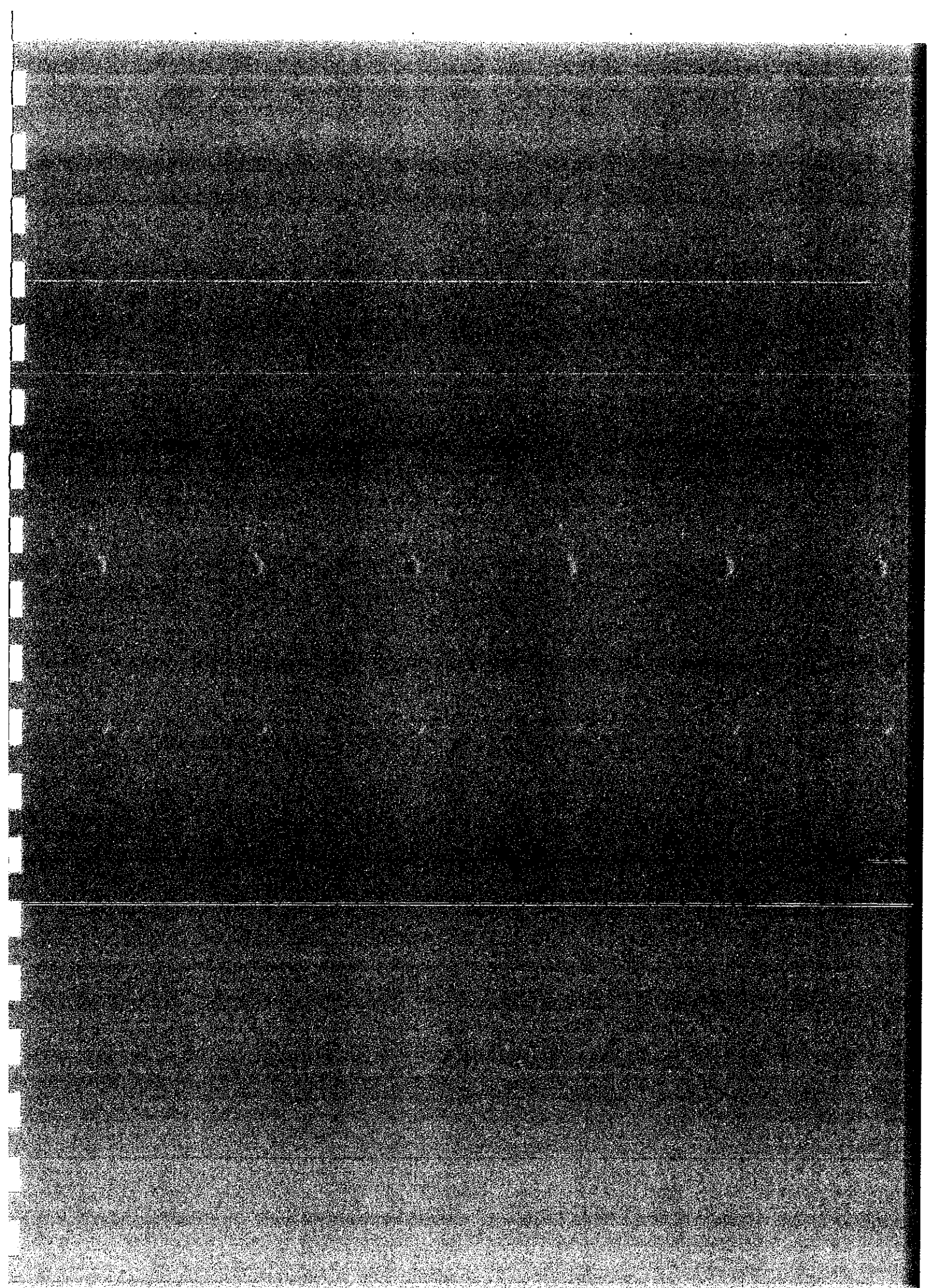
THE MINISTRY OF MINES AND ENERGY
ENERGY OF THE REPUBLIC OF
EQUATORIAL GUINEA



By: [Signature]
UMCE EQUATORIAL GUINEA
CORPORATION

By: [Signature]
YUKONG LIMITED

By: [Signature]



**SECOND AMENDMENT TO
PRODUCTION SHARING CONTRACT
(AREA D - OFFSHORE BIOCO)**

This Second Amendment to Production Sharing Contract (this "Amendment") is made and entered into this 28 day of November, 1998 between The Republic of Equatorial Guinea (herein referred to as the "State"), represented for the purposes hereof by the Ministry of Mines and Energy (herein referred to as the "Ministry") on the one hand, and Ocean Equatorial Guinea Corporation, a corporation organized and existing under the laws of the State of Delaware, U.S.A. (formerly known as UMC Equatorial Guinea Corporation, and herein referred to as "Ocean"), represented for the purposes hereof by Jim Smitherman, III, its President, and, SK Corporation, a corporation organized and existing under the laws of the Republic of Korea (formerly known as Yukong Limited, and herein referred to as "SK"), represented for the purposes hereof by its authorized representative, on the other hand.

Recitals

A. The State and UMC Equatorial Guinea Corporation entered into a Production Sharing Contract dated April 5, 1995 but having as an Effective Date of April 17, 1995, covering the area described therein which is referred to as Area D - Offshore Bioco. Such Production Sharing Contract has been amended by a First Amendment to Production Sharing Contract dated March 29, 1996. As amended, such Production Sharing Contract is herein referred to as the "Contract".

B. By various assignments, all of the interest of Contractor in the Contract is now owned and held by Ocean, as to an undivided seventy-five percent (75%) interest, and SK, as to an undivided twenty-five percent (25%) interest.



C. The State, represented by the Ministry, and Ocean and SK have agreed that the Contract be amended for the benefit of the Parties as set forth in this document.

D. Words or phrases defined in the Contract and used in this Amendment have the meanings set forth in the Contract, and the section numbers stated hereinafter correspond to those in the Contract immediately prior to the effective date of this Amendment, in each case unless the context clearly indicates to the contrary.

Agreements

1. Section 1 of the Contract is amended in the following respects:

(a) Section 1.2(o) is amended by the addition, after the words "in Section 4", of the following:

and includes, where the context permits, the work program contained in a Project-Specific Work Program and Budget as referred to in Section 4.8.

(b) Section 1.2(z) is amended to read as follows:

(z) Royalty means, for each Field, the right of the State over Crude Oil and Natural Gas produced, saved, sold and not utilized in Petroleum Operations in percentages calculated as a function of daily production rates as established in Section 7.2.1 of this Contract.

(c) Section 1.2(ad) is amended by deleting the reference to "Section 7.2" and replacing it with a reference to "Section 7.4.1".

(d) Section 1.2(am) is amended in its entirety to read as follows:

(am) Initial Exploration Period means the period of time commencing on the Effective Date of the Contract and ending at midnight local time, Malabo, Republic of Equatorial Guinea, on December 31, 2001, or such later date as such period may be extended to pursuant to Section 2.1(a) or Section 2.1(c).

(e) A new Section 1.2(as) is added to this Contract reading as follows:

(as) Project-Specific Work Program and Budget shall have the meaning ascribed thereto in Section 4.8.

(f) A new Section 1.2(at) is added to the Contract reading as follows:

(at) Uplift shall have the meaning ascribed thereto in Section 7.3.3.

2. Section 2 of the Contract is amended in the following respects:

(a) The last sentence of Section 2.1(a) is amended to read as follows:

The Third Subperiod shall commence with the termination of the Second Subperiod and end on December 31, 2001 and shall be called the "Third-Subperiod"; provided that for each well which Contractor drills in the Contract Area from and after October 15, 1998 the Initial Exploration Period and the Third Subperiod will be extended for an additional Year, up to a maximum extension to December 31, 2002.

(b) The existing Section 2.5 of the Contract is renumbered as Section 2.5.1, and two (2) new Sections, designated as Section 2.5.2 and Section 2.5.3, are added as follows:

2.5.2 For the purposes of Section 2.5.1 any new discovery which

- (a) is in pressure communication with any reservoir containing commercially produceable Hydrocarbons in the existing Field, or
- (b) can reasonably and in accordance with good oil field practice be produced from common production and processing facilities in the existing Field, provided that the limits of any potential Field be within five (5) kilometers of such facilities, or
- (c) is composed of reservoir of commercially produceable Hydrocarbons which under- or over-lie (when viewed from the vertical) any reservoir of commercially produceable Hydrocarbons in the existing Field,

will be considered part of the existing Field, and the boundaries of such Field will be adjusted accordingly. Subject to the terms of this Contract, all other discoveries will be considered new Fields.

2.5.3 Notwithstanding the provisions of Section 2.5.2, there shall not be established more than three (3) Fields in the Contract Area. Any commercial discovery made after three (3) Fields have been established will be treated as a part of one of the existing Fields, as Contractor may designate in accordance with good engineering practice and with the prior approval of the Ministry.

3. Section 4 of the Contract is amended in the following respects:

- (a) ~~The second sentence of Section 4.5 is deleted and replaced with the following sentence:~~

Contractor shall not be limited in this regard, provided that Contractor shall obtain the approval of the Ministry before any such over-expenditures in excess of twenty-five percent (25%) of the total amount of the applicable Work Program and Budget are included as Petroleum Operations Costs.

- (b) There is added to the Contract a new Section 4.8 reading as follows:

4.8 Notwithstanding the foregoing provisions of Section 4, if the Contractor anticipates that a project, which may consist of work of any nature, will exceed twelve (12) months duration and the Contractor wishes to have such project approved in its entirety, then the Contractor must in respect of such project submit for approval to the Ministry a project-specific work program and budget of Petroleum Operations Costs (herein referred to as a "Project-Specific Work Program and Budget"). Approval of a Project-Specific Work Program and Budget shall be deemed a firm approval and will be unaffected by any rejection by the State of an annual Work Program and Budget of Petroleum Costs submitted by the Contractor, as provided in Section 4.4. The Contractor shall provide a report annually to the State on expenditures incurred in relation to any such project and will respond in writing to any written comments that the State makes to the Contractor in relation to such report. If in any Year Contractor has not performed at least fifty (50%) of the work scheduled in the Project-Specific Work Program and Budget, the matter will be reviewed with the Ministry and the project will be subject to suspension.

4. Section 7 of the Contract is amended in the following respects:

(a) Sections 7.2, 7.3, 7.4, 7.4.1, 7.4.2, 7.4.3 and 7.4.4 are deleted in their entirety and replaced with the following (provided that these deletions shall not affect the validity of any acts of the Parties pursuant to the deleted provisions while they were in force):

7.2 Royalty

7.2.1 Contractor shall pay to the State as Royalty in respect of each Field in the Contract Area a percentage of gross Hydrocarbons produced, saved and sold and not otherwise utilized in Petroleum Operations from such Field in each Calendar Quarter. Such percentage shall be based on the daily average



quantity of such Hydrocarbons in accordance with the following schedule:

<u>Production Level</u>	<u>Royalty</u>
0 - 20,000 Barrels per day	12%
20,001 - 40,000 Barrels per day	13%
40,001 - 60,000 Barrels per day	14%
60,001 - 100,000 Barrels per day	15%
Over 100,000 Barrels per day	16%

The above scale shall be applied separately to each Field on an incremental basis (*i.e.*, each of the first 20,000 Barrels of production per day shall bear a Royalty of 12%, each of the next 20,000 Barrels of production per day shall bear a Royalty of 13%, etc.).

- 7.2.2 Contractor shall make an estimate for each Field of the Royalty level for each Calendar Quarter, based on expected production rates, liftings and other relevant factors; and Royalty shall be payable in respect of each lifting of Hydrocarbons during the Calendar Quarter based on the estimated percentage for the Field from which such Hydrocarbons were produced times the gross sales proceeds of such lifting. As soon as practicable following the end of a Calendar Quarter the Parties shall determine the actual Royalty percentage which should have been applied for each Field during such Calendar Quarter, and any overpayment or underpayment shall be corrected by increasing or decreasing the amount of the next Royalty payment(s) to occur.

7.3 Cost Recovery

- 7.3.1 After making Royalty Payments to the State Contractor shall be entitled to recover all Petroleum Operations Costs, as determined in accordance with the Accounting Procedure attached hereto as Exhibit "C", applicable to each Field out of seventy-five percent (75%) of the remaining sales proceeds or other disposition of Hydrocarbons produced and saved hereunder from such Field and not used in Petroleum Operations.
- 
- 

7.3.2 All Petroleum Operations Costs incurred directly in respect of a Field, including the costs of drilling operations within the area of the Field prior to the time it is established in accordance with the terms of this Contract, will be allocated to such Field. Petroleum Operations Costs not incurred directly in respect of a Field shall be allocated, and as additional Fields are established may be reallocated, among all Fields on an equitable basis.

7.3.3 On the last day of each Calendar Year from and after the Effective Date all Petroleum Operations Costs incurred under this Contract but not yet recovered shall be multiplied by nineteen percent (19%), and the calculated amount (the "Uplift") shall be added to and become a part of the Petroleum Operations Costs which Contractor is entitled to recover hereunder.

7.4 Net Hydrocarbons

7.4.1 Any Hydrocarbons which are produced and saved hereunder and are not used in Petroleum Operations and are remaining after making the Royalty payments and after allowing Contractor to recover Petroleum Operations Costs out of the seventy-five percent (75%), as set forth above, shall be referred to herein as "Net Hydrocarbons". Net Hydrocarbons shall be shared between the State and Contractor based on cumulative production in accordance with the following table:

<u>Cumulative Production</u> <u>(in millions of Barrels)</u>	<u>State's Share of</u> <u>Net Hydrocarbons</u>	<u>Contractor's Share of</u> <u>Net Hydrocarbons</u>
0 - 25	10%	90%
+25 - 50	12%	88%
+50 - 150	15%	85%
+150 - 300	25%	75%
+300 - 400	40%	60%
+400	50%	50%

The foregoing percentages shall be applied separately to each Field based on cumulative production from such Field.

- (b) Section 7.4.5 is amended by renumbering it to be Section 7.4.2 and by replacing the references therein to "Sections 7.4.1(c), 7.4.2(c) and 7.4.3(c)" with "Sections 7.2.1 and 7.4.1".

5. The first sentence of Section 8.6 is amended to read as follows:

During any Calendar Year the handling of production (i.e., the implementation of the provisions of Section 7) and the proceeds thereof shall be provisionally dealt with on the basis of the relevant Work Program and Budget of Petroleum Operations Costs and any relevant Project-Specific Work Program and Budget based upon estimates of quantities of Crude Oil to be produced, of internal consumption in The Republic of Equatorial Guinea, of Marketing possibilities, of prices and other sales conditions as well as of any other relevant factors.

6. Section 15 is deleted in its entirety and replaced with the following:

- 15.1 Any notices required or given by either Party to the other shall be deemed to have been delivered when properly acknowledged for receipt by the receiving Party. All such notices shall be addressed to:

The Ministry of Mines and Energy:

With Offices at: Malabo at the
Republic of Equatorial Guinea
Telephone #: (240) 93405
Telex #: 9395405 EG
Facsimile #: (240) 93353

The Contractor: Ocean Equatorial Guinea Corporation
With Offices at: 1201 Louisiana, Suite 1400
Houston, Texas 77002 U.S.A
Telephone #: (713) 420-1000
Facsimile #: (713) 420-1655

Either Party may substitute or change such address on written notice thereof to the other.

7. Exhibit "C" to the Original Contract, "Accounting Procedure", is amended in the following respects:

- (a) In Section 2, paragraph 1, the reference to "Section 7.2" is deleted and replaced with "Section 7.3".
- (b) In Section 2, the word "and" is deleted following paragraph 1(c), the word "and" is added following paragraph 1(d), and a new paragraph 1(e) is added reading "the Uplift".
- (c) The first two sentences of Section 3, paragraph 1, are deleted and the following substituted:

Depreciation will be calculated from the Calendar Year in which the asset is placed into service, with a full Year's depreciation allowed in the initial Calendar Year. Depreciation of capital costs only for purposes of Income Tax Calculations will be calculated over six (6) Calendar Years using the straight line method.

- (d) Three (3) new paragraphs numbered 6, 7 and 8 are added to Section 3 reading as follows:

6. ~~For Tax Law Purposes losses which Contractor may incur~~ in a Calendar Year for income tax purposes may be carried forward to offset taxable income in subsequent Calendar Years until such losses have been completely utilized, provided that no such loss may be carried forward more than fifteen (15) Years.

7. All tax deductions associated with costs born by Contractor shall be allocated to the Contractor that bears such costs in the proportions actually borne, without regard to whether such costs are recoverable Petroleum Operations Costs.


8. The Contractor will withhold income tax on personal income from residents and non-residents in the hydrocarbon sector as established in Decree Law Num 2/1997 and the Ministerial Order implementing such Decree Law.

8. Miscellaneous Provisions

- (a) This Amendment is binding on the Parties, with effect from October 15, 1998, at such time as it has been duly signed and delivered and approved by a resolution of the Supreme Court of the Republic of Equatorial Guinea and ratified by the Head of State of the Republic of Equatorial Guinea so as to become effective as a law of the Republic of Equatorial Guinea.
- (b) This Amendment is not to be annulled, amended or modified in any respect except by the mutual consent of the Parties.
- (c) Except as amended by this Amendment, the Contract remains in full force and effect.

IN WITNESS WHEREOF the Parties have signed this Amendment in eight (8) originals, four (4) in the Spanish language and four (4) in the English language on the date first set forth above.

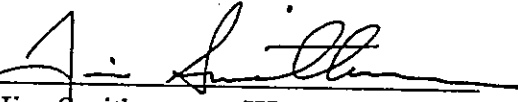
THE MINISTRY OF MINES AND
ENERGY OF THE REPUBLIC OF
EQUATORIAL GUINEA

By: 

Juan Olo Mba Nsong
Minister

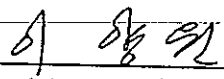


OCEAN EQUATORIAL GUINEA
CORPORATION

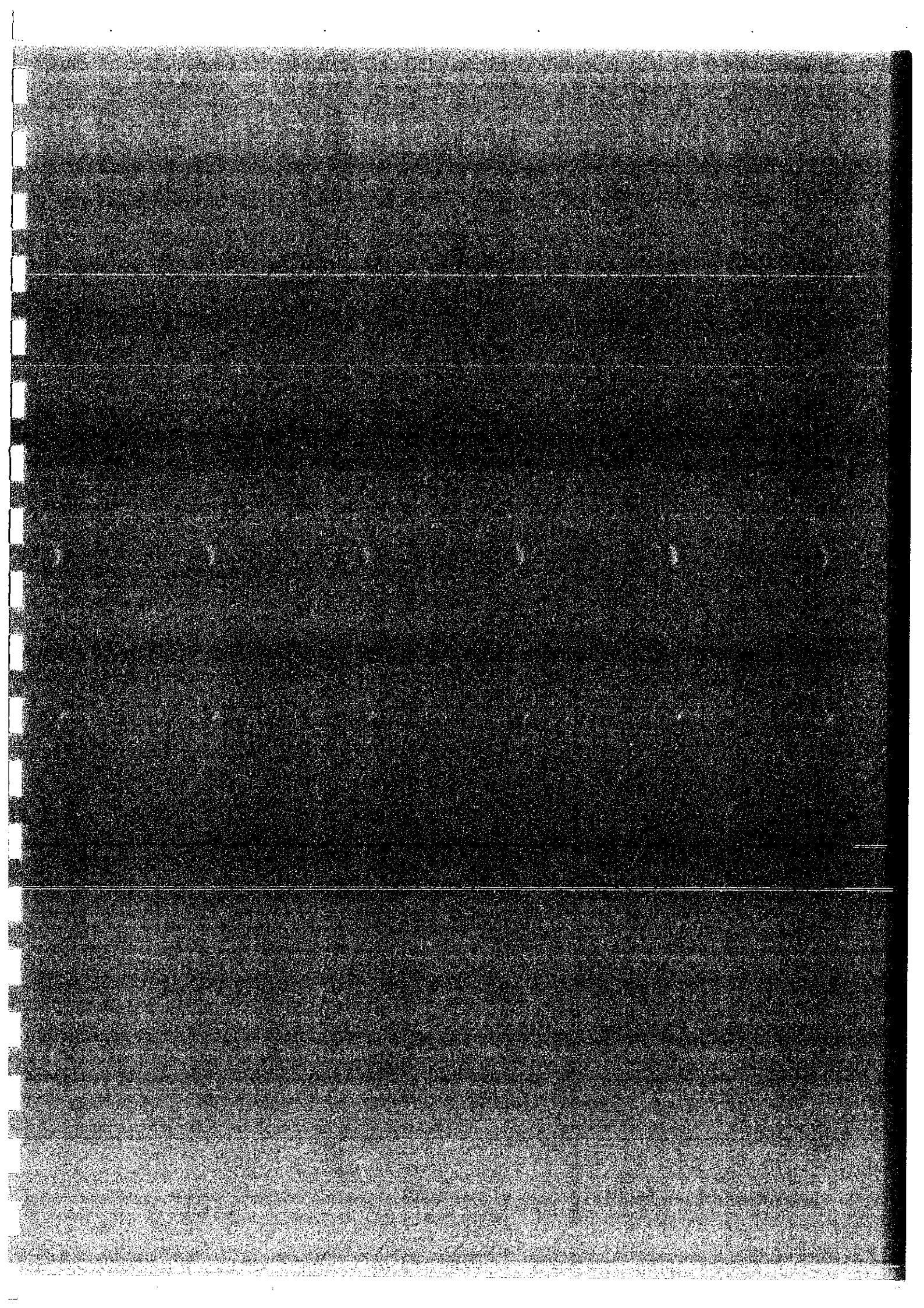
By: 

Jim Smitherman, III
President*

SK CORPORATION

By: 

Yang Won Lee



November 28, 1998

Side Letter to Amendment to
Production Sharing Contracts

Reference is made to the following:

- A. Production Sharing Contract dated August 18, 1992, but having an Effective Date of September 10, 1992, covering the area described therein which is referred to as Area A – Offshore NE Bioco, as heretofore amended and as further amended this date by a Fifth Amendment to Production Sharing Contract;
- B. Production Sharing Contract dated June 29, 1994, but having an Effective Date of November 30, 1995, covering the area described therein which is referred to as Area C – Offshore Bioco, as heretofore amended and as further amended this date by a Third Amendment to Production Sharing Contract; and
- C. Production Sharing Contract dated April 5, 1995, but having an Effective Date of April 17, 1995, covering the area described therein which is referred to as Area D – Offshore Bioco, as heretofore amended and as further amended this date by a Second Amendment to Production Sharing Contract.

By this letter, which is supplemental to the above-mentioned Production Sharing Contracts, as amended (the "PSC's"), the State and Ocean Equatorial Guinea Corporation ("Ocean"), as a Contractor in each of Contracts, hereby ratify, confirm and agree as follows:

1. Ocean will compute the taxes based on its net income on a country-wide basis, and will be subject to taxation in accordance with the Tax Law (as defined in the PSC's), as modified by the terms of the PSC's and this letter. It is the intent of the Parties that such obligations will not be changed by subsequent modifications of the Tax Law, including new or revised interpretations of its meaning, unless mutually agreed by the parties.
2. Until such time as production of Crude Oil commences on any of Blocks A, C or D the minimum income tax ("Minimum Tax") payable by Ocean in respect of any Calendar Year will be limited to a maximum amount equal to the CFA equivalent of U.S. \$50,000. After production of crude oil



commences on any of said Blocks the Minimum Tax payable by Ocean in respect of any Calendar Year will be increased to a maximum amount equal to the CFA equivalent of U.S. \$100,000. All amounts paid by Ocean as Minimum Tax shall be applied as an offset against such Ocean's future income tax liability in Equatorial Guinea. For each of the first five (5) Calendar Years in which Ocean has a positive income tax liability in Equatorial Guinea the amount of Minimum Tax payments which may be offset against income tax shall be limited to one-half (1/2) of Ocean's total income tax liability for the applicable Calendar Year. Thereafter, any remaining balance of Minimum Tax payments may be offset against all of Ocean's income tax liability for each Calendar Year.

3. Neither contractors nor subcontractors of Ocean shall have any obligation to pay Impuesto Sobre Cifra de Negocio Interior, or any other tax imposed on transactions that may be adopted in the future that would otherwise be imposed on transactions, which relate directly or indirectly to the conduct of petroleum operations.
4. Disputes arising among the Parties shall be resolved using the arbitration and choice of law provisions in Sections 13 and 16 of the PSC's.

Executed on the date first set forth above.

THE MINISTRY OF MINES AND
ENERGY OF THE REPUBLIC OF
EQUATORIAL GUINEA

By: 

Juan Olo Mbongo Nseng
Minister



OCEAN EQUATORIAL GUINEA
CORPORATION

By: 

Jim Smitherman, III
President

Handwritten initials



**THIRD AMENDMENT TO
PRODUCTION SHARING CONTRACT**

(AREA D – OFFSHORE BIOCO)

This Third Amendment to Production Sharing Contract (this “Amendment”) is made and entered into this 28th day of August, 2000 between The Republic of Equatorial Guinea (herein referred to as the “State”), represented for the purposes hereof by the Ministry of Mines and Energy (herein referred to as the “Ministry”) on the one hand, and Ocean Equatorial Guinea Corporation, a corporation organized and existing under the laws of the State of Delaware, U.S.A. (herein referred to as “Ocean”), represented for the purposes hereof by K. Earl Reynolds, its Sr. Vice President International Operations, and, SK Corporation, a corporation organized and existing under the laws of the Republic of Korea (herein referred to as “SK”), represented for the purposes hereof by its authorized representative, on the other hand.

Recitals

A. The State and Ocean (formerly known as UMC Equatorial Guinea Corporation) entered into a Production Sharing Contract dated April 5, 1995 but having an Effective Date of April 17, 1995, covering the area described therein which is referred to as Area D – Offshore Bioco. Such Production Sharing Contract has been amended by a First Amendment to Production Sharing Contract dated March 29, 1996 and a Second Amendment to Production Sharing Contract dated effective November 28, 1998.

B. By various assignments, on the date of this Amendment, all of the interest of Contractor in the Contract is owned and held by Ocean, as to an undivided seventy point five percent (70.5%) interest, SK, as to an undivided twenty-three point five percent (23.5%) interest, and the State as to an undivided six percent (6%) interest.

C. The Parties acknowledge that some improper co-ordinates (latitude and longitude) were used in describing the Contract Area in Exhibit “A” (Description of Contract Area “D”) and Exhibit “B” (Map of Contract Area “D”) of the Contract.

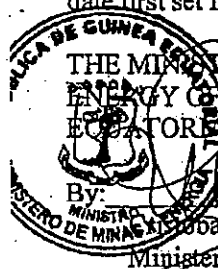
D. The State, represented by the Ministry, Ocean and SK have agreed that the Contract be amended for the benefit of the Parties as set forth in this document.

E. Words or phrases defined in the Contract and used in this Amendment have the meanings set forth in the Contract, and the section numbers stated hereinafter correspond to those in the Contract immediately prior to the effective date of this Amendment, in each case unless the context clearly indicates to the contrary.

Agreements

1. Exhibit "A" (Description of Contract Area "D") and Exhibit "B" (Map of Contract Area "D"), of the Contract are hereby replaced with the Exhibit "A" and Exhibit "B" attached hereto.
2. Miscellaneous Provisions
 - (a) This amendment is binding on the Parties, with effect from April 17, 1995.
 - (b) This Amendment is not to be annulled, amended or modified in any respect except by the mutual consent of the Parties.
 - (c) The Parties hereby ratify that the Contract, as amended, is binding and enforceable in accordance with its provisions and shall continue in full force and effect.
 - (d) Notwithstanding anything to the contrary in any other law in force in the country at any time, whether before or after the date hereof, the Ministry confirms that it has the power and authority and is duly empowered and authorized on behalf of the State, to execute this Amendment, to modify the terms of the Contract and to take all such other actions as are required to implement the terms of this Amendment.

IN WITNESS WHEREOF the Parties have signed this Amendment in eight (8) originals, four (4) in the Spanish language and four (4) in the English language on the date first set forth above.


THE MINISTRY OF MINES AND
ENERGY OF THE REPUBLIC OF
EQUATORIAL GUINEA
By: Mañana Ela Nchama
Minister

OCEAN EQUATORIAL GUINEA
CORPORATION

By: K. Earl Reynolds
K. Earl Reynolds
Sr. Vice President International Operations

SK CORPORATION

By: Y. W. Lee
Y. W. Lee
Attorney-in-Fact

EXHIBIT "A"

DESCRIPTION OF CONTRACT AREA "D"

Longitude	Latitude	"X" Coordinate	"Y" Coordinate
A = 8°29'00.00" E	International Boundary	X=1109531.258	Y=International Boundary
B = 8°29'00.00" E	3°58'42.00" N	X=1109625.793	Y=441761.043
C = 8°26'58.00" E	3°57'20.00" N	X=1105863.392	Y=439206.804
D = 8°28'47.00" E	3°54'28.00" N	X=1109274.778	Y=433923.779
E = 8°34'00.00" E	3°57'53.00" N	X=1118929.764	Y=440311.801
F = 8°34'00.00" E	3°50'00.00" N	X=1119026.475	Y=425720.069
G = 8°27'00.00" E	3°50'00.00" N	X=1106013.290	Y=425636.166
H = 8°20'00.00" E	3°55'00.00" N	X=1092944.258	Y=434805.278
I = 8°17'00.00" E	3°50'00.00" N	X=1087427.386	Y=425519.433
J = 8°25'00.00" E	3°45'00.00" N	X=1102353.723	Y=416360.052
K = 8°15'00.00" E	3°45'00.00" N	X=1083767.018	Y=416246.562
L = 8°15'00.00" E	International Boundary	X=1083594.083	Y=International Boundary

Please note that the northern boundary of Contract Area "D" between point "L" and "A" is contiguous with the offshore international boundary between the Republics of Nigeria, Cameroon and Equatorial Guinea.

Projection: UTM
 Zone: 31
 Spheroid: WGS 1984
 Central Meridian: 3 Degrees East
 Units: Meters

JYC

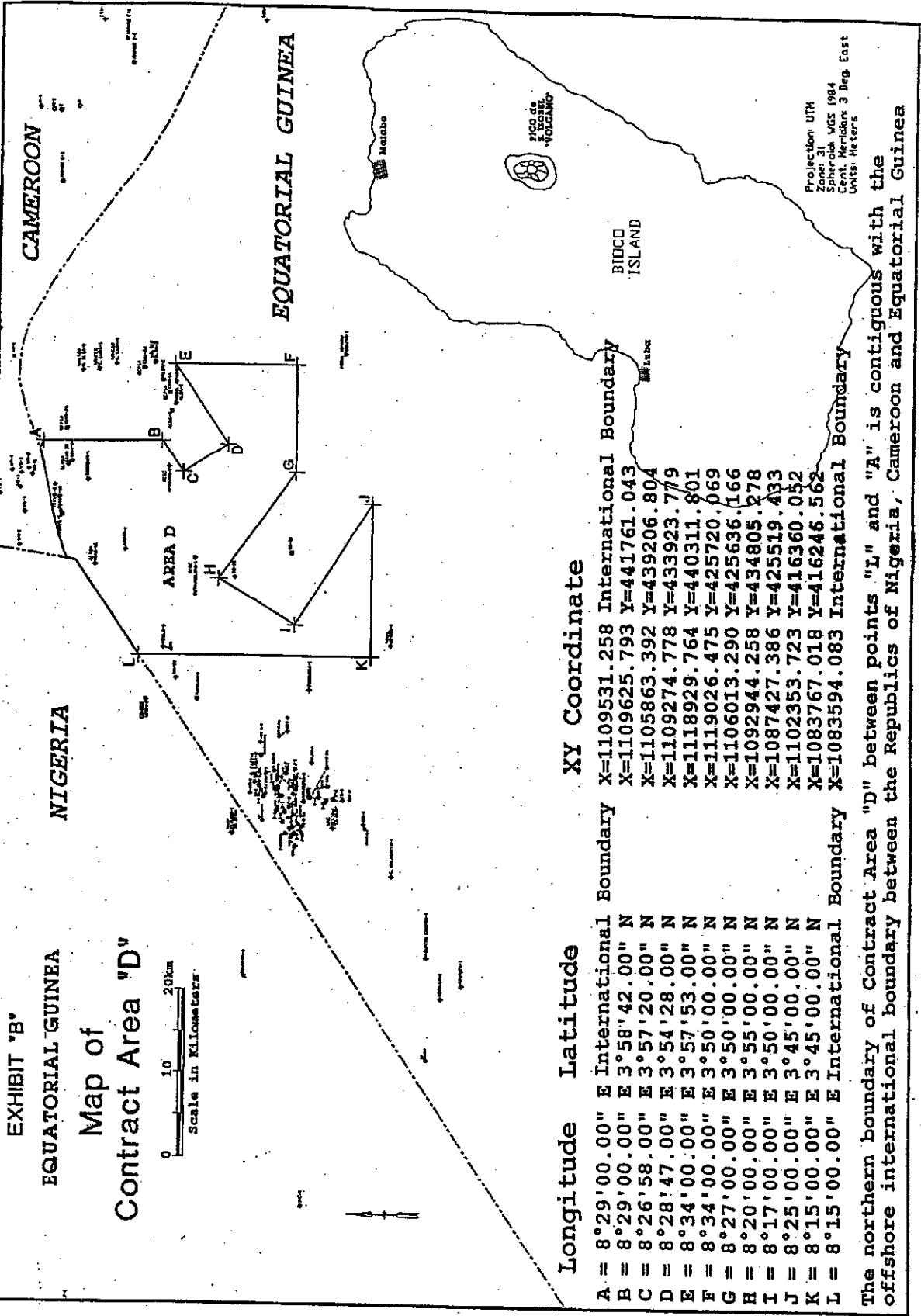


EXHIBIT "B"

EQUATORIAL GUINEA

NIGERIA

Map of Contract Area "D"

0 10 20 km
Scale in Kilometers

Longitude Latitude

XY Coordinate

A = 8°29'00.00" E	International Boundary	X=1109531.258	Y=441761.043
B = 8°29'00.00" E	International Boundary	X=1109625.793	Y=441761.043
C = 8°26'58.00" E	International Boundary	X=1105863.392	Y=439206.804
D = 8°28'47.00" E	International Boundary	X=1109274.778	Y=433923.779
E = 8°34'00.00" E	International Boundary	X=1118929.764	Y=440311.801
F = 8°34'00.00" E	International Boundary	X=1119026.475	Y=425720.069
G = 8°27'00.00" E	International Boundary	X=1106013.290	Y=425636.166
H = 8°20'00.00" E	International Boundary	X=1092944.258	Y=434805.278
I = 8°17'00.00" E	International Boundary	X=1087427.386	Y=425519.433
J = 8°25'00.00" E	International Boundary	X=1102353.723	Y=416360.052
K = 8°15'00.00" E	International Boundary	X=1083767.018	Y=416246.562
L = 8°15'00.00" E	International Boundary	X=1083594.083	Y=416246.562

The northern boundary of Contract Area "D" between points "L" and "A" is contiguous with the offshore international boundary between the Republics of Nigeria, Cameroon and Equatorial Guinea

Projection: UTM
Zone: 31
Spheroid: WGS 1984
Cent. Meridian: 3 Deg. East
Units: Meters

AMENDMENT
TO
PRODUCTION SHARING CONTRACT
BLOCK D – REPUBLIC OF EQUATORIAL GUINEA
BETWEEN
THE REPUBLIC OF EQUATORIAL GUINEA
AND
MARATHON E.G. PRODUCTION LIMITED
MARATHON E.G. INTERNATIONAL LIMITED
SK CORPORATION

This Amendment Agreement (the “**Amendment**”) is made and entered into this the _____ day of _____, 2003, by and between **The Republic of Equatorial Guinea** (the “**State**”), represented for the purposes hereof by its **Ministry of Mines and Energy** (herein referred to the “**Ministry**”), **Marathon E.G. Production Limited**, a corporation organized and existing under the laws of the Cayman Islands (herein referred to as “**Marathon**”), represented for the purposes hereof by Max Birley, its Vice President, **Marathon E.G. International Limited**, formally known as Globex International, a corporation organized and existing under the laws of the Cayman Islands (herein referred to as “**MEGI**”), represented for the purposes hereof by Steven P. Guidry, its Vice President, and **SK Corporation**, a corporation organized and existing under the laws of the Republic of Korea (herein referred to as “**SK**”), represented for the purposes hereof by Y. W. Lee, its Agent and Attorney-in-Fact.

Recitals

WHEREAS, the State and UMC Equatorial Guinea Corporation heretofore entered into a Production Sharing Contract dated April 5, 1995, but having an effective date of April 17, 1995, covering the area described therein referred to as Area D – Offshore Bioco. Such Production Sharing Contract has been amended by a First Amendment to Production Sharing Contract dated March 29, 1996, and by a Second Amendment to Production Sharing Contract dated November 28, 1998, and by a Third Amendment to Production Sharing Contract dated August 28, 2000, and by a Fourth Amendment to Production Sharing Contract dated August 26, 2002. As amended, such Production Sharing Contract is herein referred to as the “**Contract**”.

WHEREAS, by various assignments, all of the interest of Contractor in the Contract is now owned and held by Marathon as to an undivided seventy-five and two-tenths percent (75.2%) interest; MEGI as to an undivided nine and four-tenths percent (9.4%) interest; SK as to an undivided nine and four-tenths percent (9.4%) interest; and the State as to an undivided six percent (6%) interest.

WHEREAS, the Parties wish to amend the PSC to provide for optional extensions to the term to conduct Exploration Operations and to implement certain provisions of that certain Memorandum of Understanding ("MOU") dated April 15, 2003, between Marathon and Compania Nacional de Petroleos de Guinea Ecuatorial ("GEPetrol").

Agreements

Article 1 Definitions

Capitalized terms used in this Amendment shall have meanings as follows:

JOA means the Joint Operating Agreement between Ocean and SK effective as of January 1, 1996, as amended by First Amendment to Joint Operating Agreement dated November 28, 1998 between Ocean, SK and the State and the Second Amendment to Joint Operating Agreement dated August 28, 2000, between Ocean, SK, the State and CMS Oil and Gas (E.G.) Ltd.

Parties shall mean the State, Marathon, MEGI and SK collectively.

All other terms specifically defined in the Contract and not defined herein shall have the meanings assigned to them in the Contract unless the context clearly requires otherwise.

Article 2 Extension of Term to Conduct Exploration Operations

The text contained in Section 2.1(c)(ii) of the Contract shall be deemed deleted and the following numbering and text substituted in its place:

- (aa) If the Contractor has elected under Section 2.1(c)(i) to extend the Initial Exploration Period for one (1) Year and has drilled at least one (1) exploratory Well in accordance with said Section, the Contractor may extend the Initial Exploration Period for a second Year commencing with the termination of the one (1) Year extension granted in accordance with Section 2.1(c)(i) upon filing an application for extension with the Ministry not less than thirty (30) days prior to the termination of the one (1) Year extension granted under Section 2.1(c)(i) and agreeing to drill at least one (1) exploratory Well during such second extension in a portion of the Contract Area.

- (bb) If the Contractor has elected under Section 2.1(c)(ii)(aa) to extend the Initial Exploration Period for one (1) Year and has drilled at least one (1) exploratory Well in accordance with said Section, the Contractor may extend the Initial Exploration Period for a term of two (2) Years commencing with the termination of the one (1) Year extension granted in accordance with Section 2.1(c)(ii)(aa) upon filing an application for extension with the Ministry not less than thirty (30) days prior to the termination of the one (1) Year extension granted under Section 2.1(c)(ii)(aa) and agreeing to drill at least one (1) exploratory Well during such third extension in a portion of the Contract Area.
- (cc) If the Contractor has elected under Section 2.1(c)(ii)(bb) to extend the Initial Exploration Period for an additional term of two (2) Years and has drilled at least one (1) exploratory Well in accordance with said Section, the Contractor may extend the Initial Exploration Period for a term of one (1) Year commencing with the termination of the two (2) Year extension granted in accordance with Section 2.1(c)(ii)(bb) upon filing an application for extension with the Ministry not less than thirty (30) days prior to the termination of the two (2) Year extension granted under Section 2.1(c)(ii)(bb) and agreeing to drill at least one (1) exploratory Well during such fourth extension in a portion of the Contract Area.

Article 3 Miscellaneous Provisions

- 3.1 This Amendment shall become binding on the Parties at such time as the Ministry shall give its consent hereto as required by the Contract.
- 3.2 Each of the Parties shall do all such acts and execute and deliver all such documents as shall be reasonably required in order to fully perform and carry out this Amendment.
- 3.3 This Amendment constitutes the entire agreement among the Parties hereto with respect to the subject matter hereof and may not be amended or modified except by written instrument signed by or on behalf of all of such Parties. In the event of any conflict, express or implied, between the provisions of this Amendment and those of the JOA or Contract, the provisions of this Amendment shall govern.
- 3.4 This Amendment shall be signed in ten (10) originals, five (5) in the Spanish language and five (5) in the English language. If any question regarding the interpretation of the two texts arises, then the Spanish text shall prevail.

IN WITNESS WHEREOF the Parties have executed this Amendment on the date first set forth above.

THE MINISTRY OF MINES AND
ENERGY OF THE REPUBLIC OF
EQUATORIAL GUINEA

By: _____
Cristobal Manana Ela
Minister

MARATHON E.G. PETROLEUM LIMITED

By: _____
Max Birley
Vice President

SK CORPORATION

By: _____
Y. W. Lee
Agent and Attorney-in-Fact

Marathon E.G. International Limited

By: _____
Steven P. Guidry
Vice President

MEMORANDUM OF UNDERSTANDING

**Regarding
the Assignment of Ocean's Relinquished Working Interest in the
Block D Production Sharing Contract**

This Memorandum of Understanding ("MOU") dated 15th April 2003 is between Compania Nacional de Petroleos de Guinea Ecuatorial, ("GEPetrol") and Marathon EG Production Limited ("MOC").

WHEREAS in accordance with the procedures specified in the Block D Joint Operating Agreement ("JOA") Ocean Equatorial Guinea Corporation has withdrawn from its participation in the Block D Production Sharing Contract ("PSC");

WHEREAS SK Corporation and Globex International do not want to increase their respective Participating Interests in the PSC;

WHEREAS MOC intends to take on the rights and obligations of the Participation Interest surrendered by Ocean; and

WHEREAS Marathon and GEPetrol wish to define the terms under which a Participation Interest will be assigned to GEPetrol;

The intent of the Parties is as follows:

1. Block D partners, excluding GEPetrol, will pay for 100% of the costs of drilling and testing of the Bococo exploratory well and any necessary appraisal work.
2. Upon declaration of a Commercial Discovery as defined in the PSC, GEPetrol will have 30 days to elect to participate in the development of Bococo. Upon making this election GEPetrol will have six (6) months to pay to MOC five point five (5.50%) of the total costs of the Bococo well and all subsequent appraisal prior to the declaration of Commercial Discovery. Upon receipt of the payment from GEPetrol MOC will assign to GEPetrol a working interest of five point one seven percent (5.17%) in the PSC. The Participating and Cost Bearing Interests in the PSC will then be:

	Participating Interest	Cost Bearing Interest
GEPetrol / State	6.00%	
GEPetrol	5.17%	5.50%
Marathon	70.03%	74.50%
Globex	9.40%	10.00%
SK	9.40%	10.00%

3. In consideration of the above carry, GEPetrol will, subject to the approval of the Ministry of Mines and Energy, secure an extension of the term of the Block D PSC for two (2) additional years commencing 1 January 2005, on condition that a commitment is made to drill an additional exploration well before the end of this period, plus an option to extend for one further year commencing 1 January 2007 on condition that a commitment is made to drill another exploration well before the end of this period. The extension(s) will only be valid if Block D partners extend the PSC from 1 January 2004 through 31 December 2004 by drilling an additional obligation well during 2004 pursuant to the existing Block D PSC terms.
4. In the event that the exploration well drilled to test the Bococo prospect does not result in a Declaration of a Commercial Discovery, then in such case the rights and obligations specified above shall be extended with equal force and effect to the next exploration well(s), if any, drilled in Block D during the duration of the PSC.
5. The Confidentiality Provisions of the JOA will not apply to GEPetrol after termination of the PSC or expiration of the Exploration Period, as extended, except in respect of any Development and Production Areas retained.
6. From the commencement of the extension period referred to in Paragraph 3 all services required for exploration, appraisal and development operations in the Block will, if available, be supplied by GEPetrol affiliates, provided such services are in accordance with international oil industry standards, including, but not limited to quality, price and immediate availability quantities requested.
7. Ministry of Mines and Energy approval will be obtained for the assignment of Ocean's interest to Marathon and the terms defined above for the extension of the Block D PSC prior to the drilling of the Bococo #1 well.
8. The governing law of this document shall be the substantive law of England.
9. Any dispute, controversy or claim arising out of or relating to this MOU, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the rules of the London Court of International Arbitration, which rules are hereby incorporated by reference. The tribunal shall consist of three arbitrators. Two of the arbitrators shall be nominated by the Parties. The seat of the arbitration shall be London, England. The tribunal may hold hearings at locations other than London, England for the convenience of the parties. The language of the arbitration shall be English.
10. The decision of the arbitrators shall be final, binding and enforceable in any court of competent jurisdiction. All the statutes of limitation that would otherwise apply shall be applicable to any arbitration process. The right to arbitration shall continue after the termination of this agreement.

IN WITNESS WHEREOF, the Parties have caused this MOU to be executed in two (2) originals in the English and two (2) originals in the Spanish languages in their respective corporate names by their respective duly authorised representatives. In case of controversy regarding the interpretation of the two texts, the English text shall prevail.

Compania Nacional de Petroleos
de Guinea Ecuatorial

Signature:.....

Name:.....

Title:.....

Marathon EG Production Limited

Signature:.....

Name:.....

Title:.....



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Compania Nacional de Petroleos
de Guinea Ecuatorial

Marathon EG Production Limited

Signature:.....

Signature:.....

Name:.....

Name:.....

Title:.....

Title:.....