

**MODEL**  
**PRODUCTION SHARING CONTRACT**  
**BETWEEN**  
**THE REPUBLIC OF CAMEROON**  
**AND**  
**THE HOLDER**

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# PREAMBLE

## WITNESSETH:

Having regard to Law No. 99/013 of December 22, 1999 instituting the Petroleum Code and its implementing texts, in particular the Petroleum Regulations ; and

**Whereas**, all solid, liquid, or gaseous Hydrocarbons deposits contained in the soil or subsoil of the Territory of Cameroon are and remain the exclusive property of the **STATE**;

**Whereas**, the **STATE** may authorise commercial companies to carry out Petroleum Operations in furtherance of a Production Sharing Contract entered into between themselves and the **STATE** pursuant to the provisions of the Petroleum Legislation;

**Whereas**, the **CONTRACTOR** justifies that it has the technical competence and financial ability required to properly carry out the Petroleum Operations;

**Whereas**, the **CONTRACTOR** or its component entity that has been named as Operator is a Petroleum Company and can demonstrate that it has satisfactory experience as an operator (particularly in areas and under conditions similar to those of the Contract Area), and in the field of environmental protection;

**Whereas**, the **CONTRACTOR** has been selected to negotiate a Production Sharing Contract with the STATE covering the ----- Block, opened to Petroleum Operations, under the provisions of Article 5 of the Petroleum Regulation;

**NOW, THEREFORE, THE PARTIES HEREBY AGREE AS FOLLOWS:**

This Production Sharing Contract (hereafter referred to as "this Contract") is hereby made and entered into, pursuant to Law No. 99/013 dated December 22, 1999 instituting the Petroleum Code,

**by and between**

The Government of the REPUBLIC OF CAMEROON (hereafter referred to as the "STATE"), represented for purposes of this Contract by the Minister of Industry, Mines and Technological Development and by the Executive-General Manager of the National Hydrocarbons Corporation (NHC),

**on one hand,**

**and**

the CONTRACTOR, consisting of :

-----, a company founded and duly organised under the laws of -----, also acting in its capacity of Operator of the Contract Area, and represented for purposes of this Contract by its President and Chief Executive Officer, -----.

**on the other hand,**

## ARTICLE 1: LEGAL NATURE AND PURPOSE OF THE CONTRACT

- 1.1 This Contract is a Production Sharing Contract within the meaning of Sections 15 and 16 of the Petroleum Code and is governed by the provisions of the Petroleum Legislation.
- 1.2 The purpose of this Contract is the Exploration and Exploitation of Hydrocarbons within the Contract Area. During the term of this Contract, the Hydrocarbons produced as a result of the Petroleum Operations shall be shared in accordance with the provisions of Articles 13 and 22 of this Contract.

## ARTICLE 2 : DEFINITIONS

Subject to the provisions of this article, the terms and expressions defined in the Petroleum Code and in the Petroleum Regulation shall have the meaning given to them in those texts.

For purposes of this Contract, the terms and expressions defined in this Article 2 shall have the following meaning:

- 2.1 "**AFE**" ("Authorisation for Expenditure"): means a document bestowing authority to incur expenditure according to the provisions of Article 10.7 hereunder, and which is prepared by the Operator and signed by the Parties, each of which retains a copy.
- 2.2 "**Calendar Year**": means a period of twelve (12) consecutive months, commencing 1 January and ending 31 December, according to the Gregorian calendar.
- 2.3 "**Fiscal Year**": means a period of twelve (12) consecutive months, commencing 1 January and ending 31 December, according to the Gregorian calendar.
- 2.4 "**Annexes**": means the following documents which are an integral part of this Contract:
  - Annex A: Geographic Coordinates of the Contract Area;
  - Annex B: Accounting Procedure;
  - Annex C: Participation Agreement;
  - Annex D: Letter of Guarantee.
- 2.5 "**Exploitation Authorisation**": means the Exclusive Exploitation Authorisation for Hydrocarbons granted or renewed for the benefit of the CONTRACTOR in accordance with the provisions of Part III, Chapter III of the Petroleum Code.
- 2.6 "**Exploration Authorisation**": means the Exclusive Exploration Authorisation for Hydrocarbons granted and renewed for the benefit of the CONTRACTOR in accordance with the provisions of Part III, Chapter II of the Petroleum Code.
- 2.7 "**Domestic Transportation Authorisation**": means the Domestic Transportation Authorisation granted in accordance with Part III, Chapter IV of the Petroleum Code.
- 2.8 "**Barrel**": means a quantity or unit of Liquid Hydrocarbons (free of water, mud and other sediments) equal to 158.9074 litres at a temperature of 15.56° Celsius and at atmospheric pressure 1.034 kg/cm<sup>2</sup>.
- 2.9 "**Joint Property**": means personal and real property acquired under joint ownership by the Parties and kept by the CONTRACTOR for the purposes of utilization in connection with the conduct of Petroleum Operations.
- 2.10 "**Budget**": means the forecast estimate of the cost of a Work Programme.

- 2.11 "**Petroleum Code**": means Law No. 99/013 of December 22, 1999 constituting the Petroleum Code of the Republic of Cameroon, revised and amended, if applicable.
- 2.12 "**Operating Committee**": means the committee established pursuant to Article 7 of this Contract.
- 2.13 "**Joint Account**": means the account opened and related books and records maintained by the Operator for the purpose of recording Petroleum Costs.
- 2.14 "**CONTRACTOR**": means ----- and any successor or assignee of the rights and obligations of CONTRACTOR under this Contract, and particularly in accordance with Articles 12 and 23 hereunder.
- 2.15 "**Contract**": means this Production Sharing Contract and its Annexes that form an integral part hereof, as well as any amendments to this Contract and its Annexes to which the Parties may ultimately agree.
- 2.16 "**Development Costs**": means Petroleum Costs defined as such in Article 2.3 of the Accounting Procedure.
- 2.17 "**Exploitation Costs**": means Petroleum Costs defined as such in Article 2.4 of the Accounting Procedure.
- 2.18 "**Petroleum Costs**": means costs incurred by the CONTRACTOR and by the STATE, if applicable, for the performance of Petroleum Operations pursuant to this Contract and to the Accounting Procedure.
- 2.19 "**Exploration Costs**": means Petroleum Costs defined as such in Article 2.2 of the Accounting Procedure.
- 2.20 "**Effective Date**": means the date of signature of this Contract.
- 2.21 "**Date of Production of the First Tonne of Commercial Hydrocarbons**": means the date on which the first tonne of Hydrocarbons extracted from the first Exploitation Area resulting from the Contract will have been placed in a storage unit with the intention of marketing.
- 2.22 "**Discovery**": means the confirmed existence of an accumulation of liquid or gaseous Hydrocarbons by a well that has penetrated Hydrocarbons-bearing horizons, the existence of which was heretofore not known. Such Hydrocarbons shall be surface-recoverable and measurable by methods of production testing currently in use in the petroleum industry.
- 2.23 "**Commercial Discovery**": means a Hydrocarbons Discovery from which the CONTRACTOR believes that the expected proceeds of sale of the CONTRACTOR's share of production will cover its past and anticipated future Petroleum Costs and allow a net profit and a return on investment which warrants Exploitation.
- 2.24 "**Convertible Currency**": means any currency other than the CFA Franc which is freely convertible on international exchange markets, acceptable to the Party who requests a payment in convertible currency.
- 2.25 "**U.S. Dollar**": means the dollar of the United States of America.
- 2.26 "**STATE**": means the Republic of Cameroon or any government body or unit duly authorised to manage its petroleum interests, and any Cameroonian public authorities empowered by law to make a decision or to take administrative or regulatory action for the purpose of implementing the provisions of the Petroleum Legislation.



- 2.27 **"Exploitation"**: means the activities intended to extract Hydrocarbons for commercial purposes, especially activities of development, production and related activities, such as Abandonment.
- 2.28 **"Drilling"**: means drilling, coring, casing, perforation, logging, development of drilling fluids and mud programs, side-tracking, deepening or reconditioning of any well, including all well testing and appraisals, and if applicable, sealing and abandonment or temporary completion, with a view to final completion or subsequent abandonment. The term "Drilling" does not include the installation of permanent production equipment or pipelines, but it does include the work necessary for the preparation of the wells' location as well as the mobilisation and demobilisation of the drilling rigs.
- 2.29 **"Force Majeure"**: has the meaning ascribed to it in Article 24 of this Contract.
- 2.30 **"Natural Gas"**: means Hydrocarbons as found in a gaseous state under atmospheric pressure of 1.034 kg/cm<sup>2</sup> and at a temperature of 15.56°C including Associated Natural Gas as well as Non-Associated Natural Gas and all its constituent elements.
- 2.31 **"Hydrocarbons"**: means all liquid or gaseous hydrocarbons as found in their natural state, otherwise referred to as Crude Petroleum or Natural Gas, as the case may be, as well as all connected products and substances extracted in association with such hydrocarbons.
- 2.32 **"Day"**: means a period of twenty-four (24) hours beginning at zero hours (00:00) and ending at midnight (24:00).
- 2.33 **"Petroleum Legislation"**: means the Petroleum Code and the Petroleum Regulation, as well as other legislative and regulatory texts in force, that govern Petroleum Operations in Cameroon.
- 2.34 **"LIBOR"**: means the rate of interest known as the "London Interbank Offered Rate" on three (3) month U.S. Dollar deposits as quoted at 11:00 a.m. in London, United Kingdom, by the National Westminster Bank or by any other bank as agreed by the Parties, on the first banking Day of the month for which the interest payment is due and the bank is open.
- 2.35 **"Operator"**: means the entity, a component of the CONTRACTOR, responsible for the conduct and performance of Petroleum Operations as defined in Article 8 of this Contract.
- 2.36 **"Petroleum Operations"**: means all the activities of Exploration, Exploitation and transportation of Hydrocarbons referred to in this Contract, including storage and processing, especially the processing of Natural Gas, as well as the activities of loading or delivery of Hydrocarbons up to the Delivery Point, excluding activities of refining, storage and distribution of petroleum products.
- 2.37 **"Participating Interest"** has the meaning given to it in the Participation Agreement attached as Annex C hereto.
- 2.38 **"Party"**: means, respectively, the STATE or the CONTRACTOR. **"Parties"**: means the STATE and the CONTRACTOR.
- 2.39 **"Contract Area"**: means the area defined in Article 3 of this Contract.
- 2.40 **"Appraisal Area"**: means the area that is to be the subject of an appraisal study following a Discovery, in accordance with the provisions of Article 11.2 of this Contract.
- 2.41 **"Exploitation Area"**: means all or part of the Contract Area covered by an Exploitation Authorisation.

- 2.42 **"Exploration Area"**: means all or part of the Contract Area covered by an Exploration Authorisation.
- 2.43 **"Development Period"**: means, for any Exploitation Area, the period of the Development and Exploitation Phase beginning on the date of granting of an Exploitation Authorisation and ending on the Date of Production of the First Tonne of Commercial Hydrocarbons.
- 2.44 **"Production Period"**: means, for any Exploitation Area, the period of the Development and Exploitation Phase beginning on the Date of Production of the First Tonne of Commercial Hydrocarbons and ending upon the expiration of the Exploitation Authorisation.
- 2.45 **"Crude Petroleum"**: means, Hydrocarbons as found in a liquid state under atmospheric pressure of 1.034 kg/cm<sup>2</sup> (14.7 psia) and at a temperature of 15.56°C, including condensates.
- 2.46 **"Development and Exploitation Phase"**: means the phase covered by an Exploitation Authorisation and determined in accordance with the provisions of Article 4.2 of this Contract.
- 2.47 **"Exploration Phase"**: means the phase covered by an Exploration Authorisation and determined in accordance with the provisions of Article 4.1 of this Contract.
- 2.48 **"Delivery Point"**: means the FOB connection point in the Territory of Cameroon between the loading facilities and the ship, as defined in a development plan, or any other point of transfer adopted by mutual agreement of the Parties.
- 2.49 **"Accounting Procedure"**: means the accounting procedure that appears in Annex B to this Contract.
- 2.50 **"Available Production"**: means the quantities of Hydrocarbons produced from the Contract Area, less those quantities utilised for the Petroleum Operations, flared or reinjected.
- 2.51 **"Reimbursement Oil"** or **"Reimbursement Gas"**: (commonly known in the industry as "cost oil" or "cost gas") means the portion of the Available Production applied to reimbursement of Petroleum Costs pursuant to the provisions of Article 13 or Article 22 of this Contract as applicable.
- 2.52 **"Compensation Oil"** or **"Compensation Gas"** (commonly known in the industry as "profit oil" or "profit gas"): means the remainder of the Available Production, after deducting Reimbursement Oil and/or Reimbursement Gas, which is shared between the STATE and the CONTRACTOR pursuant to the provisions of Article 13 or Article 22 of this Contract as applicable.
- 2.53 **"Work Programme"**: means a plan or written report detailing the specific Petroleum Operations defined in Article 10 of this Contract which are to be carried out by the CONTRACTOR.
- 2.54 **"Exploration"**: means the detailed prospection activities, including but not limited to geological and geophysical studies and surveys, as well as Drilling intended to discover economically exploitable Hydrocarbons deposits, including activities of appraisal and delineation of a Hydrocarbons Discovery thought to be commercial.
- 2.55 **"Petroleum Regulation"**: means Decree No. 2000/465 of June 30, 2000, as revised and amended, if applicable, setting forth the terms of application for Law No. 99/013 of December 22, 1999 constituting the Petroleum Code.

- 2.56 **"Affiliate"**: means a legal entity or entities that controls or is controlled by one of the components of the CONTRACTOR or by a legal entity controlling or controlled by a legal entity that controls one of such components. "Control" means the direct or indirect ownership of the majority of shares with voting rights.
- 2.57 **"Sub-Contractor"**: means the third parties who undertake Petroleum Operations or provide services or goods for the Petroleum Operations on behalf of the CONTRACTOR.
- 2.58 **"Quarter"**: means a period of three (3) consecutive months in accordance with the Gregorian calendar, beginning on the first day of January, April, July and October.

### **ARTICLE 3: CONTRACT AREA**

- 3.1 The initial Contract Area on the Effective Date comprises the block named ----- covering a total surface area of -----km<sup>2</sup> as defined by the geographic coordinates shown in Annex A of this Contract. A map showing the boundaries of the Contract Area is shown in Annex A for illustration purposes.
- 3.2 The total surface area of the Contract Area shall be reduced in accordance with the terms set forth in Article 5 of this Contract, it being understood that, solely for purposes of calculating the reductions foreseen in Article 5, the Contract Area shall be determined by deducting the surface areas covered by any Exclusive Exploitation Authorisation(s).

### **ARTICLE 4 : TERM OF THE CONTRACT**

This Contract is entered into for the term of the Exploration Phase and, in the event of Commercial Discovery (ies), for the Development and Exploitation Phase(s) which may derive therefrom, as same are defined in this article.

#### **4.1 Exploration Phase**

- 4.1.1 The initial period of the Exploration Phase shall be ----- years starting from the Effective Date. In accordance with the 2<sup>nd</sup> paragraph of Section 28 (1) of the Petroleum Code, signature of this Contract constitutes the grant of an Exploration Authorisation.
- 4.1.2 The initial period of the Exploration Phase shall be renewed, at the request of the CONTRACTOR, for ----- additional period (s) of two (2) years (each). In such case, the renewal is granted to the CONTRACTOR in accordance with the terms provided in Section 28 of the Petroleum Code and Articles 21 and 22 of the Petroleum Regulation, and cannot be refused if the conditions required of the CONTRACTOR by these provisions have been fully satisfied.
- 4.1.3 Pursuant to Section 28, paragraph 5 of the Petroleum Code, the term of the Exploration Phase, over and above the renewals provided for in Article 4.1.2 above and subject to any extension in the event of Force Majeure pursuant to Article 24.5 hereafter, shall be extended:
- (i) for an additional period of time that the Minister in charge of hydrocarbons deems necessary for the CONTRACTOR to complete the current Exploration Drilling, or the appraisal and delineation of a Discovery, with the granted extension not being less than six (6) months and not exceeding one (1) year. The one (1) year limitation herein may be extended if the Minister in charge of hydrocarbons deems such extension necessary to complete an ongoing firm and approved appraisal program.

- (ii) in the event of a Discovery of Non-Associated Natural Gas, for a term equal to two (2) years, renewable for an equivalent period by the Minister in charge of Hydrocarbons if the CONTRACTOR establishes that an additional extension is necessary for it to find commercial outlets sufficient for a profitable exploitation of the reservoir and to complete ongoing negotiations with the STATE on the special terms for development and Exploitation of Natural Gas according to the provisions set forth in Article 22.3.1 of this Contract.

**4.2 Development and Exploitation Phase:**

- 4.2.1 The initial period of the Development and Exploitation Phase is ----- years for Crude Petroleum, starting from the date of granting of the Exploitation Authorisation.
- 4.2.2 The initial period of the Development and Exploitation Phase referred to in Article 4.2.1 above may be renewed one time for an additional period of ----- years, pursuant to the Petroleum Legislation. The renewal shall be granted if the CONTRACTOR has fulfilled its obligations for such initial period and can demonstrate the possibility of continuing commercial Hydrocarbons production beyond the current validity period.
- 4.2.3 In the event of Discovery and Exploitation of Non-Associated Natural Gas, the term of the initial period of the Development and Exploitation Phase shall be ----- years. This period can be renewed one time for an additional term of ----- years pursuant to the provisions of Section 38 (2) of the Petroleum Code.

**ARTICLE 5: SUCCESSIVE RELINQUISHMENTS OF THE CONTRACT AREA**

- 5.1 At the end of the initial period of the Exploration Phase referred to in Article 4.1.1 above, the CONTRACTOR shall relinquish -----% of the Contract Area determined in accordance with Article 3.2 above.
- 5.2 At the end of the first renewal period of the Exploration Phase referred to in Article 4.1.2 above, the CONTRACTOR shall relinquish -----% of the Contract Area determined in accordance with Article 3.2 above.
- 5.3 At the end of the second renewal period of the Exploration Phase referred to in Article 4.1.2 above or at the end of the supplementary period referred to in Article 4.1.3 above, whichever is later, the CONTRACTOR shall proceed with the relinquishment of the entire Contract Area, excluding any portion for which an Exploitation Authorisation has been granted or applied for.
- 5.4 The shape and size of the parcels relinquished pursuant to this Article 5 shall, to the extent reasonably possible, be of simple configuration and of a size sufficient to allow the negotiation of a new petroleum contract.

**ARTICLE 6: MINIMUM WORK PROGRAMME**

During the Exploration Phase, the CONTRACTOR undertakes the performance of the following minimum Work Programme, it being understood that the work obligations take precedence over expenditure of the estimated amounts:

- 6.1 During the initial period of the Exploration Phase of ----- years:

Seismic: -----

Drilling: -----

Total cost of the above mentioned work is estimated at -----USD

6.2 During the first renewal period of the Exploration Phase of two (2) years:

Seismic: -----

Drilling: -----

Total cost of the above mentioned work is estimated at -----USD

6.3 During the second renewal period of the Exploration Phase of two (2) years:

Seismic: -----

Drilling: -----

Total cost of the above mentioned work is estimated at -----USD

6.4 At the beginning of the initial period of the Exploration Phase and thereafter at the beginning of each additional period, the CONTRACTOR shall furnish to the Operating Committee a bank guarantee consistent with that in Annex D of this Contract, for an initial amount equal to the estimated cost of the minimum Work Programme to be completed during such period in accordance with Articles 6.1, 6.2 and 6.3 of this Contract. The STATE may call such guarantee in the event of non-performance of the minimum Work Programme which it covers, and such guaranty shall be reduced or terminated, all in accordance with the terms specified in said guarantee.

6.5 The CONTRACTOR may interrupt a Drilling which has not reached the depth and/or deepest geologic objective envisioned by the corresponding minimum Work Programme if the CONTRACTOR has encountered petroleum bearing strata, which, according to the CONTRACTOR, constitute a Discovery. In such case, the well drilled shall nonetheless be considered an Exploration well within the framework of the corresponding minimum Work Programme.

6.6 The CONTRACTOR may suspend a Drilling that has not reached the depth or the deepest geologic objective envisioned by the corresponding Work Programme if it has encountered technical Drilling difficulties which in the CONTRACTOR's opinion, and based on generally accepted practices in the international petroleum industry, justify the suspension. In such case, the Operating Committee shall either deem the CONTRACTOR to have fulfilled the work obligations concerning the well in question, or it shall define an adequate and reasonable substitute work obligation. Any dispute arising from this article which cannot be resolved between the Parties shall be resolved by expert as provided in Article 27.2.

6.7 All work carried out by the CONTRACTOR beyond the minimum Work Programme provided for in any period of the Exploration Phase shall be credited to the minimum Work Programme for the following period of the Exploration Phase.

6.8 If the minimum Work Programme for any period of the ongoing Exploration Phase has been performed during the preceding period of the Exploration Phase, the CONTRACTOR shall nevertheless undertake to carry out in the Exploration Area, during such ongoing period, work that may consist of geophysical, geological, drilling or evaluation work as determined by the CONTRACTOR with the objective to further mature the prospectivity of the Exploration Area.

6.9 The estimated expenditure amounts set forth in Articles 6.1, 6.2 and 6.3 above are expressed in constant U.S. Dollars for the month of the Effective Date, and shall be revised at the end of

each Calendar Year starting from the Effective Date, in order to reflect the actual value of the estimated expenditure amounts for purposes of Article 6.9.1 hereafter, in accordance with the method set forth in Article 6.9.2 below:

6.9.1 At the end of each Calendar Year, starting from the Effective Date, the Exploration Costs actually incurred by the CONTRACTOR during such Calendar Year shall be deducted from the total amount of the CONTRACTOR's estimated expenditure amounts for purposes of Article 6.9.2 hereafter for the current period of the Exploration Phase.

6.9.2 The amount remaining after the deduction referred to in Article 6.9.1 above shall be revised each Calendar Year by multiplying it by the factor:

$$I_n / I_{n_1}$$

Where:

" $I_n$ ": is the inflation index shown in the monthly index of "US Consumer Prices", revised quarterly, as it appears in the publication "International Financial Statistics" of the International Monetary Fund for the month in the Calendar Year during which the adjustment is made, corresponding to the month of the Effective Date;

" $I_{n_1}$ ": is inflation index shown in the monthly index of "US Consumer Prices", revised quarterly, as it appears in the publication "International Financial Statistics" of the International Monetary Fund for the month of the Calendar Year, corresponding to the month of the Effective Date, preceding the Calendar Year during which the adjustment in question is made.

6.10 It is understood that the monetary value of the work referred to in Articles 6.1, 6.2 and 6.3 above which should reflect the reality of the cost of the Work Programme are shown in this Contract for reference purposes only and solely for determining the indemnity due pursuant to Section 30 of the Petroleum Code. It does not constitute a minimum expenditure obligation, the CONTRACTOR's obligation being defined only in the work obligations of the minimum Work Programme set forth in said articles.

## **ARTICLE 7: OPERATING COMMITTEE**

7.1 The Operating Committee shall be responsible for the supervision of the Petroleum Operations. The STATE and the CONTRACTOR shall each appoint one (1) full member and one (1) substitute member to the Operating Committee. The substitute members may not vote except in the absence of the full member. Within forty-five (45) Days of the Effective Date, the STATE and the CONTRACTOR shall each notify to the other Party the name of its full member and the substitute member it has appointed to the Operating Committee. Any Party's full member or substitute member may be replaced by said Party after having notified the other Party accordingly. Each Party may bring to the Operating Committee meetings advisors or experts whose presence it considers desirable and which in any event shall be limited to five (5), unless the Parties agree beforehand on another number. Each full member, or, in the absence of a full member, its substitute member, shall be deemed duly authorised to represent and to bind the Party appointing him on any subject which is within the jurisdiction of the Operating Committee.

Each entity comprising the CONTRACTOR may send an observer, who shall not have voting rights, to the meetings of the Operating Committee.

- 7.1.1 The CONTRACTOR shall be responsible for the drafting of the minutes of the meeting, including a record of the decisions made in the meeting, which shall be submitted to the Parties for approval at the end of the meeting. The minutes shall be submitted to the Parties for their comments and approval within fifteen (15) days following the holding of the Operating Committee meeting.
  - 7.1.2 The Operating Committee shall meet at the request of a Party, but in any event, at least every six (6) months, by notification containing the desired agenda, the date, time and place of the planned meeting, sent by one Party to the other Party with at least fifteen (15) Days' prior written notice before the expected date of the meeting. Each Party shall have the right to add topics to the agenda by notifying the other Party at least seven (7) Days prior to the expected date of the meeting. No decision may be made at a meeting on a subject matter that was not written into the agenda for such meeting, unless all Parties shall otherwise unanimously agree thereto. The CONTRACTOR shall prepare all documents and pertinent data necessary to review the items on the agenda.
  - 7.1.3 Each Party shall have one (1) vote on the Operating Committee. The Operating Committee may not validly deliberate unless each of the Parties is represented by a full member or by its substitute member. In the event that a member representing each Party is not present at the time of a meeting of the Operating Committee, the meeting of the Operating Committee shall be postponed to a date set within the next eight (8) Days. The representative who was present must notify the Parties of the new meeting date as well as the time and place where it will be held.
  - 7.1.4 The Operating Committee shall be free, if necessary, to engage experts from time to time in order to carry out special tasks.
  - 7.1.5 Notwithstanding the requirements in Article 7.1.2 above, in the event that a decision that falls within the jurisdiction of the Operating Committee is required while there is a rig standing by or for any other event that requires an immediate response or in which case delay results in significant expense, the Operating Committee may conduct its meeting and execute its vote by fax or email.
- 7.2 Subject to the provisions of Article 7.3 below, the Operating Committee:
- 7.2.1 Shall approve all Work Programmes and corresponding Budgets and all amendments that may be made thereto, and shall make certain that the insurance coverage of the Parties is consistent with generally accepted practices in the international petroleum industry and adequate with regard to risks incurred;
  - 7.2.2 Shall approve the methods and procedures established by the Operator to be followed for the efficient conduct of the Petroleum Operations;
  - 7.2.3 Shall have the right, and following the giving of reasonable prior written notice, to access the administrative offices and the work sites of the Petroleum Operations. Such visits, for which the dates and agenda are set by agreement with the Operator, which agreement cannot be withheld without valid reason, must not hamper the normal and safe conduct of Petroleum Operations and shall in any event be at the sole risk and expense of the represented Party(ies).
- 7.3 Subject to the provisions of this Article 7, all decisions of the Operating Committee shall be unanimous and shall bind the STATE and the CONTRACTOR.
- 7.3.1 If unanimity cannot be reached, the Operating Committee shall reconvene within fifteen (15) Days in order to settle the unresolved issue. This period may be shortened in case of an emergency.

7.3.2 Notwithstanding the foregoing, the decisions of the Operating Committee shall not require unanimity in the following cases:

- (i) The STATE shall not have the right to veto decisions or withhold approval pertaining to the Petroleum Operations conducted by the CONTRACTOR pertaining to an Exploration Authorisation, provided that the proposals are not considered to be contrary to current practices and operations in the international petroleum industry;
- (ii) Any decision pertaining to applications for granting, renewal or relinquishment of Exploration Authorisations, Exploitation Authorisations and Domestic Transportation Authorisations shall be made solely by the CONTRACTOR;
- (iii) The decision to appraise and/or develop a Discovery shall be the CONTRACTOR's decision alone;
- (iv) If unanimity cannot be reached on the adoption of the development and production plan and its corresponding Budget, the CONTRACTOR's proposals shall be deemed to have been duly approved by the Operating Committee, subject to any Party's right of recourse, at its own expense, to expertise pursuant to the provisions of Article 27.2 hereafter if the said Party believes that adjustments should be made to the development and production plan on matters pertaining to the environment, security, costs, planning or ultimate recovery or that the plan in question is not consistent with the current generally accepted practices in the international petroleum industry. In such case, and unless the Parties agree otherwise, the development and production plan and its corresponding Budget shall be made to conform to the expert's conclusions and be deemed approved by the Parties. The expert's expenses shall be considered Petroleum Costs.

## **ARTICLE 8: RIGHTS AND OBLIGATIONS OF THE CONTRACTOR**

8.1 The CONTRACTOR is responsible for the conduct and performance of the Petroleum Operations in the Contract Area during the term of the Contract, pursuant to the Work Programme and corresponding Budgets approved by the Operating Committee, the provisions of this Contract and of the Petroleum Legislation, as well as the generally accepted practices of the international petroleum industry.

8.2 The rights and obligations of the CONTRACTOR include the following, without limitation:

8.2.1 The preparation and submission of the Work Programme and corresponding Budgets, for the purpose of enabling the Operating Committee to make its decisions, including any revisions or amendments which may be made to same.

8.2.2 The obligation to supply the STATE, as soon as possible, with information, documentation and data pertaining to the Petroleum Operations. Concerning cores and other data acquired within the framework of the Petroleum Operations and which cannot be duplicated, said data which is the property of the STATE shall be temporary conserved by the CONTRACTOR on behalf of the STATE for exploitation and made available and transferred to the STATE upon request.

8.2.3 The right, during the term of this Contract, to dispose of and to freely export, without having to post bond or a guarantee, its share of Hydrocarbons as provided for in



Articles 13 and 22 of this Contract. The CONTRACTOR shall be required to fulfill all administrative formalities required by the current Petroleum Legislation for the purposes of such disposal and export.

8.2.4 Application for and obtaining, within the framework of the current legislation, all rights governing the utilisation of radio frequencies and other means of communication, all movements of aircraft, land vehicles or small craft, landing fields, routes, housing for personnel, warehouses, equipment for reception of freight, loading platforms and any other equipment which the CONTRACTOR may need in order to carry out the Petroleum Operations.

8.2.5 The right to freely utilise, for the conduct and performance of the Petroleum Operations, its personnel and the products and services of its Affiliates, regardless of location. The utilisation of such personnel and the products and services of its Affiliates should be at rates that conform to general rates charged by Petroleum Operators of international reputation working for petroleum operations in conditions similar to those in the Gulf of Guinea region of West Africa.

8.3 The CONTRACTOR is required to:

8.3.1 Complete the minimum Work Programme in accordance with the terms of Article 6 of this Contract;

8.3.2 Comply with the decisions of the Operating Committee;

8.3.3 Pay all invoices related to Petroleum Operations on a timely basis;

8.3.4 Acquire all permits, permissions, approvals, and easements for access or occupancy that may be necessary in order to carry out the Petroleum Operations under the provisions of the Petroleum Legislation;

8.3.5 Be responsible for the safekeeping of all Joint Property; and

8.3.6 Pay to whom owed any taxes, fees and other miscellaneous payments provided for in this Contract and by current Petroleum Legislation.

8.4 Without prejudice to the provisions of the Petroleum Legislation, particularly those of Title XIX of the Petroleum Regulation pertaining to insurance, the CONTRACTOR shall address any claim or litigation arising from the Petroleum Operations, other than claims and litigation which may arise between the Parties (including between those entities constituting the CONTRACTOR), and may settle or resolve any well founded claim or dispute which involves an amount not exceeding fifty thousand U.S. Dollars (US\$50,000), lawyers' fees not included, without referring the matter to the Operating Committee. The CONTRACTOR shall obtain the prior consent of the Operating Committee for the settlement of any dispute which involves an amount greater than fifty thousand U.S. Dollars (US\$50,000).

If a dispute should arise between the STATE and a third party in relation to the Petroleum Operations, or which impact upon same, the STATE shall promptly notify the CONTRACTOR in writing. The CONTRACTOR shall either defend against the claims of the third person or settle same, pursuant to the instructions which it will have received from the Operating Committee, it being understood that during the Development and Exploitation Phase, the amount of the damages and legal expenses connected thereto shall be chargeable to the Joint Account.

8.5 In the event services or goods are provided to the Petroleum Operations by a third party other than the Operator or its Affiliates, the forecast cost or estimate of which exceeds two hundred

thousand U.S. Dollars (US\$200,000) during the Exploration Phase or three hundred thousand U.S. Dollars (US\$300,000) during the Development and Exploitation Phase, or if the cost exceeds any amount set by the Operating Committee, the Operator shall, except for valid reasons, proceed with a call for bids.

- 8.6 The Contractor shall bear all the direct or indirect consequences of civil liability it incurs due to any damages caused to third parties by it in the conduct of Petroleum Operations. As such it shall indemnify, defend and hold the STATE harmless against all third party claims.

The CONTRACTOR shall bear the consequences of any damage caused to the STATE arising directly from the partial or total non-performance of its contractual obligations pursuant to this Contract, except for any damages not arising directly from such non-performance. The CONTRACTOR shall not be liable towards the STATE for damage to the environment that may have existed in the Contract Area prior to the Effective Date.

## **ARTICLE 9: RIGHTS AND OBLIGATIONS OF THE STATE**

### **9.1 Rights of the STATE:**

The STATE is entitled to require that the CONTRACTOR fulfill its obligations under this Contract. If the STATE determines that the CONTRACTOR is in breach of the provisions identified in Article 28.1 or of its obligations as identified in Article 49 of the Petroleum Regulation, the STATE shall provide it written notice specifying the noted performance failures in the Petroleum Operations according to the provisions set forth in, *mutatis mutandis*, Articles 28.1, 28.2, 28.3 and 28.4 hereafter.

Pursuant to Article 50 of the Petroleum Regulation, if such formal notice is not responded to, the STATE may carry out the work that is necessary in order to fulfill the obligations identified in Article 49 of the Petroleum Regulation, at the expense of and for the account of the CONTRACTOR.

### **9.2 Obligations of the STATE:**

9.2.1 The STATE shall take any steps necessary intended to facilitate the activities of CONTRACTOR and its Sub-contractors. At the request of either, such assistance applies to the following matters,;

- 9.2.1.1 obtaining authorisations for the utilisation and installation of the means of transportation and communication, in particular the Domestic Transportation Authorisation;
- 9.2.1.2 obtaining required authorisations in customs and import-export matters;
- 9.2.1.3 obtaining for the expatriate personnel working in Cameroon and for members of their families, visas, work permits or residence cards and any other administrative authorisations necessary in order to carry out this Contract;
- 9.2.1.4 obtaining required authorisations for transmitting abroad, if applicable, documents, data or samples for purposes of analysis or processing as required for the Petroleum Operations;
- 9.2.1.5 relations with the administration and local authorities;

- 9.2.1.6 obtaining, as part of its completed application including documents and items required by legislation and regulations in force, approvals which are necessary for the conduct of Petroleum Operations;
  - 9.2.1.7 any other subject which lends itself to assistance by the STATE, particularly in the areas of public safety and order, within the framework of the current legislation and regulations; and
  - 9.2.1.8 access the land required and their utilization for Petroleum Operations in accordance with Part IV of the Petroleum Code and Title VIII of the Petroleum Regulation.
- 9.2.2 The STATE guarantees to the CONTRACTOR, to each entity comprising the CONTRACTOR and to assignees of the CONTRACTOR:
- 9.2.2.1 The stability of the economic and tax regime of the Petroleum Operations within the conditions set forth under Article 29 of this Contract;
  - 9.2.2.2 Non-discrimination towards them in the application of legislative or regulatory provisions as compared to any other commercial company carrying out petroleum operations in the Territory of Cameroon under the conditions set forth in Article 29 of this Contract.
  - 9.2.2.3 Free choice of their contractors, suppliers and service providers, subject to the provisions of Articles 8.5 above and 18 hereafter.

## **ARTICLE 10: WORK PROGRAMMES AND BUDGETS**

- 10.1 Within three (3) months following the Effective Date, the CONTRACTOR shall submit to the Operating Committee the appropriate Work Programme and the corresponding Budget for the portion of the Calendar Year not yet elapsed.
- 10.2 Prior to 30 September of each Calendar Year, the CONTRACTOR shall submit for review to the Parties a proposed Work Programme and corresponding Budget for the following Calendar Year.  
  
The STATE notify the CONTRACTOR before the 1st of November of each Calendar Year, either his agreement or reservations and any modifications which they would like to have adopted, all of which shall be supported by detailed documentation.
- 10.3 The CONTRACTOR shall submit to the Operating Committee, prior to 30 November of each Calendar Year, the Work Programme for the following Calendar Year. After review, revision and supplement, if applicable, the final Work Programme and corresponding Budget shall be adopted by the Operating Committee pursuant to Article 7 of this Contract, and not later than 15 December, or by any other date agreed to by the Parties.
- 10.4 The Work Programme and corresponding Budget transmitted to the Operating Committee shall include a technical and financial description of each type of Petroleum Operation as well as the schedule for the work.

The Work Programme and corresponding Budget may include, as applicable and without limitation:

#### 10.4.1 Exploration Phase:

- geological, geophysical and/or geochemical studies;
- surface geology;
- seismic, gravimetric or magnetometric acquisition work;
- processing and reprocessing of seismic data as well as its subsequent interpretation;
- planned laboratory analyses;
- the Drilling operations planned (by number of wells, rig months, metres drilled and cost);
- necessary logistical support (by cost );
- professional training programme for Cameroonian nationals other than those employed by the CONTRACTOR ;
- other.

#### 10.4.2 Development and Exploitation Phase:

##### 10.4.2.1 Development Period:

- studies preliminary to the Development project;
- planned Drilling;
- necessary plant and equipment;
- dimensions of structures and other necessary facilities;
- proposed professional training programme;

##### 10.4.2.2 Production Period:

- studies;
- well completions and reconditioning of development wells;
- production infrastructures;
- production equipment;
- maintenance work, painting work, other;
- proposed professional training programme;
- the estimated date for submission of the Abandonment Plan or, if applicable, the updated Abandonment Plan;

The Budget shall be broken down for each Petroleum Operation in accordance with this Article 10.4 and consistent with the Accounting Procedure.

- 10.5 The Budget shall be expressed in U.S. Dollars.
- 10.6 The documentation which shall be submitted to the Operating Committee for detailed review of the Budget shall include, as applicable:
- 10.6.1 A detailed statement of Petroleum Operations to be carried out during the period under consideration as well as corresponding investments;
  - 10.6.2 A detailed statement of Exploitation Costs;
  - 10.6.3 A forecast production statement;
  - 10.6.4 A summary of the above-mentioned statements;
  - 10.6.5 All maps, blueprints and technical reports supporting the planned Work Programme.

These statements shall be annotated and shall highlight the principal assumptions made.

- 10.7 In performance of the resolutions and decisions of the Operation Committee, the CONTRACTOR shall submit to the Parties, for prior approval, an AFE for each budget item pertaining to (i) any Development Cost and (ii) Exploitation Costs for large maintenance projects, surface facilities and wells, which necessitate a capital expenditure in the approved Work Programme and corresponding Budget which exceeds three hundred thousand U.S. Dollars (US\$300,000).
- 10.8 When necessary in order to finish an operation that was included in the approved Work Programme, the CONTRACTOR may exceed the budgeted amount in question.

The CONTRACTOR shall promptly inform the Parties of such excess, and furnish all necessary explanations and supporting documentation. When the excess is greater than ten percent (10%), the CONTRACTOR shall inform the Parties of such excess and, subject to the preceding paragraph, obtain their prior approval while providing all necessary explanations and supporting documentation.

- 10.9 In the event of a change in circumstances necessitating that changes be made to an annual Work Programme and corresponding Budget, the CONTRACTOR may make necessary revisions, provided that:
- 10.9.1 Regarding revisions to a Work Programme and corresponding Budget during the Exploration Phase:
    - the revisions may not exceed ten percent (10%) or one hundred thousand U.S. Dollars (US\$100,000), whichever is greater, of the Budget item to which they relate within the context of the approved Budget, and the total of such revisions do not exceed two point five percent (2.5%) of the total amount of the approved Budget ;
    - such revisions shall be consistent with the obligations of the CONTRACTOR referred to in Article 6 of this Contract and with the general objective set forth in such Work Programme and corresponding Budget.
  - 10.9.2 Regarding modifications to a Work Programme and corresponding Budget during the Exploitation Phase:

- the revisions do not exceed five percent (5%) or two hundred thousand U.S. Dollars (US\$200,000), whichever is greater, of the Budget item to which they relate within the context of the approved Budget, and that the total of such revisions do not exceed one percent (1%) of the total amount of the approved Budget;
- such revisions shall be consistent with the provisions of this Contract and with the general objective set forth in said Work Programme and corresponding Budget.

10.9.3 Beyond these limits, any other revision shall receive the approval of the Operating Committee before it may be implemented.

10.9.4 The limits imposed by this article may be revised by a decision of the Operating Committee.

10.10 Notwithstanding anything contained in this Article, in the event of an emergency, the CONTRACTOR may incur expenses and take immediate measures that it judges necessary in order to protect persons or property and to prevent pollution. The CONTRACTOR shall inform the STATE of such an expense within forty-eight (48) hours of the emergency event.

## **ARTICLE 11: APPRAISAL OF A DISCOVERY; COMMERCIAL DISCOVERY**

11.1 As soon as a Discovery is confirmed, the CONTRACTOR shall so notify the Parties as soon as possible and not later than fifteen (15) days following the Discovery. Within sixty (60) Days following the confirmation of its existence, the CONTRACTOR shall submit to the Operating Committee a report concerning the Discovery that shall contain all available details.

11.2 Not later than six (6) months following the notification of the Discovery and if the CONTRACTOR considers that the Discovery qualifies for appraisal, the CONTRACTOR shall submit to the Operating Committee an appraisal Work Programme and corresponding Budget for the purpose of evaluating as soon as reasonably possible whether the Discovery in question constitutes a Commercial Discovery.

Such appraisal Work Programme shall include an indication of the location of the Discovery, its type and the designation of the Appraisal Area, as well as an estimate of the possible recoverable reserves.

The appraisal Work Programme shall also include all appraisals, tests and Drilling to be conducted in the Appraisal Area as well as the preparation of all economic and technical studies connected with the recovery, processing and transportation of the Hydrocarbons from the Appraisal Area. Unless there is express written consent from the Operating Committee, the term of such appraisal Work Programme shall not exceed the remaining portion of the Exploration Phase as defined in this Contract, without prejudice to the provisions of Article 4.1.3 above.

The performance of the obligations under an appraisal Work Programme and corresponding Budget shall not relieve the CONTRACTOR of any of its work obligations for the Exploration Phase as defined in Article 6 of this Contract.

11.3 If the STATE does not request in writing amendments to the appraisal Work Programme and corresponding Budget for the Appraisal Area within thirty (30) Days following receipt of such programme, it shall be deemed to have been approved and adopted by the Operating Committee.

If the STATE submits in writing a request for amendments to be made to the appraisal Work Programme and corresponding Budget for the Appraisal Area, such amendments shall be consistent with the practices in current use in the international petroleum industry. The

Operating Committee shall meet within fifteen (15) Days following the request for amendments to study the requested amendments to the appraisal Work Programme and corresponding Budget, and, if agreed, the amended Work Programme and corresponding Budget shall be approved and adopted by the Operating Committee in accordance with the provisions of Article 7.3 above. If the CONTRACTOR does not respond to the request for amendments submitted by the STATE within thirty (30) Days after receipt, the proposed amendments shall be deemed to have been accepted and shall be incorporated into the appraisal Work Programme and corresponding Budget.

If the CONTRACTOR disagrees with the amendment request submitted by the STATE, the Parties shall have one hundred and twenty (120) Days after the request for amendments by the STATE to agree to the Work Programme and Budget proposed by CONTRACTOR. Failing agreement within such time period, the CONTRACTOR's proposal shall be deemed accepted, subject to the STATE submitting the dispute for settlement by an expert pursuant to Article 27.2 hereafter.

- 11.4 After the adoption of the appraisal Work Programme and the corresponding Budget, the CONTRACTOR shall diligently pursue its appraisal of the Discovery until it determines whether or not the Discovery is a Commercial Discovery.

Within thirty (30) Days following the completion of the appraisal work and in any event, subject to Article 11.2 above, prior to the expiration of the Exploration Phase, the CONTRACTOR shall submit to the Operating Committee for approval the Discovery report and plan of development and production referred to in Article 27 of the Petroleum Regulation.

- 11.5 If the Operating Committee decides not to undertake appraisal work, the CONTRACTOR may decide either:
- to plug and abandon the well in accordance with the current generally accepted practices in the international petroleum industry and the environmental protection plan contemplated in Article 21.1.1; or
  - to postpone the decision to undertake other work on the well and on the Discovery.

- 11.6 If the CONTRACTOR considers that the Discovery constitutes a Commercial Discovery, the Discovery report referred to in Article 11.4 above, together with all documents required by the Petroleum Legislation for the granting of an Exploitation Authorisation, shall be submitted to the Minister in charge of hydrocarbons for purposes of granting the Exploitation Authorisation, and such Exploitation Authorisation, shall be granted in accordance with the provisions of the Petroleum Legislation.

In accordance with Section 40 of the Petroleum Code, the CONTRACTOR has the right to proceed with Exploitation of the said Discovery after having obtained the necessary Exploitation Authorisation according to the procedures defined in the Petroleum Code and the Petroleum Regulation.

- 11.7 After the approval by the Operating Committee of the development and production plan submitted under the provisions of the Title V of the Petroleum Regulation and pursuant to Article 11.4 above, the CONTRACTOR shall submit to the Operating Committee within ninety (90) Days from the start of the Development and Exploitation Phase a detailed statement of the Exploitation Work Programme and corresponding Budget for the first Calendar Year of the Development and Exploitation Phase and for the remaining portion of the year which precedes such Calendar Year.

## ARTICLE 12 : PARTICIPATION OF THE STATE

- 12.1 Pursuant to Section 6 of the Petroleum Code, the STATE, or a government body or unit that is duly authorised for such purpose, may take a participating interest share ("Participating Interest") in Petroleum Operations related to Exploitation which is the subject of this Contract. Election to participate in accordance with this provision shall be determined for each Exploitation Authorisation separately. The STATE's Participating Interest so elected in any Exploitation Authorisation may not be less than five percent (5%) nor greater than -----%, at the choice of the STATE.
- 12.2 The STATE shall notify the CONTRACTOR of its decision to participate in such Petroleum Operations within sixty (60) Days following the approval by the Operating Committee of the development and production plan for the relevant Exploitation Area, said period to be reduced by as many Days as necessary so that its term ends at least ninety (90) Days before the expiration of the validity period of the current Exploration Authorisation. Such notification shall also indicate the percentage of Participating Interest to be held by the STATE and the identity of the government body or unit that shall hold such Participation.
- 12.3 If the STATE decides to participate in such Petroleum Operations:
- 12.3.1 The STATE or the government body or unit shall be the co-holder of a Participating Interest in the corresponding Exploitation Authorisation.
- 12.3.2 The participation of the STATE shall take effective as from the date of which the Exploitation Authorisation is granted for the relevant Exploitation Area.
- 12.3.3 Within thirty (30) Days following the date of which the Exploitation Authorisation is granted, the STATE or the government body or unit duly authorised for this purpose and the CONTRACTOR shall sign a Participation Agreement consistent with the model in Annex C of this Contract.
- 12.3.4 Without prejudice to the provisions of Article 12.4.2 hereafter, within forty-five (45) Days following the date of which the Exploitation Authorisation is granted, the STATE shall reimburse its contribution, free of any interest, as per its Participating Interest share of the Development and Exploitation Costs incurred by the CONTRACTOR until the effective date of the STATE's Participation in the conduct of the Petroleum Operations in relation to the Exploitation Area.
- 12.4 As from the date of granting of an Exploitation Authorisation for each Exploitation Area pursuant to Article 12.2 above, the STATE or the government body or unit which is duly authorised for such purpose:
- 12.4.1 has voting rights corresponding to its Participating Interest for any decision made under the Participation Agreement;
- 12.4.2 assumes responsibility for paying, according to its Participating Interest share, its share of any costs and expenses incurred for the Exploitation of the concerned Exploitation Area, except for those mentioned in Articles 15.2 and 19.1 below, which shall be borne by other entities constituting the CONTRACTOR;
- 12.4.3 Shall lift its Participating Interest share of Available Production;
- 12.4.4 Shall be, to the extent of its Participating Interest and, for the purpose of this Contract, considered as an entity constituting the CONTRACTOR. The share of the STATE in the Oil Production for Reimbursement and in the Oil Production for Revenue shall be considered as being part of the production to be allocated to the to the extent that such share is acquired in application of the provisions of this Article.



**ARTICLE 13: RECOVERY OF PETROLEUM COSTS AND PRODUCTION SHARING**

**13.1 Recovery of Petroleum Costs**

- 13.1.1 Starting from the Date of Production of the First Ton of Commercial Hydrocarbons, the CONTRACTOR shall market all of the production of Crude Oil obtained from the Contract Area, pursuant to the provisions defined below, exception of the share to which the STATE is entitled and which it decides to take in kind in accordance with Article 13.3 below.
- 13.1.2 For the recovery of Petroleum Costs, the CONTRACTOR may lift for each Calendar Year its Reimbursement Oil, which shall in no event be greater than -----percent (-----%) of the Available Production of Crude Oil, or only such smaller percentage as is necessary and sufficient to allow for recovery of the Petroleum Costs.
- 13.1.3 The recovery of Petroleum Costs by the Contractor shall be guaranteed in the following order:
  - Exploitation Costs of the current Calendar Year;
  - Development Costs;
  - Exploration Costs on a first in, first out basis.
- 13.1.4 The value of the Reimbursement Oil, defined in the Article 13.1.2 above, shall be calculated pursuant to the provisions of Article 16 of this Contract.
- 13.1.5 If during a Calendar Year the Petroleum Costs not yet recovered by the CONTRACTOR from the Contract Area in application of the provisions of this Article 13.1 exceed the equivalent in value of ----- percent (-----%) of the Available Production of Crude Oil, calculated pursuant to the preceding paragraph, the remainder of Petroleum Costs which are not recovered shall be carried forward to the following Calendar Year(s) until total recovery of the Petroleum Costs or until this Contract terminates.

**13.2 Production Sharing**

The Compensation Oil shall be shared between the STATE and the CONTRACTOR as a function of the value of the "R" factor defined hereafter:

<b>Value « R »</b>	<b>STATE Share, %</b>	<b>CONTRACTOR Share, %</b>

For the application of this Article, for a given Calendar Year, "R" refers to the ratio of "Net Cumulative Revenue" over "Cumulative Investments" calculated at the close of the preceding Calendar Year, where :

- **"Net Cumulative Revenue"** means the sum, from the Effective Date up until the end of the preceding Calendar Year, of the CONTRACTOR's gross revenues obtained as per the provisions of Articles 13.1 and 13.2 above, in the case of Crude Petroleum, and Articles 22.3.2 and 22.3.5 below in the case of Natural Gas, less the sum of the Exploitation Costs determined pursuant to the provisions of the Accounting Procedure annexed to this Contract and the amount of the company tax pertaining to Petroleum Operations and paid in the Republic of Cameroon for all fiscal years prior to the current Fiscal Year.
- **"Cumulative Investments"** means the sum, from the Effective Date up until the end of the preceding Calendar Year, of the Exploration Costs and Development Costs determined according to the provisions of the Accounting Procedure. Neither the recovery nor the amortisation of such Costs shall be taken into consideration for the calculation of the costs referred to in this definition.

13.3 The STATE may receive its Participating Interest share of Crude Petroleum production defined in Articles 13.1 and 13.2 above either in kind or in cash, at its sole discretion. However, in the absence of any notification pursuant to Article 13.5 below, the STATE shall be deemed to have elected to receive its entire Participating Interest share in kind and to separately market and dispose thereof at its own expense.

13.4 If the STATE wishes to receive in cash all or part of the monetary value of its Participating Interest share of Crude Petroleum production defined in Articles 13.1 and 13.2 above during a Calendar Quarter, it shall so notify the CONTRACTOR at least ninety (90) days prior to the beginning of the Quarter in question, specifying the exact quantity of its Participating Interest share of production to be received in kind during such Quarter.

Once the Parties have agreed on the amount payable to the CONTRACTOR as compensation for lifting and marketing the STATE's share as provided above, the CONTRACTOR shall then be required to (i) sell that quantity of the STATE's Participating Interest share of production not taken in kind by the STATE for the Quarter in question pursuant to the preceding paragraph, (ii) to proceed with liftings of such share during such Quarter, and (iii) to pay to the STATE, within sixty (60) Days following each lifting, an amount equal to the product of the quantity corresponding to the STATE's production share sold by the CONTRACTOR pursuant hereto multiplied by the sales price actually realized by the CONTRACTOR in an arm's length transaction, minus the agreed compensation payable to the CONTRACTOR. Notwithstanding the foregoing, nothing contained in Articles 13.3 or 13.4 above shall require the CONTRACTOR to enter into marketing arrangements which would interfere with the proper performance of any Crude Oil sales agreement for its share of production that the CONTRACTOR has executed prior to the written notice by STATE contemplated in Article 13.4 above.

The STATE shall have the right to request the payment for sales of its share of production handled by the CONTRACTOR in U.S. Dollars or in the Convertible Currency in which the transaction took place.

The CONTRACTOR shall not subscribe to any sales commitment for the STATE's production share for a term longer than one (1) year, unless the STATE gives its consent thereto in writing.

## **ARTICLE 14: FINANCIAL AND TAX PROVISIONS – EXCHANGE SYSTEM**

### **14.1 Financial Provisions**

- 14.1.1 All sums due to the STATE or to the CONTRACTOR under this Contract shall be payable in U.S. Dollars, except for mutual written agreement of the Parties on the choice of another Convertible Currency.
- 14.1.2 In the case of a delay in making a payment due under this Contract, the amounts due shall bear interest at the LIBOR rate increased by two percentage points (2%), beginning on the date on which they were due to have been paid.

### **14.2 Tax Provisions**

14.2.1 In accordance with the provisions of the Petroleum Code and of this Contract and without prejudice to the application of Article 29 below, the CONTRACTOR shall be liable, by reason of his Petroleum Operations, for payment of the following taxes, levies, duties, and royalties:

- a) the bonuses as defined in Article 15 below;
- b) the flat fees as defined in Section 90 of the Petroleum Code, for which the amounts and methods of payment are specified in the Finance Law No. 2000/08 of June 30, 2000 and its Application Decree No. 2002/032/PM of January 3, 2002;
- c) an annual surface rental fee as defined in Section 91 of the Petroleum Code for which the amount and methods of payment are specified by the finance law and application decree cited in paragraph b) above;
- d) the duties and taxes levied by the Customs Administration as identified in Sections 104 to 109 of the Petroleum Code specifying the customs provisions applicable to the Contract;
- e) the company tax identified in Section 93 of the Petroleum Code at the rate stipulated in Article 14.2.2 below.
- f) under conditions of general application, for fees related to transaction tax, stamp duty, tolls and real estate publicity, as well as for motor vehicle tax, with the exception of registration fees related to loans, sureties and contracts directly related to Petroleum Operations; and
- g) the special tax under the conditions provided for in Section 99.4 of the Petroleum Code.

14.2.2 The net profits that the CONTRACTOR earns from all of its Petroleum Operations in the Contract Area, unless otherwise specially provided in the Petroleum Code, are subject for the term of this Contract to a company tax at the rate of -----percent (----%).

The company tax basis rules are those determined by Sections 93 to 95 of the Petroleum Code, subject to the following special provisions:

- The amount fiscally deductible from the part of expenses constituting Petroleum Costs in application of this Contract is understood to be the amount of Petroleum

Costs effectively recovered during said Calendar Year. As regards capital expenditures, the allocations to the tax deductible amortizations' for each fiscal period correspond to the Petroleum Costs effectively recovered for these capital expenditures and for said fiscal period.

- The CONTRACTOR's books, records and accounts as well as tax returns shall be in US Dollars.

14.2.3 The payment of company tax for a given fiscal period shall be effected in four installments. Each installment shall be determined by application of the rate of company tax referenced in Article 14.2.2 above on the estimated portion of the taxable income for the year attributable to the Quarter.

Each installment shall be paid no later than the 15<sup>th</sup> of the month following the Quarter in which it is due. The final accounting shall be effected when the financial statements are submitted.

14.2.4 The CONTRACTOR shall benefit from the exonerations mentioned in Section 99 of the Petroleum Code.

14.2.5 It is expressly understood that the provisions of this Article apply individually to each entity comprising the CONTRACTOR under this Contract.

### **14.3 Exchange Rate System**

14.3.1 The CONTRACTOR is subject to the exchange rate regime of the Republic of Cameroon pursuant to the conditions specified in Section 110 of the Petroleum Code.

14.3.2 Pursuant to Section 110 (4) of the Petroleum Code, the benefit of the guarantees granted to the CONTRACTOR by virtue of said Section 110 of the Petroleum Code is extended to foreign national Sub-Contractors of the CONTRACTOR and their expatriates.

## **ARTICLE 15: SIGNATURE AND PRODUCTION BONUSES**

15.1 Within thirty (30) Days following the Effective Date, the CONTRACTOR shall pay to the STATE a signature bonus in the amount of ----- U.S. Dollars (US\$-----)

15.2 The CONTRACTOR shall pay to the STATE:

15.2.1 A production bonus in the amount of ----- U.S. Dollars (US\$-----) when the cumulative Crude Petroleum production since the beginning of Exploitation from the total of the Exploitation Authorisations deriving from the Contract Area reaches the threshold of ----- million (-----) Barrels;

15.2.2 A production bonus in the amount of ----- U.S. Dollars (US\$-----) when the cumulative Crude Petroleum production since the beginning of Exploitation from the total of the Exploitation Authorisations deriving from the Contract Area reaches the threshold of ----- million (-----) Barrels.

15.2.4 A production bonus in the amount of ----- U.S. Dollars (US\$-----) when the cumulative Natural Gas production since the beginning of Exploitation from the total of the Exploitation Authorisations deriving from the Contract Area reaches the threshold of ----- cubic feet.

15.2.5 A production bonus in the amount of ----- U.S. Dollars (US\$-----) when the cumulative Natural Gas production since the beginning of Exploitation from the total of the Exploitation Authorisations deriving from the Contract Area reaches the threshold of ----- cubic feet.

15.3 Payments required under Article 15.2 above shall be made within thirty (30) Days following the Day the cumulative production threshold in question is reached.

#### **ARTICLE 16: VALUATION OF HYDROCARBONS**

The Parties shall comply with the provisions of Title XIII of the Petroleum Regulation pertaining to the valuation of Hydrocarbons.

#### **ARTICLE 17: LIFTING OF PRODUCTION**

17.1 Ownership of the share of Hydrocarbons production to which CONTRACTOR is entitled under this Contract passes to the CONTRACTOR at the Delivery Point.

17.2 Each Party may separately obtain, lift in kind and dispose of as it wishes its share of the Available Production calculated pursuant to the provisions of Articles 13 and 16 above, notwithstanding the provisions of Article 58 of the Petroleum Regulation.

17.3 Not later than ninety (90) Days preceding the forecast Date of Production of the First Ton of Commercial Hydrocarbons, the Parties shall enter into a lifting agreement for the Available Production.

#### **ARTICLE 18: LOCAL GOODS AND SERVICES**

The CONTRACTOR and its Sub-Contractors shall comply with the provisions of Sections 76 and 77 of the Petroleum Code pertaining to granting preference to Cameroonian enterprises and personnel for the purposes of Petroleum Operations and notably for construction, supply, and service contracts.

#### **ARTICLE 19: TRAINING OF PERSONNEL**

19.1 The CONTRACTOR shall make available to the STATE a budget by Calendar Year that shall be dedicated to professional training of Cameroonian nationals in the petroleum sector of any skill levels who are not part of the CONTRACTOR's personnel. The amount of such budget shall be equal to ----- U.S. Dollars (US\$-----) for each Calendar Year during the Exploration Phase and ----- U.S. Dollars (US\$-----) for each Calendar Year during the Development and Exploitation Phase. Such budget shall be utilised in compliance with the professional training programmes contained in the Work Programmes and Budgets mentioned in Article 10.4 of this Contract.

19.2 The STATE shall furnish the CONTRACTOR with reasonable accounting evidence that such budget was in fact expended for the above-mentioned professional training programs when applicable.

#### **ARTICLE 20: FIXED ASSETS - OWNERSHIP OF GOODS**

20.1 Fixed assets which are acquired with funds which are recorded in the Joint Account shall be considered to be the joint property of the Parties, who shall each make a record of same in

their respective accounting books, at the pro rata of their respective participation in the Petroleum Costs, it being understood that such fixed assets financed by advances granted to the STATE by the CONTRACTOR shall become the property of the STATE, pro rata to its participation in the Petroleum Costs, to the extent that the STATE has entirely repaid all such advances.

- 20.2 Upon the expiration or the termination of this Contract, or in the event of surface relinquishment, the goods and fixed assets belonging to the CONTRACTOR, and which are necessary for the Petroleum Operations and which relate exclusively to the Petroleum Operations within the relinquished parcels, shall become the property of the STATE.
- 20.3 With regard to Articles 20.1 and 20.2 above, in the case in which such goods and fixed assets are shared by Petroleum Operations in multiple Exploitation Areas at the time of the surface relinquishment, the Parties shall meet to agree as to how and when such transfer shall take place so as to not impede the CONTRACTOR's efficient execution of its Petroleum Operations in the remaining Exploitation Area(s).

## **ARTICLE 21: ABANDONMENT AND ENVIRONMENTAL PROTECTION**

- 21.1 During the performance of Petroleum Operations, the CONTRACTOR shall ensure that its personnel and its Sub-Contractors take the environmental protection and Abandonment measures which are required under the provisions of the Petroleum Legislation, and particularly of Law No. 96/12 of 5 August 1996 constituting the framework law pertaining to management of the environment and its implementing decrees, as well as the current generally accepted practices of the international petroleum industry. In accordance with this obligation, the CONTRACTOR shall take the environmental and safety capability of a company into account in the hiring of its Sub-Contractors.

- 21.1.1 The CONTRACTOR shall provide the Minister in charge of the environment, within the two (2) months preceding the commencement of the minimum Work Programme, an environmental protection plan containing especially a waste management plan based on an integrated system of pollution control in accordance with Articles 63 and 64 of the Petroleum Regulation.

The application of this plan may be supervised on the ground by the Environmental Administration.

The Minister in charge of the environment shall have a period of thirty (30) Days to approve the environmental protection plan or communicate his comments to the CONTRACTOR. Failing a response within this period, the plan shall be deemed approved.

- 21.1.2 The CONTRACTOR commits in particular to submitting in due course the environmental impact study in compliance with the provisions of the Petroleum Legislation.

- 21.2 The CONTRACTOR shall establish an Abandonment Plan for each Exploitation Authorisation in the Contract Area in compliance with the Petroleum Regulation and the current generally accepted practices in the international petroleum industry. Such Abandonment Plan shall be annually reviewed by the CONTRACTOR to take into account especially the evolution of technical and financial parameters. The Abandonment Plan and its revisions shall be submitted to the STATE for approval.

- 21.2.1 The nature and terms for performing Abandonment work to be carried out by the CONTRACTOR shall be treated as a separate topic in each annual Work Programme

and corresponding Budget and shall be decided upon by the Parties according to the prevailing specific technical and environmental characteristics of the area to be relinquished or the facilities to be abandoned in accordance with the Abandonment Plan.

Pursuant to Section 44 of the Petroleum Code and subject to the exceptions identified in Article 21.2.2 below, the CONTRACTOR shall, before the expiration of the Exploitation Authorisation in question, undertake the Abandonment work in accordance with the Abandonment Plan.

21.2.2 (1) The CONTRACTOR shall not be obligated to proceed with all or part of the Abandonment work if the STATE notifies it in writing not later than one-hundred and eighty (180) Days before the expiration of the Exploitation Authorisation:

- i. its intention to pursue Hydrocarbons Exploitation within the framework of a given Exploitation Authorisation;
- ii. the STATE's request to leave in place specified goods and fixed assets located in the Contract Area and as a consequence not to proceed, in whole or in part, with the Abandonment work, it being understood that in such case the STATE cannot oppose the definitive plugging and abandonment of wells located in the Exploitation Authorisation in question.

(2) In the events identified in Article 21.2.2. (1) above, the Parties agree

- i. that in the Exploitation Area in question, there shall be prepared an inventory of features and a detailed inventory of wells and of all fixed and movable assets and installations transferred to the STATE by the CONTRACTOR, and the effective date of transfer of their control to the STATE shall be established.
- ii. that the CONTRACTOR shall secure the Abandonment funds in such a way as to guarantee, for the STATE as well as for itself, the irrevocable character of the application of the funds to the Abandonment work, their freedom from seizure and their protection against creditors of the Parties, or the bankruptcy of the establishment where the funds are held.

(3) On condition of the performance by the CONTRACTOR of the obligations placed under its responsibility by virtue of (i) and (ii) of Article 21.2.2 (2) above, for which it will in no event be exempted by the STATE, the latter releases the CONTRACTOR of its obligation to undertake the Abandonment work in the Exploitation Authorisation in question in the cases contemplated in Article 21.2.2 (1) above. Accordingly the STATE, pursuant to the Petroleum Code, waives all rights of recourse against the CONTRACTOR directly or indirectly related to the Abandonment work it has dispensed the CONTRACTOR from undertaking, or all damage and loss resulting therefrom, and moreover holds the CONTRACTOR harmless as against all third party claims of whatever nature for damage caused to third parties from wells, fixed and moveable assets and installations not abandoned by the CONTRACTOR at the request of the STATE.

21.3 The Parties agree that the CONTRACTOR shall not be liable for damage to the environment that may have existed in the Contract Area prior to the Effective Date.

21.4 CONTRACTOR is obligated to make Abandonment provisions as from the Date of Production of the First Ton of Commercial Hydrocarbons produced from the Contract Area in accordance with the methodology specified in the Accounting Procedure, and to place the corresponding funds in the Abandonment Account identified in Article 21.5 below. The funds placed into the Abandonment Account in accordance with this Article shall be included as Petroleum Costs.

21.5 Within six (6) months following the Date of Production of the First Ton of Commercial Hydrocarbons, the CONTRACTOR is required to open an escrow account in U.S. Dollars entitled in this Contract as the "Abandonment Account", for which the funds corresponding to the Abandonment provisions placed therein are allocated exclusively for payment of expenses related to the conduct of the Abandonment work in the Contract Area.

The banking establishment shall be chosen by CONTRACTOR from among institutions that have a rating at a minimum equal to "Standard & Poor's" "AA", or its international designated equivalent, or an equivalent agreed to by the monetary authority.

The Abandonment Account shall be created and managed in U.S. Dollars in a way as to:

- guarantee the stability of the currency in which the account is funded relative to the main currency utilised for financing the cost of the Abandonment work;
- guarantee the availability of the funds on the date the work is carried out;
- supervise the proper performance of the financial management of the funds, thus making it possible to minimise charges to economic earnings;
- manage the funds through a contractual arrangement which guarantees fairness and stability;
- guarantee the transferability of rights and obligations attached to the status of a co-Holder.

The actual methodology for the creation and management of the Abandonment Account and the funding schedule are specified in the Accounting Procedure.

## **ARTICLE 22: NATURAL GAS**

### **22.1 Non-Associated Natural Gas:**

22.1.1 For the purposes of this Article, Non-Associated Natural Gas consists of Natural Gas from an accumulation which contains predominantly Natural Gas and from which Natural Gas is the main commercial product. In the event a Discovery of Non-Associated Natural Gas is confirmed, the CONTRACTOR shall notify the Parties and submit a report consistent with the provisions of Article 11.1 of this Contract. Following the submission of such report, the CONTRACTOR shall initiate a dialogue within the Operating Committee for the purpose of determining whether the appraisal and Exploitation of said Discovery could lead to potential commerciality. In furtherance of this dialogue, the Parties shall jointly assess (i) identified market outlets for the Natural Gas of the subject Discovery in respect of both the local market and the export market; (ii) the infrastructure necessary for commercial Exploitation and (iii) commercial arrangements that may increase the possibility of commerciality.

22.1.2 Should the CONTRACTOR, following the aforesaid dialogue, come to the conclusion that the appraisal of the Non-Associated Natural Gas Discovery:

- (i) is justified, it shall undertake the appraisal Work Programme of the said Discovery, consistent with the provisions of Article 11.1 through 11.4 of this Contract;



- (ii) may be justified but requires further study of markets or additional Exploration in the Contract Area in order to conclusively warrant appraisal, it may defer its decision regarding appraisal of such Non-Associated Natural Gas Discovery until such a time as it deems appropriate, subject only to the expiration of the Exploration Phase as it may be extended pursuant to Article 4.1.3(ii) of this Contract. If the CONTRACTOR subsequently elects within the Exploration Phase to appraise the Non-Associated Natural Gas Discovery it shall do so consistent with the provisions of Article 11.1 through 11.4 of this Contract.
- (iii) is not justified, the CONTRACTOR shall relinquish its rights on the surface area which bounds such Discovery upon expiration of the Exploration Authorisation. In such case, the CONTRACTOR shall lose any right to Natural Gas which may be extracted from said Discovery, and the STATE shall then be free to undertake, or cause to be undertaken, any appraisal, development, production, processing, transport and marketing operations pertaining to the said Discovery, without any compensation to the CONTRACTOR, provided, however, that the execution of the CONTRACTOR's Petroleum Operations shall not be thereby prejudiced.

22.1.3 When the appraisal work is completed, and if the Parties mutually agree that the commercial Exploitation of this Discovery is warranted in order to supply the local market, or in the event the CONTRACTOR commits to develop and produce the Natural Gas for export, then the CONTRACTOR shall, before the end of the appraisal period, submit an application for an Exploitation Authorisation, which the Minister in charge of hydrocarbons shall grant in accordance with the provisions of the Petroleum Legislation.

The CONTRACTOR shall then have the right and the obligation to proceed with the development and production of this Natural Gas, consistent with the plan of development and production approved pursuant to the provisions of the Petroleum Legislation, and the provisions of this Contract which address Crude Petroleum shall be "*mutatis mutandis*" applicable to Natural Gas, subject to the special provisions of Article 22.3 of this Contract.

22.1.4 Should the CONTRACTOR, on completion of the appraisal work, determine that the Non-Associated Natural Gas Discovery is not commercial, the CONTRACTOR shall relinquish its rights on the surface area that bounds such Discovery upon the expiration of the Exploration Authorisation.

In such case, the CONTRACTOR shall lose any right to Natural Gas which may be extracted from the said Discovery, and the STATE shall then be free to undertake, or cause to be undertaken, any appraisal, development, production, processing, transport and marketing operations pertaining to the said Discovery, without any compensation to the CONTRACTOR, provided, however, that the execution of CONTRACTOR's Petroleum Operations shall not be thereby prejudiced.

Should the CONTRACTOR, on completion of the appraisal work carried out on a Discovery, consider that the Non-Associated Natural Gas field which is the subject of the Discovery is commercial, but that the presently existing commercial markets do not allow for a profitable Exploitation of the field, the CONTRACTOR may, on application and pursuant to the conditions set forth in Article 4.1.3 (ii) above, receive an extension of the Exploration Phase, in order to allow the CONTRACTOR to develop market outlets which are adequate for the profitable Exploitation of the field.

During the period referred to in the preceding paragraph, CONTRACTOR shall submit to the Operating Committee, within sixty (60) Days of the end of each year, a report which explains the actions taken by it in order to reach this goal, and which

updates the study of potential market outlets for the subject Non-Associated Natural Gas.

At the end of said period, the CONTRACTOR shall relinquish all its rights to a Non-Associated Natural Gas Discovery, unless it has applied for an Exploitation Authorisation.

## 22.2 Associated Natural Gas

22.2.1 For the purposes of this Article, Associated Natural Gas shall be Natural Gas which is not considered Non-Associated Natural Gas. In the event of a Discovery containing Associated Natural Gas, the CONTRACTOR shall specify in the report referred to in Article 11.4 of this Contrat whether or not production of the Associated Natural Gas (after processing of said Natural Associated Gas for the purpose of separating Crude Petroleum) exceeds the volumes utilised for Petroleum Operations (including re-injection and fuel), and whether it considers that such surplus may be available for marketing. Should the CONTRACTOR advise the STATE that a marketable surplus exists, the Parties shall jointly assess marketing outlets for such Associated Natural Gas surplus, in respect of both the local market and the export market (including the possibility of the joint sale of their share of production of such surplus Associated Natural Gas in the event such surplus is not suitable for commercial exploitation in any other manner), as well as the means necessary for its commercial Exploitation.

Should the Parties agree that development for sale of the Associated Natural Gas is warranted, the CONTRACTOR shall specify, in the Exploitation Work Programme and corresponding Budget referred to in Article 11.7 of this Contact, the additional installations required for the development and production of this surplus and the estimated applicable costs.

In such event, the CONTRACTOR shall be free to proceed with the development and production of this surplus, in accordance with the Exploitation Work Programme and corresponding Budget approved by the Operating Committee pursuant to the provisions of Article 11.7 above, and the provisions of this Contract applicable to Crude Oil shall apply "*mutatis mutandis*" to the surplus Associated Natural Gas, subject to the special provisions referred to in Article 22.3 below.

A similar procedure shall apply if it is decided to proceed with the sale or marketing of the Associated Natural Gas while Exploitation of the field is in progress.

22.2.2 Should the CONTRACTOR conclude that Exploitation of the surplus Associated Natural Gas is not warranted, and should the STATE at any time decide to utilise such Associated Natural Gas, the STATE shall advise the CONTRACTOR, in which event:

- a) The CONTRACTOR shall make available to the STATE, free of charge, at the outlet of the separator of Crude Oil and Natural Gas, all or part of such surplus which the STATE elects to lift;
- b) The STATE shall be responsible for gathering, processing, compressing and transporting such surplus from the separator referred to above, and it shall assume all additional costs and risks associated with the Petroleum Operations pertaining thereto;
- c) The construction of infrastructure necessary for the operations referred to in paragraph b) above, as well as the lifting of such surplus by the

STATE, shall be carried out in accordance with the generally accepted practices in the international petroleum industry, and in a manner which does not hinder the production, lifting and transport of Crude Oil by the CONTRACTOR.

22.2.3 Any surplus of Associated Natural Gas which is not utilised pursuant to the provisions of Articles 22.2.1 and 22.2.2 above shall be re-injected by the CONTRACTOR. However, the CONTRACTOR shall have the right to flare such gas in accordance with generally accepted practices in the international petroleum industry, provided the CONTRACTOR shall furnish the Operating Committee with a report which justifies that this gas cannot be utilised profitably for the purpose of increasing the recovery of Crude Petroleum by means of reinjection, and in such event, the Minister in charge of hydrocarbons shall approve the flaring.

**22.3 Provisions common to Associated and Non-Associated Natural Gas**

22.3.1 In the event of a Natural Gas Discovery, the Parties shall consult as soon as possible to define the legal, financial and fiscal conditions for the development of the Discovery. These provisions shall be the subject of a special agreement, in accordance with the terms of Article 31.2 of this Contract.

22.3.2 For the purpose of recovering Petroleum Costs pertaining to Natural Gas, the CONTRACTOR may lift free of charge, for each Calendar Year, Reimbursement Gas equal to----- percent -----%) of the Available Production of Natural Gas, or only such lesser percentage that is necessary and sufficient to allow recovery of the Petroleum Costs.

22.3.3 The value of the Reimbursement Gas as defined in the preceding paragraph shall be calculated in accordance with the provisions of Article 22.3.6 of this Contract. The recovery of Petroleum Costs shall be guaranteed in the order cited in Article 13.1.3 above.

22.3.4 If, in the course of a given Calendar Year, Petroleum Costs as yet unrecovered by the CONTRACTOR in the Contract Area under the provisions of Articles 22.3.1 and 22.3.2 above exceed the equivalent in value of the percentage of Available Natural Gas specified above and calculated in accordance with the provisions of the preceding paragraph, then in such event, the balance of Petroleum Costs pertaining to Natural Gas which are unrecovered as specified above for the Calendar Year under consideration, shall be carried forward to the Calendar Year(s) following, until full recovery of the Petroleum Costs pertaining to Natural Gas or the expiration of this Contract

22.3.5 After deduction of the Reimbursement Gas in accordance with the provisions of Articles 22.3.1 and 22.3.2 above, Compensation Gas shall be shared between the STATE and the CONTRACTOR as a function of the value of the "R" factor as defined in Article 13.2:

I n Value « R »	STATE Share, %	CONTRACTOR Share, %
a		
n		
y		
	Page 32	

event, these provisions may be reviewed at the request of any Party depending on the utilisation adopted for the Natural Gas in conformity with the Cameroon Gas Master Plan (including but not limited to gas exports, local use, generating electricity from gas, production of LPG, LNG, GTL) as well as the scenarios and development schemes finally agreed upon in accordance with the STATE's policy for the valorisation of Natural Gas resources.

The figures indicated in the table above shall not be applicable for large scale integrated Natural Gas projects, including LNG, gas-to-liquids, methanol, and such other projects that average in excess of 150 MMCF per day over a long term contract, the terms of which shall be negotiated between the Parties at the time of the project consideration.

The CONTRACTOR shall be entitled to freely access its share of Natural Gas production in accordance with the provisions of this Contract. It shall also be entitled to carry out the separation of liquids from Natural Gas extracted, and to transport, store and sell on the local or export market its share of liquid Hydrocarbons separated as aforesaid. The Parties shall agree to the regime to be applied to condensates when the time comes.

22.3.6 For the purposes of this Contract, the price of Natural Gas, expressed in dollars per million BTU shall be equal to the effective price as determined in sales contracts for Natural Gas, provided such sales shall specifically exclude:

- a) Sales which involve a buyer which is an Affiliate of the seller, as well as sales between entities which comprise the CONTRACTOR; or
- b) Sales which include consideration other than a payment in freely convertible currency or sales which are motivated, in whole or in part, by consideration which is not prompted by the economic consideration normally found in the sale of Natural Gas.

In respect of the sales referred to in paragraphs a) and b) above, the price of Natural Gas shall be arrived at by mutual agreement between the STATE and the CONTRACTOR on the basis of the market price in effect at the time of the sale of a fuel that is a substitute to Natural Gas.

22.3.7 In the event the CONTRACTOR elects to separate from Natural Gas all or a portion of liquid Hydrocarbons following a procedure determined by the CONTRACTOR, Natural Gas shall be measured after the CONTRACTOR has completed separation operations.

## **ARTICLE 23: ASSIGNMENT**

23.1 The CONTRACTOR may assign all or part of its rights and obligations under this Contract pursuant to provisions of the Petroleum Legislation and this article.

23.1.1 Pursuant to Paragraph 2 of Section 17 (1) of the Petroleum Code, the STATE already grants its prior consent to assignments among entities comprising the CONTRACTOR, having as their sole purpose the repartition of participation percentages among these entities.

23.1.2 In the case contemplated above, the assignor is obligated to inform the STATE and submit to it the information listed in Article 32 of the Petroleum Regulation.

The assignment shall be effective on the date agreed between assignor and assignee, it being understood that the assignee shall thereby be legally substituted to all the rights and obligations of the assignor under this Contract, including the obligation that the assignee provide a letter of guarantee, if applicable, with assignor being absolved of all responsibilities and obligations in proportion to the percentage participation assigned as from the effective date of the assignment.

- 23.2 The STATE may assign all or part of its rights and obligations arising under this Contract:
- 23.2.1 to a government body or unit, provided that the latter remains bound by all the terms of this Contract; or
- 23.2.2 to the CONTRACTOR.
- 23.3 The assignment of rights and obligations by the CONTRACTOR and by the STATE pursuant to this article shall in no way diminish the obligations that may have arisen and which have not been fulfilled by the Parties before the assignment date, except for a written commitment by the assignee to be responsible for assignor's responsibilities.
- 23.4 Assignments of any kind effected pursuant to this Contract between entities comprising the CONTRACTOR and their Affiliates are subject to the payment of flat fees, as prescribed by Section 90 of the Petroleum Code.

#### **ARTICLE 24: FORCE MAJEURE**

- 24.1 No Party shall be liable for the non-performance or the partial or late performance of any of its obligations, if the responsible Party is so prevented by reason of Force Majeure.

An event shall be considered to be an event of Force Majeure if it meets the following conditions:

- it has the effect of temporarily or permanently preventing either of the Parties from performing the obligations incumbent upon it under this Contract ; and
- it is unforeseeable or unpreventable or beyond the control of either of the Parties, it being understood that a failure to meet a payment obligation is never excused by Force Majeure.

- 24.2 For purposes of this Contract, the following occurrences, *inter alia*, shall be considered as Force Majeure if they meet the conditions referred to above: strikes, work stoppages, fires, earthquakes, landslides, disruption of the means of transportation, floods, hurricanes, volcanic eruptions, explosions, wars, guerrilla warfare, terrorist acts, blockades.

- 24.3 The Party impeded by the Force Majeure shall immediately so notify the other Party and later confirm it in writing together with any useful and detailed information.

In the event that performance of an obligation is only partial or late, by reason of an event of Force Majeure, the Parties shall continue to carry out the clauses of this Contract that they are in a position to carry out despite the Force Majeure. Moreover, the impeded Party shall do its best to meet its obligations pursuant to this Contract and to make every reasonable effort to minimise its consequences.

The Party impeded by the Force Majeure shall renew its compliance with the provisions of this Contract within a reasonable period of time after the event of Force Majeure has ceased to

exist. The Party that is not impeded shall do its best to assist the impeded Party in renewing its compliance with the provisions of this Contract.

- 24.4 In any event, at the request of either Party, the Operating Committee shall record the event of Force Majeure, the suspension of the Petroleum Operations as well as the return to normal application of the clauses of this Contract.
- 24.5 In the event of Force Majeure, the term of the Exploration Phase or, if applicable, that of the Exploitation and Development Phase, shall be extended for a time period equal to that of the Force Majeure. In the same manner, the terms granted to a Party, or from which it benefits pursuant to the Contract or the Accounting Procedure, shall be extended for a time period equal to that of the Force Majeure.

## **ARTICLE 25: CONFIDENTIALITY**

- 25.1 The Parties shall comply with the provisions of the Petroleum Legislation, particularly those of Title XVII of the Petroleum Regulation pertaining to the confidentiality obligation incumbent upon them with regard to documents, reports, surveys, plans, data, samples and other information connected to the performance of this Contract (hereafter referred to as "Contractual Data").
- 25.2 Subject to the provisions of Article 25.3 below, the Parties consider Contractual Data to be confidential and commit, as may apply to each, not to communicate it to third parties other than Affiliates, except for routine statistical data. This obligation shall survive until expiration of the Contract in accordance with Article 109 of the Petroleum Regulation.
- 25.3 Each entity comprising the CONTRACTOR may, after having so informed the other entities and the STATE, communicate Contractual Data:
- a) to any company with a good faith interest in effecting a possible assignment or in rendering assistance in connection with the Petroleum Operations, after obtaining a commitment from such company to keep all such information and data confidential and to use them solely for the purposes of such assignment or assistance;
  - b) to any external professional consultants involved in Petroleum Operations, after obtaining a similar confidentiality commitment on their part;
  - c) to any bank or financial entity from which the CONTRACTOR seeks to obtain financing, after obtaining a similar confidentiality commitment on their part;
  - d) when and to the extent required by a recognised stock exchange;
  - e) within the context of any judicial, administrative or arbitral adversarial proceedings;
  - f) to an Affiliate, provided such Affiliate maintains confidentiality as provided in this Article 25;
  - g) to a governmental agency or other entity when required by the Contract.
- 25.4 After having informed the CONTRACTOR, the STATE may also communicate Contractual Data to its lenders.
- 25.5 The CONTRACTOR may, with the prior written consent from the STATE, exchange Contractual Data for similar information and data with any interested petroleum company. A

copy of the exchange agreement covering the above cited agreement and the exchanged data shall be submitted to the STATE, under the same confidentiality restrictions.

25.6 The provisions of Articles 25.2, 25.3, 25.4 and 25.5 above are also applicable as pertaining to this Contract and its Annexes.

## **ARTICLE 26: JOINT LIABILITY**

The obligations and responsibilities of the entities comprising the CONTRACTOR under this Contract are joint and several, it being understood that the entities comprising the CONTRACTOR shall not be jointly subject to the company tax provided in Article 14.2 of this Contract, which shall be due individually from each of them.

## **ARTICLE 27: INTERPRETATION; SETTLEMENT OF DISPUTES**

- 27.1 If a Party waives, one or more times, performance of an obligation or condition specified in this Contract, or if such Party does not exercise certain of its rights under this Contract, such waivers shall not be interpreted as a permanent waiver of its rights or of the right to require future performance of all obligations and conditions of this Contract.
- 27.2 The Parties agree that the disputes mentioned in Articles 6.6, 7.3.2 iv, 11.3 of this Contract as well as the evaluation of Hydrocarbons pursuant to Article 16 of this Contract are deemed to be of a technical nature and shall be submitted for expert resolution pursuant to the provisions of Title XX of the Petroleum Regulation. The decision of the expert shall be final and binding on the Parties.
- 27.3 The Parties shall make reasonable efforts to amicably settle any dispute arising between them under this Contract. Failing amicable settlement, the STATE and the CONTRACTOR hereby consent to submit to the International Centre for Settlement of Investment Disputes (hereinafter the "ICSID") any dispute arising out of or relating to this Contract for settlement by arbitration pursuant to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (hereinafter the "ICSID Convention").
- 27.4 Any arbitral tribunal constituted pursuant to this Contract shall consist of three (3) arbitrators being appointed in accordance with the provisions of the ICSID Convention and arbitration rules.
- 27.5 Any arbitral tribunal constituted pursuant to this Contract shall apply the law of Cameroon as supplemented, where applicable, by principles of international law,.
- 27.6 The STATE hereby waives any right of sovereign immunity as to it and its property intended to prevent the enforcement and execution of any award by an arbitral tribunal constituted pursuant to this Contract.
- 27.7 The arbitration shall take place in -----. The language of the arbitral proceedings shall be French and/ or English.
- 27.8 Any arbitration proceedings pursuant to this Contract shall be conducted in accordance with the Arbitration Rules of the ICSID in effect on the date on which such proceedings are initiated.
- 27.9 The Parties hereby agree that for purposes of Article 25 (1) of the ICSID Convention, any dispute in connection with or arising from this Contract is considered to be a legal dispute occurring directly as a result of an investment.
- 27.10 The Parties shall not be discharged from their obligations under this Contract while the arbitration procedure is rendering.

However, the introduction of the arbitration procedure shall suspend the performance of the contested matter for the entire duration of such procedure.

27.11 The decisions and awards of the arbitrators shall be final and irrevocable in nature. They shall bind the Parties and are executory pursuant to Article 54 of the ICSID Convention.

The Parties waive, formally and without reservation, any right to attack such decision or award, to impede its implementation by any means whatsoever, or to have recourse before any court or jurisdiction whatsoever, except for the recourse provided in Articles 50 to 52 of the ICSID Convention.

27.12 In the event the ICSID is not competent for any reason whatsoever to decide on or resolve any dispute submitted to it pursuant to Article 27.3 above, any dispute, controversy or claim arising out of or relating to this Contract, or the breach, termination or invalidity thereof, shall be settled by arbitration in accordance with the United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules in force. In such event, all the provisions of this Article 27, except for 27.3 and 27.9 above, shall be applied *mutatis mutandis*.

## **ARTICLE 28: TERMINATION OF THE CONTRACT - RELINQUISHMENT**

28.1 Subject to the provisions of Articles 28.2 and 28.3 below, and without prejudice to the application of Article 27.12 above, the STATE shall have the right to terminate this Contract, provided that it notifies the CONTRACTOR ninety (90) Days in advance, if the CONTRACTOR:

- a) fails to meet a payment obligation for a period of more than thirty (30) Days after the date when the payment is due;
- b) has seriously violated the provisions of this Contract;
- c) has materially breached the legislation and regulations in force in respect of Petroleum Operations;
- d) has declared bankruptcy or become subject to winding up by decision of the court.

28.2 If the facts which gave rise to the notice of termination under Article 28.1 (a), (b) or (c) above are remedied by the CONTRACTOR within ninety (90) Days following the notice by the STATE of its intention to terminate, or within any other extension of time granted by the STATE, such termination shall not become effective.

28.3 If the CONTRACTOR intends to challenge the defaults or breaches asserted by the STATE in its termination notice, it should justify its position by providing all justifications it deems necessary in writing addressed to the STATE within thirty (30) Days from the receipt of the notification letter cited in Article 28.1 above.

28.4 If, following the above procedure and the expiry of the ninety (90) Day period, disagreement persists between the STATE and the CONTRACTOR, the dispute shall be settled by arbitration pursuant to Article 27 above. In such case the sanctions provided for in the legislation and regulations or in this Contract shall not be enforced by the STATE before the arbitrators foreseen in Article 27 above have heard the CONTRACTOR's explanations and delivered their judgment.

28.5 If the STATE, pursuant to Section 19.1 of the Petroleum Code and Article 34 of the Petroleum Regulation, becomes aware of changes in the factors constituting control of the



CONTRACTOR or of a component of the CONTRACTOR, it may, within a ninety (90) Day period, notify the latter and the other components of the CONTRACTOR that it deems the modifications to the control factors of said component of the CONTRACTOR are incompatible with the component's exclusive Exploration and Exploitation rights granted pursuant to this Contract. If the rights and obligations of said component of the CONTRACTOR are not taken over by the other components of the CONTRACTOR within ninety (90) Days, the STATE shall have the right to terminate this Contract upon thirty (30) Days advance written notice by notifying the CONTRACTOR to such effect.

- 28.6 If the facts that may give rise to termination become the subject of proceedings under Article 27 of this Contract, the termination shall not become effective for the entire duration of the proceedings, and shall only become effective as a result of decision at the end of such proceedings.
- 28.7 Within ninety (90) Days following the advance written notice of termination of this Contract under Articles 28.1 or 28.5 above, or within any other extension of time granted by the STATE, the CONTRACTOR shall complete any reasonable and necessary action to prevent damage to the environment and to ensure the safety of persons and property.
- 28.8 The CONTRACTOR may relinquish all of its rights and obligations for any Exploitation Area if it considers that it is no longer in the commercial interest of the CONTRACTOR to continue with Exploitation operations on such Exploitation Area, provided that :
- 28.8.1 The CONTRACTOR gives the STATE written notice of its intention to relinquish twelve (12) months in advance; and
- 28.8.2 The CONTRACTOR properly concludes the work or pays an amount equivalent to the monetary value of the work which was specified in the Work Programme and Budget examined and approved by the Operating Committee prior to the date of the notification of the surrender; and
- 28.8.3 The CONTRACTOR carries out, in conformity with generally recognised practices of the international petroleum industry, all operations necessary for the transfer of Exploitation activity to the STATE, if the STATE decides to carry on the Exploitation pursuant to the provisions of Articles 21.2.2 (1) and 28.8 of this Contract, all in a manner as to allow the normal continuation of the Petroleum Operations. The CONTRACTOR shall moreover take all reasonable and necessary precautions to prevent damage to the environment and to ensure the safety of persons and property, and abandon the wells and reservoirs, if applicable.
- 28.8.4 All costs incurred by the CONTRACTOR under this Article 28.8 for the conduct of the Petroleum Operations carried out pursuant to this Contract shall constitute Exploitation Costs, with the exception of costs which result solely from the relinquishment by the CONTRACTOR, which shall be charged exclusively to the CONTRACTOR.
- 28.8.5 The CONTRACTOR commits to liquidating all debts that it has contracted up to the effective date of its relinquishment and shall remain responsible for its debts, including financial costs, up until definitive liquidation of same.
- 28.8.6 The relinquishment by the CONTRACTOR shall take effect only after the fulfillment of the conditions set forth in this Article and in Article 21.2.2 (2) above.
- 28.9 As from the effective date of the relinquishment by the CONTRACTOR of its rights and obligations in connection with an Exploitation Area pursuant to this Article, the CONTRACTOR

shall no longer have any right or interest in the Exploitation Area that the relinquishment concerns, and definitively waives any claim to the production which may later be extracted therefrom.

- 28.10 The STATE shall assume all risks and responsibilities connected with the Petroleum Operations as of the effective date of the relinquishment and shall provide the CONTRACTOR, at the latter's request, with a written statement verifying that the latter is released from any obligation, without prejudice to the application of the provisions in Article 21.2.2 (3) above.
- 28.11 If the STATE wishes that the Exploitation of the Exploitation Area in question be continued after the relinquishment by the CONTRACTOR has taken effect, it may ask the CONTRACTOR to continue with such Exploitation, in the name of and on behalf of the STATE and solely at the expense, risk and responsibility of the latter, for a maximum period of three (3) months starting from the effective date of the relinquishment.

The CONTRACTOR agrees to transfer for the benefit of the STATE the balances in Abandonment Fund under the conditions set forth in Article 21.2.2 (2) (ii) above as well as the guaranties or obligations connected to the Petroleum Operations, the relevant insurance coverage pertaining to the goods and equipment acquired from national or foreign companies and agencies to the extent that such transfer is authorised by the provisions of the contracts signed by the CONTRACTOR with such companies and agencies. The CONTRACTOR shall notify such companies and agencies of the substitution of the STATE for the CONTRACTOR in all rights and obligations of the CONTRACTOR arising from such guaranties and insurance contracts.

The CONTRACTOR shall draw up or shall have drawn up, legal instruments concerning such transfers that have been agreed to by third-party companies and agencies, and expenses for such activities shall be considered as Petroleum Costs.

- 28.12 The termination of the Contract for any reason whatsoever shall not be interpreted as a waiver by either Party of its rights acquired prior to the effective date of the termination or, if applicable, the relinquishment, which have not been fulfilled by such effective date. It is equally understood that the termination of the Contract pursuant to this Article shall not be interpreted as discharging either Party of its obligations that have not been fulfilled as of the effective date of the termination.
- 28.13 The termination of the rights and obligations of any Party to this Contract as a result of any act, omission or circumstance affecting one entity comprising the CONTRACTOR shall not constitute termination of the right and obligations hereunder of the remaining CONTRACTOR Parties who shall be entitled, if they so elect and without prejudice to the terms of the Participation Agreement, to receive the Participating Interest of such entity in proportion to their respective Participating Interests.

## **ARTICLE 29: STABILISATION CLAUSE**

- 29.1 In the event of a change in the provisions of Title VI of the Petroleum Code, or more generally of any of the provisions of the Petroleum Legislation and of the provisions of the texts to which the Petroleum Code refers for the application of the said Title VI, or of the annual finance law, which take place after the Effective Date and which would affect in a significant manner the economic equilibrium of this Contract to the detriment of the CONTRACTOR, the CONTRACTOR may, within two (2) months from the written notification to CONTRACTOR of the legislative or regulatory measure in question, send to the Minister in charge of hydrocarbons written notification stating that the legislative or regulatory change in question would have a significant detrimental effect on CONTRACTOR's economic equilibrium as

guaranteed pursuant to Article 9.2.2.1 of this Contract. Said notification shall also set forth the CONTRACTOR's justifications.

29.2 For purposes of the preceding paragraph, a "significant" modification is that which has the effect of reducing the CONTRACTOR's economic benefits resulting from this Contract.

29.3 Within a two (2) month period starting from receipt of the CONTRACTOR's notice referred to in Article 29.1 above, the Minister in charge of hydrocarbons may either:

29.3.1 Accept in writing the reasons of the CONTRACTOR and make arrangements so that the legislative or regulatory provision in question no longer applies to the CONTRACTOR nor to any entity comprising CONTRACTOR; or

29.3.2 Reject in writing the CONTRACTOR's justifications.

If the Minister in charge of hydrocarbons does not respond to the notice referred to in Article 29.1 above within the given time frame, the remedy under Article 29.3.1 above shall be deemed to apply.

29.4 If the Minister in charge of hydrocarbons cannot make arrangements as provided for in Article 29.3.1 above, the Parties shall endeavor to make such readjustments to the Contract as to reestablish the economic equilibrium of the Contract as it had been agreed to on the Effective Date, taking into account the new legislative or regulatory provision referred to in the notice.

The Parties shall make their best efforts to agree upon revisions to be made to the Contract within ninety (90) Days as from the notification of the rejection of the above-mentioned request by the CONTRACTOR.

The revisions to be made to the Contract may not in any event diminish the rights or increase the obligations of the CONTRACTOR as had been agreed to as of the Effective Date.

29.5 If agreement cannot be reached between the Parties within the time frame provided in Article 29.4 above, the dispute may be submitted by either Party to the arbitration procedure as provided for in Article 27 of this Contract.

29.6 The submission of written notice referred to in Article 29.1 above shall cause the suspension of the measure until the decision of the Minister in charge of hydrocarbons and, in the case of rejection, until the end of the time period provided for in Article 29.4 above, or, pursuant to Article 29.5 above, until the end of the proceedings set forth in Articles 27.3 or 27.11 above.

## **ARTICLE 30: NOTICES**

30.1 All notices concerning this Contract shall be in writing and delivered in person or by express courier or by any means of transmission, either electronic or communication in writing, which makes it possible to confirm that the transmission took place, and shall be sent to the Parties at the following addresses:

**STATE :** The REPUBLIC OF CAMEROON  
C/O NATIONAL HYDROCARBONS CORPORATION  
B.P. 955  
YAOUNDE - CAMEROON  
For the attention of Mr. Adolphe MOUDIKI  
Executive-General Manager  
TEL: (237) 22 20 19 10 / 22 20 98 64  
FAX : (237) 22 20 98 69 / 22 20 46 51

**CONTRACTOR :** -----

TEL: -----

FAX: -----

- 30.2 Any written notice given under the provisions of this Contract shall be deemed to have been received as of the time of its transmission, if by electronic means, and at the time when it is actually delivered to the addressee in other cases. A Party's obligation to respond to the notice shall commence as of the Day when the notice is deemed received.
- 30.3 Either Party has the right to change the address where it wishes to receive any notice and communication, not later than five (5) working Days prior to the effective date of the change of address.

### **ARTICLE 31: CONTRACT DOCUMENTS AND LANGUAGES OF THE CONTRACT**

- 31.1 This Contract consists of this document and its Annexes.
- 31.2 This Contract may not be modified except by written agreement of the Parties.
- 31.3 This Contract shall be drawn up in English and French. Three (3) originals shall each be signed by the signatories to this Contract. Both versions of the Contract shall be equally binding.

**Done in Yaoundé on -----in three (3) originals in the English language and three (3) originals in the French language.**

For the **REPUBLIC OF CAMEROON**,

***The Minister of Mines, Industry, and Technological Development***

-----  
=====

***The Executive General Manager of the National Hydrocarbons Corporation***

-----  
=====

For the **CONTRACTOR**,

-----  
***The Chairman and Chief Executive Officer***

-----  
=====

**ANNEX B**

**TO THE**

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**PRODUCTION SHARING CONTRACT**

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**ACCOUNTING PROCEDURE**

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- 6.1 Production Information
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**ARTICLE B.7**

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- 7.1 Monetary Value of Production and Pricing Statement
- 7.2 Due Date for Submitting the Statement of the Monetary Value of Production and Pricing

**ARTICLE B.8**

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**ARTICLE B.9**

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- 9.1 Statement of Costs and Receipts
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**ARTICLE B.10**

**END-OF-YEAR STATEMENT**

**ARTICLE B.11**

**ANNUAL BUDGET STATEMENT**

- 11.1 Annual Budget Statement
- 11.2 Annual Budget Statement Due Date

**ARTICLE B.1**  
**GENERAL PROVISIONS**

**1.1 Purpose**

The purpose of this Accounting Procedure is to draw up a list of Petroleum Costs, classify such costs by category and set forth the methods and rules for recording the **CONTRACTOR**'s accounting, which shall be according to generally accepted rules of accounting in the international petroleum industry unless specifically stated otherwise, and approving same.

**1.2 Definitions**

For purposes of this Accounting Procedure, the terms and expressions defined in the Contract have the same meaning as used therein.

'*Contract*' means the Production Sharing Contract between the Republic of Cameroon and ----- dated -----, and annexes attached thereto, of which this Accounting Procedure forms an integral part.

"*OHADA*" : means Organization for the Harmonization of Business Law in Africa

**1.3 Inconsistencies**

In the event of any inconsistency or conflict between the provisions of this Accounting Procedure and those of the Contract, the provisions of the Contract shall prevail.

**1.4 Accounting Records and Reports**

1.4.1 During the Exploration Phase of the Contract, and for up to one hundred and eighty (180) Days thereafter, the **CONTRACTOR** shall maintain in ----- or in any city in Cameroon designated by the **CONTRACTOR**, complete accounts as well as books and records of all Petroleum Costs, and other records and costs the Contractor deems relevant, in accordance with generally accepted rules of accounting in the international petroleum industry and in accordance with the chart of accounts adopted under the provisions of Article 1.4.2 below. Upon a Commercial Discovery and approval of a plan of development for such Commercial Discovery, the **CONTRACTOR** shall maintain thereafter at its head office in Cameroon accounting books and records pertaining to all Petroleum Operations, including Petroleum Costs incurred, in accordance with generally accepted rules of accounting in the international petroleum industry and the chart of accounts referred to in Article 1.4.2 below.

1.4.2 Within sixty (60) Days after the Effective Date, the **CONTRACTOR** shall submit to the **STATE** for its review and approval an outline of its chart of accounts and the organization of its accounting. Such outline shall be consistent in all respects with generally accepted rules of accounting in the international petroleum industry and with the standards applicable to Petroleum Operations carried out by the **CONTRACTOR** and principles of OHADA.

Within ninety (90) Days after the above-mentioned submittal, the **STATE** shall either notify the **CONTRACTOR** of its approval or shall request in writing revisions appropriate to the **CONTRACTOR**'s proposal. In the absence of a written response within the ninety (90) day period such submittal is deemed approved. Within one hundred and eighty (180) Days after the Effective Date, the **CONTRACTOR** and the **STATE** shall agree on the general



outline of the chart of accounts, which shall contain a description of the accounting system and procedures to be followed in the context of performance of the Contract. Following such agreement, the **CONTRACTOR** shall expeditiously prepare and provide the **STATE** with a final copy of the chart of accounts and the terms for its utilisation for purposes of accounting, recording and reporting requirements pursuant to the Petroleum Regulation and the Contract.

1.4.3 Notwithstanding the general scope of the preceding paragraph, the **CONTRACTOR** shall, if applicable, submit at annual, quarterly and/or monthly intervals statements related to the Petroleum Operations as follows:

- (a) A Production statement (see Article 6 of this Accounting Procedure).
- (b) A statement of the monetary value of Production and pricing utilised (see Article 7 of this Accounting Procedure).
- (c) A Production-sharing statement (see Article 8 of this Accounting Procedure).
- (d) A statement of expenditures and revenue (see Article 9 of this Accounting Procedure).
- (e) Summary end-of-year statements of the accounts (see Article 10 of this Accounting Procedure).
- (f) An annual Budget statement (see Article 11 of this Accounting Procedure).

1.4.4 The reports and statements shall be prepared in accordance with this Accounting Procedure and the Petroleum Legislation, and, where these are silent on a particular point, in accordance with generally accepted rules of accounting in the international petroleum industry.

1.4.5 The **CONTRACTOR** shall maintain its accounts according to generally accepted rules of accounting in the international petroleum industry and in such form as to allow the Parties, once statements have been received, to record in a normal fashion in their books of accounts the Petroleum Costs pertaining to the Petroleum Operations that **CONTRACTOR** has incurred. Entries shall be recorded in accordance with generally accepted rules in the international petroleum industry and principles of OHADA.

1.4.6 The **CONTRACTOR** shall record separately in its books and accounts all transactions arising out of business interests of the **CONTRACTOR** that are separate from those chargeable to the Joint Account.

## 1.5 Language and Units of Account

Unless otherwise decided by the Operating Committee, the accounting, records and reports shall be prepared and maintained in English, using the U.S. Dollar as the currency of account.

## 1.6 Audit and Inspection Rights of the STATE

1.6.1 Provided it shall have notified the **CONTRACTOR** thirty (30) Days in advance, the **STATE** shall have the right to proceed with any on site inspection and audit, during normal business hours, of any accounting records and documents in support of Petroleum Costs, including, without limitation, the **CONTRACTOR's** books of account, accounting archives and records, invoices, payment vouchers, debit notes, price lists and similar documentation in relation to the Petroleum Operations. The length of each such audit shall not exceed

thirty (30) Days. If necessary, this time period may be extended by agreement of the Parties.

- 1.6.2 All audits pertaining to Petroleum Operations shall be conducted in -----, or any location in Cameroon agreed by the Parties, provided however that a complete duplicate set of the books of accounts, and accounting records and documents shall be maintained and updated at the **CONTRACTOR**'s head office in Cameroon. The **CONTRACTOR** is moreover obligated to make available in Cameroon all records necessary to the audit.
- 1.6.3 One audit shall be conducted for the initial Exploration Period and one audit for each renewal period of the Exploration Phase. Each audit shall be commenced within six (6) months after the end of the relevant period.
- 1.6.4 After the end of the Exploration Phase, audits by the **STATE** may be conducted annually, limited however to only one audit per year. The **STATE** shall have a period of two (2) years following the end of the Calendar Year in question to commence any audit procedure. If the **STATE** does not conduct the audit within the time periods established in Articles 1.6.1 and 1.6.3 above, the **CONTRACTOR**'s accounts shall be deemed approved by the **STATE**, and the **STATE** shall not be allowed to request any adjustments thereafter. The **STATE** may carry out the audits itself or through the intermediary of a competent auditing firm in the audit of international oil companies, authorised for such purpose and consistent with the regulations in force in Cameroon pertaining to the conduct of audits.
- 1.6.5 In the event of an audit, the transport costs by the most direct route to the site of the audit, housing and a reasonable per diem allowance for two (2) auditors for a maximum period of six (6) weeks shall be invoiced to and paid by the **CONTRACTOR** to the **STATE**, as further defined in Article 1.7.3 below, unless otherwise agreed by the parties.
- 1.6.6 The costs of the audits, which shall not exceed market prices in the region, shall be borne by the **CONTRACTOR** and shall constitute Petroleum Costs recoverable as Exploitation Costs.
- 1.6.7 Any auditing exceptions shall be made in writing and include copies of documentation substantiating the audit exception notified to the **CONTRACTOR** within a period of ninety (90) Days after the end of the audit, and shall be the subject of an exchange of letters between the **CONTRACTOR** and the **STATE**. Failure to notify one or more exceptions within the above-referenced time frame shall be deemed to be an acknowledgement that the **CONTRACTOR**'s accounting records are dependable and correct.
- 1.6.8 During an audit, the **STATE** may examine and verify all charges and credits solely relating to Petroleum Costs, including books of account, marginal entries, supporting records and inventories, vouchers, invoices and other documents and correspondence which the **STATE** deems necessary for purposes of conducting an audit and verifying costs and credits. Furthermore, the auditors may, within the context of carrying out their duties, inspect the job sites, work areas, warehouses and offices of the **CONTRACTOR** directly or indirectly serving the Petroleum Operations, and make any relevant written inquiry to the appropriate person. Where the **STATE** requires verification of charges made by an Affiliate of the **CONTRACTOR**, the **STATE** may require an auditing certification from an internationally recognised auditing firm, which shall be the **CONTRACTOR**'s statutory auditor.
- 1.6.9 The **CONTRACTOR** shall respond to any notices of exception under Article 1.6.7 above within a period of ninety (90) Days after receipt of such notice. Where the **CONTRACTOR** has, after such period, failed to answer a notice of exception, the exception shall be deemed accepted.

- 1.6.10 All accepted adjustments resulting from an audit and all those agreed upon exceptions shall be immediately made in the **CONTRACTOR's** books of account. Any consequential payments due to the **STATE** shall be made promptly.
- 1.6.11 If the **CONTRACTOR** and the **STATE** are unable to reach an agreement on the proposed auditing adjustments to be made to the accounting entries, they may, by mutual agreement, refer their dispute for resolution by an expert accounting firm, which is a member of the Institute of Chartered Accountants in Cameroon agreed to by both of them. In such case, the expert's decision shall bind the Parties and shall be deemed made by mutual agreement. In the event of disagreement as to recourse to expert resolution, the dispute shall be settled pursuant to the arbitration procedure provided for by Article 27 of the Contract. When unresolved issues persist with respect to the audit, the **CONTRACTOR** shall retain the documents pertaining to the audit but shall permit their inspection for as long as the issue remains unresolved. The costs of expert dispute resolution shall constitute recoverable Petroleum Costs.

## **1.7 Payments**

- 1.7.1 Unless otherwise agreed, all payments between the Parties shall be made in U.S. dollars to any bank account designated by the receiving party within thirty (30) Days from the receipt date of the invoice.
- 1.7.2 In the event of a late payment due by one Party to the other under the Contract, the amounts due shall bear interest at the LIBOR rate plus two (2) percent starting from the date that they were due and owing.
- 1.7.3 Regarding payment for business travel and related costs required by, contained in an approved Work Program and Budget, or as otherwise mutually agreed by the Parties to the Contract, including audits: The **CONTRACTOR** may reimburse the **STATE** or provide, at its option, reasonable living quarters and transportation including airfare, and ; reimburse the **STATE** for miscellaneous and other travel expenses not included above for each Day that the **STATE** employee is engaged in approved activities or in travel related thereto. Except as provided above, this per diem shall be the only payment that the **CONTRACTOR** shall be required to make in respect of the costs and expenses of the **STATE** employee. At the request of the **STATE** and subject to satisfactory documentation, the **CONTRACTOR** shall advance a portion of the per diem as indicated on an official **STATE** invoice to the **STATE** employee, with such advance creditable against payment of the per diem obligation to the **STATE**. All cost and expense incurred with regard to an approved activity, including but not limited to the above listed expenses and allocated overhead cost are deemed Petroleum Costs. The maximum per diem amounts may be periodically revised by the Operating Committee.

## **1.8 Arm's-Length Transactions**

Unless otherwise provided for in the Contract, all transactions giving rise to revenues or costs which will be credited or debited shall be conducted at arm's length, in such a way that such credits or debits are neither higher nor lower than those which would result from a transaction conducted under normal commercial conditions on a competitive basis between third parties.

## **1.9 Currency Exchange Rates**

Transactions in currencies other than the U.S. Dollar shall be recorded when transacted at the average monthly European Central Bank fixing rate for the month in question. Currency purchases shall be recorded at the actual exchange rate. Any exchange rate gain or loss shall be recorded.

## **1.10 Revision of the Accounting Procedure**

This Accounting Procedure may be amended by written agreement signed by the Parties.

## **1.11 Accrual Basis**

The **CONTRACTOR** shall produce financial statements including a balance sheet, income statement, and a cash flow statement, as well as a listing of resource suppliers including the total of purchases, no later than seventy five (75) Days following the closing of the fiscal year in question. It shall abide by the governing principles pertaining to maintenance and production of its books of account. The **CONTRACTOR** shall maintain a separate accounting for the Petroleum Operations pertaining to this Contract.

The books of account shall be kept and all reporting made on an accrual basis and according to generally accepted rules of accounting in the international petroleum industry. Receipts shall be allocated to the accounting period during which they are earned, while costs and expenses shall be recorded as they are incurred, as opposed to accounting on a cash basis. Costs and expenses shall be deemed to have been incurred during the accounting period when title passes to the **CONTRACTOR** for tangible items, and during the period when services are performed, for services rendered. Work in progress shall be valued at cost. The reports referred to in Article 1.4.3 above shall be prepared on an accrual basis.

## **ARTICLE B.2**

### **CLASSIFICATION, DEFINITION AND ALLOCATION OF PETROLEUM COSTS**

## **2.1 Allocation of Petroleum Costs**

Petroleum Costs shall be recorded separately in accordance with the purpose of the expense. Qualifying items are those which have been written into the approved Work Program and corresponding Budget for the year during which the expense is incurred. All allowable Petroleum Costs under the provisions of this Accounting Procedure shall be classified and categorised as set out below. Accounting of Petroleum Exploitation Costs shall be recorded so as to enable their allocation to each Exploitation Area.

## **2.2 Exploration Costs**

Exploration Costs are all direct and indirect Petroleum Costs incurred in Exploration Operations within the Contract Area, including:

2.2.1 Geophysical, aeromagnetic, geochemical, paleontological, geological and topographical studies and seismic surveys as well as related studies and their interpretations.

2.2.2 Coring and exploration drilling.

2.2.3 Labor, materials, supplies, and services used in drilling and testing of Exploration wells or appraisal wells that are not completed as producing wells.

2.2.4 Equipment used exclusively in support of the items described in Articles 2.2.1, 2.2.2 and 2.2.3 above, including access roads and acquired geological and geophysical information.

- 2.2.5 That portion of general overhead costs chargeable to Exploration Costs, as determined by the proper allocation of all the Petroleum Costs (including General Overhead) between Exploration Costs and the aggregate of Petroleum Costs except for General Overhead.
- 2.2.6 All other Petroleum Costs incurred for Exploration between the Effective Date and the Date of Production of the First Ton of Commercial Hydrocarbons that are not covered under Article 2.3 below.

### **2.3 Development Costs**

Development Costs are all direct and indirect Petroleum Costs, incurred in Development Operations within the Contract Area, including:

- 2.3.1 Development and production drilling, including wells drilled for the injection of water or gas for the purpose of enhanced recovery of Hydrocarbons.
- 2.3.2 Wells completed by installation of casing or equipment after a well has been drilled for the purpose of completing it as a producing well or as a well for the injection of water or gas in order to enhance the rate of Hydrocarbons recovery.
- 2.3.3 Costs for equipment connected with production, transport and storage, such as pipelines, flow lines, production and processing units, wellhead equipment, subsurface equipment, enhanced recovery systems, offshore platforms, storage facilities, export terminals, port facilities and other related equipment, as well as access roads for production activities.
- 2.3.4 Engineering and design studies for equipment referred to in Article 2.3.3 above.
- 2.3.5 That portion of general overhead chargeable to Development Costs, as determined by the ratio of Development Costs to total Petroleum Costs, excluding General Overhead.

### **2.4 Exploitation Costs**

Exploitation Costs are all direct and indirect Petroleum Costs, incurred within the Contract Area, excluding those that are Exploration Costs, Development Costs or otherwise included in 2.2 or 2.3 above. Exploitation Costs shall without limitation include:

- Reserves and accruals created for the purpose of addressing losses or changes, particularly the reserve for Abandonment costs which was deposited in full into the escrow account opened for the purpose of financing Abandonment operations.
- The portion of general overhead that was not allocated to Exploration Costs or to Development Cost shall be included in the Exploitation Costs.

### **2.5 General Overhead**

General Overhead includes the costs of:

- 2.5.1 The running of main offices, field offices and general overhead incurred in Cameroon including, without limitation, costs incurred for supervision, accounting, and relations with employee services, subcontractors and the public.
- 2.5.2 A compensatory payment called "head office overhead" for expenses incurred for services rendered by the Affiliate outside of Cameroon in order to assist and manage Petroleum Operations (hereafter, "Affiliate Company Overhead").

2.5.2.1 Affiliate Company Overhead will be deemed to cover the actual costs listed in Article 2.5.2.2 below and which meet all of the following conditions:

2.5.2.1.1 They are incurred by the departments of the Affiliate of the **CONTRACTOR**, including, without limitation, the Exploration department, the production department, finance department, taxation and legal departments, communications, computer services, administrative departments and research and engineering facilities;

2.5.2.1.2 They shall not, by virtue of their nature, be entered into accounting, audited, measured, analysed and controlled under any of the provisions of this Accounting Procedure, except by means of increased manpower and financial resources which are out of proportion to the objective being sought. Such operations may also disclose confidential data belonging to the Affiliate of the **CONTRACTOR**; and

2.5.2.1.3 They are properly chargeable to Petroleum Operations.

2.5.2.2 (i) Salaries, wages and labour burden, employee benefits, travel, hotel and other reimbursable expenses paid by the **CONTRACTOR** during the period in question to the Affiliate in accordance with usual practice in the international oil and gas industry; and

(ii) An amount for the services that are necessary for the operation and maintenance of the offices of the departments of the company referred to in Article 2.5.2.1.1 above.

2.5.2.3 It is understood, however, that services performed by the departments listed in Article 2.5.2.1.1 above and the other departments of the Affiliate which constitute services directly benefiting Petroleum Operations shall be recorded as direct costs in accordance with Article 3 of this Accounting Procedure.

2.5.2.4 In respect of the costs of **CONTRACTOR's** Affiliate Company Overhead, as defined above, **CONTRACTOR** may charge the Joint Account monthly for an amount equal to the total of the following sums:

The **CONTRACTOR** shall be entitled to an annual charge that may not exceed a specified sliding-scale percentage, to be charged monthly to Petroleum Operations. The basis for calculating this percentage shall be the total of Petroleum Costs during each Calendar Year or fraction thereof.

For Affiliated Company Overhead applicable to Exploration Costs, the sliding-scale applicable for each fraction in question is as follows:

- For the first million U.S. dollars : 4%
- For the next three million U.S. dollars : 3%
- For the next four million U.S. dollars : 2%
- For amounts exceeding eight million U.S. dollars: 1%

For Affiliate Company Overhead applicable to Development Costs and Exploitation Costs, the sliding-scale applicable for each fraction in question is as follows:

- For the first ten (10) million U.S. dollars: three percent (3.0%)
- For the next twenty (20) million U.S. dollars: one point five percent (1.5%)
- For amounts exceeding thirty (30) million U.S. dollars: one percent (1.0%)

The foregoing percentages may be revised as needed but not more than once annually. The new percentages shall not be applied retroactively.

The General Overhead costs shall be charged in accordance with the following guidelines:

- (a) **CONTRACTOR's** charges shall be booked as direct charges or technical services charges whenever possible. Affiliate Company Overhead exists only to compensate **CONTRACTOR's** Affiliates for costs which are properly and reasonably chargeable to Petroleum Operations and which may not, for either practical reasons or reasons of confidentiality, be measured or charged under any other provision of this Accounting Procedure. General Overhead costs are billed monthly. They shall be reasonably commensurate with services rendered and be based on actual cost studies or, in the case of Affiliate Company Overhead may not exceed an amount calculated as a percentage of Petroleum Costs.
- (b) The maximum percentages may be revised by mutual agreement but not more than once annually. The percentage applicable as from the Date of Production of the First Ton of Commercial Hydrocarbons and the description of the Petroleum Costs upon which such percentage is calculated shall be as stated in 2.4 above until otherwise revised and agreed as soon as the Parties are in possession of reliable estimates concerning Development and Exploitation Costs in the Exploitation Area.
- (c) Overhead charges are not auditable by the **STATE**. However, the **CONTRACTOR's** Affiliates shall maintain accounting records that enable certification as mentioned below and an analysis of annual costs so as to determine the General Overhead chargeable to Petroleum Operations. If the applicable amount is less than the amount billed, the difference shall be credited to Petroleum Operations. If it is greater than the amount billed, the difference shall be debited to Petroleum Operations, but in no case shall the final amount billed by the **CONTRACTOR** exceed the

maximum amount calculated pursuant to Article 2.5.2.4 above.

- (d) **CONTRACTOR** shall annually provide to the **STATE** a certification from its statutory or independent auditors attesting that general overhead charges do not constitute a double charge, and that the method used to allocate a portion of Affiliated Company Overhead to the Petroleum Operations, in relation to other activity, is proper and in keeping with the generally accepted rules of accounting in the international petroleum industry.
- (e) The **CONTRACTOR** shall enter a general overhead item into the Budget.

2.5.3 All General Overhead shall be allocated in accordance with the provisions of Articles 2.2.5, 2.3.5 and 2.4 above between Exploration Costs, Development Costs and Exploitation Costs respectively.

## 2.6 Abandonment Account and Abandonment Reserve

2.6.1 The Abandonment Account opened by **CONTRACTOR** in accordance with the terms of Article 21.5 of the Contract shall be funded by **CONTRACTOR** through cash deposits in the form of bank wires on the first business Day of each Quarter, in an amount equivalent to twenty-five (25) percent of the Abandonment provision determined for the given year in the calculation in Article 2.6.3 below and as contained in the Petroleum Costs account.

The funding shall cease on the day the Abandonment reserves reach the total estimated cost of the Abandonment work as provided for in the Abandonment Plan, subject to later revisions of the said Plan.

2.6.2 Each entity constituting the **CONTRACTOR** shall have the right to collect, up to the amount of its contribution to the Abandonment provisions, the interest produced by these amounts wired by the **CONTRACTOR** to the Abandonment Account.

2.6.3 The Abandonment reserves shall be determined on the basis of the estimated total cost of the Abandonment work as it may be revised pursuant to the procedure approved by the Operating Committee. They shall be calculated at the end of each Calendar Year, in accordance with the following formula, based on the prospective depletion method:

$$D_n = (K_n - F_n) \times P_n / R_n$$

Where:

$D_n$  = the corresponding annual reserve deposited into the Abandonment Account.

$K_n$  = the estimated cost of the Abandonment Operations as provided in the Abandonment Plan at the end of the Calendar Year n-1.

$F_n$  = the total of the Abandonment reserves already created at the end of Calendar Year n.

$P_n$  = the total production in Barrels for Calendar Year n.



$R_n$  = the remaining reserves at the beginning of Calendar Year n.

2.6.4 The Abandonment Account, in which the funds are the joint property of the entities constituting the **CONTRACTOR** in proportion to their contributions to the Abandonment work, shall be followed by the banking entity selected by the **CONTRACTOR** in accordance with Article 21.5 of the Contract and an escrow account agreement to be created taking into account the following principles:

- the Abandonment Account funds corresponding to the Abandonment reserves shall be dedicated exclusively to financing the expenses pertaining to the Abandonment work and cannot be used for any other purpose;
- the currency of account is the U.S. Dollar.

2.6.5 Upon completion of the Abandonment Work carried out by the **CONTRACTOR** and when the total of the connected expenses are settled, any balance in the Abandonment Account shall be redistributed:

- a) to the **CONTRACTOR** to the extent that contributions to the Abandonment Account were not recovered after tax deduction taken on these reserves;
- b) to the **STATE** if the total of the contributions to the Abandonment Account has been recovered by the **CONTRACTOR**.

### ARTICLE B.3

#### COSTS, EXPENSES, AND PROCEEDS OF THE CONTRACTOR

##### **3.1 Costs that are Recoverable without Further Approval of the STATE**

Petroleum Costs incurred by the **CONTRACTOR** under the Contract shall be classified under the headings referred to in Article 2 of this Accounting Procedure and shall be recoverable for purposes of Articles 13 and 22 of the Contract (except as otherwise provided in Article 4.2.2 below or in any other article of this Accounting Procedure, and with the understanding they remain subject to audit).

###### **3.1.1 Surface Royalties**

The direct costs of acquisition, renewal or relinquishment of surface rights that were acquired and kept in force for the purposes of the Contract.

###### **3.1.2 Labour and Associated Labor Costs**

###### **(a) Locally recruited employees based in Cameroon**

Costs of all the **CONTRACTOR**'s locally recruited employees who are directly employed in the conduct of Petroleum Operations in Cameroon. Such costs shall include employee benefits and labour burden paid for the benefit of employees and which are due by the **CONTRACTOR** in its employer capacity. Costs for transportation and relocation within the national territory for the employee and members of his family (limited to one

spouse and dependent children). If such employees render services in Cameroon that are not related to Petroleum Operations, the costs which are chargeable for the employee shall be apportioned on a time sheet basis according to generally accepted rules of accounting in the international petroleum industry.

(b) Expatriate Employees

The cost of salaries and wages of expatriate employees of the **CONTRACTOR** directly engaged in the conduct of the Petroleum Operations, irrespective of the location of such employees or whether employed full-time, temporarily or permanently, it being understood that in the case of personnel whose working time is only partly dedicated to Petroleum Operations, only that portion of applicable salaries, wages, and other costs referred to in paragraphs 3.1.2 (c), (d), (e), (f) and (g) below shall be charged to the Joint Account. The basis for such allocation of costs shall be specified and transparent.

- (c) Costs incurred by the **CONTRACTOR** with regard to paid holidays, vacation, sickness and disability benefits, miscellaneous payments added to salaries and benefits, chargeable under paragraph 3.1.2(b) above.
- (d) Expenses and contributions made pursuant to assessments or obligations imposed by Cameroonian legislation which are applicable to the **CONTRACTOR's** costs with regard to salaries, chargeable under paragraph 3.1.2 (b) above.
- (e) Costs incurred by the **CONTRACTOR** in accordance with its company plans for the benefit of employees, such as life insurance, hospitalisation, pension, stock purchases, savings plan, and other similar benefit plans, provided that such costs incurred comply with generally accepted standards in the international petroleum industry, applicable to salaries which are chargeable under paragraph 3.1.2 (b) above.
- (f) Transportation and lodging expenses of employees of the **CONTRACTOR** on company business, in the performance of Petroleum Operations, including those for travel and relocation of the expatriate families and their personal effects, when such employees are transferred to Cameroon and their salaries and benefits constitute a Petroleum Cost under paragraph 3.1.2(b) above.

The actual cost for transportation expenses of personnel transferred to Petroleum Operations from their country of origin is considered a Petroleum Cost. The cost for transportation of personnel transferred from Cameroon to a country that is not their country of origin shall not be considered a Petroleum Cost. Transportation costs shall mean the costs incurred for freight and passenger service, meals, lodging, insurance and other expenditures related to vacation and transfer travel and normally authorised under the **CONTRACTOR's** customary company policy. The **CONTRACTOR** shall ensure that all expenditures related to transportation are equitably allocated between the activities that have benefited from the services of the personnel concerned.

- (g) Costs incurred by personnel whose salaries and wages constitute Petroleum Costs under paragraph 3.1.2 (b) above, when such expenses are reimbursable under **CONTRACTOR's** usual policy. In the event that such

expenses are not wholly incurred for the benefit of Petroleum Operations, only the applicable portion thereof shall be charged.

3.1.3 The cost for transportation of persons, equipment, and consumable materials not covered in paragraph 3.1.2 (g) above which are necessary for the conduct of the Petroleum Operations under the Contract along with other related costs such as, but not limited to, customs duties and ancillary taxes, unloading charges, and inland and ocean freight charges.

#### 3.1.4 Charges for Services

For purposes of this Article, a company which is not an Affiliate of the **CONTRACTOR** shall be considered to be a third party.

##### (a) Third Parties

The actual total cost of service contracts, contracts for consulting services (including experts provided for in the Contract), public services and other services necessary for the conduct of the Petroleum Operations incurred by third parties other than Affiliates of the **CONTRACTOR**, provided that the transactions which give rise to such costs are properly carried out in accordance with Article 1.8 of this Accounting Procedure.

##### (b) Affiliates

###### 1. Professional and Administrative Costs

Costs of professional and administrative services provided by Affiliates of the **CONTRACTOR** for the direct benefit of Petroleum Operations or required by Cameroon law and/or regulation, including, but not limited, to services in respect of Exploration and production, legal, financial, insurance, computer and accounting services (other than those covered by paragraphs 3.1.4 (b) 2. and 3.1.6 below. When the **CONTRACTOR** has chosen to utilise outside services rather than have such services provided by its own employees, the amounts charged shall reflect the actual cost of such services and shall not include any element of profit and shall be no less favorable than charges for similar operations carried out directly by the **CONTRACTOR** or by its Affiliates. Costs charged shall include all costs incidental to the employment of such personnel. Where the work is performed outside of the country of origin, the daily rate shall be charged as from the date that such personnel leaves the city where they usually work in their country of origin, up to their return thereto, including Days which are not business Days in the country where the work is performed, excluding any holiday entitlements.

###### 2. Equipment and facilities

The use of equipment and facilities owned by the **CONTRACTOR's** Affiliates; provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment and facilities, such as they are in the Contract Area. The equipment and facilities referred to shall exclude major investment items such as, but not limited to, drilling rigs, production platforms, Hydrocarbons processing plants, Hydrocarbons loading, unloading and transportation systems, and storage facilities, rates for which shall be

subject to separate approval by the Operating Committee under the Contract.

#### 3.1.5 Communications

Cost of acquiring, leasing, installing, operating, maintaining and repairing the principal communication systems including radio and short wave between the Contract Area and the **CONTRACTOR**'s main onshore base.

#### 3.1.6 Offices, Job-Sites and Miscellaneous Facilities

Net cost to the **CONTRACTOR** of establishing, maintaining and operating in the Republic of Cameroon any office, temporary office, job-site, warehouse, housing or other facilities intended to serve the Petroleum Operations, including land. If any such facility services areas outside of the Contract Area, the net costs thereof shall be allocated on an equitable basis.

#### 3.1.7 Ecology and Environment

Costs incurred in the Contract Area in compliance with current legislation and regulation and/or company policy, whichever is more stringent, for archaeological and geophysical studies and surveys intended to identify and protect the cultural and/or natural heritage, as well as ecological studies and surveys that may be required by the competent authorities. Costs to provide or make available anti-pollution equipment, plus costs resulting from pollution control and cleanup following Hydrocarbons spills, in accordance with the current legislation and regulation, also fall into this category.

#### 3.1.8 Costs for Materials and Supplies

The costs for materials, supplies, equipment, machines, tools and other goods used or consumed in the performance of Petroleum Operations.

#### 3.1.9 Rentals, Duties and Other Assessments

Costs for rentals, production payments (royalty), taxes, charges, fees, contributions and other assessments of any type for the benefit of a governmental or tax authority in connection with the Petroleum Operations, and paid directly by the **CONTRACTOR** (unless otherwise provided in the Contract) with the exception of the company tax and payments made under Article 13 of the Contract.

#### 3.1.10 Insurance and Losses

The cost for insurance policies for the losses referred to in Title XIX of the Petroleum Regulation as regard to insurance premiums paid to local and/or foreign insurance companies as well as the cost of damages for non-insured losses.

#### 3.1.11 Legal Expenses

Lawyers' fees and court costs incurred in the performance of Petroleum Operations.

#### 3.1.12 Claims

Costs incurred in the settlement or indemnification of any loss, damage, judgment or other expense arising out of Petroleum Operations, except as may otherwise be provided in this Accounting Procedure.

### 3.1.13 Professional Training

All costs incurred by the **CONTRACTOR** for the training of its Cameroonian employees assigned to Petroleum Operations.

### 3.1.14 General Overhead

The costs referred to in paragraph 2.5.1 above and the charge referred to in paragraph 2.5.2 of this Accounting Procedure.

### 3.1.15 Reserves for Abandonment work

The amounts corresponding to the reserves for Abandonment work deposited in the Abandonment Account pursuant to Article 21 of the Contract and, if applicable, the amount of actual expenses for Abandonment work not covered by the Reserves.

### 3.1.16 Other Costs

Other justified and reasonable costs not specifically addressed under the foregoing provisions of this Article 3 that are necessarily, incurred by the **CONTRACTOR** for the economical and efficient performance of Petroleum Operations.

## 3.2 Credits and Miscellaneous Proceeds

The proceeds from Petroleum Operations under the Contract, other than commercial sales of Hydrocarbons from the Petroleum Operations, including, without limitation, the items listed below which shall be credited to the Joint Account:

- 3.2.1 The proceeds received from insurance companies, or from settlement of claims, or arising out of judicial awards in connection with Petroleum Operations and any assets charged to the Joint Account where such assets have been reimbursed and the corresponding insurance premiums have been charged to the Joint Account.
- 3.2.2 Legal expenses charged to the Joint Account under paragraph 3.1.11 of this Accounting Procedure and subsequently recovered by the **CONTRACTOR**.
- 3.2.3 Revenue received from third parties for the use of property or assets, the cost of which has been charged to the Joint Account.
- 3.2.4 Any rebate received by the **CONTRACTOR** from suppliers or their agents for defective material, the cost of which was previously charged to the Joint Account by the **CONTRACTOR**.
- 3.2.5 Proceeds from rentals, refunds or other credits received by the **CONTRACTOR** corresponding to a charge to the Joint Account, but excluding any award granted to the **CONTRACTOR** under arbitration or expert determination proceedings referred to in paragraph 4.2.2(g) of this Accounting Procedure.
- 3.2.6 Amounts charged to the Joint Account for goods subsequently exported from Cameroon without having being used in Petroleum Operations.
- 3.2.7 Proceeds from the sale or exchange by the **CONTRACTOR** of equipment or facilities from a Exploitation Area, the acquisition costs of which have been charged to the Joint Account for the corresponding Exploitation Area.
- 3.2.8 Proceeds from the sale or exchange of petroleum rights (which do not constitute an assignment under the Contract).

- 3.2.9 Proceeds from the sale of petroleum data which relate to the Contract Area if the acquisition costs of such data have been charged to the Joint Account.
- 3.2.10 Proceeds derived from the sale or license deriving from intellectual property, the Development Costs of which were charged to the Joint Account.
- 3.2.11 Proceeds from the sale, exchange, lease or transfer in any manner whatsoever of any item the costs of which have been charged to the Joint Account.

### **3.3 Duplication of Charges and Credits**

Notwithstanding any provision to the contrary in this Accounting Procedure, it is the intention of the Parties that there shall be no duplication of charges or credits to the Joint Account.

## **ARTICLE B.4** **PETROLEUM COSTS**

### **4.1 Definitions for purposes of Article 6.9 of the Contract**

For the purpose of revising the estimated expenditure amounts in Article 6.1, 6.2 and 6.3 of the Contract, as applicable, Exploration Costs shall consist only of costs actually incurred during the performance of Exploration Operations in accordance with the approved Work Program for the period in question.

### **4.2 Definitions for purposes of Article 13 and 22 of the Contract**

- 4.2.1 For purposes of Article 13 and 22 of the Contract, Petroleum Costs shall include, for each Exploitation Area and for each Calendar Year, including the Calendar Year prior to the year in which the Date of Production of the First Ton of Commercial Hydrocarbons occurs, the following:
- (a) All Petroleum Costs incurred during the year in question in the Exploitation Area; plus
  - (b) The **CONTRACTOR's** share in all Exploration Costs incurred in the Contract Area, provided that such Exploration Costs have not been included, for purposes of Article 13, in the Petroleum Costs incurred in respect of another Exploitation Area in the Contract Area.
- 4.2.2 For purposes of Articles 13 and 22 of the Contract, the following costs and expenses shall not be included in Petroleum Costs:
- (a) the training budget referred to in Article 19 and any bonus payment made in accordance with Articles 15.1 or 15.2 of the Contract;
  - (b) any payment made to the **STATE** for failure to fulfill a minimum Work Programme pursuant to Article 6 of the Contract;
  - (c) costs incurred prior to the Effective Date except those costs specifically agreed by the Parties;
  - (d) interest and finance charges in respect of loans made to finance Petroleum Operations;

- (e) costs of marketing and transportation of Hydrocarbons beyond the Delivery Point;
- (f) the cost of any letter of guarantee or suretee required under the Contract and any other penalties paid for failure to meet a contractual obligation;
- (g) court costs, attorneys' fees and experts' fees, except for the costs identified in Article 1.6.11 above related to any dispute resolution procedure under Article 27 of the Contract in which the **STATE** is the ultimate prevailing party ;
- (h) fines and penalties imposed under the applicable legislation and regulation.

4.2.3 Costs not considered Petroleum Costs are deductible for fiscal purposes.

4.2.4 For purposes of Articles 13 and 22 of the Contract, all proceeds under the Contract received in accordance with Article 3.2 of this Accounting Procedure shall be credited to the Joint Account.

4.2.5 The fiscal loss reported for a given fiscal period can be carried forward for a period of four (4) years after the Date of Production of First Ton of Commercial Hydrocarbons.

4.2.6 The Petroleum Costs incurred by the **CONTRACTOR** for its Petroleum Operations which are recorded in conformity with the Accounting Procedure shall be admitted as fiscal charges for the calculation of the Company Tax provided for by Article 14.2.2 of the Contract.

## ARTICLE B.5

### ACCOUNTING RECORDS AND VALUATION OF ASSETS

#### **5.1 Accounting Records**

The **CONTRACTOR** shall maintain detailed accounting records of property used for Petroleum Operations in accordance with generally accepted rules of accounting in the international petroleum industry.

#### **5.2 Inventories during the Initial Period of the Exploration Phase**

Before the approval phase of the first Work Programme and Budget prepared pursuant to Article 10 of the Contract, the **CONTRACTOR** shall prepare an annual schedule (to be included in the statement referenced in Article 10 of this Accounting Procedure) of all property used for Petroleum Operations and its value as shown in the **CONTRACTOR's** accounting records.

#### **5.3 Inventories for Subsequent Operations**

After the date of approval of the first Work Programme and Budget referred to in Article 10.1 of the Contract, inventories of property in use for Petroleum Operations under the Contract shall be taken periodically (but at least once a year with respect to movable assets and once every three (3) years with respect to real property). The **CONTRACTOR** shall notify the **STATE** at least thirty (30) Days in advance of its intention to take such inventory and the **STATE** shall have the right to be represented when such inventory is taken. The **CONTRACTOR** shall clearly state the principles upon which valuation of the inventory has been based. The **CONTRACTOR** shall make reasonable efforts to provide to the **STATE** a full report of each inventory within thirty (30) Days after completion of the inventory. When an assignment of rights under the Contract takes place, the **CONTRACTOR** may, at the

request of the assignee, take a special inventory, provided that the costs of such inventory are borne by the assignee and are not charged as a Petroleum Cost.

## ARTICLE B.6

### PRODUCTION STATEMENT

#### **6.1 Production Data**

As of the Date of Production of the First Ton of Commercial Hydrocarbons, the **CONTRACTOR** shall submit a monthly production statement to the **STATE** that shall separately highlight the following information for each Exploitation Area and for the entire Contract Area:

- 6.1.1 Crude Petroleum production volumes available for sale.
- 6.1.2 The technical characteristics of each grade of Crude Petroleum extracted.
- 6.1.3 Natural Gas production volumes for sale.
- 6.1.4 The technical characteristics for each grade of Natural Gas extracted.
- 6.1.5 The quantities of Crude Oil and Natural Gas used as fuel for Drilling and production operations and for pumping to storage units.
- 6.1.6 The quantities of Crude Oil and Natural Gas lost for reasons beyond the control of the **CONTRACTOR**.
- 6.1.7 The quantities of Natural Gas flared or vented.
- 6.1.8 The quantities of Hydrocarbons in stock at the beginning of the month in question.
- 6.1.9 The quantities of Hydrocarbons in stock at the end of the month in question.
- 6.1.10 The quantities of Natural Gas re-injected into the natural reservoir.

All quantities shown in this statement shall be expressed in both volumetric terms (Barrels of Crude Oil and cubic meters of Natural Gas) and by weight (metric Tons).

#### **6.2 Due Date for Submission of Production Statement**

The production statement referred to in Article 6.1 shall be submitted to the **STATE** not later than fifteen (15) Days after the end of each calendar month.

## ARTICLE B.7

### MONETARY VALUE OF PRODUCTION AND PRICING

#### **7.1 Monetary Value of Production and Pricing Statement**

The **CONTRACTOR** shall for purposes of Article 16 of the Contract and Title XIII of the Petroleum Regulation, prepare a statement containing calculations of the value of the Available Production during each Quarter.

This statement shall contain the following information:



- 7.1.1 The quantities, prices and receipts obtained for such quantities by the **CONTRACTOR** as a result of sales of Crude Oil to third parties during the Quarter in question.
- 7.1.2 The quantities, prices and receipts obtained for such quantities by the **CONTRACTOR** as a result of sales of Crude Oil made during the Quarter in question to entities which are not third parties.
- 7.1.3 The value of Hydrocarbons stocks at the end of the Quarter preceding the Quarter in question.
- 7.1.4 The value of Hydrocarbons stocks at the end of the Quarter in question.
- 7.1.5 Any information the **CONTRACTOR** possesses which is required in order to implement Article 92 of the Petroleum Regulation concerning the competitive price of Crude Petroleum placed in the market by the main producing and exporting countries in the region, including the prices of the Contract, rebates and premiums, as well as prices obtained on the spot market.

**7.2 Due Date for Submitting the Statement of the Monetary Value of Production and Pricing**

The statement of the monetary value and pricing shall be submitted to the **STATE** not later than thirty (30) Days after the end of each Quarter.

**ARTICLE B.8**

**PRODUCTION-SHARING STATEMENT**

**8.1 Quarterly Statement**

The **CONTRACTOR** shall prepare for each Quarter a statement containing the following information for purposes of Article 13 of the Contract with respect to the **STATE**'s share of Profit Oil for each Exploitation Area:

- 8.1.1 Petroleum Costs that have not yet been recovered and any payments of company tax carried forward from the previous Quarter.
- 8.1.2 Petroleum Costs to be recovered and payments of company tax to be made for the Quarter in question.
- 8.1.3 Cumulative Petroleum Costs and payments for company tax for the Quarter in question (paragraphs 8.1.1 and 8.1.2 of this Accounting Procedure).
- 8.1.4 Gross receipts (including proceeds carried forward from the previous Quarter).
- 8.1.5 Gross receipts (including credits for the Quarter in question).
- 8.1.6 The share of Profit Oil due to the **STATE**.

The quarterly statement referred to in this article shall be submitted within thirty (30) Days after the end of each Quarter.

**8.2 Annual Statement**

The annual statement furnished pursuant to Article 13 of the Contract shall contain separate categories of information as per Article 8.1 above for the year in question and shall set out the financial statements as of the beginning and at the end of the Calendar Year in question for each Contract Area. The annual statement shall be submitted to the **STATE** not later than sixty (60) Days after the end of the year.

### **8.3 Allocation of Petroleum Costs**

In both quarterly and annual reports, Exploration Costs, Development Costs, Exploitation Costs and company tax payments shall be allocated and separately identified for each Contract Area. The **CONTRACTOR** shall specify the method for allocation of the shared costs and payments.

### **8.4 Accounting Principles**

The accounting kept only for production sharing shall show costs and receipts on a cash flow basis.

## **ARTICLE B.9**

### **STATEMENT OF COSTS AND RECEIPTS**

#### **9.1 Statement of Cost and Receipts**

The **CONTRACTOR** shall prepare a statement of costs and revenues incurred for each Quarter. The statement shall distinguish between Exploration Costs, Development Costs and Exploitation Costs and shall separately identify all significant sub-categories of expenditure incurred in each category. If the **STATE** is not satisfied with the degree of segregation within each of these categories, it shall be entitled to ask for a more detailed breakdown. The statement shall highlight the following items:

9.1.1 Expenditures and receipts for the Quarter in question.

9.1.2 Cumulative expenditures and receipts for the budget year in question.

9.1.3 Latest forecasts of cumulative Petroleum Costs at the end of the Calendar Year.

9.1.4 Variations between the Budget and the latest forecasts and an explanation for the difference.

#### **9.2 Quarterly Statement**

The quarterly statement of costs and receipts for each Quarter shall be submitted to the **STATE** not later than thirty (30) Days after the end of such Quarter.

## **ARTICLE B.10**

### **END - O F - Y E A R S T A T E M E N T**

The **CONTRACTOR** shall prepare an end-of-year statement for each Calendar Year. Such statement shall contain aggregated information in the same format as required for the production statement, the statement of the monetary value of production and pricing, the production-sharing statement, and the statement of costs and receipts referred to above, with the understanding that it shall be based on the quantities of Hydrocarbons produced and expenses committed to. Such annual statement shall be used in support of any

necessary adjustment in financial transactions provided for in the Contract. The end-of-year statement for each Calendar Year shall be submitted to the **STATE** not later than ninety (90) Days after the close of such Calendar Year.

## ARTICLE B.11

### ANNUAL BUDGET STATEMENT

#### **11.1 Annual Budget Statement**

The **CONTRACTOR** shall prepare an annual budget statement. This statement shall distinguish between the Budgeted amounts for Exploration, development and Exploitation Costs and shall highlight the following items:

- 11.1.1 Estimated costs and receipts for the budget year in question.
- 11.1.2 Cumulative costs and receipts at the end of the budget year.
- 11.1.3 A schedule showing the most important individual items of Petroleum Costs for the Budget year.

#### **11.2 Annual Budget Statement Due Date**

The Budget Statement shall be submitted to the **STATE** for each Budget year pursuant to the provisions of Articles 10.1 and 10.2 of the Contract.

**ANNEX C**

**TO THE -----**

**PRODUCTION SHARING CONTRACT**

**\*\*\*\*\***

**PARTICIPATION AGREEMENT**

**FORM OF AGREEMENT CONCERNING FUTURE  
PARTICIPATION AREAS**

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	<b>EXHIBIT A: SUPPLEMENTAL ACCOUNTING PROCEDURE</b>

\*

## PREAMBLE

This Participation Agreement, made and entered into on this \_\_\_\_\_day of the month of 20\_\_, by

..... incorporated under the laws of .... having an established place of business at

..... incorporated under the laws of .... having an established place of business at

..... incorporated under the laws of ..... having an established place of business at

..... incorporated under the laws of ..... having an established place of business at

**WHEREAS** the Republic of Cameroon on the one part, and ----- on the other part have, on -  
----- entered into a Production Sharing Contract concerning the Contract Area (hereafter referred to as "the Contract") ;

**WHEREAS** the Contract provides that in the event the Republic of Cameroon should decide to participate in the financing and conduct of Petroleum Operations during the Development and Exploitation Phase, the Republic of Cameroon and the **CONTRACTOR** shall enter into a participation agreement, which agreement is the subject of this Annex C to the Contract;

**WHEREAS** the Republic of Cameroon has decided to exercise its option under Article 12 of the Contract with regard to the Exploitation Area [*insert name of Exploitation Area*] (hereafter referred to as "the Participation Area");

**WHEREAS** the Parties wish to set forth the terms and conditions whereby the Republic of Cameroon has agreed to participate in the Petroleum Operations in respect of the Participation Area.

**NOW, THEREFORE**, the Parties have agreed as follows:

## **ARTICLE 1: INTERPRETATION / DEFINITIONS**

**1.1** For purposes of application of this Participation Agreement, terms in the singular shall include the plural, and vice versa. Except where the context specifies otherwise:

*"[name of the Participation Area] Account"* means the accounts maintained by the Operator to record all transactions related to operations in the Participation Area under this Participation Agreement.

*"Joint Property of [name of the Participation Area]"* means movable and real property acquired and held for use in connection with operations under this Participation Agreement.

*"Joint Operations"* means those Petroleum Operations carried out by Operator pursuant to this Agreement, the costs of which are chargeable to all Parties.

*"Budget"* means, for the purposes of this Participation Agreement, the forecast estimate of the cost of a Participation Work Program.

*"The REPUBLIC"* means, in this Participation Agreement, the Cameroonian State in its capacity as sovereign power, exercising the rights, prerogatives and obligations ascribed to the REPUBLIC of Cameroon pursuant to the Contract and all public persons or other entities, agencies or administrations authorized or empowered by it, as well as the physical persons representing them.

*"The STATE"* used hereafter for purposes of this Participation Agreement means the Cameroonian State in its capacity as a member of the **CONTRACTOR** and for whom the management of its interests in this capacity is undertaken by the Societe Nationale des Hydrocarbures, as well as any assignee of the rights and obligations of the STATE pursuant to Article 9.2.2 of this Participation Agreement.

*"Non-Operator"* means a Party other than the Operator.

*"Exploitation Committee"* means the committee organised under Article 4 of this Participation Agreement.

*"Participating Interest"* means the respective undivided interest of each Party in the Participation Area pursuant to Article 2.2 of this Participation Agreement.

*"Participation Area"* means the Exploitation Area that is the subject of the Exploitation Authorisation granted by Decree No. \_\_ of \_\_\_, the subject of this Participation Agreement.

*"Participation Date"* means the date of the granting of the Exploitation Authorisation pertaining to the Participation Area.

*"Participation Work Program"* means Joint Operations programmed under this Participation Agreement, excluding Sole-Risk operations provided in Article 11 below.

"Party(ies)" means all of the legal entities constituting the **CONTRACTOR**, and their successors and assigns, including, for purposes of this Participation Agreement, the **STATE**.

"Private Oil Company" means ----- and its respective possible successors and assigns, excluding the **STATE**, under conditions set forth in the Contract and this Participation Agreement.

"In Kind Premium" means the grant of an interest in production made pursuant to Article 11.13(b) of this Participation Agreement by a Non-Sole-Risk Party to reinstate its rights under a Sole-Risk Project.

- 1.2 Terms not defined in this Participation Agreement but which are defined in the Contract have the meanings given to them by the Contract unless specifically indicated otherwise in Article 1.1 above.
- 1.3 Nothing in this Participation Agreement shall be construed to abridge or adversely affect any right of the Parties to the Contract.

**ARTICLE 2:            PURPOSE - PARTICIPATING INTEREST**

- 2.1 The purpose of this Participation Agreement is to establish the conditions under which the Parties shall undertake Petroleum Operations in the Participation Area in accordance with the Contract.
- 2.2 Pursuant to Article 12.4 of the Contract, each entity constituting the **CONTRACTOR** as of the Participation Date has assigned a share of its Participating Interest in the Participation Area to the **REPUBLIC**, so that the rights, interest and obligations of the Parties in the Participation Area shall be owned by the Parties, as from the Participation Date, in undivided interests as follows:

STATE	..... percent ( %)
-----	..... percent ( %)
-----.	..... percent ( %)

- 2.3 In the event that a Party assigns all or part of its percentage of Participation Interest pursuant to the provisions of Article 9.2 of this Participation Agreement, the percentages of Participation Interest of the Parties shall be adjusted as necessary in accordance with said assignment.

**ARTICLE 3:            OPERATOR AND DUTIES OF OPERATOR**

- 3.1 -----, or its designated Affiliate, shall serve as the Operator until it resigns or is removed pursuant to the provisions of this Article, or until it ceases to hold a Participating Interest. In the event that the Operator assigns the whole of its percentage of Participating Interest to one of its Affiliates, such Affiliate shall become the Operator in its place.



## 3.2 Removal

3.2.1 Subject to Article 3.2.2 of this Agreement, upon the affirmative vote of all the Non-Operators, the Operator may be removed from its functions in the following circumstances:

- (i) In the event of a change in control of the Operator, either directly or indirectly, except for a transfer of control to an Affiliated Company. Within a period of ninety (90) Days from the notification by the Operator of such occurrence, it shall be the Non-Operator's responsibility to decide whether or not to remove the Operator. Such decision shall be taken only if there is a substantial change in the capacity of the Operator to fulfill its obligations deriving from this Participation Agreement due to the change in control.

For purposes of this Article 3.2.1 (i), "Change of Control" of the Operator shall mean any transaction that would result in the transfer to a Party or to a third party other than an Affiliated Company more than fifty per cent (50%) of the voting shares in a board of directors meeting of the Operator by any procedure whatsoever, such as merger, spin-off, sale or any other procedure resulting in a transfer of control.

- (ii) If the Operator fails to perform a fundamental obligation under this Agreement and has either failed to start to remedy that breach within sixty (60) Days of receipt of a written notification from Non-Operators detailing the alleged breach, or failed to diligently pursue the cure to completion.

3.2.2 If the Operator contests:

- i. in the case of Article 3.2.1 (i) of this Agreement, that the change of control results in a substantial change in the capacity of the Operator to fulfill its obligations deriving from this Participation Agreement, or
- ii. in the case of Article 3.2.1 (ii), that it has failed to perform a fundamental obligation under this Agreement and has either failed to start to remedy that breach within sixty (60) Days of receipt of a written notification from Non-Operators detailing the alleged breach or failed to diligently pursue the cure to completion,
- iii. and the dispute is then submitted to arbitration pursuant to the provisions of Article 15 below, the appointment of a new Operator shall not take place as long as the dispute is not settled by agreement of the Parties or by arbitration.

3.2.3 In the following cases, the Operator shall be deemed to have rightfully resigned by the simple occurrence of any of the following events:

- (i) If the Operator or its parent company becomes insolvent, is placed in receivership or bankruptcy reorganization, in liquidation of its assets or is unable to make payments due;
- (ii) In the event of total assignment of its Participating Interest to a third party other than an Affiliate, effected in accordance with the provisions of Articles 9.2 to 9.5 hereafter.

### 3.3 Resignation

The Operator may resign as Operator after having given the other Parties notice thereof in writing. Such resignation shall be effective either:

- one hundred twenty (120) Days after the date of notice, or
- on the date on which a successor Operator appointed by the Parties shall in accordance with this Participation Agreement be ready and able to assume its obligations as Operator in accordance with all the provisions of this Participation Agreement, whichever shall first occur.

**3.4** If an Operator resigns or is removed, a successor Operator shall immediately be appointed by the Exploitation Committee. A Party that has been removed as Operator may not vote to succeed itself as Operator. Such appointment shall be made by a vote in the manner prescribed in Article 4.6.1 below. For purposes of this Article, Operator shall include all of its Affiliates holding a Participating Interest in this Participation Agreement.

**3.5** Removal or resignation of an Operator allows the continuance of the rights and obligations of the removed or resigning Operator as a Non-Operator Party to this Participation Agreement. Such removal or resignation shall in no way harm such rights and obligations. On the effective date of the removal or resignation, the successor Operator shall succeed to all duties, rights and authority prescribed for the Operator, and the Operator shall deliver to the successor Operator all the Joint Property of [*name of Participation Area*] ancillary equipment, books of account, registries, data, interpretations, information and all rights acquired or preserved by the Operator pertaining to the Joint Operations for the [*name of Participation Area*] Account. Moreover, the Operator shall, with the successor Operator, prepare an inventory of the Joint Property of [*name of Participation Area*], adjusting the [*name of Participation Area*] Account accordingly, as well as an audit of the books and records of the removed or resigning Operator, and shall cooperate as much as possible in effecting a smooth transfer of operating responsibilities. A change in Operator shall not relieve the departing Operator of any of its responsibilities and obligations in effect prior to the date of changeover. The former Operator shall no longer be liable for any obligations or responsibilities as Operator as of the effective date of transfer to the new Operator of all the items set forth in this Article 3.5, as such effective date is formally recognized by the latter.

**3.6** Should there be a change in Operator under the provisions of Article 3.5 above, all objectively necessary costs resulting therefrom and as determined by the Exploitation Committee, shall be charged to the [*name of Participation Area*] Account.

**3.7** The Operator shall solely conduct Joint Operations in the Participation Area subject to the directives of the Exploitation Committee and shall have exclusive custody of all Joint Property and ensure its security, and shall perform its duties under this Participation

Agreement diligently and in accordance with the Participation Work Programmes and budgets and the Contract.

**3.8** The Operator shall:

- 3.8.1 Prepare and propose to the Exploitation Committee all Participation Work Programmes and corresponding Budgets for approval, before submitting them to the Operating Committee, as well as all modifications it deems necessary to these Participation Work Programmes and corresponding Budgets;
- 3.8.2 Comply with the decisions of the Exploitation Committee, and conduct the Joint Operations in the Participation Area in accordance with good and prudent oil field practices currently followed by the international petroleum industry;
- 3.8.3 Keep all Joint Property of the Participation Area free of any liens;
- 3.8.4 Pay promptly the costs of the Petroleum Operations incurred under this Participation Agreement and properly invoice the Non-Operators;
- 3.8.5 Act consistently with the principle that it shall not make a profit nor suffer a loss as a result of its role as Operator. In the case of such losses or profits, these shall be shared between the Parties in proportion to their Participating Interest;
- 3.8.6 Acquire all permits, permissions, approvals and easements for rights of way or occupancy which may be necessary in order to properly carry out the Joint Operations in the Participation Area;
- 3.8.7 Make certain that the Contract remains valid and in effect, and pay to the **REPUBLIC** on behalf of the [*name of Participation Area*] Account any taxes, duties and other miscellaneous payments required by the Contract and by the Petroleum Legislation, other than taxes and payments which are the responsibility of the **STATE**, or those applying directly and individually to each Private Oil Company, pursuant to the Contract and to current legislation and regulation.
- 3.8.8 Take all necessary and appropriate precautions for the safety of persons and property, especially in case of emergency.
- 3.8.9 Prepare the Abandonment Plan for the Participation Area and its revisions, open and manage the Abandonment Account in the name and for the account of **CONTRACTOR**, in accordance with the decisions reached by the Exploitation Committee and the Operating Committee.
- 3.8.10 Timely provide Non-Operators with information, reports, data and documents pertaining to the Joint Operations, except those data, information and documents related to proprietary know-how and technology of the Operator.
- 3.8.11 Quickly provide Non-Operators with information pertaining to accidents, and required by insurers of the Parties.

- 3.9** For the conduct of Joint Operations, the Operator may freely choose its personnel and that of its Affiliates, and its own resources or services rendered by its Affiliates pursuant to the conditions set forth in Article 8.2.5 of the Contract.
- 3.10** The Operator shall, pursuant to Article 3.8.1 above, manage the preparation, submission and execution of the Participation Work Program and corresponding Budget for Joint Operations related to the Participation Area as follows:
- 3.10.1 Within sixty (60) Days after the date of execution of this Agreement, the Operator shall deliver to the Parties a proposed Participation Work Program and corresponding Budget detailing the Joint Operations to be performed in the Participation Area for the remainder of the current Calendar Year. Within thirty (30) Days of such delivery, the Exploitation Committee shall meet to consider and to endeavor to agree on a Participation Work Program and corresponding Budget.
- 3.10.2 Not later than one hundred and twenty (120) Days prior to the end of each Calendar Year, the Operator shall deliver to the Parties a proposed Participation Work Program and corresponding Budget detailing the Joint Operations to be performed in the Participation Area for the following Calendar Year and the allocation of funds, including administrative overheads and third-party expenditure, in accordance with the Supplemental Accounting Procedure annexed hereto as "Exhibit "A". Within thirty (30) Days of such delivery, the Exploitation Committee shall meet to examine and to endeavor to agree on a Participation Work Program and corresponding Budget.
- 3.10.3 In the event services or goods are provided to the Joint Operations by a third party other than the Operator or its Affiliates, the forecast cost or estimate of which exceeds three hundred thousand U.S. Dollars (US\$300,000) during the Exploration Phase or four hundred thousand U.S. Dollars (US\$400,000) during the Development and Exploitation Phase, or if the cost exceeds any amount set by the Operating Committee, the Operator must, except for valid reasons, proceed with a call for bids.
- 3.10.4 Where it is necessary in order to complete an expenditure in a Budget item in the approved Participation Work Program, the Operator may exceed the Budget for the item for an amount equal to ten per cent (10%) of the budget item. The Operator shall promptly report such excess Budget expenditure to the Non-Operators.
- 3.10.5 The Operator may spend a maximum of two and a half percent (2.5%) of the total budget for Joint Operations in the Participation Area for the said Joint Operations in the Participation Area for a budget item not included in an approved Participation Work Program, provided that such expenditure shall not be for an item previously rejected by the Exploitation Committee, and an amount equal to five percent (5%) of a budget item amount in case of a revision of the work programme of a budget item. The Operator shall promptly report such expenditures to the Non-Operators and, subject to approval in accordance with Article 4.6, the Operator may make further expenditure for said budget item.
- 3.10.6 The limits imposed by this Article 3.10 may be changed by a unanimous decision of the Exploitation Committee.
- 3.10.7 The restrictions contained in this Article 3.10 shall be without prejudice to Operator's rights to make expenditures as set out in Article 3.8.8. In the event of an emergency,

the Operator may make such immediate expenditure and take such immediate action as it deems necessary for the protection of human life or property and the prevention of pollution. The Operator shall promptly inform the Parties of such an emergency expenditure.

**3.11** A Non-Operator may inspect the Participation Area, the Joint Operations, the books of account, records and other information pertaining thereto in Operator's possession. For this purpose, the Operator shall allow the other Parties, at such Parties own risk and expense, access to the sites where Joint Operations are conducted in the Participation Area, to data gathered as a result of said operations, and to their analyses and interpretation. Such visits, the dates and programmes for which shall be set by agreement with the Operator, which agreement cannot be withheld without valid reason, shall not disrupt the Operator's performance.

The Operator shall supply on a daily basis to the Non-Operators by means of telephone, telecopy, email, or telex, Drilling and production reports and such other written reports customarily provided by an Operator to a Non-Operator in the international petroleum industry, including, without limitation, results of well tests, core analysis, drilling logs and velocity surveys. The Operator shall also furnish any information reasonably requested by a Non-Operator, to the extent that the work of Operator's personnel is not excessively disrupted thereby.

**3.12** The Operator shall obtain and keep in force all insurance policies required by Petroleum Legislation and by the Contract, as well as such other insurance as the Exploitation Committee may prescribe. The cost of insurance policies to which all Parties contribute shall be charged to the [*name of Participation Area*] Account and the costs of insurance policies to which only certain Parties contribute shall be charged to the latter. With respect to any insurance policy, Operator shall:

- 3.12.1 Inform the Parties participating therein in a timely manner of the effective date of the insurance coverage, and provide them with copies of the relevant policies;
- 3.12.2 Arrange so that the contributing Parties, according to their respective percentage of Participating Interest, are named as co-insured on the relevant policies with waivers of subrogation in favour of the Parties; and
- 3.12.3 Duly file all claims, take any necessary steps to collect any proceeds and credit same to the current accounts of the participating Parties, according to their respective percentage of Participating Interest.

Any Party may choose not to participate in an insurance policy chosen by the Exploitation Committee, provided that such Party:

- a) Promptly notifies the Operator in this regard;
- b) Does nothing which would impede the negotiations of the Operator to obtain such insurance coverage for the benefit of the other Parties; and
- c) Obtains and keeps in force an insurance policy or other proof of solvency as may be required by the Exploitation Committee for the purposes of fully insuring its Participating Interest share of the same risks as those covered by the insurance policy obtained by the Operator. Satisfaction of such

requirement shall not, however, absolve the non-participating Party from its obligations to meet a payment demand, to cover any amounts paid as compensation for damages and losses, and the cost for payment of damages for such compensation settlement and losses. If such Party obtains insurance other than that of the Operator, such insurance shall include a waiver of subrogation in favour of all the other Parties and the Operator.

If the Operator is unable to obtain the insurance coverage required by the Exploitation Committee, it shall so advise the Parties and thereafter, it shall be discharged of its obligation to obtain such insurance coverage.

The Operator shall make arrangements so that the businesses participating in the Joint Operations, and their subcontractors, obtain insurance coverage which meet the requirements of the Petroleum Legislation and the Contract, both in risks covered as well as in amounts, as well as any other coverage which the Operator and the Exploitation Committee may require. They shall also obtain from their insurers a waiver of subrogation in favour of the Parties who are also shown as insured persons.

Each Party shall, in respect of its percentage of Participating Interest, obtain and keep in force any insurance policies or other evidence of financial responsibility as may from time to time be required by the Exploitation Committee, the Petroleum Legislation or the Contract, covering tort liability towards third parties in connection with the Joint Operations. At the simple request of the Exploitation Committee, each Party shall be required to produce such evidence of insurance or financial responsibility as the Exploitation Committee may reasonably require. All policies shall provide for a waiver of subrogation in favour of the other Parties.

**3.13** Without prejudice to the provisions of Article 3.12, the Operator shall represent the Parties and shall defend or oppose all claims or litigation arising from the Joint Operations other than claims and litigation which may arise between or among the Parties, and shall settle any such claims or litigation which charges the [*name of Participation Area*] Account an amount not exceeding one hundred thousand U.S. Dollars (US\$100,000), court or procedural costs, and arbitrator and lawyers' fees not included, without referring the matter further to the Exploitation Committee. The Operator shall obtain the prior approval of the Exploitation Committee for the settlement of any dispute or legal proceedings involving an amount in excess of one hundred thousand U.S. Dollars (US\$100,000). A Non-Operator shall have the right to be represented at its own expense during any negotiation for the purpose of a transaction and during any legal proceedings.

If a dispute should arise between a Non-Operator and a third party relative to the Joint Operations, or which may impact upon same, such Non-Operator shall promptly so notify the other Parties. It shall either defend against the claims of the third party or settle same, pursuant to the instructions that it will have received from the Exploitation Committee, it being understood that the amount of damages and legal expenses involved shall be chargeable to the [*name of Participation Area*] Account.

Notwithstanding anything contained in this Article 3.13, each Party shall have the right to participate in any such suit, prosecution, defense or settlement conducted in accordance with this article at its sole cost and expense; provided always that no Party may settle its Participating Interest share of any claim without first satisfying the Exploitation Committee that it can do so without prejudicing the interests of the Joint Operations.

- 3.14** Except as otherwise provided in this Participation Agreement and in the Contract, the Operator shall fulfill the reporting obligations of the **CONTRACTOR** required under the Contract.
- 3.15** In the case of any proposed goods or services contracts for the Joint Operations where the total anticipated cost or estimate thereof exceeds three hundred thousand U.S. Dollars (US\$300,000) or is greater than any amount set by the Exploitation Committee, the Operator must obtain competitive bids pursuant to Article 8.5 of the Contract, unless there is a valid reason not to do so.
- 3.16** Subject to the provisions of Article 13 below, the Party acting as Operator shall not, by virtue of being Operator, be responsible for costs, expenses and compensation for damages that it may incur during the performance of its obligations as Operator. However, this Article 3.16 shall not exempt the Party acting as Operator from bearing its Participating Interest share of all costs, expenses, losses and other obligations that may arise in the framework of the Joint Operations.

#### **ARTICLE 4: EXPLOITATION COMMITTEE AND WORK PROGRAMMES**

- 4.1** The Parties shall create an Exploitation Committee to supervise and control the Joint Operations.
- 4.1.1 The Exploitation Committee shall meet in Yaoundé, Cameroon, unless it decides upon another meeting location. The Exploitation Committee shall consist of one (1) representative appointed by each Party. Each Party shall also appoint one (1) alternate.
- 4.1.2 Each Party shall, as soon as possible after the Participation Date of this Participation Agreement, notify the other Parties of the names of its representative to the Exploitation Committee and its alternate. Such representative and alternate may be replaced after notice to the other Parties. Representatives may bring to meetings of the Exploitation Committee such advisors as they consider necessary. The representative of a Party or, in his absence, the alternate, shall be deemed authorized to represent and bind such Party with respect to any matter within the jurisdiction of the Exploitation Committee.
- 4.1.3 The Operator shall prepare the call to meeting and agenda for the meetings, as well as all the documents necessary for review of the items on the agenda for the Exploitation Committee, shall chair said Committee, and shall draft and have the minutes of the meeting approved.
- 4.1.4 The Operator shall have the exclusive right and obligation to represent the **CONTRACTOR** in all dealings with the Operating Committee with respect to matters arising under this Agreement and the Joint Operations.
- 4.2** Except as otherwise provided in this Participation Agreement, the powers and duties of the Exploitation Committee are as follows :

- 4.2.1 The decision-making authority concerning any matter pertaining to general guidelines to be applied to Joint Operations;
- 4.2.2 The review, revision, approval or rejection of all proposed Participation Work Programmes and corresponding Budgets prepared by the Operator and submitted pursuant to the provisions of this Participation Agreement;
- 4.2.3 Any decision regarding the planning and location of all wells to be drilled under this Participation Agreement, and any change in the use or status of a well;
- 4.2.4 The formulation and, if applicable, the adoption of all decisions pertaining to any issue arising from the Joint Operations which the Parties may refer to it.
- 4.3** The Exploitation Committee shall determine the frequency of its meetings, but at least one meeting shall be held semi-annually. When major Joint Operations are contemplated or in progress, the frequency of meetings may be increased to one per Quarter if all Parties agree. In addition, the Operator or two Non-Operators may call a special meeting at any time. A Non-Operator may call a special meeting of the Exploitation Committee only one time a Year.
- 4.4** A request to call a meeting of the Exploitation Committee shall state (i) the date, time and location of such meeting, (ii) the purpose for such meeting and (iii) the agenda of the matters and proposals to be considered and/or voted upon. A Party, by written notice to the other Parties given not less than seven (7) Days prior to a meeting, may add additional matters to the agenda for a meeting. On the request of a Party, and with the unanimous consent of all Parties, the Exploitation Committee may consider at a meeting a proposal not contained in such meeting agenda. Except in an emergency, the Operator or the other Parties calling the meeting shall give the Parties at least fifteen (15) Days advance written notice. When an emergency necessitates a meeting, the Operator shall give the Parties as much notice as possible.
- 4.5** The Operator may, rather than call a meeting, submit matters for decision to the Parties by written notice, and each Party may vote within the period prescribed in the notice, which shall be between three (3) and fifteen (15) Days from the date such notice is received. A Party that does not vote within the timeframe provided above shall be deemed to have voted in the negative. Notwithstanding, if the vote concerns a decision regarding a Joint Operation where a rig is on location, a Party failing to vote shall be deemed to have cast an affirmative vote. In the event of an emergency, the aforesaid timeframes may be reduced by Operator if necessary. A vote by mail, including telecopy, that arrives on time is admitted, a telecopy to be confirmed by the sender by mail. The Operator shall notify the Parties of all decisions taken in accordance with this Article 4.5.
- 4.6** Each representative, or in his absence, his alternate, shall have voting rights equal to the Participating Interest of the Party such person represents.
- 4.6.1 (i) Unless otherwise provided in this Participating Agreement, all decisions, approvals and other actions of the Exploitation Committee on all proposals coming before it shall be decided by unanimous consent of the Exploitation Committee;
- (ii) For purposes of deciding if the Parties wish to renew an Exploitation Authorization, the Operator shall call a meeting of the Exploitation Committee



which shall be held in a timeframe permitting compliance with the three year prior notification timeframe for requesting a renewal set forth in Article 30 (1) of the Petroleum Regulation. If applicable, the provisions of Article 9.1.6 hereafter shall be applied by the Exploitation Committee.

4.6.2 The decisions of the Exploitation Committee shall be taken in writing and signed by the participating Parties prior to the end of the meeting.

The Operator shall cause the initialed minutes of the proceedings to be distributed to the Parties within twenty (20) Days after the meeting.

4.7 The Operator shall draft and submit to the representative of the Parties for signature before the end of each Exploitation Committee meeting the resolutions adopted by the Committee and, for issues that could not be adopted by the Committee, a summary of the positions adopted by each Party at each vote. Moreover, the Operator shall prepare written minutes of each meeting of the Exploitation Committee and shall send a copy to the Parties for possible comment within twenty (20) Days of the meeting date, and for approval within fifteen (15) Days of receipt. A non response by a Party within the thirty-five (35) Days prescribed above shall be deemed a tacit approval of the minutes circulated by the Operator.

4.8 The Operator shall, on a timely basis, call a meeting of the Exploitation Committee in order to allow the latter to deliberate and rule upon all Participation Work Programmes and Budgets, which must thereafter be submitted for the approval of the Operating Committee as per the provisions of Article 7.2.1 of the Contract.

4.9 The Exploitation Committee may decide to establish such advisory committees it deems desirable. The Exploitation Committee shall specify in writing the organisation, duties and *modus operandi* of such committees.

## **ARTICLE 5: COSTS AND EXPENSES / RECOVERY OF PETROLEUM COSTS**

5.1 Except as otherwise specifically provided in the Contract or in this Participation Agreement, all Petroleum Costs and other expenses incurred in the conduct of Joint Operations in the Participation Area under the Contract or this Agreement shall be borne and recovered by the Parties in proportion to their respective Participating Interests.

5.2 For purposes of this Participation Agreement, Petroleum Costs incurred by the Operator shall exclude all interest and financing fees pertaining to loans contracted by the Parties to finance the contributions to the costs and expenses identified above.

5.3 All Petroleum Costs incurred by the Operator in the conduct of Joint Operations shall be determined in accordance with the provisions of the Contract, its Accounting Procedure as supplemented by the provisions of the Supplemental Accounting Procedure, Exhibit "A" to this Participation Agreement, and Article 6 below. The Operator shall keep its accounting records of such costs and expenses in accordance with such texts.

5.4 Unless otherwise provided in this Participation Agreement, if a Party incurs civil liability pursuant to a Joint Operation, the cost of the damages and interests shall be the responsibility of all Parties, if the Exploitation Committee so decides pursuant to Article 13 below.

## **ARTICLE 6:            BANK ACCOUNTS AND PAYMENTS TO THE OPERATOR**

- 6.1** Each Party shall pay when due its share of Participating Interest in the expenses chargeable to the [*name of Participation Area*] Account, including cash calls, and in the case of a late payment, the interest accruing thereto, in accordance to this Participation Agreement and with the Supplemental Accounting Procedure.
- 6.2** The Operator shall open one or several bank accounts (hereafter referred to as "the Joint Bank Accounts") for [*name of Participation Area*], separate and distinct from its own bank accounts as a Party, into which all funds received to finance Joint Operations shall be deposited and from which all payments shall be made, in accordance with Article V of the Supplemental Accounting Procedure, Exhibit A.
- Any excess cash in the Joint Bank Accounts shall be invested in short-term interest-bearing deposits that shall be owned by the Parties according to their percentage of Participating Interest or their financing percentage, as the case may be.
- 6.3** Until expiry of the Contract, the Operator shall retain the statements (including a record of investments) for the Joint Bank Accounts, to be provided along with any cash calls sent to the Parties.
- 6.4** Subject to having given the Parties fifteen (15) Days' advance notice, Operator may require the Parties to make an advance payment of their share of the estimated expense for the following month, citing the required date of payment and the currency required, it being understood, however, that such required date of payment must be the same for all Parties. Subject to a written notice to the Parties fifteen (15) Days in advance, the Operator may at any time make additional cash calls in order to cover unexpected expenses.
- 6.5** In order to prevent excess liquidity from accumulating in the Joint Bank Accounts, the Operator may, if applicable, adjust the schedule of cash calls.
- 6.6** If any Party's advances for a given period exceed its share of corresponding amounts due for the same period, the next cash call shall be correspondingly reduced.

## **ARTICLE 7:            DEFAULT IN PAYMENT**

- 7.1** Where a Party fails to pay when due its Participating Interest share of Joint Account expenses under this Participation Agreement, said Party shall be declared in default (hereafter, "Defaulting Party"). The Operator, or any non-Defaulting Party in the *case* Operator is the Defaulting Party, shall immediately notify all Parties of the default in payment (hereinafter be referred to as "Notice of Default").
- 7.2** If the Defaulting Party remains in default for at least fourteen (14) Days, the non-Defaulting Parties shall pay to the Operator, at the latter's request, a portion of the amount not paid by the Defaulting Party, which shall be proportional to the respective Participating Interest of the non-Defaulting Parties.
- 7.2.1** If a non-Defaulting Party fails to pay the Operator its proportionate share in the timeframe prescribed, that Party shall itself be in immediate default. While waiting

for the payments of non-Defaulting Parties on behalf of the Defaulting Parties, the Operator, in order to comply with contractual obligations, may either borrow from external entities of its choice or advance the sums itself with agreement of the non-Defaulting Parties. In both these cases the resulting costs and expenses, including interest, shall be billed to the non-Defaulting Parties and shall be added to the defaulted amounts of the Defaulting Party.

7.2.2 All payments made by a Defaulting Party shall be credited in the Joint Bank Account to the benefit of the non-Defaulting Parties, in proportion to the payments the latter have made for the account of the Defaulting Party. If within thirty (30) Days of notification pursuant to Article 7.1 above, the Defaulting Party has not repaid its defaulted amounts, the sums so advanced by a non-Defaulting Party shall automatically become a due debt of the Defaulting Party, payable on simple demand, without notice and bearing interest as provided below, and this notwithstanding the abandonment of Petroleum Operations or the termination of the Contract. The Operator, or by default the most diligent non-Defaulting Party, shall have the right to legally pursue any Defaulting Party, at the expense of the latter, to obtain payment of all amounts due by any Defaulting Party to any non-Defaulting Party.

7.3 Any late payment shall bear interest at the annual LIBOR rate plus five (5) percentage points per annum. Such interest shall be calculated monthly as of the due date of the payment, and shall be credited to the Joint Bank Account for the benefit of the non-Defaulting Parties in proportion to their percentages of Participating Interest.

7.4 A Party which remains in default of a payment obligation for at least thirty (30) Days shall have no right to receive information, nor to attend or vote at any of the Exploitation Committee meetings for as long as it remains a Defaulting Party. However, any decisions of the Exploitation Committee made during such period shall be binding upon the Defaulting Party. For voting purposes, the Participating Interest of the Defaulting Party shall be deemed to be shared on a pro rata basis between the non-Defaulting Parties during the period of the default in payment. Any matters requiring a unanimous vote of the Parties shall not require the vote of the Defaulting Party. The Defaulting Party shall be deemed to have elected not to participate in any Joint Operations or Sole-Risk Projects that are voted upon at least thirty (30) business Days after the date of the Default Notice but before all of its defaults have been remedied. The Defaulting Party shall be deemed to have approved, and shall join with the non-Defaulting Parties in taking, any other actions voted on during that period.

7.5 In the event that a default in payment takes place while Joint Operations are in progress prior to the Date of Production of the First Tonne of Commercial Hydrocarbons, and the Defaulting Party remains in a position of default in payment for more than ninety (90) Days, such Defaulting Party shall be deemed to have terminated its involvement in this Participation Agreement in accordance with this Article 7.5.

7.5.1 The Defaulting Party shall no longer be considered as a Party to this Participation Agreement, effective on the date of the non-Defaulting Party's written notice. The percentage of Participating Interest of the Defaulting Party, as well as the rights attached thereto pursuant to this Participation Agreement (hereafter, the "Defaulted Interest") shall be deemed shared between the non-Defaulting Parties as beneficial owners, free of any liens and encumbrances except those arising for the benefit of the non-Defaulting Parties, in proportion to the percentage of Participating Interest which each bears in the aggregate percentage of Participating Interest of all non-

Defaulting Parties, or in such other proportion as the non-Defaulting Parties may agree between themselves.

The Defaulting Party shall, without delay following any request from the non-Defaulting Parties, do any and all acts required to be done by applicable law or regulation in order to render such transfer legally valid, including, without limitation, obtaining all governmental consents and approvals, and shall execute any and all documents and take such other actions as may be necessary in order to effect a prompt and valid transfer of the interests described above.

7.5.2 Subsequent to a forfeiture made pursuant to Article 7.5.1, the Defaulting Party shall have the right to recover the debt owed from each of the non-Defaulting Parties within the limits prescribed below.

(a) Each non-Defaulting Party shall be required to reimburse the Defaulting Party for a portion of the cash advances and payments made by the latter under Article 7.2 above which has not been recovered by the Defaulting Party through its share of Reimbursement Oil pursuant to the provisions of Article 13 of the Contract, and which has been credited to the percentage of Participating Interest of the Defaulting Party, from the Participation Date up to the date when the default in payment occurred; and

(b) The payments referred to in paragraph (a) above correspond to the fraction consisting of the share of each non-Defaulting Party in all of the Defaulted Interest, not exceeding an amount equal to a share of the "Net Proceeds of Sale" (as defined below) of said non-Defaulting Party, which share corresponds to the percentage ratio of the share of Defaulted Interest transferred to said non-Defaulting Party in the aggregate percentage of Participating Interest held by the non-Defaulting Party, after such transfer; and

(c) Any amount calculated and payable to the Defaulting Party under this Article 7.5 shall be paid not later than ninety (90) Days after the date of calculation of the Net Proceeds of Sale under Article 7.5.3 below.

7.5.3 Each non-Defaulting Party shall calculate within (2) two months following the end of each Quarter the total amount of the Net Proceeds of Sale to which it is entitled. "Net Proceeds of Sale" as used in this Article 7.5 shall be the sum calculated each Quarter according to the following formula:

$$NPS = \frac{MV - (A + B)}{2} - C$$

where :

"NPS" means the Net Proceeds of Sale;

"MV" means the sales of Hydrocarbons at the International Market Value of Petroleum calculated in accordance with Title XIII of the Petroleum Regulation, and attributable to said non-Defaulting Party's percentage of Participating Interest, which Hydrocarbons have been lifted by such Party; and

"A" means the total of all remittances on cash calls and other payments (not provided for in "B" below), paid by said non-Defaulting Party, in accordance with its percentage of Participating Interest ; and

"B" means all other costs, actual or deemed, as from the grant of the Exploitation Authorization, and the provisions for future costs relative to the Participation Work Programmes (including abandonment costs) which said non-Defaulting Party may from time to time reasonably justify ; and

"C" means the total of all amounts previously paid to the Defaulting Party by said non-Defaulting Party under the provisions of this Article 7.5.

**7.6** In the event that a default in payment occurs after the Date of Production of the First Ton of Commercial Hydrocarbons coming from the [*name of Participation Area*], and the default in payment lasts for more than thirty (30) Days,

7.6.1 Each Defaulting Party hereby recognizes and accepts that as from the date of the notification identified in Article 7.1 above, it may neither undertake nor have undertaken any lifting whatsoever of quantities of Hydrocarbons from the Participation Area to which it would have a right pursuant to Articles 13.1 and 13.2 of the Contract if it had not been a Defaulting Party.

7.6.2 For these purposes, each Party to this Participation Agreement, in the event it becomes a Defaulting Party, grants in advance an irrevocable mandate to the Operator for the entire term of this Participation Agreement to:

- (1) lift said quantities of Hydrocarbons in the place of the Defaulting Party;
- (2) sell or have sold said quantities of Hydrocarbons up to the amounts due, under commercially acceptable conditions in regard to the circumstances, with deduction made for expenses and other charges incurred by the Operator in relation to this sale;
- (3) allocate by priority the proceeds of the sale of these Hydrocarbons to the reimbursement of all amounts due to the non-Defaulting Parties, including interest, costs and expenses payable by the Defaulting Party pursuant to this Article 7;
- (4) deposit the corresponding amounts for the Abandonment reserves in the Abandonment Account; and
- (5) credit the surplus, if any, to the account of the mandating Defaulting Party.

**7.7** The rights and recourses existing in favour of the non-Defaulting Parties in accordance with the provisions of this Participation Agreement and especially this Article 7 are deemed to be cumulative and not alternative, and can be added to all other rights and recourses capable of being exercised by the non-Defaulting Parties.

The provisions of Article 7.5 above shall apply when the default persists for more than 12 calendar months or if the same Party is in default more than once during any consecutive twelve (12) month period.

**7.8** The obligations of the Defaulting Party and the rights of the non-Defaulting Parties shall survive the abandonment of Joint Operations and termination of this Agreement.

**ARTICLE 8:            RELATIONSHIP    BETWEEN    THE    PARTIES    AND    TAX  
   PROVISIONS**

**8.1** The Parties hereby declare that it is not their intention by entering into the Participation Agreement to create or to be considered as a joint company or any other legal entity.

**8.2** Tax payments owed to the STATE shall be paid in the manner specified in the Contract and in its Annex B, the Accounting Procedure.

**8.3** Each Party shall be responsible for reporting and discharging its own tax measured by the profit or income of the Party and the satisfaction of such Party's share of all obligations under the Petroleum Legislation.

**ARTICLE 9:            WITHDRAWAL AND TRANSFERS**

**9.1** Any Party wishing to withdraw from the Participation Area or wishing that the total Participation Area be relinquished voluntarily shall so notify the other Parties in writing accordingly, specifying the reasons for its proposal, and thereafter;

9.1.1 Each Party shall, within thirty (30) Days after receipt of said notice, inform the other Parties in like manner whether it concurs with or opposes the proposed withdrawal;

9.1.2 If all the Parties concur with the proposed withdrawal, the Participation Area shall be relinquished as soon as possible in accordance with the provisions of the Contract;

9.1.3 If at least one Party opposes the proposed withdrawal (hereafter referred to as the "Opposing Party"), each Party desiring the withdrawal shall transfer and convey, free and clear of all liens, charges and encumbrances and without right to compensation, all of its interest in the Participation Area and in the Contract to the Opposing Party. Each Opposing Party shall be required to accept such transfer, in proportion to its percentage of Participating Interest which it respectively holds in the aggregate percentages of Participating Interest of all Parties opposed to the withdrawal, subject to any agreement to the contrary between such Parties. The transferring Party shall be responsible for:

- (i) its Participating Interest share of the costs, expenses and disputed matters and items chargeable to the Participation Area for the period prior to the effective date of such transfer of its Participating Interest;
- (ii) its Participating Interest share of the Petroleum Costs incurred by the Operator after said effective date under any contracts entered into by the Operator in execution of a Participation Work Programme previously approved by the Exploitation Committee;

- (iii) its Participating Interest share of the estimated Petroleum Costs for Abandonment associated with all Participating Work Programmes previously approved by the Exploitation Committee; and
- (iv) its Participating Interest share of all obligations arising under the Contract which are not included in paragraphs (i) or (ii) or (iii) above. In such case, the transferring Party shall not later claim any rights pursuant to the provisions of this Participation Agreement.

9.1.4 A transfer under Article 9.1.3 above shall be effective as among the Parties thirty (30) days after the Opposing Party's receipt of the first written notice proposing the withdrawal. Each transferring Party shall hold the proportional fraction(s) of the percentage of Participating Interest on behalf of the Opposing Parties to the withdrawal until the transfer has received whatever approvals may be necessary under the provisions of the Contract and the Petroleum Legislation. All Parties involved in the transfer shall complete and deliver such documents and execute such instruments as may be necessary in order to give legal effect to such transfer, obtain all approvals as may be required by the **STATE** and otherwise to give effect to the provisions of this article, with all the actual expenses arising from the transfer for the sole account of the transferring Party.

9.1.5 The transferred interest of the withdrawing Party shall be unencumbered by liens or other pledges. The withdrawing Party commits to providing its actual support to any proceeding or other action necessary to obtain any possible approvals in relation to this withdrawal and the transfers deriving therefrom, with all necessary resulting expenses for the sole account of the withdrawing Party.

9.1.6 If the unanimity required under Article 4.6.1 is not obtained for agreeing on the renewal of the Exclusive Exploitation Authorisation, the renewal shall be requested for the sole benefit of the Parties wishing to participate in it. In such case, the provisions of Articles 9.1.3, 9.1.4 and 9.1.5 above shall be applied *mutatis mutandis*.

**9.2** Any assignment of its Participating Interest by a Party shall take place in accordance with Article 23 of the Contract and with Articles 9.2 to 9.5 below. Each Party has the right to assign all or a part of its Participation Interest in the rights and obligations of the Participation Area pursuant to the Contract and this Agreement, it being agreed that:

9.2.1 Except in the case of assignment of all its Participating Interest, no partial assignment shall result in the percentage Participation Interest of the assigning Party or the assignee being less than twenty per cent (20%) for Private Oil Companies and five per cent (5%) for the **STATE**, except by prior written agreement of the Parties.

9.2.2 The **STATE** may only assign all or part of its Participation Interest and the corresponding rights attached to another public agency or to the Private Oil Companies in proportion to their Participation Interests, unless otherwise unanimously agreed between the latter.

9.2.3 The assigning Party shall bear all the actual costs generated by the assignment.

**9.3** An assignee other than an Affiliate or a Party may not acquire any right in the Participation Area pursuant to the Contract and this Agreement as long as the other Parties have not given their written consent to the proposed assignment. Such consent can only be refused in the

event the assignee does not provide proof, to the reasonable satisfaction of each Party, of its capacity to assume all the obligations resulting from the Contract and this Agreement.

**9.4** Any Party wishing to assign all or a part of its Participation Interest in this Participation Agreement and the Contract for the Participation Area to a third party other than an Affiliate or to any other Party shall, after having established the conditions for the assignment with the assignee, notify same to the STATE.

9.4.1 Such notice shall include the identity of the offer or, the terms and conditions - including financial terms - offered in good faith, and all other relevant particulars.

9.4.2 For the period of thirty (30) Days following the receipt of such notice, the STATE shall enjoy a pre-emptive right for all of the interest proposed to be sold on the same terms as agreed between the Party wishing to assign and the prospective assignee.

9.4.3 If within such thirty (30) Day period, the STATE does not exercise its pre-emptive right for said interest, the sale may take place under the terms and conditions set forth in the notice, provided that the sale and transfer shall be completed within six (6) months from the date of such notice, and in accordance with the Contract and with the Petroleum Legislation.

**9.5** The conditions imposed by Article 9.4 shall not apply to assignments of a percentage of Participating Interest made by a Party to one of its Affiliates, nor to transfers resulting from a merger, consolidation, reorganization or sale of capital stock of the parent company of a Party, nor for any assignment when the above notice is issued prior to the Date of Production of the First Tonne of Commercial Hydrocarbons.

**9.6** An assignment shall provide that the assignor remains liable for obligations incurred before the date of assignment and such obligations shall become the obligations of the assignee as from the effective date of such assignment.

**9.7** For purposes of applying this Article, an assignment shall mean a change of ownership, sale or other conveyance with respect to the percentage of Participating Interest of a Party.

## **ARTICLE 10: LIFTING OF PRODUCTION**

**10.1** Subject to Article 7.6.1 above, each Party has the right and the obligation to lift each year the proportionate share of Hydrocarbons to which it has a right pursuant to this Agreement from the share to which **CONTRACTOR** is entitled under the Contract, and to dispose of it as it sees fit.

**10.2** **CONTRACTOR**'s entitlement to Hydrocarbons shall be shared among the Parties in proportion to their actual respective contributions to costs incurred under the Contract and not yet recovered, up until such time as the Parties that have contributed to Exploration Costs have recovered such Exploration Costs, with the understanding that Exploitation Costs first, followed by Development Costs and finally Exploration Costs, in that order, shall be deemed to have been recovered before all other costs resulting from the share of Hydrocarbons to which such Parties are entitled.

**10.3** Within one hundred and eighty (180) Days following the signing of this Participation Agreement, the Parties shall enter into a supplemental lifting agreement which will complete



the agreement on lifting procedures referred to in Article 17 of the Contract, for the purpose of detailing the methods by which the Parties share **CONTRACTOR**'s lifting rights for the quantities of Hydrocarbons to which it is entitled under the provisions of the Contract.

## **ARTICLE 11:                    **SOLE-RISK OPERATIONS****

**11.1** Any Party may undertake Petroleum Operations at its sole risk in the Participation Area, in accordance with the provisions of this Article. Such sole-risk Petroleum Operations, which include not only Drilling and the construction phase of the project but also operations connected with sole-risk facilities, are hereinafter referred to as "Sole-Risk Projects".

**11.2** The following are the only types of Sole-Risk Projects which may be proposed:

11.2.1 The Drilling (excluding deepening, sidetracking or re-completion of a well originally drilled pursuant to a Joint Operation), completion and equipping for production of an Exploration well within the Participation Area in order to test a formation in which no well has been completed on behalf of all Parties as a well producing or capable of producing Hydrocarbons; or

11.2.2 The Drilling, completion and equipping for production of an Appraisal well designed to delineate a Discovery made pursuant to the Exploration well described in 11.2.1 above; or

11.2.3 The development of a Discovery made pursuant to the Exploration well described in 11.2.1 above; or

11.2.4 Construction of storage and transportation facilities the purpose of which is not to accelerate the rate of production of Hydrocarbons from the Participation Area.

No Sole-Risk Project may be conducted which conflicts with a Joint Operation.

**11.3** The conduct of a project in the Participation Area may not be the subject of a Sole-Risk notice under this Article unless it has been proposed in proper form to the Exploitation Committee for consideration as a Joint Operation pursuant to the provisions of Article 4 of this Agreement, and has not been approved by the Exploitation Committee within the period provided.

In the event that such project fails to obtain the requisite approval of the Exploitation Committee, then any Party may serve Sole-Risk notice within the time frames specified below to the other Parties of its intention to carry out said project involving operations essentially the same as those proposed for such Joint Operation at its sole risk.

- a) For proposals involving the use of a drilling rig that is standing by in the Contract Area, such notice right shall be exercisable for twenty-four (24) hours after the time specified in Article 4.5 of this Agreement has expired;
- b) For proposals to develop a Discovery, such notice right shall be exercisable for sixty (60) Days after the date the Exploitation Committee was required to consider such proposal pursuant to Article 4.5 of this Agreement;

- c) For all other proposals, such notice right shall be exercisable for thirty (30) Days after the date the Exploitation Committee was required to consider such proposal pursuant to Article 4.5 of this Agreement.

Such Sole-Risk notice shall specify that such operation is proposed as a Sole Risk Project, the work to be performed, the location, and the objectives and estimated cost of such operation. The other Parties may give counter-notice within (i) twenty-four (24) hours in the case of 11.3(a) above, (ii) thirty (30) days in the case of 11.3(b) above, and (iii) twenty (20) days in the case of 11.3(c) above after receipt of such Sole Risk notice in which they state their decision to participate in the Project. The period set forth in this article shall be extended for a length of time unanimously agreed by the Parties as may be necessary or desirable for the collection and acquisition of additional information on the Sole-Risk Project. Failure of a Party to whom a Sole-Risk notice is delivered to properly reply within the period specified above shall constitute an election by that Party not to participate in the proposed Sole-Risk Project.

- 11.4** If all the Parties elect to participate in the Sole Risk Project within the time period specified in Article 11.3 of this Agreement, such Project shall be deemed approved by the Exploitation Committee as a Joint Operation pursuant to the provisions of Article 4.8 of this Participation Agreement.
- 11.5** In the event one or many Parties elect to participate in the Sole-Risk Project, such Parties (hereinafter referred to as "Sole-Risk Parties") shall be entitled to carry out the Sole-Risk Project. Parties electing not to participate in the Sole-Risk Project, or those failing to properly reply to notice pursuant to Article 11.3 above, are hereinafter referred to as "Non Sole-Risk Parties".

The participating interests of the Sole-Risk Parties in the Sole-Risk Project shall be either in proportion to their Participating Interest in this Participation Agreement, or in such other proportion as the Sole-Risk Parties may agree. The Sole-Risk Parties shall bear in accordance with the participating interests agreed herein the entire cost and liability of conducting the Sole-Risk Project and shall indemnify the Non Sole-Risk Parties from any and all costs and liabilities incurred incident to such Sole-Risk Project (including but not limited to all costs, expenses or liabilities for environmental, consequential, punitive or any other similar indirect damages or losses arising from business interruption, reservoir or formation damage, inability to produce petroleum, loss of profits, pollution control and environmental amelioration or rehabilitation) and shall keep the Exploitation Area free and clear of all liens and encumbrances of every kind created by or arising from such Sole-Risk Project. Notwithstanding the foregoing, each Party shall continue to bear its Participating Interest share of the cost and liability incident to the Joint Operations, including but not limited to plugging and abandoning and restoring the surface location, but only to the extent those costs were not increased by the Sole-Risk Project.

- 11.6** Consequences of non-participation in Sole-Risk Projects shall be as follows :
  - (a) Subject to Article 11.6(b) below, each Non-Sole-Risk Party shall be deemed to have relinquished to the Sole-Risk Parties, and the Sole-Risk Parties shall be deemed to own, in proportion to their respective participating interests in any Sole-Risk Project:
    - (1) All of each such Non-Sole-Risk Party's right to participate in further operations in the well in which the Sole-Risk Project was conducted and on any Discovery made or appraised in the course of such Sole-Risk Project; and

- (2) All of each such Non-Sole-Risk Party's right pursuant to the Contract to take and dispose of Hydrocarbons produced and saved:
  - (i) From the well in which such Sole-Risk Project was conducted, and
  - (ii) From any wells drilled to appraise or develop a Discovery made or appraised in the course of such Sole-Risk Project.
- (b) A Non-Sole-Risk Party shall have only the following options to reinstate the rights it relinquished pursuant to Article 11.6(a) above:
  - (1) If the Sole-Risk Parties decide to appraise a Discovery made in the course of a Sole-Risk Project, the Sole-Risk Parties shall submit to each Non-Sole-Risk Party the approved appraisal program. For thirty (30) Days (or twenty four (24) hours if the drilling rig which is to be used in such appraisal program is standing by in the Contract Area) from receipt of such appraisal program, each Non-Sole-Risk Party shall have the option to reinstate the rights it relinquished pursuant to Article 11.6(a) above and to participate in such appraisal program. The Non-Sole-Risk Party may exercise such option by notifying Operator within the period specified above that such Non-Sole-Risk Party agrees to bear its Participating Interest share, or proportionate share if less than all Parties participate, of the expense and liability of such appraisal program, to pay the lump sum amount as set out in Article 11.13(a) below and to pay the In Kind Premium as set out in Article 11.13(b) below;
  - (2) If the Sole-Risk Parties decide to develop a Discovery made or appraised in the course of an Sole-Risk Project, the Sole-Risk Parties shall submit to the Non-Sole-Risk Parties a plan of development substantially in the form intended to be submitted to the STATE under Article 11.4 of the Contract. For sixty (60) Days from receipt of such plan of development or such lesser period of time prescribed by the Contract, each Non-Sole-Risk Party shall have the option to reinstate the rights it relinquished pursuant to Article 11.6(a) above and to participate in such plan of development. The Non-Sole-Risk Party may exercise such option by notifying the Party proposing to act as Operator for such plan of development within the period specified above that such Non-Sole-Risk Party agrees to bear its Participating Interest share, or proportionate share if less than all Parties participate, of the liability and expense of such plan of development and such future operating and producing costs, to pay the lump sum amount as set out in Article 11.13(a) below and to pay the In Kind Premium as set out in Article 11.13(b) below.
  - (3) If the Sole-Risk Parties decide to deepen, complete, sidetrack, plug back or re-complete a well drilled pursuant to a Sole-Risk Project and such further operation was not included in the original proposal for such well, the Sole-Risk Parties shall submit to the Non-Sole-Risk Parties the approved AFE for such further operation. For thirty (30) Days (or forty-eight (48) hours if the drilling rig which is to be used in such operation is standing by in the Contract Area) from receipt of such AFE, each Non-Sole-Risk Party shall have the option to reinstate the rights it relinquished pursuant to Article 11.6(a) above and to participate in such operation. The Non-Sole-Risk Party may exercise such option by notifying the Operator within the period specified above that such Non-Sole-Risk Party agrees to bear its Participating Interest share, or

proportionate share if less than all Parties participate, of the liability and expense of such further operation, to pay the lump sum amount as set out in Article 11.13(a) below and to pay the In Kind Premium as set out in Article 11.13(b) below .

A Non-Sole-Risk Party shall not be entitled to reinstate its rights in any other type of operation.

- (c) If a Non-Sole-Risk Party does not properly and in a timely manner exercise such option, including paying in a timely manner in accordance with Article 11.13 below all lump sum amounts due to the Sole-Risk Parties, such Non-Sole-Risk Party shall have forfeited the options as set out in Article 11.6(b) above and the right to participate in the proposed program, unless such program, plan or operation is materially modified or expanded (in which case a new notice and option shall be given to such Non-Sole-Risk Party under Article 11.6(b) below).
- (d) A Non-Sole-Risk Party shall become a Sole-Risk Party with regard to a Sole-Risk Project, and such well and all facilities, equipment and other property appurtenant thereto shall be owned jointly by it and the other Sole-Risk Parties, at such time as the Non-Sole-Risk Party gives notice pursuant to Article 11.6(b) above; provided that such Non-Sole-Risk Party shall in no way be deemed to be entitled to any lump sum amount or In Kind Premium paid incident to such Sole-Risk Project. Such Non-Sole-Risk Party shall be entitled to recover its Participating Interest share of expenses paid pursuant to Article 11.13 below (but not the amount of any associated In Kind Premium) from Reimbursement Oil. The Participating Interest of such Non-Sole-Risk Party in such Sole-Risk Project shall be proportionate to its Participating Interest set out in Article 2.2 above. If all Parties participate in the proposed operation, then such operation shall be conducted as a Joint Operation pursuant to Article V.
- (e) If, after the expiry of the period in which a Non-Sole-Risk Party may exercise its option to participate in a plan of development pursuant to a Discovery made or appraised in the course of a Sole-Risk Project, the Sole-Risk Parties desire to proceed, the Party chosen by the Sole-Risk Parties proposing to act as Operator for such development, shall give written notice to the STATE under the appropriate provision of the Contract requesting a meeting to advise the STATE that the Sole-Risk Parties consider the Discovery to be a Commercial Discovery. Unless the plan of development is materially modified or expanded prior to the commencement of operations under such plan (in which case a new notice and option shall be given to the Non-Sole-Risk Parties under Article 11.6(b) above), each Non-Sole-Risk Party to such plan of development shall be deemed to have :
  - (i) Forfeited all economic interest in such development;
  - (ii) Assumed a fiduciary duty to exercise its legal interest in such Exploitation Area for the benefit of the Sole-Risk Parties.

In either case such Non-Sole-Risk Party shall be deemed to have withdrawn from this Agreement to the extent it relates to such development, even if the plan of development is modified or expanded subsequent to the commencement of operations under such plan of development and shall be further deemed to have forfeited any right

to participate in the construction and ownership of facilities designed solely for the use of such development.

**11.7** No Sole-Risk Project may be initiated later than:

- (a) One hundred and eighty (180) Days following the expiry of the notice period referred to in Article 11.3 above in the case of a Project under Article 11.2.1 above; or
- (b) Three hundred and sixty-five (365) Days following the expiry of the notice referred to in Article 11.3 above in the case of a project under Article 11.2.2 above.

**11.8** The Operator carrying out the Sole-Risk Project shall complete the Sole Risk Project with due diligence unless the Exploitation Committee has determined that the Sole-Risk Project jeopardizes the economic interest of the Parties who are not Sole-Risk Parties, or unreasonably interferes with the Joint Operations carried out under the Contract and adopted by the Exploitation Committee pursuant to Article 4 of this Participation Agreement, in which event the Sole-Risk Project shall not be carried out.

**11.9** The Sole-Risk Parties may use for the Sole-Risk Project any production, handling, processing or transportation facilities which are Joint Property of [*name of Participation Area*], provided the terms and conditions for use of such facilities are unanimously agreed by the Parties.

**11.10** In connection with any Sole-Risk Project:

- (a) The Sole-Risk Project shall be carried out under the responsibility and control of the Sole-Risk Parties, who are substituted for the Exploitation Committee;
- (b) The accounting of costs and expenses of the Sole- Risk Project incurred by the Sole-Risk Parties shall be kept in accordance with the principles set out in the Accounting Procedure, Annex B to the Contract and in the Supplemental Accounting Procedure, Exhibit "A" to this Participation Agreement;
- (c) The Operator carrying out the Sole-Risk Project shall maintain separate accounting and records (including bank accounts) for the Sole Risk Project which shall be subject to the right of examination and audit by the Sole-Risk Parties in the manner specified in the Accounting Procedure and in the Supplemental Accounting Procedure, Exhibit "A" to this Participation Agreement;
- (d) The costs and expenses of the Sole-Risk Project incurred by the Sole-Risk Parties shall not be reflected in the statements or billings rendered by the Operator for Joint Operations under this Participation Agreement; and
- (e) If the Operator is carrying out a Sole-Risk Project on behalf of the Sole-Risk Parties, the Operator shall be entitled to require that the Sole-Risk Parties advance their share of the evaluated expenditure. Moreover, the Operator shall not use funds from the [*name of Participation Area*] Account nor its own funds for the purpose of paying the costs and expenses of the Sole-Risk Project. Furthermore, the Operator shall not be obliged to commence or to continue the Sole-Risk Project if the relevant advances have not been paid to it by the Sole-Risk Parties. If the Operator is a Non-Sole-Risk

Party to a Sole Risk Project to develop a Discovery, then subject to obtaining any necessary Government approvals the Operator may resign, but in any event shall resign on the request of the Sole Risk Parties, as Operator for such Discovery and the Sole Risk Parties shall select a Party to serve as Operator.

- 11.11** The Sole-Risk Parties shall indemnify and hold harmless the Non-Sole-Risk Parties against all actions, claims and demands of any kind whatsoever brought by any third party arising out of or in connection with the Sole-Risk Project and shall further indemnify the Parties against all damages, costs, losses and expenses incurred directly or indirectly by them as a result of any act or failure to act during the performance of a Sole-Risk Project.
- 11.12** The Sole-Risk Project, including data and pertinent information, shall be wholly owned by the Sole-Risk Parties. However, the Sole-Risk Parties shall furnish all information concerning the Sole-Risk Project on a timely basis to the other Parties, in accordance with the provisions of this Participation Agreement.
- 11.13** In order to reinstate its interest and to participate in a Sole-Risk Project pursuant to Article 11.6(b) above, each Non-Sole-Risk Party so electing shall:
- (a) Within thirty (30) Days of the exercise of its option under Article 11.6(b) above, pay immediately to the Sole-Risk Parties in proportion to their respective participating interests in such Sole-Risk Project a lump sum amount in US Dollars. Such lump sum amount shall be equal to such Non-Sole-Risk Party's Participating Interest share of all liabilities and expenses, including overhead, that have been incurred in respect to the Sole-Risk Project in which the Non-Sole-Risk Party desires to reinstate the rights it relinquished pursuant to Article 11.6(a) above; and
  - (b) Be deemed to grant to the Sole-Risk Parties an In Kind Premium, until such time as the In Kind Premium has been fully satisfied. The In Kind Premium shall be the right to own, take in kind and separately dispose of Hydrocarbons produced out of one hundred percent (100%) of the Non-Sole-Risk Party's share of future production (including Reimbursement Oil, Compensation Oil and, where applicable under the Contract, Natural Gas) from the Sole-Risk development resulting from the Discovery in which the Non-Sole-Risk Party desires to reinstate the rights it relinquished pursuant to Article 11.6(a) above. The value in U.S. dollars of the In Kind Premium shall equal a total of:
    - (1) Nine Hundred percent (900%) of such Non-Sole-Risk Party's participating interest share of all liabilities and expenses, including overhead, that were incurred in any Sole-Risk Project relating to the obtaining of the portion of the geologic and geophysical data which pertains to the Discovery, plus
    - (2) Nine Hundred percent (900%) of such Non-Sole-Risk Party's participating interest share of all liabilities and expenses, including overhead, that were incurred in any Sole-Risk Project relating to the drilling, deepening, testing, completing, sidetracking, plugging back, recompleting and reworking of the Exploration well which made the Discovery, plus
    - (3) Five Hundred percent (500%) of the Non-Sole-Risk Party's Participating Interest share of all liabilities and expenses, including overhead, that were incurred in any Sole-Risk Project relating to the drilling, deepening, testing, completing,

sidetracking, plugging back, recompleting and reworking of the appraisal well(s) which delineated the Discovery.

- (c) The In Kind Premium shall be deemed fully satisfied when the aggregate value of the Hydrocarbons, received by the Sole-Risk Parties as In Kind Premium, equals the amounts pursuant to Article 11.13(b) above. After such satisfaction the Sole-Risk Parties' right to such In Kind Premium shall terminate, and such Non-Sole-Risk Party shall own, take and dispose of its share from such Discovery pursuant to Article 13 of the Contract. Any obligation of the Non-Sole-Risk Party to satisfy the In Kind Premium shall terminate with the cessation of production from the Discovery which the In Kind Premium encumbers, and in such event, no cash payment, in lieu of production, shall be due from the Non-Sole-Risk Party for the unsatisfied balance of the In Kind Premium.

The value of the In Kind Premium to which a Sole-Risk Party is entitled shall be determined in accordance with Article 16 of the Contract.

- 11.14** In the case of a Sole-Risk Project which corresponds to the description in Article 11.2.4 above, the facilities concerned shall be utilised in accordance with the provisions of Article 20 of the Contract by the Sole-Risk Parties for the entire duration of this Participation Agreement.

## **ARTICLE 12:                    CONFIDENTIALITY**

- 12.1** The Parties must consult with each other before making any public statement or press release, and, within the limits allowed by the Contract, no Party may make a public statement or press release without the consent of the other Parties, which consent shall not be unreasonably withheld. The Operator shall make reasonable efforts to coordinate all public statements and to arrange so that all the Parties may issue press releases at the same time.
- 12.2** The obligations of the Parties under this Article 12 are continuing obligations and any Party ceasing to be a Party to this Participation Agreement shall remain bound by this Article for as long as this Participation Agreement is in force between the remaining Parties.
- 12.3** This Participation Agreement may not be construed as requiring the disclosure by one Party to the other Parties of any secret proprietary technical data. However, in the event that such secret data have been revealed by works the costs of which have been charged to [*name of Participation Area*] Account, such technology must be made available to any Party who can make use of it, as well as their Affiliates, in all operations.
- 12.4** After agreement by the Non-Operators, the Operator and only the Operator may, for **CONTRACTOR**'s account and pursuant to the conditions set forth in Article 25.5 of the Contract, undertake any data and information exchange transaction. For this purpose, the Operator shall conclude with the involved third party of this transaction an agreement by which terms the third party agrees, on the one hand, not to disclose the information and, on the other, authorizes the communication to the other Parties of the information obtained from it.

### **ARTICLE 13: LIABILITY**

- 13.1** The Parties shall be liable to third parties based on their respective Participating Interest. Subject to the provisions of Article 13.2 below, the Non-Operators are jointly liable with the Operator, its Affiliated Companies, consultants, officers, employees, and directors for any cost, expense (including reasonable attorneys' fees) claimed by third party claimants alleging that their person, property or the environment was damaged in connection with the conduct of the Petroleum Operations.
- 13.2** The Operator shall not be liable to any Non-Operators for any act or omission, claim, damages, loss or expense, in connection with or arising from the Participation Agreement, the Contract, and Joint Operations, unless caused by the failure on its part to perform a fundamental obligation consistent with this Participation Agreement including, among others, the non respect of the legislation and regulations applicable to the contract. In this latter event, the Operator shall bear the consequences of all damage caused to the Parties and to third persons resulting directly from such failure to perform under the Contract and all the Participation Agreement, except for all damage not resulting directly from said failure to perform.

### **ARTICLE 14: GOVERNING LAW**

This Participation Agreement shall be governed by and be construed in accordance with Cameroonian law, as supplemented, if applicable, by principles of international law.

### **ARTICLE 15: INTERPRETATION AND SETTLEMENT OF DISPUTES**

- 15.1** The Parties shall make reasonable efforts to amicably settle any dispute arising between them regarding this Participation Agreement. Failing amicable settlement, the Parties hereby agree to submit to the International Center for the Settlement of Investment Disputes (hereafter "ICSID"), any dispute arising from or related to this Agreement for purposes of settlement by arbitration in accordance with the provisions of the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (hereafter "ICSID Convention").
- 15.2** Any arbitral tribunal constituted pursuant to this Contract shall consist of three (3) arbitrators being appointed in accordance with the provisions of the ICSID Convention and Arbitration rules.
- 15.3** Any arbitral tribunal constituted pursuant to this Agreement shall apply Cameroonian law, as supplemented where applicable by principles of international law
- 15.4** The **STATE** hereby waives any right, for itself or its property, of sovereign immunity intended to stop the execution of a judgment rendered by an arbitral tribunal constituted in accordance with this Agreement.
- 15.5** The arbitration shall take place in ----- . The language used for the arbitral proceedings shall be French and/or English.
- 15.6** Any arbitration initiated pursuant to this Agreement shall be held in accordance with the ICSID Rules of arbitration in force of the day of its initiation.



**15.7** The Parties hereby agree that for the purposes of Article 25 (1) of the ICSID Convention, any dispute arising from or connected with this Agreement is a legal dispute arising directly out of an investment.

**15.8** The Parties shall not be absolved of their obligations under this Agreement and under the Contract during the arbitration proceedings. However, the introduction of the arbitral proceedings suspends the execution of the contested act for the duration of said proceedings.

**15.9** The judgment of the arbitrators shall be final and irrevocable. It binds the Parties and is executory, in accordance with Article 54 of the ICSID Convention.

The Parties hereby waive, formally and without reserve, any right to oppose such judgment, to obstruct its execution by any means or to have recourse to any court or jurisdiction whatsoever, except for the recourse provided in Articles 50 and 52 of the ICSID Convention.

**15.10** In the event of incompetence by ICSID for whatever reason to rule on or settle any dispute submitted to it under Article 15.1 above, any dispute, controversy or claim arising from or related to this Agreement, or to the breach, cancellation or invalidity of this Agreement, shall be settled by arbitration under the United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules actually in force. In such case, all the provisions of this Article 15, except for Articles 15.1 and 15.7, shall apply *mutatis mutandis*.

## **ARTICLE 16:                    **FORCE MAJEURE****

**16.1** No Party shall be liable for the non-performance or the partial or late performance of its obligations if the obligated Party is prevented from doing so by Force Majeure.

An event shall be considered to be Force Majeure if it meets the following conditions:

- It has the effect of temporarily or permanently preventing either Party from carrying out the obligations which are incumbent upon it under this Participation Agreement; and
- It is unforeseeable and unavoidable and beyond the control of the affected Party, it being understood that a failure to pay is never excused by Force Majeure.

**16.2** For purposes of this Participation Agreement, the following events, *inter alia*, shall be considered to be Force Majeure, if they meet the conditions referred to above: strikes, work stoppages, fires, earthquakes, mud slides, disruption of the means of transport, floods, hurricanes, volcanic eruptions, sandstorms, explosions, wars, guerrilla warfare, terrorist acts, blockades.

**16.3** The Party impeded by Force Majeure shall promptly so notify the other Parties and confirm it later in writing together with all useful and detailed information.

In the event that the performance of an obligation is either partial or late, because of an event of Force Majeure, the Parties shall continue to carry out the clauses of this Participation

Agreement which they are able to carry out despite the Force Majeure. Moreover, the impeded Party shall do its best to fulfill its obligations pursuant to this Participation Agreement.

The Party impeded by the Force Majeure must resume its compliance with the provisions of this Participation Agreement within a reasonable period of time after the event of Force Majeure has ceased to exist. The Parties who are not impeded shall do their best to assist the impeded Party to resume its compliance with the provisions of this Participation Agreement.

In the case of strikes, work stoppage or similar event which affects the normal operation of the work and which is considered to be Force Majeure, no Party may require the other Parties to accept a solution which is contrary to what the impeded Party believes to be an acceptable solution.

**16.4** In any case, at the request of any Party, the Exploitation Committee shall attest to the situation of Force Majeure, the suspension of the Joint Operations as well as a return to the normal application of the clauses of this Participation Agreement.

**ARTICLE 17:                      NOTICES**

**17.1** All notices pertaining to this Participation Agreement shall be in writing and shall be delivered by hand or sent by an express courier or by any means of electronic transmission or written communication which makes it possible to confirm that the transmission did in fact take place, and shall be sent to the Parties at the following addresses:

- To \_\_\_\_\_  
\_\_\_\_\_

Fax :  
Email address :  
Attention :

- To \_\_\_\_\_  
\_\_\_\_\_

Fax :  
Email address :  
Attention :

- To \_\_\_\_\_  
\_\_\_\_\_

Fax :  
Email address :  
Attention :

- 17.2** A notice shall be effective upon the date of its receipt by the Party to whom the notice is directed. Notices given by telecopy shall be deemed to have been received on the date shown on the return receipt. Notices given by telegram or telex with a call-back record shall be presumed to have been received on the working day at the place of receipt next following the time of transmissions. Such notices given by telecopy shall be promptly confirmed by letter signed by the Party giving the notice.
- 17.3** Any Party may change its authorized representative or its address after giving the other Parties ten (10) Days' advance notice in writing to such effect.

**ARTICLE 18: EFFECTIVE DATE / TERM**

- 18.1** This Participation Agreement shall come into force on the Participation Date, which is \_\_\_\_\_, and shall remain in force until:
- 18.1.1 its termination by the written consent of all the Parties ; or
  - 18.1.2 all the percentages of Participating Interest are vested in one Party ; or
  - 18.1.3 the expiration or termination of the Contract.
- 18.2** In the event of termination of this Participation Agreement, the Operator shall, for the account of **CONTRACTOR**, undertake:
- 18.2.1 either the Abandonment operations, or the completion of the operations necessary to ensure the transfer of all the Abandonment cost reserves under the conditions prescribed in Article 21.2.2 of the Contract; and
  - 18.2.2 after completion of the operations set forth in Article 18.2.1 above, the settlement and closing operations for the [*name of the Participation Area*] Account.
- 18.3** The date on which the final closeout prescribed in Article 18.2 above shall have been completed shall be the effective date of the termination of this Participation Agreement. Notwithstanding the preceding sentence, Article 3.13, Article 7.8, and Article 15 of this Participation Agreement shall remain in effect until all obligations, claims, arbitrations and lawsuits have been settled or otherwise resolved.

**ARTICLE 19: FINAL PROVISIONS**

- 19.1** If one or several of the provisions of this Participation Agreement shall be declared void or illegal, the other provisions of the Agreement shall continue to apply, except if the absence of the former significantly change the purpose, spirit or economic terms of said Agreement.
- 19.2** This Participation Agreement shall not be amended, modified or supplemented except by written consent of the Parties.

- 19.3** If a Party should fail to exercise its rights after another Party has defaulted in its obligations under this Participation Agreement, such waiver shall not be construed as an abandonment of its rights by the injured Party in the event that a new default, whether similar or dissimilar, by the same Party should occur. Unless otherwise provided in this Participation Agreement, a Party shall not be considered to have abandoned, or consented to a revision of, its rights under this Participation Agreement, unless such Party has expressed in writing that it is its intention to waive, abandon or revise such rights.
- 19.4** Subject to the provisions of Articles 9 and 19.3 above, this Participation Agreement shall be binding upon the successors and assigns of the Parties.
- 19.5** In the event of contradiction or conflict between the provisions of this Participation Agreement and those of the Contract, including their respective annexes, the provisions of the Contract shall prevail.
- 19.6** Reference to the singular includes a reference to the plural and vice versa.
- 19.7** This Participation Agreement is the entire agreement of the Parties with respect to the subject matter contained herein and supersedes all prior understandings and negotiations of the Parties.

In witness whereof, the Parties have signed this Participation Agreement on the ..... day of the year .....

WITNESS

WITNESS

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**EXHIBIT A**

**TO ANNEX C OF THE -----  
PRODUCTION SHARING CONTRACT**

**\*\*\*\*\***

**SUPPLEMENTAL ACCOUNTING PROCEDURE**

## **SUMMARY**

- I. PURPOSE, DEFINITIONS AND INTERPRETATION**
- II. INVOICES AND PERIODIC STATEMENTS**
- III. AUDIT**
- IV. TAX OBLIGATIONS OF THE OPERATOR**
- V. CASH CALLS**

## **I. PURPOSE, DEFINITIONS AND INTERPRETATION**

### **I.1 Purpose:**

The purpose of this Supplemental Accounting Procedure is to define the accounting rules for the charges and proceeds deriving from the conduct of Petroleum Operations in the Participation Area pursuant to this Participation Agreement. The whole of the accounting rules and principles of the Accounting Procedure of the Contract are supplemented by the provisions of this Supplemental Accounting Procedure.

### **I.2 Definitions:**

The definitions set forth in the Contract, in the Accounting Procedure and in this Participation Agreement shall be equally applicable to this Supplemental Accounting Procedure.

*"Agreement"* shall mean the Participation Agreement entered into by the Republic of Cameroon (hereafter referred to as "the **STATE**") and .... (hereafter referred to as "the **CONTRACTOR**") in connection with the [*name of Participation Area*] dated ..... 200.. and to which this Supplemental Accounting Procedure is annexed.

*"Individual Accounts"* shall mean the book of accounts maintained by the Operator in the name of each of the Parties where their respective shares of expenses for Joint Operations shall be debited and where their contributions to the financing of Joint Operations shall be credited.

### **I.3 Inconsistencies:**

In the event of any inconsistency or conflict between the provisions of this Supplemental Accounting Procedure and those of the Participation Agreement, the provisions of the Participation Agreement shall prevail.

### **I.4 Principles:**

The Parties agree that no Party should incur a gain or a loss with respect to the other Parties; if any of these rules prove to be unfair to any of the Parties, the latter shall make good faith efforts to make any necessary modifications to said rules in order to correct the unfairness.

## **II. INVOICES AND PERIODIC STATEMENTS**

Within sixty (60) Days after the end of each Calendar Year, and within thirty (30) Days after each of the other months of the Calendar Year, the Operator shall prepare an accounting of the expenses incurred for Joint Operations. All invoices shall be accompanied by a detailed statement of the charges and/or proceeds being considered and specifying the total of the recoverable Petroleum Costs under the Contract and the total of the non-recoverable associated costs.

In order to do so, it shall send to each of the Parties the following documents:

## **II.1 Invoices and statements pertaining to Joint Operations :**

The invoices, based on accounting realizations, shall be at least as detailed as the corresponding Budgets and shall indicate the following amounts

- II.1.1 The share of the Party in question in the Exploration Costs, as well as a detailed statement of such Exploration Costs highlighting the various work and investments, including current or completed drilling and seismic work, and specifying the share of General Overhead allocated to the Exploration Costs. A detailed account of the sources of financing shall also be attached.
- II.1.2 The share of the Party in question in Exploitation Costs, as well as a detailed statement of said Exploitation Costs highlighting the various expenses, including damage reparation and insurance policy costs, and specifying the share of General Overhead allocated to said Exploitation Costs.
- II.1.3 The share of the Party in question in variations in inventory of the Joint Property including consumable materials and equipment.
- II.1.4 The share of the Party in question in Development Costs, as well as a detailed statement of said Development Costs highlighting the various work and investments, including the current or completed drilling and/or seismic work, and specifying the share of General Overhead allocated to said Development Costs.
- II.1.5 The share of the Party in question in the reserves for Abandonment work deposited into the Abandonment Account.
- II.1.6 A production statement indicating:
  - the quantities of Hydrocarbons used for the Joint Operations, flared or reinjected ;
  - the Available Production ;
  - the Production for Compensation to which each of the Parties is entitled.
- II.1.7 The share of the Party in question in interest on joint borrowings, if any, as well as a statement highlighting the reimbursements of various borrowings (principal and interest).
- II.1.8 A statement of Hydrocarbons stocks indicating:
  - the Production for Compensation to which each Party has a right (including quantities not lifted in the preceding period);
  - the quantities for which firm requests were made and were effectively lifted by each of the Parties.
  - the quantities belonging to the **STATE** and lifted by each of the Parties.
  - the quantities over- or under- lifted by each of the Parties.



## **II.2 Annual Statements**

At the end of each Calendar Year, a recapitulation of the information contained in the monthly statements shall be prepared. The annual statement shall also contain the following items:

- the cumulative expenses for the current Calendar Year, in 100% and per each Party's share.
- the cumulative expenses since the Participation Date, in 100% and per each Party's share.
- the total of each Party's cash calls, since the Participation Date of the State in costs and expenses.
- the balance of the Joint Current current [*name of Participation Area*] Account for each Party.
- a statement of the Abandonment Account as well as each Party's share.

## **III. AUDIT**

### **III.1 The Auditing Process:**

The audit for a Fiscal Year shall commence during the twenty-four (24) months following the end of such fiscal year. The Non-Operator shall notify the Operator at least one (1) month prior to the date scheduled for the audit to begin.

However, if before the expiration of the normal time period of twenty-four (24) months, the Non-Operator declares a case of Force Majeure which prevents the audit of the accounts from being carried out during that period, the foreclosure shall cease to run for as long as the situation of Force Majeure continues.

It is understood that the non-exercise of its audit rights by a Non-Operator shall be deemed to be final approval of the accounts for the year under consideration.

The Joint Account and the Individual Accounts may be subject to audit, either by an outside auditor or by internal audit. For this purpose, the Non-Operators may send a reasonable number of their representatives in order to verify the accounting pertaining to Joint Operations. The Non-Operators shall make their best efforts, to the extent possible, to carry out their audit as a single operation in order to interfere the least possible with the Operator's conduct of the Joint Operations. Each audit on Operator's premises shall not exceed the maximum of thirty (30) Days per audited Fiscal Year.

The audit of services provided by Operator's Affiliates shall be limited to the items of the Joint Account found in Operator's offices in Cameroon. Non-Operators shall have the right to audit any accounting item or document constituting a justification for allocating a cost to the Joint Account.

The invoices from Affiliates shall detail the type of services rendered. For personnel costs, the names of the persons, their grade, their hourly cost and the number of hours invoiced for the period in question shall be indicated.

At the request of the auditing Party(ies), the Operator shall provide a certificate at cost prepared by the Operator's certified accountants of the Operator's Affiliate.

In the three (3) months following each audit, the Non-Operators shall provide Operator with a formal written audit report, including copies of documents supporting any claims.

In the three (3) months following receipt of said report, the Operator shall send a written response on the comments and observations received, specifying the points it accepts as well as the ones it rejects.

In the three (3) months following Operator's response, the Non-Operators shall send their final comments to the Operator. Failure to send such final comments to the Operator in the time periods allowed shall be deemed approval of Operator's response to the Non-Operators.

Any accepted adjustment shall be entered into the [*name of Participation Area*] Joint Account by the Operator and shall be included in the statement following the acceptance date. Any audit conflict shall be reported to the Exploitation Committee. If the dispute is not resolved after 12 months from the date of notification of the audit conflict to the Exploitation Committee, it shall be handled in accordance with Article 15 of the Agreement.

### **III.2 Auditing Costs:**

It is understood that auditing costs shall be borne by the Non-Operator who initiated the corresponding auditing mission. However, in the case of an audit carried out simultaneously and jointly by several Non-Operators, the cost of such audit shall be shared in equal parts among them.

The costs which result from the normal use of logistical means which belong the Joint Property shall not be invoiced to the Non-Operator who initiated the corresponding auditing mission; such costs shall be charged to the [*name of Participation Area*] Account.

## **IV. TAX OBLIGATIONS OF THE OPERATOR**

The Operator shall assume the tax obligations pertaining to the Joint Operations with respect to the miscellaneous competent authorities, except for obligations concerning duties, royalties and taxes which are owed individually by each Party, for which each Party shall prepare and submit, within the prescribed time frame, its own returns to the competent authorities pursuant to the provisions of the Agreement.

## **V. CASH CALLS**

For the realization of the Work Programme and within the limits of its corresponding Budget, including adjustments permitted by Article 3.10 of the Agreement, each Party shall pay its participating interest share of funds at the request of Operator for operations in the following month. For information, each cash call shall have a forecast of funds needed for the following sixty (60) Days.

Each cash call, detailed by budget category, shall be made in writing and sent to all the Parties at least fifteen (15) Days prior to the payment due date. All costs associated with transferring of funds shall be for the account of the cash called Party.

Each Party shall wire transfer the full amount of its share of advances before the due date in U.S. Dollars and to the bank account designated by Operator. In case of default, the provisions of Article 7 of the Agreement shall apply.

In case of emergency, if Operator is obligated to pay amounts of money not foreseen when it estimated the cash calls, it can make a supplementary cash call to cover such payments. Each Party shall pay its share of advances within seven (7) Days after receipt of written notification from Operator.

The Operator shall open bank accounts dedicated to Joint Operations, as required and in currencies as may be needed, for the Operations in the Participation Area. Interest earned shall be credited to the Parties proportionally the value dates of the transfer of paid-up amounts by each Party.

\*\*\*\*\*

**ANNEX D**

**TO THE MODEL  
PRODUCTION SHARING CONTRACT**

***BETWEEN***

**THE REPUBLIC OF CAMEROON**

***AND***

**A HOLDER**

**\*\*\*\*\***

**LETTER OF GUARANTY**

Letter of Guaranty No. \_\_\_\_\_

To the attention of :                   The Minister of Industry, Mines and Technological Development,  
Yaoundé, Cameroon

Gentlemen :

We the undersigned, [name of bank] (hereafter referred to as the "Issuing Bank"), hereby constitute ourselves as joint and several guarantors for the \_\_\_\_\_ company (hereafter referred to as the "Contractor"), in favour of the Minister in charge of Industrial and Commercial Development, Yaoundé, Cameroon (hereafter referred to as the "Minister") for a sum not exceeding USD ..... (U.S. \$...) in order to guarantee compliance by Contractor with the minimum work programme referred to in Article [6.1] of the Production Sharing Contract pertaining to [*name of the Contract Area*] entered into between the Republic of Cameroon and \_\_\_\_\_ dated \_\_\_\_\_ (hereafter referred to as the "Contract").

The obligation which the Issuing Bank assumes under the present guaranty is limited to paying to the Minister the amount shown in its payment request, provided such amount does not exceed the amount of the guaranty in effect upon the date the payment request is made. The amount of the guaranty in effect shall be understood to be that amount remaining after deducting from the original amount the sum total of the relinquishment authorisations delivered by the Minister and received by the Issuing Bank pursuant to this guaranty.

1. This is a joint and several, irrevocable, unconditional and automatically collectible guaranty, payable during the period it is in effect, upon presentation of a letter addressed to the Issuing Bank by the Minister requesting payment for a sum not exceeding the amount of the guaranty then in effect, and declaring that the Contractor has not complied with its obligation to carry out the minimum work programme mentioned herein in accordance with the provisions of the Contract. Said letter shall be supported by a certified conformed copy of the notification sent by the Minister to the Contractor, advising of the Minister's intention to call the guaranty. Said [letter][notification] must be sent to the Contractor not later than thirty (30) days prior to the date on which the Minister submits its claim to the Issuing Bank for payment under this guaranty. No other supporting documentation shall be required.
2. The amount of this letter of guaranty shall be reduced each time the Issuing Bank receives from the Contractor a letter from the Minister stating that the Contractor has completed a given portion of the aforementioned minimum work program.

The reductions shall be made in the following amounts and manner:

- a) Reduction of U.S. Dollars ..... (US\$ ...) upon completion of .....and interpretation of its results.
- b) With reference to execution of the seismic work :
  - i) The amount guaranteed for this portion of the work shall be [taken to be][estimated at] U.S. Dollars ..... (US\$ ...) and it shall be deemed that the actual taking of the ground survey represents eighty percent (80%) of the total guaranteed amount, while the interpretation of the results accounts for the remaining twenty percent (20%).

ii) [After][For] each three (3) month period as from the effective date of the Contract, a reduction in the amount of the guaranty shall be carried out based on the following formulas :

For the seismic survey :

$$R = \frac{S}{M} \times (0.8 \times C)$$

For interpreting its results :

$$R = \frac{S}{M} \times (0.2 \times C)$$

Where :

“**R**” = the amount of the guaranty reduction.

“**S**” = Linear kilometres surveyed and interpreted, if applicable, during the corresponding three (3) month period.

“**M**” = .....(...) kilometres of seismic lines, that is, the total of this type of work guaranteed under the minimum work programme referred to herein.

“**C**” = Guaranteed amount of the work indicated in paragraph i), above.

c) With respect to drilling the [first] Exploration Well:

i) Reduction by U.S. Dollars .....(US\$ ...) when drilling has been completed to the depth necessary to set the thirteen and three-eighths inch (13-3/8") casing.

ii) Reduction by U.S. Dollars .....(US\$ ...) when drilling has been completed to the depth necessary to set the nine and five-eighths inch (9-5/8") casing.

iii) Reduction of the balance of U.S. Dollars ..... (US\$ ...) when the drilling has penetrated the depth specified in the minimum work programme referred to in this guaranty, or when it has encountered petroleum-bearing strata which, in the opinion of the Contractor, constitute a discovery under the Contract, so that the Exploration well is deemed to have been completed.

3. The Contractor shall submit requests for reduction to the Minister on a timely basis and appropriately in accordance with the foregoing [schedule]. The Minister shall expressly authorise them in writing and shall deliver the authorisation to the Contractor. Said authorisation must indicate the amount of the reduction to be made pursuant to the previous paragraphs.

4. Upon presentation to the Issuing Bank by the Contractor of the authorisation delivered by the Minister referred to in paragraph 3 above, the Issuing Bank shall immediately deduct the corresponding sum from the total amount of the guaranty, and shall report such event in writing to the Minister. It shall not be necessary to issue a new letter of guaranty for the balance, and the original letter of guaranty shall remain valid only for such amount.

5. This letter of guaranty shall expire not later than ..... (..) months ..... from the date of its signature unless prior to such date the Issuing Bank has received a letter from the Minister releasing the Issuing Bank and the Contractor from any responsibility under this letter of guaranty, in which case this letter of guaranty shall be cancelled as of the date of the aforementioned letter from the Minister.

From the expiry or cancellation date of this letter of guaranty, no claim whatsoever may be made regarding this guaranty and the Issuing Bank and the Contractor shall be released from any responsibility or obligation pertaining thereto.

Very truly yours,

[Issuing Bank]