

ASSOCIATION CONTRACT

REGARDING

THE EXPLORATION FOR AND EXPLOITATION OF HYDROCARBONS

BETWEEN

**OFFICE NATIONAL DES HYDROCARBURES ET DES MINES
« ONHYM »**

AND

**PETCO
« PETCO »**

IN THE AREA OF INTEREST NAMED

"....."

ASSOCIATION CONTRACT FOR JOINT EXPLORATION

AND EXPLOITATION OF HYDROCARBONS

BETWEEN

L'OFFICE NATIONAL DES HYDROCARBURES ET DES MINES, a public Moroccan establishment instituted by law n° 33-01 promulgated by dahir n° 1-03-203 on the date of 16 Ramadan 1424 (November 11th, 2003) and implemented by decree n°2-04-372 on the date of 16 Kaada 1425 (December 29th, 2004) ,whose headquarter is at 5, Avenue Moulay Hassan B.P 99 – RABAT–MOROCCO, fiscal identification n° 330 4 540, Patent n° 25112444, RC n° 61 577, (hereinafter called "**ONHYM**"), herein represented by its General Director, Mme **Amina BENKHADRA**;

AND

PETCO, a Company incorporated under the laws of, whose registered office is at, hereinafter called "**PETCO**", herein represented by its.....

ONHYM and **PETCO** will be hereinafter called "the Parties" or "Party".

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PREAMBLE

Whereas, the Law n° 21-90 enacted by the dahir n° 1-91-118 or 27 Ramadan 1412 (April 1st, 1992), as modified and completed by law n°27-99 enacted by the dahir 1-99-340 of 9 Kaada 1420 (February 15th,2000) relating to the exploration for and the exploitation of the hydrocarbon deposits, hereinafter called the "Law", and implemented by the decree n° 2-93-786 of 18 Joumada I 1414 (November 3rd, 1993) as amended and completed by the decree n° 2-99-210 of 9 Hija 1420 (March 16th, 2000) hereinafter called the "Decree"; the Law and the Decree are hereinafter called "the Hydrocarbon Code";

Whereas the petroleum agreement, hereinafter called the "Petroleum Agreement", signed between **ONHYM** acting on behalf of the Kingdom of Morocco on the one hand and **PETCO** on the other hand concerning the Area of Interest comprised of the Exploration Permit (s) named ".....";

Whereas Article 18 of the Petroleum Agreement contemplates the signature of the Association Contract between **ONHYM** and **PETCO** to set forth their relationship and their respective and mutual obligations;

ONHYM AND PETCO AGREE UPON AND RESOLVE THE FOLLOWING:

MODEL

PART I

SCOPE OF THE ASSOCIATION CONTRACT

CLAUSE 1

SCOPE OF THE CONTRACT

1. The purpose of this Contract is to:
 - 1.1 Establish appropriate measures that **ONHYM** and **PETCO**, hereinafter called the Parties, shall implement to undertake jointly the exploration and exploitation of Hydrocarbons in conformity with the Petroleum Agreement relating to the Area of Interest as defined in Article 3 of the Petroleum Agreement.
 - 1.2 Establish procedures necessary for the proper conduct of operations and management of the relationship between the Parties.
 - 1.3 Determine and set forth the rights and obligations of each of the Parties.

Definitions of various words, terms and phrases used in this Contract are set forth in Appendix I attached hereto.

MODEL

PART II

EXPLORATION PERMIT (S)

CLAUSE 2

PERMIT (S) AND EXPLORATION WORK

- 2.1 **PETCO** commits to execute the Minimum Exploration Work Program in the Permit (s) named “.....” in accordance with the Hydrocarbon Code and the conditions set forth in Article 4 of the Petroleum Agreement.
- 2.2 Whenever **PETCO** has to decide either to enter one of the Extension Periods foreseen in paragraph 3.3. of the Petroleum Agreement, or to abandon the Exploration Permit(s) in conformity with Clause 10 of this Contract, **PETCO** shall notify **ONHYM** of its decision no later than ninety (90) days prior to the end of the current period of validity.
- 2.3 **PETCO** shall consult **ONHYM** to determine the configuration of the surface area to relinquish in conformity with paragraph 3.4. of the Petroleum Agreement.
- 2.4 It is understood and expressly agreed, notwithstanding the above, that it is the performance of the Minimum Exploration Work Program for each period and not the estimated expenditures associated with such work which shall determine **PETCO**'s compliance with its obligations under the Petroleum Agreement.
- 2.5 Whenever **PETCO** determines that the Hydrocarbons found in an exploratory well might have commercial potential it shall notify **ONHYM**, within six (6) months after the withdrawal of the rig from the said well, of any evaluation program which might be commenced by **PETCO** within six (6) months following said notification.

MODEL

PART III
OPERATING PROVISIONS

CLAUSE 3

THE OPERATOR

3.1 Role and obligations of the Operator

3.1.1 In conformity with Article 19 of the Petroleum Agreement, **PETCO** is hereby designated as the Operator for the conception, the performance, the management and the supervision of all operations and activities executed pursuant to the Petroleum Agreement and this Contract, relating to the Area of Interest for the account of the Parties. These operations and activities are hereinafter called "Joint Operations". In order to conduct Joint Operations diligently, the Operator shall take all necessary steps in conformity with decisions of the Management Committee, which role is defined in Clause 5 of this Contract, with the laws and regulations of Morocco that are in force and in conformity with sound practices generally followed by the international petroleum industry and within the limits fixed by the programs and budgets examined and/or approved.

3.1.2 The Operator shall have exclusive responsibility for the conduct of all operations assigned to it under the terms of this Contract and shall for this purpose:

- a) Prepare and submit to the Management Committee all proposed work programs and budgets as well as any proposed revisions to already approved work programs and budgets.
- b) Carry out within the approved budgets, either directly or through contractors or subcontractors, the programs approved by the Management Committee in accordance with the provisions of paragraphs 5.7. a) and 5.7. b) of this Contract.

If compatible with the proper performance of Joint Operations and provided that the prices, quality, the terms of delivery are equivalent to those available abroad, including the cost of transport to Morocco, the Operator will, if it cannot provide them itself, give preference, on the one hand, to the use of goods and services which **ONHYM** can provide, and on the other, equipment and materials made in Morocco as well as the services of companies established in Morocco. However, the Operator shall make the final decision and its decision will prevail with regard to the choice of the means, equipment, materials and services to be used.

- c) Submit to the Parties a monthly report on the progress of Joint Operations.
- d) Inform the Parties immediately of any incident which might jeopardize the orderly progress of Joint Operations and propose adequate measures to deal with such incident.
- e) Inform the Parties immediately of any discovery of Hydrocarbons.

- f) Prepare the technical report in the event that such discovery is considered to be commercial.
- g) Advise the Management Committee on the selection of contractors and the negotiation of contracts.
- h) Upon request, provide to the Parties copies of all major contracts entered into for the Joint Account which will be determined by paragraph 5.7. c) of this Contract.
- i) Secure and procure all supervision, labour, services, material, equipment, permits and rights necessary or appropriate for the proper conduct of Joint Operations and have custody of all materials and equipment acquired for the Joint Account.

The selection of employees, the number thereof, their hours of labour and their compensation shall be determined by the Operator taking into account the provisions of paragraph 4.5. of this Contract. All fees and expenses incurred to compensate persons hired to execute the Joint Operations as employees or contractors shall be charged to the Joint Account.

- j) Diligently conduct all Joint Operations in accordance with sound practices generally followed in exploration and production operations by the international petroleum industry, avoid damage to the environment, conform to sound oilfield and production engineering practices and accepted conservation principles and perform such Joint Operations in an efficient and economic manner. All operations shall be conducted in compliance with the terms of this Contract and all applicable laws, rules and regulations of Morocco.
- k) Endeavour to secure or to cause to be secured for the Joint Account such permits, easements and other land use rights, navigation rights and any other rights as may be required or appropriate for the proper conduct of Joint Operations in accordance with all applicable laws and regulations, with the assistance and cooperation of the Parties when necessary or appropriate.
- l) Upon the written request of one of the Parties, allow a reasonable number of employees and representatives of such Party to have full access to the Area of Interest or to any other area where the conduct of Joint Operations is taking place, at all reasonable times and at the risk and expense of such Party, for the purpose of observing any and all Joint Operations and inspecting all materials, equipment and other property acquired for the Joint Account pursuant to this Contract. The Operator and the other Parties, their employees and representatives shall be indemnified by the requesting Party against any and all damages, injuries, death and/or other losses suffered or incurred as a result of the negligence of such Party, its employees or representatives as a consequence of such access.

- m) Upon the request of one of the Parties, furnish on a timely basis to each Party copies of all technical information acquired, including but not limited to, geological, geophysical, engineering, feasibility, and reservoir studies and/or interpretations as well as samples and cores obtained from wells drilled by the Operator in the Area of Interest, copies of all seismic logs and records and such other related information acquired by the Operator or its affiliates pertaining to the Area of Interest.
- n) Use its best efforts to keep the joint premises and property free from liens, charges and encumbrances arising out of the conduct of Joint Operations.
- o) Promptly pay all costs and expenses incurred by it in Joint Operations and, with such cooperation of the Parties as may be necessary or appropriate, take such action as may at any time be necessary to maintain and protect the Parties' interests in and under this Contract.
- p) Deliver and distribute to the Parties in accordance with the Petroleum Agreement all Available Hydrocarbons.
- q) Subscribe to and maintain in force any and all insurance specified by Clause 9 of this Contract.
- r) Keep complete and accurate accounting records and technical records of Joint Operations.
- s) Prepare and furnish to the Management Committee, to the Ministry in charge of Energy and to ONHYM, all reports, data and information that they might request in order to follow the performance of this Contract and/or of the Joint Operations.
- t) Make certain of the timely and proper execution of all obligations pertaining to the Exploration Permit(s) or the Exploitation Concession(s) and, notably, to delineate with the approval of the Management Committee areas of the Exploration Permits to be relinquished or abandoned as well as the boundaries of any Exploitation Concession(s) to be applied for.

The Operator shall take all administrative steps to accomplish same, with the assistance of **ONHYM** when considered appropriate.

3.1.3 Except for Exploration Works which **PETCO** finances at one hundred percent (100%) in conformity with paragraph 4.2. of the Petroleum Agreement, the Operator shall undertake to carry out Joint Operations within the limits of approved budgets and shall not undertake any operation that is not included in an approved program nor incur any expenses during a budget period in excess of approved amounts or for purposes other than as approved, except in the following cases:

- a) If exceeding the budget is considered necessary to carry out approved Development and Exploitation Works in a calendar year, the Operator is hereby authorized to make

such expenditures as do not exceed ten percent (10%) of the total annual approved budget in such currencies as may be appropriate, provided no expenditure in respect of any approved budget item exceeds ten percent (10%) of the amount budgeted for such item. Any such authorized excess expenditure shall be reported promptly in writing to the Parties by the Operator.

- b) The Operator is hereby authorized to make, during a calendar year, unforeseen expenditures for Development and Exploitation Works that are not included in an adopted program or budget, provided that in total they do not exceed one hundred thousand United States Dollars (U.S. \$100,000) or the equivalent in other currencies, and provided that a detailed list of such expenditures shall be promptly submitted to the Management Committee for ratification. If such unforeseen expenditures are approved by the Management Committee then the Operator can exercise this authorization right one additional time within the same calendar year. However, the cost of such operations should not exceed two hundred thousand United States Dollars (U.S. \$200,000). If such cost will be exceeded, the Operator shall submit to the Management Committee an additional budget for approval.
- c) In case of emergency the Operator may make such immediate expenditures as may be required to protect life or property. Such expenditures shall be reported promptly to the Management Committee by the Operator.

3.1.4 The Operator shall take all reasonable steps to ensure the proper defense and resolution of any complaint or lawsuit brought against the Operator, or one or all of the Parties, by third parties resulting from the conduct of Joint Operations and not covered by insurance. However, any payment in excess of the equivalent of fifty thousand United States Dollars (U.S. \$50,000) which may result from such a complaint or lawsuit and which would be paid out of the Joint Account shall require the prior approval of the Management Committee.

Each Party shall have the right of representation by its own counsel and at its own expense for the defense of each complaint or action in excess of a sum of fifty thousand United States Dollars (U.S. \$50,000).

All expenses incurred by the Operator in defense, arbitration or settlement of any legal actions then by the Parties against third parties and approved by the Management Committee shall be paid out of the Joint Account.

3.1.5 It is agreed that the Operator shall not be liable to any Party for any acts or omissions, complaints, damages, losses or expenses in relation to or arising out of its conduct of Joint Operations, with the exception of those which may result from the wilful misconduct or gross negligence of the Operator.

For the purpose of this Clause, "wilful misconduct" shall mean intentional and deliberate non-observance of efficient and prudent exploitation practices applied in oil fields and natural gas fields, or intentional and deliberate disregard for the terms of the Petroleum Agreement or any approved work programs, to the extent that such attitude is not justified by any special circumstances.

3.1.6 The Operator shall establish and maintain an operating office or resident representative in Rabat and such other necessary offices as may be approved by the Management Committee.

3.2 Removal of the Operator

3.2.1 The Operator shall be removed when it resigns, or when it is relieved of its function or when it ceases to hold any Percentage Interest or further when a Joint Operating Company is constituted in accordance with provisions of paragraph 3.2.6. of this Contract.

3.2.2 The Operator may at any time resign as Operator by giving notice in writing to **ONHYM** of such resignation.

Such resignation shall be effective one hundred and eighty (180) days after the date of notice thereof or during such notice period, provided that a new operator has been appointed by the Parties and agrees to assume the obligations of the Operator in accordance with all the provisions of the Petroleum Agreement and this Contract.

3.2.3 The Operator shall be relieved of its duties if it can no longer perform them. It also can be relieved of its duties by a justifiable decision of the Management Committee.

3.2.4 Should the Operator so resign or be removed, it will be replaced by a successor Operator immediately appointed by the Management Committee provided, however, that any Operator having been removed as Operator may not be reappointed as Operator.

3.2.5 Removal or resignation of an Operator shall not in any way affect its right, title or interest in the Exploration Permits or Exploitation Concessions, nor any of its rights or obligations as a Party under this Contract. On the effective date of removal or resignation, the Operator shall deliver to the successor Operator any and all funds, equipment, materials, books, records, and rights acquired by it and in its custody for the Joint Account (including Available Hydrocarbons not delivered to the Parties) and shall account to the Parties for such items mentioned herein not delivered.

3.2.6 Two (2) years after commencement of commercial production from the first Exploitation Concession obtained in the Area of Interest, a jointly owned operating company shall be formed to replace the Operator.

Such decision shall be made at least twelve (12) months before the transfer of operatorship in order to allow an orderly staffing and transfer of technology to the newly designated Joint Operating Company.

The Management Committee shall decide the procedure to follow for the orderly transfer of the Operator's duties to the Joint Operating Company.

PETCO and its affiliates shall provide such Joint Operating Company such personnel and technical assistance as may be reasonably required, subject to the same reimbursement terms as provided for in paragraph 3.1.2.(i) of this Contract.

CLAUSE 4

TRAINING AND COOPERATION LIABILITIES

- 4.1** **PETCO** agrees to provide assistance to **ONHYM** for the basic and further training of **ONHYM** personnel.
- 4.2** To this end and from the Effective Date of the Petroleum Agreement, **ONHYM** and **PETCO** shall annually define an educational and professional training program.
- 4.3** For each twelve (12) month period during the terms of the Exploration Permit(s) and the Exploitation Concessions, **PETCO** shall contribute such funds as are stipulated in paragraph 9.1 of the Petroleum Agreement to finance the training program.
- If at the end of any twelve (12) months period the amount contributed by **PETCO** to the training program is greater or less than that required under paragraph 9.1 of the Petroleum Agreement the difference shall be added to or credited against the amount to be contributed by **PETCO** in the following twelve (12) month period or periods.
- If **PETCO** is about to withdraw from this Contract, **PETCO** must complete any training program already in progress and shall not be required to contribute to training programs other than that already in progress.
- However, all accumulated outstanding amounts of the training budgets are due by **PETCO** to **ONHYM**. These accumulated outstanding amounts will be paid by the **PETCO** to **ONHYM** in accordance with and on written request from **ONHYM**.
- 4.4** The training expenses incurred (travel, living, expense, registration, **insurance**, seminars, acquisition of software etc.) shall be considered as costs of reconnaissance, exploration or exploitation, as the case may be, in the Area of Interest for the purposes of Section 47 of the Law.
- 4.5** **PETCO** agrees to cooperate closely with the personnel of **ONHYM** and to entrust to such personnel duties involving responsibility for which they are trained and to employ preferably personnel of Moroccan nationality whose level of competence is equivalent to that of personnel of non-Moroccan **nationality** employed by the Operator or its affiliates for the conduct of the Joint Operations. Any **ONHYM** personnel seconded to the Operator shall work under the sole direction and under the rules applied to other employees of the Operator. **ONHYM** shall remove any secondee to the Operator immediately if the Operator requests such removal and shows cause for such request. **ONHYM** employees so seconded remain employees of **ONHYM** throughout the period of secondment and return to **ONHYM** at the end of that period.
- 4.6** **ONHYM** agrees to provide the Operator, upon its request, reasonable assistance in carrying out Joint Operations, and provide the Operator with **copies** of all technical data available on the Area of Interest, as well as any assistance to facilitate contacts with the Moroccan administration and authorities.

CLAUSE 5

MANAGEMENT COMMITTEE

- 5.1** The operations and works to be performed by the Parties shall be carried out on their behalf by the Operator in conformity with the provisions of Clause 3 of this Contract under the supervision of the Management Committee.
- 5.2** Within seven (7) days following the effective date of the Petroleum Agreement, each Party shall appoint in writing three (3) representatives to form the Management Committee. Each representative shall be authorized by the appointing Party to communicate decisions of that Party and to bind it with respect to matters properly coming before the Management Committee. This Committee shall become functional within thirty (30) days following these appointments which each Party must notify to the others. One of the representatives from **ONHYM** shall be the Chairman of the Management Committee.
- 5.3** All decisions of the Management Committee shall be made unanimously by all of the voting and represented Parties. The minutes of all decisions carried shall be prepared by the Operator and signed by the representatives of each Party before the adjournment of each meeting or as may otherwise be agreed.
- 5.4** Each Party shall have the right to change its representatives at any time or to designate alternates to represent it at a given meeting by informing the other Parties thereof in writing at least ten (10) days in advance.
- A Party may be assisted at meetings by a reasonable number of advisors and/or experts.
- 5.5** The Management Committee shall meet every six (6) months, or at such other intervals as may be mutually agreed, in Rabat or in any other location mutually agreed to for such meeting. In the event that a Management Committee meeting is conducted outside of Morocco, the Operator will fund all reasonable expenses relating to travel and accommodation for a maximum of three (3) ONHYM representatives. For the avoidance of doubt, such costs shall be chargeable to the Joint Account.
- The Operator shall prepare the relevant documents as well as the proposal of an agenda that it shall submit to the Chairman who shall call such meeting in writing at least fifteen (15) days before the date of the meeting.
- Any Party may add additional items to the agenda on condition that it notifies the other Parties of same at least eight (8) days before the date of the meeting.
- 5.6** Moreover, and at the request of any Party, extraordinary meetings of the Management Committee may be called according to the same procedures as those set forth in paragraph 5.5. of this Contract.
- 5.7** The Management Committee shall:

- a) examine and verify implementation of annual programs and budgets for Exploration Works to be performed pursuant to paragraphs 4.2.1, 4.2.2. and 4.2.3. of the Petroleum Agreement.
- b) examine and take appropriate decisions concerning all Development and Exploitation Works and related budgets.
- c) examine the terms and conditions of major contracts and agreements entered into by the Operator on behalf of the Parties during the validity of the Exploitation Concession, for the execution, particularly by third parties, of seismic, drilling, Development and Exploitation Works which have been approved by the Management Committee.

For the purpose of this paragraph, major contracts and agreements are considered to be those valued at more than one hundred thousand United States Dollars (U.S. \$100,000).

- d) take all necessary decisions in a timely manner concerning all operations associated with an Exploitation Concession and necessary for the approval of contracts related to development and exploitation of a commercial discovery.
- e) verify and determine the conditions of production and allocation of Hydrocarbons among the Parties.
- f) form all technical committees deemed appropriate for implementation of the Petroleum Agreement and this Contract, and coordination among the Parties.
- g) consider and decide any other matter arising from this Contract among the Parties.

CLAUSE 6

COSTS AND EXPENSES

- 6.1** With the exception of the stipulations of paragraph 4.2. of the Petroleum Agreement, all costs and expenses incurred pursuant to the Petroleum Agreement and this Contract by the Operator in conducting Joint Operations in any Exploitation Concession shall be borne by the Parties in proportion to their respective Percentage Interest in said Exploitation Concession.

For Joint Operations, the Parties agree to follow the Accounting Procedure, Attached as Appendix III to this Contract, the purpose of which is to define equitable methods of determining the debits and credits applicable to Joint Operations.

- 6.2** All costs and expenses incurred by the Operator in conducting Joint Operations shall be determined and regulated in the manner prescribed in the Accounting Procedure. The Operator must keep cost and expense ledgers in accordance with the Accounting Procedure. In the event of a contradiction between this Contract and the Accounting procedure, the provisions of this Contract shall prevail.

- 6.3** The Operator shall have the right to request that the Parties prepay their respective share of estimated expenses in the currency and to the account specified by the Operator, but the Operator's forecast of expenses must not exceed the budget approved for the calendar year in question, except to the extent provided for in paragraph 3.1.3. of this Contract. The Accounting Procedure shall be used when reconciling the differences between actual and forecast expenses by making the appropriate adjustments. If one Party should notify the Operator that it deems part of a request by the Operator for an advance to pay a contractor or supplier inappropriate or incorrect, then the Operator must give due regard to the objection raised by said Party before paying said contractor or supplier.

- 6.4** In conformity with paragraph 6.3. of this Contract and the Accounting Procedure, if any Party fails to meet an obligation to prepay its share of adjustments to actual and forecast expenses, the Operator shall send notice of default, with an invoice for the amount due, to such Party, with a copy to the other Parties. If such Party does not contribute sufficient funds to remedy said default within fifteen (15) days following the date of such notice, it will be declared a defaulting Party under the terms of this Contract.

Within ten (10) days following receipt of the written notice and said invoice, the non defaulting Party (ies) shall each contribute funds to the Operator, in proportion to their respective Percentage Interests in the Exploitation Concession, in a total amount of shortfall.

The non defaulting Party (ies) shall during the period of default, have a lien in proportion to their contribution toward the shortfall, on the share of Available Hydrocarbons of the defaulting Party.

The non defaulting Parties shall be entitled to recover an amount equal to two

hundred and twenty-five percent (225%) of the amount of the default from sale of the defaulting Party's share of Available Hydrocarbons.

- 6.5** If a default is not remedied within sixty (60) days after receipt of the notification prescribed above, in addition to recourse available under this Contract and the law in similar cases, the non defaulting Party(ies) shall have the right, in the event the non defaulting Party (ies) believe (s) the defaulting Party's Percentage Interest in the remaining recoverable reserves are sufficient to cover the amount due, to require the defaulting Party to surrender to them, at its expense, all of its Percentage Interest in the Exploration Permit (s) and the Exploitation Concession(s) in proportion to the amounts that each non defaulting Party has paid on behalf of the defaulting Party. The defaulting Party shall take, and shall assist the non defaulting Party (ies) in taking, all measures required by law or applicable regulations for the purpose of making the transfer legally valid.

To this end, the defaulting Party shall sign documents and take all measures necessary to effect a prompt and valid transfer of its Percentage Interest to the non defaulting Party (ies).

- 6.6** During the entire period of time the defaulting Party is in default the defaulting Party shall not be entitled to receive data or information of a confidential nature or to participate in any proceedings conducted by the Management Committee unless it is invited explicitly.
- 6.7** If none of the non defaulting Party (ies) exercise the right mentioned in paragraph 6.5. of this Contract, and if no third party is found to take over the defaulting Party's Percentage Interest then the Party (ies) shall be deemed to have decided to abandon the operations with respect to the Exploitation Concession. Each Party, including the defaulting Party, shall pay the cost of this abandonment in proportion to its Percentage Interest.

CLAUSE 7

BANK GUARANTEE

- 7.1** Before signing the Petroleum Agreement and the Association Contract **PETCO** shall provide **ONHYM** with an irrevocable on first demand bank guarantee issued by a Moroccan bank or by a foreign bank with a branch in Morocco, ("Guarantee") acceptable to **ONHYM**. The amount of the on first demand Guarantee shall be equal to the estimated costs of the Minimum Exploration Work Program which **PETCO** has to execute in the corresponding Period of the Exploration Permits(s) in which **PETCO** has decided to enter.
- 7.2** The on first demand Guarantee shall include the following obligatory terms :
- 7.2.1** Its effective date and its duration.
- 7.2.2** It is the performance of the Minimum Exploration Work Program that **PETCO** is committed to execute and not the expenditures corresponding to the estimated costs of these works which determines whether **PETCO** has fulfilled its obligations stipulated in the Petroleum Agreement.
- 7.2.3** The on first demand Guarantee shall be payable to **ONHYM** in Morocco within eight (8) working days after the date on which **ONHYM** submits to the Bank one of the following documents :
- a) Either a written declaration from **PETCO** stating that **PETCO** does not intend to perform or complete the works which are the subject of the on first demand Guarantee ; or
 - b) A demand for payment by **ONHYM**, with a copy to **PETCO** accompanied by a written declaration from **ONHYM** stating that **PETCO** received a written warning of its non-performance, but has not taken the necessary steps to complete the works within the period stipulated in the Petroleum Agreement.
- 7.2.4** **ONHYM** shall release the on first demand Guarantee once **ONHYM** forwards a signed declaration to the Bank attesting that **PETCO** has fully completed the Minimum Exploration Work Program which is the object of said on first demand Guarantee.
- 7.2.5** The form and the detailed terms of the on first demand bank Guarantee are set out in Appendix IV attached hereto in this Contract.

CLAUSE 8

MATERIALS AND EQUIPMENT

- 8.1** All the materials and equipment acquired by the Operator to be used in Joint Operations shall be the undivided property of the Parties in proportion to their Percentage Interests.

The materials and equipment belonging to **PETCO** and used for Exploration Works shall remain the exclusive property of **PETCO**.

- 8.2** Unless otherwise decided by the Management Committee, the Operator may only purchase those materials and equipment for Joint Operations which are reasonably required in conducting these operations and provided for in approved programs and budgets, if such approval is required by this Contract. The Operator shall not stock materials and equipment in advance without the consent of the Management Committee, unless required for carrying out Exploration Works.

- 8.3** The materials and equipment jointly acquired and designated as surplus by the Operator, with the exception of materials and equipment belonging to **PETCO** or required for carrying out Exploration Works, the book value of which is equal to or higher than fifty thousand United States Dollars (US\$ 50,000), shall be sold in accordance with the directives of the Management Committee and the proceeds shall be credited to the Joint Account as provided for in the Accounting Procedure. However, if the book value of such surplus does not exceed fifty thousand United States Dollars (US\$ 50,000), the Operator may dispose of same in a manner which it deems adequate, on the condition, however, that it informs the Parties.

Each Party has the right to purchase the materials and equipment which the Operator has declared to be surplus and intends to sell in conformity with provisions provided to this effect in the Accounting Procedure.

CLAUSE 9

LIABILITY AND INSURANCE

- 9.1** The liability of the Parties toward third parties shall be determined in accordance with Moroccan Law.
- 9.2** **PETCO** as Operator, shall acquire for the entire duration of the Exploration Works all insurance required by laws and regulations relating to social security, labor regulations and occupational hazards in Morocco, including insurance prescribed by dahir n° 1-02-238 of 25 rejev 1423 (October 3rd, 2002) enacting law n° 17-99 and its implementing decree n° 2-4-355 dated (November 2nd, 2004) relating to the Insurance Code as well as all insurance which may be required by the operations relating to Exploration Works. Such insurance shall be acquired outside of Morocco, as required.
- 9.3** The Operator shall acquire for the Joint Account all insurance mentioned in paragraph 9.2. of this Contract for the benefit of the Parties for the entire duration of Joint Operations.
- 9.4** The list of insurance to be acquired as well as the corresponding premiums to be paid shall be submitted to the Management Committee for approval. The Operator shall not acquire any insurance other than that required by paragraphs 9.2. and 9.3. of this Contract and those approved by the Management Committee.
- 9.5** The Operator shall require that its contractors and subcontractors involved in Joint Operations acquire all insurance mentioned in paragraph 9.2. of this Contract. The Operator shall ensure that all insurance policies contain a waiver clause under which the insured waive their rights of subrogation in favour of all Parties and the Operator.
- All such insurance or reinsurance must include all the Parties named as additional insured Parties.
- 9.6** The preceding provisions in no way infringe upon the rights of each of the Parties to contract independently any individual insurance with regard to their interest in the Petroleum Agreement and in this Contract provided that said insurance does contravene the insurance contracted by the Operator in conformity with the provisions of paragraphs 9.1., 9.2. and 9.3. of this Contract. The cost of such insurance shall be borne only by the Party which has subscribed to them individually.

CLAUSE 10

ABANDONMENT AND ASSIGNMENT

BETWEEN PARTIES

10.1 Abandonment

Any Party wishing to abandon voluntarily all or part of the Exploration Permit(s) or Exploitation Concession(s) (hereinafter called the "Abandoned Rights") shall notify the other Parties in writing specifying the area to be abandoned and the reasons therefore. Within ninety (90) days following receipt of said notification, each Party shall inform the Chairman of the Management Committee whether it concurs with or opposes the proposed abandonment. As soon as the Chairman receives the notifications of all the Parties, he shall call a meeting of the Management Committee within the period provided for in paragraph 5.5 of this Contract. If the Management Committee establishes that all the Parties approve abandonment proposal, the abandonment of the Abandoned Rights shall take place in conformity with the Hydrocarbon Code.

10.2 Assignment between the Parties

If during the said Management Committee meeting, one or more of the Parties oppose the proposed abandonment ("Non-consenting Parties") and if one or more of the Parties wanting to abandon do not renounce it (their) Abandonment proposal, it (they) shall assign to the Non-consenting Parties all of its (their) Percentage Interest in the Abandoned Rights without any compensation.

If several Parties are non-consenting Parties, the Abandoned Rights shall be assigned to each of the non-consenting Parties which shall be allocated to them in the proportion with each of their Percentage Interests (prior to the abandonment) bears to the total Percentage Interests of all non-consenting Parties (prior to the abandonment) unless the non-consenting parties agree otherwise.

The abandoning Party (ies) shall bear, in proportion to its (their) Percentage Interest :

- i) the costs, expenses, liabilities and obligations attributable to the said share of the Abandoned Rights for the period prior to the effective date of the assignment.
- ii) All unavoidable costs and expenses incurred by the Operator subsequent to the effective date of said assignment due to all contracts signed by the Operator in performance of a program reviewed and approved by the Management Committee prior to such abandonment ; and
- iii) All obligations already due under this Contract and not included in either (i) or (ii) above

The abandoning Party (ies) shall not have any rights or be subject to any other obligations with regard to the Abandoned Rights after the effective date of assignment.

Any assignment effected pursuant to paragraph 10.2 of this Contract shall take effect between the Party (ies) when the abandoning Party (ies) obtain(s) all authorizations that might be required by applicable law. The abandoning Party(ies) shall sign and deliver all documents and undertake all actions reasonably necessary to give legal force to this assignment.

- 10.3** The abandonment or the assignment by a Party of its rights in any Exploration Permit pursuant to this Clause, shall not infringe on the rights which that Party has acquired in any Exploitation Concession applied for jointly before the said effective date of abandonment or said assignment in respect of such Exploration Permit.

MODEL

CLAUSE 11

ASSIGNMENT TO THIRD PARTIES

- 11.1** If any Party shall receive and is willing to accept a bona fide offer for the acquisition of all or a portion of its interest in this Contract, the Petroleum Agreement, the Exploration Permit(s) and Exploitation Concession(s), the said Party hereinafter called "Ceding Party" shall notify thereof in writing to the other Parties.

However, the Parties agree that assignment of all or a portion of a percentage interest to third party may not take place before the expiration of the Initial Period of the Exploration Permit(s), or completion of the Minimum Exploration Work Program to be performed during said Initial Period as specified in paragraph 4.2.1 of the Petroleum Agreement.

Such notice shall set forth the identity of the offering third party (hereinafter called the "offeror") the terms and conditions offered in good faith, as well as all other appropriate information. Within a period of fifteen (15) days following the receipt of such notice, or, for a period of five (5) working days if a drilling rig is on location on the Area of Interest or is estimated to arrive within twenty (20) days, the other Parties shall have an option to purchase the entire interest, proposed to be sold, on the same terms proposed by the offeror as set forth in the offer. If more than one of the Parties should exercise its right to purchase said interest(s), each such Party shall have the right to purchase said interest(s) in the proportion that the Percentage Interest hereunder of such Party bears to the sum of the Percentage Interests of all the Parties exercising such right, except as they may otherwise agree.

If within such a period of fifteen (15) days, or five (5) days, as the case may be, none of the other Parties have exercised their right to purchase said interest, the sale to the offeror may be made under the terms and conditions set forth in the notice given, provided that such sale shall be subject to the consent of the other Parties as required under paragraph 11.3. of this Contract, that such sale shall be effected within six (6) months from the date of such notice and that such sale and any other transfer shall be in accordance with the Hydrocarbon Code, applicable laws, the Petroleum Agreement and this Contract.

- 11.2** The limitations imposed by paragraph 11.1 above shall not apply to the transfer by any Party of all or portion of its Percentage Interest to its parent company or to one of its affiliates, nor to a transfer resulting from a merger, consolidation or reorganization of the said Party. In the event of any such transfer of a Percentage Interest to an affiliate, the Ceding Party shall remain responsible for the full performance by the transferee of the obligations undertaken by the Ceding Party under the terms of the Petroleum Agreement, this Contract, the Exploration Permits and the Exploitation Concessions.
- 11.3** Except if the beneficiary is an affiliate of the Ceding Party, every transfer of all or a portion of a Percentage Interest shall be subject, in accordance with this Clause 11, to the prior approval of the other Parties which shall not be unreasonably withheld.
- 11.4** Every assignment of all or a portion of a Percentage Interest shall, according to this Clause 11, include the corresponding share of equipment and facilities acquired for the Joint Account. Subject to paragraph 8.3. of this Contract, no Party may separately assign under this Clause 11 all or part of its Percentage Interest in equipment and facilities acquired for the Joint Account.

It is understood under this Clause 11, that the transfer of all or part of the Percentage Interest of one of the Parties shall have no effect on the indivisibility of the Area of Interest.

In accordance with the Hydrocarbon Code, the assignment instrument shall specify the conditions by which the assignee is bound by all the obligations, responsibilities and the duties related to the assigned interest (s) which are borne by the Ceding Party in accordance with the provisions of the Petroleum Agreement, this Contract, the Exploration Permit(s) and the Exploitation Concession(s).

- 11.5** No assignment of interests under this Clause 11 shall be valid unless made by an instrument in writing duly executed by the Parties to the assignment and until the same have been approved as stipulated by the Hydrocarbon Code, this Contract, the Exploration Permit(s) and the Exploitation Concession(s).

CLAUSE 12

SOLE RISK PROVISIONS

The provisions of this Clause 12 shall apply to all drilling operations undertaken pursuant to the Petroleum Agreement and this Contract, provided however that if the drilling operations to be conducted are not part of the Development and Exploitation Works voted by the Management Committee undertaken under Exploitation Concession(s) and are proposed by **PETCO**, then this Clause shall only apply to **PETCO** and other eventual Parties, other than **ONHYM** and their respective Percentage Interest(s). If drilling operations during the exploitation Period are requested by **ONHYM** alone, in such case **ONHYM** will bear the entire cost of such Sole Risk drilling.

It is the intent of the Parties under this Clause that **ONHYM**'s Percentage Interest shall not be affected by any Exploration Work sole risk operations undertaken by **PETCO** and in which **ONHYM** does not participate.

MODEL

PART IV

MISCELLANEOUS PROVISIONS

CLAUSE 13

CONFIDENTIALITY

The Parties agree to conform with the terms of Article 20 of the Petroleum Agreement regarding confidentiality.

MODEL

CLAUSE 14

FORCE MAJEURE

The Parties agree to conform with the terms of Article 21 of the Petroleum Agreement regarding Force Majeure.

MODEL

CLAUSE 15

ARBITRATION

If a dispute arises between the Parties in connection with this Contract, the Parties agree to resolve such dispute in conformity with the terms of Article 22 of the Petroleum Agreement.

MODEL

CLAUSE 16

APPLICABLE LAW

This Contract shall be governed and interpreted in conformity with Moroccan Law, in conformity with the terms of Article 7 of the Petroleum Agreement.

MODEL

CLAUSE 17

NOTIFICATION

The notices which have to be given in accordance with the Hydrocarbon Code and with this Contract shall be made in writing and notified by telegram or facsimile at the choice and charge of the sender, and confirmed by registered letter acknowledging receipt and shall become effective upon the receipt of the first of these means of transmission.

These notices shall be addressed:

To : MINISTRY IN CHARGE OF ENERGY
Attention : LE SECRETAIRE GENERAL
B.P. 6208 - RABAT INSTITUTS - HAUT AGDAL
RABAT - MAROC

Fax : (212) 05 37 77 47 32

To : L'OFFICE NATIONAL DES HYDROCARBURES ET DES MINES

Attention : LE DIRECTEUR GENERAL
5 AVENUE MOULAY HASSAN
B.P. 99 - RABAT - MAROC

E-mail: benkhadra@onhym.com

Fax : (212) 05 37 28 16 26 / 05 37 79 44 75

To : PETCO
Attention :

Fax :
E-mail :

For purposes of this Contract, if any Party changes its above mentioned notification address, it shall advise the other Party in writing within ten (10) days following this change.

CLAUSE 18

MISCELLANEOUS PROVISIONS

- 18.1** All administrative documents and correspondence foreseen in the Hydrocarbon Code, the Petroleum Agreement and this Contract will be in French, while technical data and documents may be established either in French or in English.
- 18.2** If any Party does not require the performance of any of the provisions of this Contract or exercise its rights and privileges arising out of the Hydrocarbon Code, the Petroleum Agreement and/or this Contract, this shall not be deemed to be a waiver in respect of any future exercise of such provisions, rights and privileges.
- 18.3** The Parties' respective successors shall be bound by and benefit from this Contract.
- 18.4** This Contract has been established in French and translated into English and is signed in these two versions. In case of dispute, only the French version shall be valid.
- 18.5** No provision of this Contract can be amended or modified except by mutual agreement in writing, and signed by the duly empowered representatives of the Parties.
- 18.6** In the event of a conflict between the provisions of this Contract and the provisions of the Petroleum Agreement, the provisions of the Petroleum Agreement shall prevail.

CLAUSE 19

EFFECTIVE DATE

This Association Contract becomes effective and is terminated simultaneously with the Petroleum Agreement.

MODEL

CLAUSE 20

ORIGINALS AND TRANSLATIONS

In witness whereof this Contract has been executed in (...) original copies in French and in (...) copies of its conforming translation into the English language.

In Rabat this day

**L'OFFICE NATIONAL
DES HYDROCARBURES ET DES MINES**

BY : AMINA BENKHADRA

TITLE : GENERAL DIRECTOR

PETCO

BY :

TITLE :

MODEL

APPENDIX I
DEFINITIONS

DEFINITIONS

The corresponding definitions set forth in the Law and in the Appendix I of the Petroleum Agreement are hereby adopted and incorporated by reference herein, and accordingly shall apply for all purposes hereof.

The following words, terms and phrases shall have the meaning ascribed thereto below when used in the Association Contract:

- a) "Area of Interest" means the Area of Interest named ".....", described as such in Appendix II attached to this Contract;
- b) "Association Contract" or "the Contract" shall mean the document to which this Appendix I is attached;
- c) "Available Hydrocarbons" means for all Exploitation Concessions the Hydrocarbons produced and not used, for the needs of direct or assisted exploitation of the hydrocarbon deposit, after deduction of the Annual Royalties paid in kind;
- d) "Development and Exploitation Works" shall mean any operation relating to and carried out in any Exploitation Concession and, in particular, geological and geophysical works, the drilling of development wells, the production of Hydrocarbons, the installation of gathering pipelines and the operations necessary for the maintenance of pressure and for primary and secondary recovery;
- e) "Exploitation Concession" means any Exploitation Concession granted to **PETCO** and **ONHYM** pursuant to the Hydrocarbon Code and the Petroleum Agreement which originates from one or more of the Exploration Permits;
- f) "Exploration Works" shall mean all exploration and evaluation operations seeking to establish the existence of Hydrocarbons in commercially exploitable quantities;
- g) "Exploration Permits" means the Exploration Permits in the Area of Interest granted to **PETCO** and **ONHYM** pursuant to the Hydrocarbon Code and the Petroleum Agreement;
- h) "Hydrocarbons" shall mean natural Hydrocarbons whether liquid, gaseous or solid other than bituminous shale, and shall include both crude oil and natural gas;
- i) "Joint Account" means the account established and maintained by the Operator to record all advances, expenditures, receipts, materials, equipment and other assets acquired or used in the conduct of Joint Operations;
- j) "Joint Operations" means all operations conducted by the Operator on behalf of all Parties to this Contract;
- k) "Minimum Exploration Work Program" means the operations set forth and described in paragraph 4.2 of the Petroleum Agreement;

- l) "Operator" shall mean **PETCO**;
- m) "Percentage Interest" means in respect of the Exploration Permits, the Percentage Interests of the Parties set forth in paragraph 3.1(b) of the Petroleum Agreement and in respect of any Exploitation Concession the Percentage Interests of the Parties set forth in paragraph 5.2 of the Petroleum Agreement;
- n) "Petroleum Agreement" means the document referred to in the Preamble of the Contract;

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APPENDIX II

MAP AND DESCRIPTION OF THE AREA OF INTEREST

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APPENDIX III
ACCOUNTING PROCEDURE

ACCOUNTING PROCEDURE

This "Accounting Procedure" is attached to and made part of the Association Contract by and between **ONHYM** and **PETCO**.

1. GENERAL PROVISIONS

1.1 Purpose.

- (A) The purpose of this Accounting Procedure is to establish equitable methods for determining charges and credits applicable to Joint Operations which reflect the costs of those operations to the end that no Party will gain or lose in relation to other Parties.
- (B) The Parties agree, however, that if the methods under this Accounting Procedure prove unfair or inequitable to Operator or Non-Operators, the Parties will meet and in good faith endeavour to agree on changes in methods deemed necessary to correct any unfairness or inequity.
- (C) The laws of Morocco shall apply to this Accounting Procedure.

1.2 **Conflict with Association Contract.** The provisions of the Association Contract (excluding this Accounting Procedure) will prevail in the event of a conflict with the provisions of this Accounting Procedure.

1.3 **Operator.** In the event of establishment of a joint operating company ("JO"), the Operator in the context of this Accounting Procedure will mean the JO with respect to the any Exploitation Concession, and **PETCO** or any successor Private Party to **PETCO**, with respect to the Exploration Permits.

1.4 **Definitions.** The definitions contained in the Association Contract to which this Accounting Procedure is attached apply to this Accounting Procedure and have the same meanings when used herein. Certain terms used herein are defined as follows:

- (A) "**Accrual Basis**" means that basis of accounting under which costs and benefits are regarded as applicable to the period in which the liability for the cost is incurred or the right to the benefit arises, regardless of when invoiced, paid, or received.
- (B) "**Advances**" means each payment of cash required to be made pursuant to a Cash Call.
- (C) "**Agreed Interest Rate**" means the rate of interest, compounded on a Monthly basis, at the rate per annum equal to the average London Inter Bank Offered Rate (LIBOR) for United States dollar deposits for a three Month period quoted by the British Bankers' Association which appears on Reuters Screen LIBOR01 page (or such other page as may replace such page for the purpose of displaying the rate for deposits in U.S. Dollars for a three Month period quoted by the British Bankers' Association) as of 11 am

London time, two Business Days prior to (i) the due date of payment, and thereafter, (ii) the first Business Day of each succeeding Month plus five percentage points. If the rate defined above is contrary to any applicable usury law, the Agreed Interest Rate will instead be the maximum rate permitted by such applicable law

- (D) **“Calendar Year”** means a calendar year according to the Gregorian calendar, beginning on January 1 and concluding on December 31.
- (E) **“Cash Call”** means any request for payment of cash by the Operator to the Parties in respect of Joint Operations.
- (F) **“Cash Basis”** means that basis of accounting under which only costs actually paid and revenue actually received are included for any period.
- (G) **“Clause”** means a Clause of the Association Contract.
- (H) **“Country of Operations”** means Morocco.
- (I) **“Day”** means a calendar day according to the Gregorian calendar
- (J) **“Material”** means machinery, equipment and supplies acquired and held for use in Joint Operations.
- (K) **“Month”** means a month according to the Gregorian calendar
- (L) **“Non-Operator”** means a Party other than the Operator.
- (M) **“Joint Operations”** means all activities conducted by Operator as described in Clause 3.1 of the Association Contract.
- (N) **“Section”** means a section of this Accounting Procedure
- (O) **“United States Dollars” or “USD”** means the lawful currency of the United States of America.
- (P) **“Work Program and Budget”** means a work program for Joint Operations and corresponding budget as described and approved under the Association Contract and will include where approved any annual or multi-year program and budget.
- (Q) **“Year”** means a twelve month period under the Gregorian calendar.

1.5 Joint Account Records and Currency Exchange.

- (A) Operator must at all times maintain and keep true and correct records of the production and disposition of all Hydrocarbons produced from processing Joint Operations, and of all costs and expenditures under the Association Contract, as well as other data necessary or proper for the settlement of accounts between the Parties hereto in connection with

their rights and obligations under the Association Contract and to enable Parties, to comply with income tax and other laws applicable to them and to their respective Affiliates.

- (B) Operator must maintain accounting records pertaining to Joint Operations in accordance with generally accepted accounting practices used in the international petroleum industry and any applicable statutory obligations of the Country of Operations as well as the provisions of the Petroleum Agreement and the Association Contract.
- (C) The Joint Account must be maintained by Operator in the English language and in USD and in such other language and currency as may be required by the laws of the Country of Operations, the Association Contract or the Petroleum Agreement. Conversions of currency will be recorded at the rate actually experienced in that conversion. Currency translations are used to express the amount of expenditures and receipts for which a currency conversion has not actually occurred. Currency translations for expenditures and receipts will be recorded in accordance with Operator's normal practice. A statement describing the practice will be provided to the Non-Operators upon request.
- (D) Any currency exchange gains or losses will be credited or charged to the Joint Account, except as otherwise specified in this Accounting Procedure.
- (E) This Accounting Procedure will apply, *mutatis mutandis*, to projects under Clause 12 of the Association Contract (Sole Risk Provisions) in the same manner that it applies to other Joint Operations; provided, however, that the charges and credits applicable to the Party or the Parties that have paid for such projects under Clause 12 of the Association Contract shall be separately maintained.
- (F) The Accrual Basis for accounting will be used in preparing accounts concerning the Joint Operations.

1.6 Statements and Billings.

- (A) Unless otherwise agreed by the Parties, Operator must submit Monthly to each Party, on or before the twenty-fifth (25th) Day of each Month, statements of the costs and expenditures incurred during the prior Month, indicating by appropriate classification the nature thereof, the corresponding budget category, and the portion of such costs charged to each of the Parties.

These statements will, at a minimum, contain the following information:

- (1) Advances of funds setting forth the currencies received from each Party;
 - (2) The share of each Party in total expenditures;
 - (3) The accrued expenditures (upon request of Non-Operator, any related documentation shall be provided);
 - (4) The current account balance of each Party;
 - (5) Summary of costs, credits, and expenditures on a current Month and Year-to-date basis or other periodic basis, as agreed by the Parties (such expenditures will be grouped by the categories and line items designated in the approved annual Work Program and Budget or multiyear project budget in accordance with Clause 3 of the Association Contract so as to facilitate comparison of actual expenditures against that Work Program and Budget or multiyear project budget);
 - (6) Details of unusual charges and credits in excess of \$250,000 USD (however, the Non-operator may request details of unusual charges and credits below \$250,000);
- (B) Operator will, upon request, furnish a description of the accounting classifications used by it.
- (C) Amounts included in the statements will be expressed in US Dollars and in Moroccan Dirhams and billings will be expressed in US Dollars and reconciled to the currencies indicated.
- (D) Each Party will be responsible for preparing its own accounting and tax reports to meet the requirements of the Country of Operations and of all other jurisdictions to which it may be subject. Operator, to the extent that the information is reasonably available from the Joint Account records, must provide Non-Operators in a timely manner with the necessary information to facilitate the discharge of such responsibility.

1.7 Payments and Advances.

- (A) If Operator so requests, each Non-Operator must advance its share of estimated cash requirements for the succeeding month's Operations. Each such Cash Call will be equal to the Operator's estimate of the money to be spent on approved work in the currencies required to perform its duties under the associated approved Work Program and Budget during the month concerned. For informational purposes, the Cash Call will contain an estimate of the funds by currency required for the succeeding two (2) Months detailed by the categories designated in the approved Work Program and Budget submitted by Operator.

- (B) Each such Cash Call, detailed by the categories designated in the approved Work Program and Budget submitted by Operator in accordance with Clause 3 of the Association Contract, must be made in writing and delivered to all Non-Operators not less than fifteen (15) Days before the payment due date. The due date for payment of such Advances will be set by Operator but must be no sooner than the first Day of the period for which the Advances are required. All Advances shall be made without bank charges. Any charges related to receipt of Advances from a Non-Operator must be borne by that Non-Operator.
- (C) Each Non-Operator must electronically transfer its share of the full amount of each such Cash Call to Operator on or before the due date, in the currencies requested or any other currencies acceptable to Operator and at a bank designated by Operator. If currency provided by a Non-Operator is other than the requested currency, then the entire cost of converting to the requested currency will be charged to that Non-Operator.
- (D) Notwithstanding the provisions of Section 1.7(A), should Operator be required to pay any sums of money for the Joint Operations which were unforeseen at the time of providing the Non-Operators with said estimates of its requirements, Operator may make a written request of the Non-Operators for special Advances covering the Non-Operators' share of such payments. Each such Non-Operator must make its special Advances within fifteen(15) Days after receipt of such Notice.
- (E) If a Non-Operator's Advances exceed its share of cash expenditures, the next succeeding cash advance requirements, after such determination, will be reduced accordingly. However, if the amount of such excess Advance is greater than the amount of the next Month's estimated cash requirements for such Non-Operator, the Non-Operator may request a refund of the difference if the difference is more than \$500,000 USD, which refund must be made by Operator within ten (10) Days after receipt of the Non-Operator's request.
- (F) If Non-Operator's Advances are less than its share of cash expenditures, the deficiency will, at Operator's option, be added to subsequent cash advance requirements or be paid by such Non-Operator within ten (10) Days following the receipt of Operator's billing to Non-Operator for such deficiency.
- (G) All interest received by Operator from interest-bearing accounts containing funds received from the Parties will be credited to the Parties on an equitable basis taking into consideration date of funding by each Party to the accounts in proportion to the total funding into the account.
- (H) If Operator does not request Non-Operators to advance their share of estimated cash requirements, each Non-Operator must pay its share of cash expenditures within ten (10) Days following receipt of notice from Operator of the expenditure that is due and owing.

- (I) Payments of Advances or billings must be made on or before the due date. In accordance with Clause 6.4 of the Association Contract, if these payments are not received by the due date the unpaid balance will bear and accrue interest from the due date until the payment is received by Operator at the Agreed Interest Rate. To determine the unpaid balance and interest owed, Operator will translate to USD all amounts owed in other currencies using the currency exchange rate, determined in accordance with Section 1.5(C), at the close of the last Day prior to the due date for the unpaid balance.
- (J) Subject to Regulation, Operator may convert the funds advanced or any part thereof to other currencies, to the extent that such currencies are required for operations. The cost of any such conversion will be charged to the Joint Account.
- (K) Operator will endeavour to maintain funds held for the Joint Account in bank accounts at a level consistent with that required for the prudent conduct of Joint Operations.
- (L) If under the Association Contract, Operator is required to segregate funds received from or for the Joint Account, the provisions under Section 1.7 for payments and advances by Non-Operators will apply also to Operator.

1.8 Adjustments.

Payments of any advances or billings related to Development and Exploitation Works will not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any Calendar Year will conclusively be presumed to be true and correct after twenty-four (24) Months following the end of such Calendar Year, unless within the said twenty-four (24) Month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of a Non-Operator to make claim on Operator for adjustment within such period will establish the correctness thereof and preclude the filing of exceptions thereto or making claims for adjustment thereon. No adjustment favorable to Operator must be made unless it is made within the same prescribed period. The provisions of this paragraph will not prevent adjustments resulting from a physical inventory of the Material as provided for in Section 6. Operator will be allowed to make adjustments to the Joint Account after such twenty-four (24) Month period if these adjustments result from audit exceptions outside of this Accounting Procedure, third party claims, or government requirements. Any such adjustments will be subject to audit within the time period specified in Section 1.9(A).

1.9 Audits.

- (A) A Non-Operator, upon at least ninety (90) Days advance Notice in writing to Operator and all other Non-Operators will have the right to audit the Joint Account and records of Operator relating to the accounting hereunder for any Year within the twenty-four Month period following the end of the Calendar Year of the Year to be audited other than those charges referred to in Section 3. Non-Operators must have reasonable access to Operator's personnel and to the facilities, warehouses, and offices directly or indirectly serving Joint Operations. The cost of each such audit will be borne by Non-Operators participating in the audit. Where at least two Non-Operators, the Non-Operators must make a reasonable effort to conduct joint or simultaneous audits in a manner that will result in a minimum of inconvenience to the Operator. Non-Operators must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) Month period. Non-Operators may request information from the Operator prior to the commencement of the audit. Operator will provide the information in electronic format or hard copy documents, if electronic format is not available. Operator will provide the information requested within sixty (60) Days before commencement of the audit, but in no event no later than thirty (30) Days after the written request. The information requested will be limited to that normally used for pre-audit work such as trial balance, general ledger, and sub-ledger data.
- (B) Prior to the conduct of an audit of the Joint Account by the Non-Operator(s), the Non-Operator(s) will consult with the Operator and agree reasonable administrative arrangements to be observed during the conduct of the audit.
- (C) Operator will endeavour to produce information from its Affiliates reasonably necessary to support charges from those Affiliates to the Joint Account other than those charges referred to in Section 3.
- (D) Except for charges under Sections 2.3(F) and 2.3(G)(1), the following provisions apply to all charges from Operator for its Affiliates:

A Non-Operator may audit agreements between the Operator and its Affiliates for services, including corresponding supporting documentation related to the services. The internal records of an Operator's Affiliate providing services to the Joint Operations may not be audited by the Non-Operator. However, upon request by a Non-Operator within twenty-four (24) Months following the end of the same Year as provided in Section 1.8(A) above, Operator will cause its Affiliate to provide Non-Operator an annual report from an internationally recognized independent public accounting firm. The annual report will attest that charges billed from such Affiliate to the Joint Account represent a complete and accurate allocation of its costs to the Joint Operations, exclude any element of profit, exclude any duplication of costs covered within Section 2, and are consistent in application to all of its activities. The annual report will be furnished by the Operator within

twelve (12) Months of the request from the Non-Operator. The costs of providing the annual report shall be borne by the Operator.

- (E) Any information obtained by a Party under the provisions of this Section 1.8 which does not relate directly to the Joint Operations must be kept confidential and must not be disclosed to any party, except as would otherwise be permitted by Clause 13 of the Association Contract.
- (F) In the event that the Operator is required by law, the Petroleum Agreement or the Association Contract to employ a public accounting firm to audit the Joint Account and records of Operator relating to the accounting hereunder, the cost thereof will be a charge against the Joint Account, and a copy of the audit must be furnished to each Party.
- (G) At the conclusion of each audit, the Parties will endeavour to settle outstanding matters expeditiously. To this end, the Parties conducting the audit will make a reasonable effort to prepare and distribute a written report to the Operator and all the Parties who participated in the audit as soon as possible and in any event within ninety (90) Days after the conclusion of each audit. The report must include all claims, with supporting documentation, arising from such audit together with comments pertinent to the operation of the accounts and records. Operator will make a reasonable effort to reply to the report in writing as soon as possible and in any event no later than ninety (90) Days after receipt of the report.
- (H) All adjustments resulting from an audit agreed between the Operator and the Non-Operator conducting the audit must be promptly reflected in the Joint Account by the Operator and reported to the Non-Operator(s). If any Dispute arises in connection with an audit, it must be reported to and discussed by the Management Committee, and, unless otherwise agreed by the Parties to the Dispute, resolved in accordance with the provisions of Clause 15 of the Association Contract.

1.10 **Allocations.** If it becomes necessary to allocate any costs or expenditures to or between Joint Operations and any other operations, such allocation will be made on an equitable basis. For informational purposes only, Operator will furnish a description of its allocation procedures pertaining to these costs and expenditures and its rates for personnel and other charges, along with each proposed Work Programme and Budget. Such allocation basis will be subject to audit under Section 1.8.

2. CHARGES

2.1 Operator will charge the Joint Account for all costs and expenditures incurred by Operator for the conduct of Joint Operations within the limits of approved Work Programs and Budgets or as otherwise specified in the Association Contract. Charges for services provided by an Operator's or a Party's Affiliate such as those contemplated in Sections 2.3(G)(2) and 2.3(G)(3) will reflect the cost to

the Affiliate (including an allocated portion of overhead and administrative costs attributable to that Affiliate), and shall exclude any profit, for performing such services, except as otherwise provided in Section 2.3(F) and Section 2.3(G)(1).

2.2 The costs and expenditures must be recorded as required for the settlement of accounts between the Parties hereto in connection with the rights and obligations under the Association Contract and for purposes of complying with the tax laws of the Country of Operations and of such other countries to which any of the Parties may be subject.

2.3 Chargeable costs and expenditures may include:

- (A) **Permits, Concessions, Etc.** All costs, if any, attributable to the acquisition, maintenance, renewal or relinquishment of licences, permits, contractual and/or surface rights acquired for Joint Operations and bonuses paid in accordance with the Petroleum Agreement when paid by Operator in accordance with the provisions of the Association Contract. Any bonuses paid in accordance Article 15 of the Petroleum Agreement will be proportionately shared by all Parties, except ONHYM.
- (B) **Salaries, Wages and Related Costs.** Salaries, wages and related costs include everything constituting employees' total compensation, as well as the cost to Operator of holiday, vacation, sickness, disability benefits, living and housing allowances, travel time, bonuses, and other customary allowances applicable to the salaries and wages chargeable hereunder, as well as the costs to Operator for employee benefits, including but not limited to employee group life insurance, group medical insurance, hospitalization, retirement, severance payments required by the laws or regulations of the Country of Operations, (additional severance payments in excess of those provided by the laws or regulations of the Country of Operations, which are made in accordance with Operator's benefit policies, will be allocated to the Joint Account in the proportion that the time the employee was directly engaged in Joint Operations on a full time basis bears to the employee's total tenure with the Operator and its Affiliates), and other benefit plans of a like nature applicable to labor costs of Operator.

All costs associated with organizational restructuring (e.g., separation benefits, relocation costs, asset disposition costs) of Operator or its Affiliates, other than those costs that are directly related to employees of Operator who are directly engaged in Joint Operations on a full time basis, will require the approval of the Parties to be chargeable to the Joint Account.

Any costs associated with Country of Operations benefit plans which are not currently funded will be accrued and not be paid by Non-Operators, unless otherwise approved by the Management Committee: (a) until the same are due and payable to the employee, (b) upon withdrawal of a Party pursuant to the Association Contract and then only by the withdrawing

Party, or (c) upon termination of the Association Contract; whichever occurs first.

Expenditures or contributions made pursuant to assessments imposed by governmental authority for payments with respect to, or on account of, employees described in Sections 2.3(B)(1) and 2.3(B)(2) will be chargeable to the Joint Account.

- (1) The salaries, wages and related costs of employees of Operator and its Affiliates temporarily or permanently assigned in the Country of Operations and directly engaged in Joint Operations will be chargeable to the Joint Account.
- (2) The salaries, wages and related costs of employees of Operator and its Affiliates temporarily or permanently assigned outside the Country of Operations directly engaged in Joint Operations and not otherwise covered in Section 2.3(G)(2) will be chargeable to the Joint Account.
- (3) Costs for salaries, wages and related costs may be charged to the Joint Account on an actual basis or at a rate based upon the average cost in accordance with Operator's usual practice. In determining the average cost, expatriate and national employees' rates will be calculated separately and reviewed at least annually.
- (4) Reasonable expenses (including related travel costs) of those employees whose salaries and wages are chargeable to the Joint Account under Sections 2.3(B)(1) and 2.3(B)(2) and for which expenses the employees are reimbursed under the usual practice of Operator will be chargeable to the Joint Account.
- (5) If employees are engaged in other activities in addition to the Joint Operations, the cost of such employees will be allocated on an equitable basis.

(C) Employee Relocation Costs.

- (1) Except as provided in Section 2.3(C)(3), Operator's cost of employees' relocation to or from an assignment in connection with the Joint Operations, whether within or outside the Country of Operations and whether permanently or temporarily assigned to the Joint Operations, will be chargeable to the Joint Account. If such employee works on other activities in addition to Joint Operations, such relocation costs must be allocated on an equitable basis.
- (2) Such relocation costs will include transportation of employees, families, personal and household effects of the employee and

family, transit expenses, and all other related costs in accordance with Operator's usual practice.

- (3) Relocation costs to an assignment that is not with the Joint Operations will not be chargeable to the Joint Account unless the place of the new assignment is the point of origin of the employee or unless otherwise agreed by the Management Committee.

(D) **Offices, Camps and Miscellaneous Facilities.**

- (1) Cost of maintaining:

- (a) Operator's and/or Affiliate's principal office and staff located in the Country of Operation; and
- (b) Other offices, sub-offices, camps, warehouses, housing, and other facilities of the Operator and/or Affiliates;

directly serving the Joint Operations.

- (2) If such facilities serve operations in addition to the Joint Operations, the costs must be allocated to the operations served on an equitable basis.

- (E) **Material.** Cost, net of discounts taken by Operator, of Material purchased or furnished by Operator. Such costs will include, but are not limited to, export brokers' fees, transportation charges, loading, unloading fees, export and import duties and licence fees associated with the procurement of Material and in-transit losses, if any, not covered by insurance. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material as may be required for immediate use will be purchased, and the cost thereof charged to, the Joint Account.

(F) **Exclusively Owned Equipment and Facilities of Operator and Affiliates.**

- (1) In the absence of a separately negotiated agreement by the Parties, charges for the use of exclusively owned equipment, facilities, and utilities of Operator or any of its Affiliates at rates not to exceed the average commercial rates of non-affiliated third parties then prevailing for like equipment, facilities, and utilities for use in the area where the same are used hereunder. On request, Operator will furnish Non-Operators a list of rates and the basis of application. Such rates will be revised from time to time if found to be either excessive or insufficient, but not more than once every six (6) Months.

- (2) Exclusively owned drilling tools and other equipment lost in the hole or damaged beyond repair may be charged at replacement cost less depreciation plus transportation costs to deliver like equipment to the location where used.

(G) Services.

- (1) The charges for services provided by third parties, including the Affiliates of the respective Parties which have contracted with Operator to perform services that are normally provided by third parties, other than those services provided by Operator's Affiliates under Section 2.3(G)(2) or Non-Operators and their Affiliates under Section 2.3(G)(3), will be chargeable to the Joint Account. Such charges for services by the Affiliates of the respective Parties must not exceed those currently prevailing if performed by non-Affiliated third parties, considering quality and availability of services.
- (2) The cost of services performed by technical and professional staffs of Operator's Affiliates not located within the Country of Operations and not otherwise covered under Section 2.3(B)(2) will be chargeable to the Joint Account. The individual rates will include salaries and wages of such technical and professional personnel, lost time, governmental assessments, and employee benefits. Costs will also include all support costs necessary for such technical and professional personnel to perform such services, such as, but not limited to, rent, utilities, support staff, drafting, telephone and other communication expenses, computer support, supplies, depreciation, and other reasonable expenses. In accordance with Affiliate's normal accounting practices, this rate will include an amount representing Affiliate's overheads and administration costs attributable to the services provided, including administrative, legal, accounting, personnel management, planning and other administrative functions required for Joint Operations but will exclude any costs otherwise chargeable to the Joint Account under this Section 2. Where the service provided is carried out outside the employee's usual designated work location, travel costs and living expenses will be charged as and when incurred. Such costs charges will be reasonable and in accordance with Operator's travel and expense reimbursement policies.
- (3) The cost of services performed with the approval of Operator by the technical and professional staffs of the Non-Operators and the Affiliates of the respective Non-Operators, including the cost to such Affiliates and Non-Operators of their respective Seconddees, will be chargeable to the Joint Account. The individual rates will include salaries and wages of such technical and professional personnel and Seconddees, lost time, governmental

assessments, and employee benefits. Subject to the provisions of the Secondment Agreement executed in respect of a Secondee, costs will also include all support costs necessary for such technical and professional personnel to perform such services, such as, but not limited to, rent, utilities, support staff, drafting, telephone and other communication expenses, computer support, supplies, depreciation, and other reasonable expenses. In accordance with Non-Operator's or its Affiliate's normal accounting practices, this rate will include an amount representing Non-Operator's Affiliate's overheads and administration costs attributable to the services provided, including administrative, legal, accounting, personnel management, planning and other administrative functions required for Joint Operations but will exclude any costs otherwise chargeable to the Joint Account under this Section 2. Where the service provided is carried out outside the employee's usual designated work location, travel costs and living expenses will be charged as and when incurred. Such charges will be reasonable and in accordance with Non-Operator's travel and expense reimbursement policies.

- (4) A Non-Operator shall bill Operator for costs of services and of Secondees charged under the provisions of Section 2.3(G)(3) on or before the last Day of each Month for charges for the preceding Month. Within thirty (30) Days after receipt of a bill for such charges, Operator must pay the amount due thereon.
 - (5) Where comparable, the charges for such services under Section 2.3(G)(2) and Section 2.3(G)(3) must not exceed those currently prevailing if performed by non-affiliated third parties considering the quality and availability of such services.
- (H) **Insurance.** Premiums paid for insurance required by law, the Petroleum Agreement or the Association Contract shall be carried for the benefit of the Joint Operations.
- (I) **Damages and Losses to Property.**
- (1) All costs or expenditures necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause will be chargeable to the Joint Account. Operator must furnish Non-Operators notice of major damages or losses incurred in excess of \$250,000 USD as soon as practicable after a report of the same has been received by the Operator. All losses in excess of \$250,000 USD shall be listed separately in the monthly statement of costs and expenditures.
 - (2) Credits for settlements received from insurance carried for the benefit of Joint Operations and from others for losses or damages

to joint property or material must be credited to the Joint Account. Each Party will be credited with its Percentage Interest share thereof except where such receipts are derived from insurance purchased by Operator for less than all Parties in which event such proceeds will be credited to those Parties for whom the insurance was purchased in the proportion of their respective contributions toward the insurance coverage.

- (3) Expenditures incurred in the settlement of all losses, claims, damages, judgments, and other expenses for the account of Joint Operations will be chargeable to the Joint Account.

(J) **Litigation, Dispute Resolution and Associated Legal Expenses.** The costs and expenses of litigation, dispute resolution and associated legal services necessary for the protection of the Joint Operations under the Association Contract as follows:

- (1) Legal services, other than those provided by the Parties or their Affiliate employees, necessary or expedient for the protection of the Joint Operations, and all costs and expenses of litigation, arbitration or other alternative dispute resolution procedure, including reasonable attorneys' fees and expenses, together with all judgments obtained against the Parties or any of them arising from the Joint Operations.
- (2) Litigation, arbitration or other alternative dispute resolution procedures resulting from actions or claims affecting the Joint Operations hereunder may be handled by the legal staff of the Operator or one of its Affiliates; and a charge commensurate with the reasonable costs of providing and furnishing such services rendered may be made by the Operator or one of its Affiliates providing such service to Operator for the Joint Account.

(K) **Taxes and Duties.**

- (1) All taxes, duties, assessments and governmental charges, of every kind and nature, assessed or levied upon or in connection with the Joint Operations, other than any that are measured by or based upon the revenues, income or net worth of a Party.
- (2) If Operator or an Affiliate is subject to income or withholding tax as a result of services performed at cost for the operations under the Association Contract, its charges for such services may be increased (grossed up) by the amount of such taxes incurred. If Operator or an Affiliate has a right to a refund of any taxes charged to the Joint Account it shall take reasonable steps to obtain such refund. If it subsequently obtains a refund it shall reimburse the Joint Account the amount of such refund.

- (L) **Ecological and Environmental.** Costs incurred on the joint property as a result of statutory regulations for archaeological and geophysical surveys relative to identification and protection of cultural resources and/or other environmental or ecological surveys as may be required by any regulatory authority. Also, costs to provide or have available pollution containment and removal equipment plus costs of actual control, clean up and remediation resulting from responsibilities associated with Hydrocarbon contamination as required by all applicable laws and regulations.
- (M) **Abandonment and Decommissioning.** Costs relating to abandonment and decommissioning of joint property, including costs required by governmental or other regulatory authority.
- (N) **Other Expenditures.** Any other costs and expenditures incurred by Operator for the necessary and proper conduct of the Joint Operations in accordance with approved Work Programs and Budgets or as otherwise specified in the Association Contract and not covered in Section 2.

3. INDIRECT CHARGES

3.1 PURPOSE.

Operator shall charge the Joint Account monthly for the cost of indirect services and related office costs of Operator and its Affiliates not otherwise provided in this Accounting Procedure. Indirect costs chargeable under Section 3 represent the cost of general assistance and support services provided by Operator and its Affiliates. These costs are such that it is not practical to identify or associate them with specific projects but are for services which provide the Joint Operations with needed and necessary resources which Operator requires and provide a real benefit to Joint Operations. No cost or expenditure included under Section 2 shall be included or duplicated under Section 3. The charges under Section 3 are not subject to audit under Section 1.9 other than to verify that the overhead percentages are applied correctly to the expenditure basis.

3.2 AMOUNT.

The indirect charges under Section 3.1 for any Month will equal the total amount of charges for the period beginning at the start of the Calendar Year through the end of period covered by Operator's Joint Account statement ("Year to-Date") determined under Section 3.2, less indirect charges previously made under Section 3.2 for the Calendar Year.

Indirect charges will be a percentage of the Year-to-Date expenditures, calculated using the following rate scales by category.

- (a) Exploration Operations: Unless exceeded by the minimum assessment under Section 3.3, the aggregate Year-to-Date indirect charges shall be a percentage of the Year-to-Date expenditures, calculated on the following scale (U.S. Dollars):

\$0 to \$5,000,000 of expenditures = 5%
Next \$10,000,000 of expenditures = 3%
Excess above \$15,000,000 of Expenditures = 2.0%

(b) Development Work Program and Budget

\$0 to \$5,000,000 of expenditures = 5%
Next \$10,000,000 of expenditures = 3%
Excess above \$15,000,000 of Expenditures = 2.0%

(c) All Other Work Programs and Production Operations

2.0% of annual costs

The expenditures used to calculate the monthly indirect charge shall not include the cost for rentals on surface rights acquired and maintained for the Joint Account, guarantee deposits, pipeline tariffs, concession acquisition costs, bonuses paid in accordance with the Petroleum Agreement or Association Contract, royalties and taxes on production or revenue to the Joint Account paid by Operator, expenditures associated with other categories for which a separate overhead charge is established hereunder, payments to third parties in settlement of claims, and other similar items.

Credits arising from any government subsidy payments, disposition of Material, and receipts from third parties for settlement of claims will not be deducted from total expenditures in determining overhead charges.

- 3.3 A minimum amount of U.S. \$150,000 shall be assessed each Calendar Year calculated from the Effective Date and shall be reduced pro rata for periods of less than a year.

4. ACQUISITION OF MATERIAL

4.1 **Acquisitions.** Material purchased for the Joint Account must be charged at net cost paid by the Operator. The price of Material purchased will include, but not be limited to, export broker's fees, insurance, transportation charges, loading and unloading fees, import duties, licence fees, and demurrage (retention charges) associated with the procurement of Material and applicable taxes, less all discounts taken.

4.2 **Material Furnished by Operator.** Material required for operations must be purchased for direct charge to the Joint Account whenever practicable, except the Operator may furnish such Material from its stock under the following conditions:

(A) **New Material (Condition "A").**

New material transferred from the warehouse or other properties of Operator must be priced at net cost determined in accordance with

Section 4.1 as if Operator had purchased such new material just prior to its transfer.

Such net costs will not exceed the then current market price.

(B) Used Material (Conditions "B" and "C").

- (1) Material which is in sound and serviceable condition and suitable for use without repair or reconditioning will be classed as Condition "B" and priced at seventy-five percent (75%) of such new purchase net cost at the time of transfer provided that such price is never more than the net accounting value..
- (2) Material not meeting the requirements of Section 4.2(B)(1), but which can be made suitable for use after being repaired or reconditioned, will be classed as Condition "C" and priced at fifty percent (50%) of such new purchase net cost at the time of transfer, provided that such price is never more than the net accounting value. The cost of reconditioning will also be charged to the Joint Account provided the Condition "C" price, plus cost of reconditioning, does not exceed the Condition "B" price; and provided that material so classified meet the requirements for Condition "B" material upon being repaired or reconditioned.
- (3) Material, which cannot be classified as Condition "B" or Condition "C", will be priced at a value commensurate with its use, and never more than the net accounting value.
- (4) Tanks, derricks, buildings, and other items of Material involving erection costs, if transferred in knocked-down condition, will be graded as to condition as provided in Section 4.2(B), and priced on the basis of knocked-down price of like new Material, provided that such price is never more than the net accounting value..
- (5) Material including drill pipe, casing and tubing, which is no longer useable for its original purpose but is useable for some other purpose, will be graded as to condition as provided in Section 4.2(B). Such Material will be priced on the basis of the current price of items normally used for such other purpose if sold to third parties.

4.3 Premium Prices. Whenever Material is not readily obtainable at prices specified in Sections 4.1 and 4.2 because of national emergencies, strikes or other unusual causes over which Operator has no control, Operator may charge the Joint Account for the required Material at Operator's actual cost incurred procuring such Material, in making it suitable for use, and moving it to the appropriate work location.

4.4 Warranty of Material Furnished by Operator. Operator does not warrant the condition or fitness for the purpose intended of the Material furnished. In case defective Material is furnished by Operator for the Joint Account, credit will not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents. Defective Material furnished from any of the Parties or their Affiliates own stocks or from other properties not connected with the Joint Operations shall be credited immediately to the Joint Account.

5. DISPOSAL OF MATERIALS

5.1 Disposal. Operator will be under no obligation to purchase the interest of Non-Operators in new or used surplus Material. Operator will have the right to dispose of Material but must advise and secure prior approval of the Management Committee of any proposed disposition of Material having an original cost to the Joint Account either individually or in the aggregate of US \$250,000 or more. When Joint Operations are relieved of Material charged to the Joint Account, Operator must advise each Non-Operator of the original cost of such Material to the Joint Account so that the Parties may eliminate such costs from their asset records. Credits for Material sold by Operator will be made to the Joint Account in the Month in which payment is received for the Material. Any Material sold or disposed of under this Section 5 will be on an "as is, where is" basis without guarantees or warranties of any kind or nature. Costs and expenditures incurred by Operator in the disposition of Material will be charged to the Joint Account.

5.2 Material Purchased by a Party or Affiliate. Proceeds received from Material purchased from joint property by a Party or an Affiliate thereof will be credited by Operator to the Joint Account, with new Material valued in the same manner as new Material under Section 4.2(A) and used Material valued in the same manner as used Material under Section 4.2(B), unless otherwise agreed by the Management Committee.

5.3 Division in Kind. Division of Material in kind, if made between the Parties, will be in proportion to their respective interests in such Material. Each Party will thereupon be charged individually with the value (determined in accordance with the procedure set forth in Section 5.2 of the Material received or receivable by it.

5.4 Sales to Third Parties. Proceeds received from Material purchased from joint property by third parties will be credited by Operator to the Joint Account at the net amount collected by Operator from the buyer. Operator shall make reasonable endeavours to obtain a sales price not less than the value determined in accordance with the procedure set forth in Section 5.2. Any claims by the buyer for defective materials or otherwise will be charged back to the Joint Account if and when paid by Operator.

6. INVENTORIES

6.1 Periodic Inventories: Notice and Representation. At reasonable intervals and at least annually, inventories will be taken by Operator of all Material held in warehouse stock on which detailed accounting records are normally maintained. The expense of conducting periodic inventories will be charged to the Joint Account. Operator must give Non-Operators Notice at least sixty (60) Days in advance of its intention to take inventory, and Non-Operators, will each be entitled to have a representative present with related expenses to be charged to the Joint Account. The failure of any Non-Operator to be represented at such inventory will bind such Non-Operator to accept the inventory taken by Operator. Operator must in any event furnish each Non-Operator with a reconciliation of overages and shortages. Inventory adjustments to the Joint Account will be made for overages and shortages. Any adjustment equivalent to USD \$500,000 or more shall be brought to the attention of the Management Committee.

6.2 Special Inventories. Whenever there is a sale or change of a Percentage Interest under the Association Contract, a special inventory may be taken by the Operator provided the seller and/or purchaser of such Percentage Interest agrees to bear all of the expense thereof. In such cases, both the seller and the purchaser will be entitled to be represented and will be governed by the inventory so taken.

7. HYDROCARBON ACCOUNTING

7.1 Records on Hydrocarbons. Operator must maintain such records and systems to measure volumes of all Hydrocarbons produced from processing Hydrocarbons, in accordance with the Regulations. .

7.2 Hydrocarbons Used in Exploration Work and Development and Exploitation Work. The volumes of all Hydrocarbons produced from processing Hydrocarbons consumed or lost during Joint Operations, and the volumes of unaccounted for gains or losses relating to Joint Operations, will be allocated to the Parties in proportion to their respective throughputs, except when such consumption gains or losses are demonstrably different and auditable.

8. TAXES

8.1 The Operator shall file all tax returns and reports required by law and pay all applicable taxes (other than taxes measured by profit or income and other taxes described in Section 8.2) and assessments levied with respect to activities and operations conducted under this Contract. The parties shall promptly furnish the Operator with copies of all notices, assessments and statements received pertaining to taxes to be paid by the Operator. The Operator will charge each Party its Percentage Interest share of all the foregoing taxes and assessments paid by the Operator and, upon request from a Non-Operator, will provide copies of all tax returns, reports, tax statements and receipts for such taxes. The Operator shall not

allow any such taxes to become delinquent unless agreed to by the Parties. The Operator shall timely and diligently protest any such assessment that it deems unreasonable. If upon final determination, additional taxes are due or if interest or a penalty has accrued as a result of the protest, the Operator shall pay the taxes, interest and penalty and shall charge each party its Percentage Interest share of the taxes, interest and penalty.

- 8.2 To the extent required by applicable law, each Party shall pay, or cause to be paid, all production, excise, severance and other similar taxes due on its share of Hydrocarbons. Each party shall pay or cause to be paid, all taxes on its share of Hydrocarbons that are measured by profit or income. Each Party shall, upon written request from the Operator, provide evidence that those taxes (other than taxes measured by profit or income) have been timely paid.

MODEL

MODEL

APPENDIX IV
BANK GUARANTEE