

MODEL

PRODUCTION SHARING CONTRACT

FOR

THE EXPLORATION AND PRODUCTION OF PETROLEUM

BETWEEN

MYANMA OIL AND GAS ENTERPRISE

AND

FOR

ONSHORE BLOCK ----(-----AREA)

Dated: -----

MODEL

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PRODUCTION SHARING CONTRACT
FOR ONSHORE PETROLEUM OPERATIONS
ONSHORE BLOCK ----- (-----AREA)
BETWEEN
MYANMA OIL AND GAS ENTERPRISE
AND

This Contract entered into and delivered in Nay Pyi Taw, the Republic of the Union of Myanmar on the -----, 2011 by and between:

MYANMA OIL AND GAS ENTERPRISE, an enterprise organized and existing under the laws of the Republic of the Union of Myanmar (hereinafter referred to as the “MOGE” which expression shall, unless repugnant to the context or the meaning thereof, be deemed to include its successors and permitted assigns), represented for the purpose of this Contract by **THE MANAGING DIRECTOR, MYANMA OIL AND GAS ENTERPRISE**, of the one part;

and

-----, a company incorporated under the laws of the ----- (hereinafter referred to as the "-----" which expression shall, unless repugnant to the context or the meaning thereof, be deemed to include its successors and permitted assigns), represented for the purpose of this Contract by ----- of the other part.

(----- is/are hereinafter, together with their respective successors and permitted assigns collectively referred to as “CONTRACTOR” and each one of them as a CONTRACTOR Party, and all of the obligations of the CONTRACTOR contained in the Contract shall liable individually and jointly by a CONTRACTOR Party.)

MOGE and CONTRACTOR are collectively referred to as the “Parties” and individually as a “Party”.

WITNESSETH

WHEREAS, The Republic of the Union of Myanmar is the sole owner of all natural resources within her territory and offshore areas and has the right to develop, extract, exploit and utilize the natural resources in the interest of the people of all the national groups; and

WHEREAS, MOGE is an enterprise formed by the Government of the Republic of the Union of Myanmar and is concerned with exploration and production of “Petroleum” within the territory of the Republic of the Union of Myanmar both onshore and offshore; and

WHEREAS, MOGE has the exclusive right to carry out all operations in the Republic of the Union of Myanmar and throughout the area described in Annexure “A” and outlined on the map which is Annexure “B”, both attached hereto and made a part hereof, which area is hereinafter referred to as the “Contract Area”; and

WHEREAS, CONTRACTOR is of sound financial standing and possesses technical competency and professional skill for carrying out exploration and development works and other “Petroleum Operations” as hereinafter defined; and

WHEREAS, each Party has the right, power and authority to enter into this Contract;
and

WHEREAS, MOGE and CONTRACTOR mutually desire to enter into this agreement for the Production Sharing Contract in relation to the “Contract Area” as hereinafter defined;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter set out, it is agreed as follows:

SECTION 1

DEFINITIONS

In this Contract, words in the singular include the plural and vice versa, and except where the context otherwise requires the following terms shall have the meaning set out as follows:

- 1.1 “Accounting Procedure” means the procedures and reporting requirements set forth in Annexure “C”.
- 1.2 “Affiliate” means any company, any party or other legal entity:
 - a) in which CONTRACTOR holds directly or indirectly at least fifty percent (50%) of the shares entitled to vote, or
 - b) which holds directly or indirectly at least fifty percent (50%) of Contractor’s shares entitled to vote, or
 - c) in which at least fifty percent (50%) of the shares entitled to vote are owned directly or indirectly by a company, party or legal entity, which owns directly or indirectly at least fifty percent (50%) of the shares of CONTRACTOR entitled to vote.
- 1.3 “Appraisal Period” means the period which CONTRACTOR deems necessary to determine whether a Discovery is a Commercial Discovery.
- 1.4 “Appraisal Work Program” means a programme submitted by CONTRACTOR pursuant to Section 7.2, under which CONTRACTOR will evaluate and delineate a Discovery including the estimated list of equipments, vehicles, machineries, materials, accessories, etc... that would be used for appraisal works under this Contract.
- 1.5 “Associated Gas” means Natural Gas found in association with Crude Oil if such Crude Oil can by itself be commercially produced.
- 1.6 “Average Daily Gross Production Rate” means the total barrels of Crude Oil produced in each calendar month divided by the days in the said month.
- 1.7 “Barrel” means a quantity or unit of forty-two (42) US gallons liquid measure at or corrected to a temperature of sixty degrees (60) Fahrenheit with normal atmospheric pressure at sea level.
- 1.8 “Budget” means an estimate of income and expenditure.
- 1.9 “Calendar Year” means a period of twelve (12) consecutive months commencing with January 1st and ending with December 31st next following, according to the Gregorian

calendar.

- 1.10 “Commencement of Commercial Production” means, in relation to each Development and Production Area, the date on which regular and continuous shipments of Crude Oil (excluding test production) commence or the date on which regular and continuous sales of Natural Gas commence or any combination of these commence from the Contract Area (excluding production for testing purpose).
- 1.11 “Commercial Discovery” means the Discovery in the Contract Area of an accumulation or accumulations of Petroleum which CONTRACTOR, after conducting appraisal operations to assess the quantity and quality of the Petroleum present, the place and the depth of its location, the required potential expenditure, prices prevailing in the world market, and other relevant factors, decides to develop and produce.
- 1.12 “Contract” means this Production Sharing Contract, together with the Annexures attached hereto.
- 1.13 “Contract Area” means:
- a) on the Effective Date the onshore area described in Annexure “A” and shown on the map in Annexure “B” and
 - b) thereafter, the whole or any part of such onshore area in respect of which at any particular time, CONTRACTOR continues to have rights and obligations under this Contract.
- 1.14 “Contract Year” means a period of time (normally of three hundred and sixty-five (365) consecutive days) commencing with the Commencement of the Operation Date.
- 1.15 “Cost Petroleum” means Petroleum out of which Contractor may recover the costs and expenses of the Petroleum Operations pursuant to Section 9.4.
- 1.16 “Crude Oil” means crude mineral oil, asphalt, ozokerite, casing head petroleum spirit, and all kinds of hydrocarbons and bitumens whether in solid, liquid or mixed forms, including condensate and other substances extracted or separated from Natural Gas.
- 1.17 “Cubic Foot of Natural Gas” means a quantity or unit of vapor saturated Natural Gas contained in one (1) cubic foot of space at a temperature of sixty degrees (60) Fahrenheit and pressure of 14.735 psia (30 inches Hg.)
- 1.18 “Delivery Point” means (a) the point of export, Myanmar, for Petroleum made available for export sale, (b) the agreed point of delivery within the relevant Development and Production Area for royalty Petroleum delivered to MOGE pursuant to Section 10.1 and Crude Oil and Natural Gas made available for the Myanmar domestic market pursuant to Section 14.1 and Section 14.3, and (c) the point to be determined in accordance with Section 13.3 for Natural Gas; as the case may be.
- 1.19 “Development and Production Area” means the area or areas established by

CONTRACTOR in accordance with Section 8.3 at any time prior to the expiration of the Exploration Period by notifying MOGE in writing that CONTRACTOR has made a Commercial Discovery and furnishing a map describing an area comprised of all or a portion of the Discovery Area believed by CONTRACTOR to contain the Commercial Discovery. Once designated, a Development and Production Area shall extend to all depths within its lateral boundaries.

- 1.20 “Development and Production Operations” means, all operations and related administrative and other activities, within or outside the Contract Area, which are carried out following approval of a Development Plan for a Development and Production Area in connection with the extraction, separation, processing, gathering, transportation, storage, treatment and disposition of Petroleum from such Development and Production Area.
- 1.21 “Development and Production Period” means, in relation to each Development and Production Area, the period specified in Section 3.4.
- 1.22 “Development Plan” means a plan for development of a Commercial Discovery prepared by CONTRACTOR and approved in accordance with Section 8.5 and Section 8.6, including any amendments thereto.
- 1.23 “Discovery” means a discovery of an accumulation or accumulations of Petroleum which in the opinion of CONTRACTOR may be capable of being produced in commercial quantities.
- 1.24 “Discovery Area” means an area or areas which CONTRACTOR may establish at any time prior to the expiration of the Exploration Period by notifying MOGE in writing that CONTRACTOR has made a Discovery and furnishing MOGE a map showing an outline of the boundaries of an area comprised of a portion of the Contract Area believed by CONTRACTOR to contain the Discovery. Once designated, a Discovery Area shall extend to all depths within its lateral boundaries, except as may be limited by Section 8.
- 1.25 “Effective Date” means the date of signing of this Contract by the Parties.
- 1.26 “Commencement of the Operation Date” means a date nominated in writing by CONTRACTOR to MOGE (upon which CONTRACTOR intends to commence Petroleum Operation) provided that such date shall not be later than ninety (90) days after the Effective Date or upon completion of office establishment in terms of Section 17.2(v), whichever occurs earlier.
- 1.27 “Exploration Operations” means operations which are conducted under this Contract during the Exploration Period for or in connection with the exploration for Petroleum including, without limitation, geological, geophysical and other technical surveys and studies, the review, processing and analysis of data, the drilling of exploratory and appraisal wells, operations and activities carried out to determine whether a Discovery constitutes a

- Commercial Discovery, associated planning, design, administrative, engineering, construction and maintenance operations, and all other related operations and activities referred to in Annexure “C” or otherwise contemplated under the provisions of this Contract.
- 1.28 “Exploration Period” means the period specified in Section 3.2, including any extensions to the Exploration Period granted under the terms of this Contract.
- 1.29 “Extension Period” means the period following the Exploration Period during which CONTRACTOR shall be entitled to continue exploration activities.
- 1.30 “Field” means an underground accumulation of Petroleum or two (2) or more such accumulations overlying one another in connected or separate horizons or reservoirs, related to one single or several combined geological traps, and which must be considered as a unit for the purpose of its rational exploration.
- 1.31 “Financial Year” means the Financial Year of the Government of the Republic of the Union of Myanmar and extending for a period of twelve (12) months commencing with 1st April and ending with 31st March next following.
- 1.32 “Foreign Exchange” means currency other than that of the Republic of the Union of Myanmar but acceptable to the Republic of the Union of Myanmar.
- 1.33 “Government” means the Government of the Republic of the Union of Myanmar.
- 1.34 “Natural Gas” means all gaseous hydrocarbons produced from wells including wet mineral gas, dry mineral gas, casing head gas and residue gas remaining after the extraction or separation of liquid hydrocarbons from wet gas.
- 1.35 “Net Profit” means the amount of the proceeds of the sale or transfer of the shares in the company formed under Section 5.1, less Petroleum Costs, which are not recovered by Cost Recovery under Article 2 in Annexure “C” until the time of transaction, Bonuses under Section 11, and Income Tax under Section 9.11.
- 1.36 “Petroleum Costs” mean all of the costs and expenditures borne and incurred by CONTRACTOR in or in connection with the conduct of Petroleum Operations pursuant to this Contract, determined and accounted for in accordance with Annexure “C”.
- 1.37 “Petroleum” means and includes both Crude Oil and Natural Gas, as well as any other hydrocarbon produced in association therewith.
- 1.38 “Petroleum Operations” mean all operations under this Contract, including, without limitation, Exploration Operations, Development and Production Operations, all associated planning, design, administrative, engineering, construction and maintenance operations, and any other operations and activities, otherwise contemplated under the provisions of this Contract.

- 1.39 "Quarter" means a period of three (3) months starting with the first day of January, April, July or October of each Calendar Year.
- 1.40 "US Dollar" or "US\$" means the lawful currency of the United States of America.
- 1.41 "Work Programme" means a program mutually agreed by MOGE and CONTRACTOR itemizing the Petroleum Operations to be conducted within or with respect to the Contract Area, Discovery Area or Production Area and the time schedule thereof including the estimated list of the equipments, vehicles, machineries, materials, accessories, etc... that would be used in the Petroleum Operations under this Contract.
- 1.42 "Drawback Basis" means all rented or leased assets which are imported into Myanmar, by Contractor or its Subcontractors, with the approval of MOGE, for Petroleum Operations under the PSCs, at the time of completion, which are to be exported back to the original country. Assets imported on Draw-back Basis are those which are not Foreign Direct Investment and / or Myanmar Citizens Investment.
- 1.43 "Investment Basis" means all assets which are imported into Myanmar by Contractor as an investment in accordance with the stipulations of the PSC's for Petroleum Operations hereunder. Assets imported on Investment Basis are those which are allowed to make Foreign Direct Investment and / or Myanmar Citizens Investment.

SECTION 2

SCOPE

- 2.1 This Contract is a Production Sharing Contract. In accordance with the provisions herein contained, MOGE shall have and be responsible for the management of the operations contemplated hereunder.
- 2.2 CONTRACTOR shall be responsible to MOGE for the execution of such operations in accordance with the provisions of this Contract, and is hereby appointed and constituted the exclusive company to conduct Petroleum Operations in the Contract Area. CONTRACTOR shall provide all the financial and technical assistance required for such operations. CONTRACTOR shall carry the risk of Operating Costs required in carrying out operations and shall therefore have an economic interest in the development of the Petroleum deposits in the Contract Area. Such costs shall be included in Operating Costs recoverable as provided in Section 9.4. The interest expenses incurred by the CONTRACTOR to finance its Exploration Operations hereunder shall not be cost recoverable from Cost Petroleum.
- 2.3 During the term of this Contract the total production achieved in the conduct of such operations shall be divided in accordance with the provisions of Section 9.7.
- 2.4 To assist CONTRACTOR in performing work hereunder, MOGE shall as soon as practicable supply to CONTRACTOR all data and information relating to the Contract Area in MOGE's possession or under the control of MOGE.
- 2.5 CONTRACTOR shall within thirty (30) days after the date of signing of this Contract by the Parties, make payment to MOGE the sum specified in Section 11.1 as Signature Bonus.
- 2.6 Signature Bonus paid in accordance with Section 2.5, shall be tax deductible, but shall not be recoverable from Cost Petroleum under Section 9.

SECTION 3

TERM

- 3.1 Unless sooner terminated in accordance with the terms hereof, this Contract shall be effective from the Effective Date and remain in effect during the Exploration Period and any Development and Production Period(s).
- 3.2 The **Exploration Period** shall begin on the Commencement of the Operation Date and shall continue for three (3) consecutive years (“Initial Exploration Period”). If CONTRACTOR after fully disclosing the results of the Initial Exploration Period to MOGE, decides not to pursue with any further Exploration Operations in the Contract Area, CONTRACTOR shall have the option to terminate this Contract by way of written notice to MOGE, given not later than thirty (30) days before the end of the Initial Exploration Period. Thereafter CONTRACTOR shall relinquish its rights and be relieved of any or all further obligations pursuant to this Contract from the effectiveness of the termination notice.

In the absence of such termination notice, CONTRACTOR may extend, at its sole discretion, the Exploration Period for additional three (3) consecutive years, two (2) years as the (“First Extension Period”) and another one (1) year as the (“Second Extension Period”), provided that, it shall have fulfilled its obligations hereunder for the then current period.

If CONTRACTOR after fully disclosing the results of the First Extension Period to MOGE, decides not to pursue with any further Exploration Operations in the Contract Area, CONTRACTOR shall have the option to terminate this Contract by way of written notice to MOGE, given not later than thirty (30) days before the end of the First Extension Period. Thereafter CONTRACTOR shall relinquish its rights and be relieved of any or all further obligations pursuant to this Contract from the effectiveness of the termination notice.

In the absence of such termination notice, CONTRACTOR may extend, at its sole discretion, the Exploration Period for additional one (1) year (“Second Extension Period”), provided that, it shall have fulfilled its obligations hereunder for the then current period.

- 3.3 If seismic or drilling operations (including testing) are in progress at the end of the Initial Exploration Period or any extension of the Exploration Period, the current period shall be automatically extended until sixty (60) days after completion of such operations. If CONTRACTOR shall have made a Discovery during the Initial Exploration Period or any extension of the Exploration Period, the current period shall be automatically extended as to the Discovery Area designated pursuant to Section 7

for such additional period as shall be sufficient for CONTRACTOR in accordance with the terms of this Contract to appraise the Discovery, declare a Commercial Discovery, and designate a Development and Production Area.

- 3.4 A **Development and Production Period** shall commence with respect to each Development and Production Area on the date that CONTRACTOR gives notice of Commercial Discovery relating to such Area and shall continue until the expiration of twenty (20) years from the date of completion of development in accordance with the Development Plan for such Development and Production Area or the expiration of the sale(s) contract(s) relating to the sale and purchase of Petroleum proceed hereunder whichever is longer.
- 3.5 Without limiting the rights of the parties under Section 17, in the event that the parties agree that CONTRACTOR is prevented or impeded from carrying on operations or from gaining access to the Contract Area for reasons relating to the protection of personnel, sub-contractors, or property, CONTRACTOR's obligations hereunder shall be suspended from the time of the commencement of such impairment until the impairment has been alleviated. As soon as practicable thereafter, the parties shall meet and agree upon a period of time which shall be added to the Exploration period and any Development and Production Period, which period of time shall be equivalent to the amount of time necessary to restore operations to the status which they occupied at the time of the impairment.

If the impairment of operations described above should continue for a period of time exceeding two (2) years, CONTRACTOR shall have the right to elect to terminate this Contract and CONTRACTOR shall be discharged from all further obligations under this Contract, specifically, including the obligation to pay any deficiency under Section 5.5 below.

SECTION 4

RELINQUISHMENTS

- 4.1 Not later than at the end of the Exploration Period, all of the Contract Area other than Discovery Areas and Development and Production Areas shall be relinquished.
- 4.2 CONTRACTOR may at any time relinquish voluntarily its rights hereunder to conduct Petroleum Operations in all or any part of the Contract Area.
- 4.3 No relinquishment shall relieve CONTRACTOR from accrued but unfulfilled minimum expenditure commitment under Section 5 of this Contract except as further defined in Section 5.10. In the event CONTRACTOR desires to relinquish its rights hereunder to conduct Petroleum Operations in all of the Contract Area without having fulfilled its accrued minimum expenditure commitment, CONTRACTOR shall pay MOGE on or before the date of such total relinquishment an amount equal to the difference between the amount spent and such minimum expenditure commitment.
- 4.4 At least thirty (30) days in advance of the date of the relinquishment under Section 4.1 and Section 4.2, CONTRACTOR shall notify MOGE of the portions of the Contract Area to be relinquished. In connection with any relinquishment of less than all of the Contract Area, the CONTRACTOR and MOGE shall consult with each other in order to ensure that each individual portion of the Contract Area relinquished shall, so far as reasonably possible, be of sufficient size and shape to enable Petroleum Operations to be conducted thereon.

SECTION 5

MINIMUM EXPENDITURE COMMITMENT

- 5.1 Subject to the provisions hereof, CONTRACTOR shall promptly commence Petroleum Operations in the Exploration Period after adoption of the initial Work Programme and Budget pursuant to Section 6.2 and the issuance of all permits, clearances and licenses necessary for the commencement of field operations. As soon as possible following the Effective Date of this Contract, CONTRACTOR shall file such documents as shall be required to effect registration as a foreign corporation authorized to do business in Myanmar.
- 5.2 During the three (3) years Initial Exploration Period, CONTRACTOR shall spend a total of not less than US Dollars (US\$) to execute Geological and Geophysical Studies, Seismic Acquisition, Processing and Interpretation during Year 1 of the Initial Exploration Period, Drilling of one (1) well during Year 2 of the Initial Exploration Period, post-well evaluation and drilling of one (1) well during Year 2 of the Initial Exploration Period (or) drilling of two (2) wells in the Contract Area during Year 2 and 3 of the Initial Exploration Period and shall completely perform, unless otherwise agreed, the type of work as specified in Section 6.7 relating to Initial Exploration Period.
- 5.3 If CONTRACTOR elects to enter the two (2) years First Extension Period, CONTRACTOR shall spend a total of not less than US DollarsMillion (US\$.....) on prospect evaluation and drilling of one (1) well in the Contract Area and shall completely perform, unless otherwise agreed, the type of work as specified in Section 6.7 relating to the First Extension Period.
- 5.4 If CONTRACTOR elects to enter the one (1) year Second Exploration Period, CONTRACTOR shall spend an additional amount of not less than US Dollars Million (US\$) on drilling of one (1) well in the Contract Area, and shall completely perform, unless otherwise agreed, the type of work as specified in Section 6.7 relating to the Second Extension Period.
- 5.5 Subject to the provisions of Section 5.10 below, if CONTRACTOR fails to fulfill the minimum expenditure commitment described herein for Exploration Operations during the Initial Exploration Period or First Extension Period or Second Extension Period, CONTRACTOR shall fulfill its obligation by paying the amount of deficiency to MOGE in cash at the end of the applicable period.
- 5.6 Within thirty (30) days after the Effective Date specified in Section 1.25, CONTRACTOR shall provide, in the forms shown in Annexure “D” a Bank Guarantee or a Parent Company Guarantee in respect of the minimum expenditure commitment of

CONTRACTOR under Sections 5.2. If CONTRACTOR enters into any extension of the Exploration Period, it shall, subject to Section 5.8, provide a similar Guarantee in respect of the minimum expenditure commitment of the relevant periods.

- 5.7 CONTRACTOR shall pay to MOGE at the end of the Initial Exploration Period, First Extension Period and Second Extension Period, any deficiency, between actual amounts expended and accrued minimum expenditure commitment specified in Sections 5.2 through 5.4, except as may be agreed to by MOGE as set out further in Sections 5.8 through 5.9.
- 5.8 In the event the CONTRACTOR fails to spend the minimum amount specified in Sections 5.2 during the Initial Exploration Period and/or as specified in Section 5.3 during the First Extension Period, but desires to enter into succeeding extension period(s) and has carried out Petroleum Operation with diligence, MOGE may permit CONTRACTOR to make up any deficiency during the succeeding extension period(s) of the Exploration Period.
- 5.9 If CONTRACTOR spends more than its minimum expenditure commitment for the Initial Exploration Period and/or First Extension Period, the excess shall be credited toward CONTRACTOR's minimum expenditure obligation for the succeeding extension period(s) of the Exploration Period.
- 5.10 Notwithstanding the provisions of Sections 5.5 through 5.9, should CONTRACTOR complete the approved Work Programme in the Initial Exploration Period, First Extension Period or the Second Extension Period for an amount less than the approved Budget for that period, as set forth in Section 6 below, then CONTRACTOR shall not be required to pay MOGE the difference between the actual amount and the agreed amount as set forth in Sections 5.2 through 5.4 above and Section 6.7 below.

SECTION 6

WORK PROGRAMMES AND EXPENDITURES

- 6.1 Unless otherwise provided herein, CONTRACTOR shall conduct Petroleum Operations in accordance with approved Work Programmes and Budgets and shall commence Petroleum Operations hereunder not later than ninety (90) days following the Commencement of the Operation Date.
- 6.2 Within sixty (60) days after the Commencement of the Operation Date, as specified in Section 1.25, CONTRACTOR shall prepare and submit to MOGE for approval a Work Programme setting forth the Petroleum Operations, which CONTRACTOR proposes to conduct during the first Contract Year and a Budget with respect thereto.
- 6.3 At least ninety (90) days before the end of the first Contract Year and every Contract Year thereafter, CONTRACTOR shall prepare and submit to MOGE for approval a proposed Work Programme and Budget for the next succeeding Contract Year.
- 6.4 Should MOGE wish to propose a revision as to certain specific features of the said Work Programme and Budget, it shall within thirty (30) days after receipt thereof so notify CONTRACTOR specifying in reasonable details its reasons thereof. Promptly thereafter, the parties will meet and endeavor to agree on the revision proposed by MOGE. In any event, any portion of the Work Programme as to which MOGE has not proposed a revision shall in so far as possible be carried out as prescribed therein.
- 6.5 It is recognized by the parties that the details of a Work Programme may require changes in the light of existing circumstances and as such the CONTRACTOR with the approval of MOGE may make such changes provided they do not change the general objective of the Work Programme.
- 6.6 MOGE agrees that the approval of a proposed Work Programme and Budget will not be unreasonably withheld.
- 6.7 The tentative Work Programme and Budget estimated for each Contract Year of the Exploration Period shall be set forth by the CONTRACTOR as follows, subject to provisions of Section 5: -

Contract Year	Expenditure	Work Programme
Initial Exploration Period - 1st	US\$ -----	... Km of Seismic Acquisition, Processing and Interpretation.
2nd	US\$ -----	Drilling of one (1) exploration well.
3rd	US\$ -----	Post-well evaluation and

		drilling of one (1) exploration well.
First Extension Period - 4th	US\$ -----	Prospect Evaluation.
5th	US\$ -----	Drilling of One (1) exploration well.
Second Extension Period - 6th	US\$ -----	Drilling of one (1) exploration well.
TOTAL	US\$ -----	

- 6.8 It is recognized that in the event of emergency or extraordinary circumstances requiring immediate action, each of MOGE and CONTRACTOR may take all immediate actions it deems proper or advisable to protect its interests and those of their respective employees and subcontractor(s) and its personnel and any cost so incurred shall be included in Petroleum Costs.

SECTION 7

DISCOVERY AND APPRAISAL

- 7.1 The CONTRACTOR shall notify MOGE not later than thirty (30) days after any significant Discovery of Petroleum within the Contract Area. This notice shall summarize all available details of the Discovery and particulars of any testing programme to be undertaken.
- 7.2 If the CONTRACTOR considers that a Discovery merits appraisal, the CONTRACTOR shall submit to MOGE as soon as is practicable after completion of the exploration well in question, a detailed Appraisal Work Programme and Budget to evaluate whether the Discovery is a Commercial Discovery.
- 7.3 If MOGE considers that an appraisal is merited, according to generally accepted international petroleum industry practice, MOGE may demand the CONTRACTOR that such appraisal be undertaken forthwith, provided that the CONTRACTOR may give reasons also according to generally accepted international petroleum industry practice, why the said appraisal should be deferred and the period of such deferment.
- 7.4 The Work Programme submitted by the CONTRACTOR to MOGE under Section 7.2, shall describe the Discovery Area, and the location, nature and estimated size of the Discovery, and a designation of the area to be included in the evaluation. The Appraisal Work Programme shall also include a plan of all drilling, testing and evaluation to be conducted in the Discovery Area and all technical and economic studies related to recovery, treatment and transportation of Petroleum from the Discovery Area.
- 7.5 If MOGE requests any changes to the Appraisal Work Programme and Budget for any Discovery Area, then MOGE shall so notify the CONTRACTOR in writing within fifteen (15) days of receipt thereof and the CONTRACTOR and MOGE shall meet within fifteen (15) days after receipt by the CONTRACTOR of MOGE's written notification as to these requested changes to endeavor to agree on a revised Appraisal Work Programme and Budget. The Work Programme and Budget approved and adopted shall be CONTRACTOR's proposal as modified by agreed changes adopted thirty (30) days after receipt by the CONTRACTOR of MOGE's written notification of requested changes.
- 7.6 After adoption of the Appraisal Work Programme and Budget, the CONTRACTOR shall diligently continue to evaluate the Discovery in accordance with such programme without undue interruptions.
- 7.7 Within ninety (90) days after the evaluation is completed, pursuant to Section 7.6 the CONTRACTOR shall notify and report to MOGE whether the Discovery Area contains

a Commercial Discovery. Such report shall include all relevant technical and economic data relating thereto.

- 7.8 For the purposes of this Section, the CONTRACTOR shall make a determination as to whether a Discovery is a Commercial Discovery on the basis of whether that Discovery can be produced commercially after consideration of all pertinent operating and financial data collected during the performance of the Appraisal Work Programme and otherwise, including but not limited to Crude Oil and/or Natural Gas recoverable reserves, sustainable production levels and other relevant technical and economic factors, according to generally accepted international petroleum industry practice, the applicable laws of the Republic of the Union of Myanmar and the provisions of this Contract.

SECTION 8

DEVELOPMENT AND PRODUCTION

- 8.1 If the CONTRACTOR reports that a Discovery is a Commercial Discovery under Section 7.7 a Development Plan shall be prepared by the CONTRACTOR and submitted to the MOGE as soon as is practicable after the completion of the Appraisal Work Programme.
- 8.2 The Development Plan shall be prepared on the basis of sound engineering and economic principles in accordance with generally accepted international petroleum industry practice, shall be designed to ensure that the Petroleum deposits do not suffer an excessive rate of decline of production or an excessive loss of reservoir pressure and shall adopt the optimum economic well spacing appropriate for the development of those Petroleum deposits.
- 8.3 The Development Plan shall contain:
- a) details and the extent of the proposed Development Area relating to the Commercial Discovery, which area shall correspond to the geographical extension of the Commercial Discovery plus a reasonable margin, and shall be designated as the Development Area for the Commercial Discovery concerned;
 - b) proposals relating to the spacing, drilling and completion of wells, the production and storage installations, and transportation and delivery facilities required for the production, storage and transportation of Petroleum;
 - c) proposals relating to necessary infrastructure investments, and employment policy, employment of Myanmar nationals, and use of Myanmar materials, products and services in accordance with Section 17 herein;
 - d) a production forecast and an estimate of the investment and expenses involved; and
 - e) an estimate of the time required to complete each phase of the Development Plan.
- 8.4 MOGE may require the CONTRACTOR to provide within thirty (30) days of receipt of the Development Plan such further information as is readily available and as MOGE may reasonably need to evaluate the Development Plan for any Development Area.
- 8.5 If MOGE does not request in writing any changes to the Development Plan within ninety (90) days after receipt thereof, the plan shall be deemed approved and adopted by the MOGE.

- 8.6 If MOGE requests any changes to the Development Plan, then the CONTRACTOR and MOGE shall meet within fifteen (15) days of receipt by CONTRACTOR of MOGE's written notification as to these requested changes to agree on changes to the Development Plan. Revision to the Development Plan, agreed within a further period of ninety (90) days shall be incorporated in a revised plan which shall then be deemed approved and adopted.
- 8.7 After the Development Plan has been adopted the CONTRACTOR shall submit to MOGE for discussion ninety (90) days before the end of each subsequent Financial Year a detailed statement of the Development Work Programme and Budget for such subsequent Financial Year; for the first full Financial Year and the portion of the year preceding the first full Financial Year a detailed statement of the Development Work Programme and Budget therefor shall be submitted within ninety (90) days after the date of adoption of the Development Plan under Section 8.5. Each such annual detailed statement of the Development Work Programme and Budget therefor shall be consistent with the Development Plan adopted under Section 8.5 or as revised pursuant to Section 8.6 and 8.8.
- 8.8 The CONTRACTOR may at any time submit to MOGE revisions to any Development Plan or Development Work Programme and Budget. These revisions shall be consistent with the provisions of Section 8.2 and shall be subject to the approval procedure set forth in Section 8.5 and Section 8.6.
- 8.9 The CONTRACTOR shall commence Development Work not later than three (3) months after the date of adoption of the Development Plan under Section 8.5 and Section 8.6.
- 8.10 Where MOGE and the CONTRACTOR agree that a mutual economic benefit can be achieved by constructing and operating common facilities (including, but not limited to, roads, pipelines and other transportation, communication and storage facilities), the CONTRACTOR shall use its reasonable efforts to reach agreement with other producers and MOGE on the construction and operation of such common facilities, investment recovery and charges to be paid.
- 8.11 If, subsequent to the designation of a Development Area, the extent of the area encompassing the Commercial Discovery or another such area over or underlying it is reasonably expected to be greater than the designation in the Development Plan under Section 8.3 the Development Area shall be enlarged accordingly, provided that the area covered shall be entirely within the original Contract Area or, otherwise, not being then awarded to any person other than MOGE.

SECTION 9

COST RECOVERY AND PROFIT ALLOCATION

- 9.1 CONTRACTOR shall provide all funds required to conduct Petroleum Operations under this Contract and may recover its costs and expenses only out of Cost Petroleum in the manner and to the extent permitted under Section 9.4. CONTRACTOR shall have the right to use free of charge Petroleum produced from the Contract Area to the extent it considers necessary for Petroleum Operations under this Contract.
- 9.2 Petroleum produced and saved and not used in Petroleum Operations (hereinafter referred to as “Available Petroleum” or “ Available Crude Oil” or “Available Natural Gas” as may be applicable) shall be measured at the Delivery Point and allocated as set forth in this Section.
- 9.3 CONTRACTOR may take such portion of Available Petroleum from the Contract Area as is necessary to discharge CONTRACTOR’s obligation to pay the royalty specified in Section 10.
- 9.4 CONTRACTOR shall recover all costs and expenses in accordance with Annexure “C” in respect of all Petroleum Operations hereunder to the extent of and out of a maximum of fifty percent (50%) of all Available Petroleum from the Contract Area; provided, however, that the costs and expenses of Development and Production Operations in respect of any Development and Production Area shall be recovered only from Available Petroleum produced from such Development and Production Area. Such Petroleum to which CONTRACTOR is entitled for the purpose of recovering its costs and expenses is hereinafter referred to as “Cost Petroleum”.
- 9.5 To the extent that costs or expenses recoverable under Section 9.4 exceed the value of all Cost Petroleum from the Contract Area, the excess shall be carried forward for recovery in the next succeeding accounting period and in each succeeding accounting period thereafter until fully recovered, but in no case after termination of this Contract.
- 9.6 The Petroleum Valuation provisions of Section 12 shall be used for determining the value and quantity of Cost Petroleum to which CONTRACTOR is entitled hereunder during an accounting period.
- 9.7 With respect to each Development and Production Area, Available Petroleum not taken for purposes of payment of royalty under Section 10 nor taken as Cost Petroleum in an accounting period, as described in Section 9.4 and 9.5, shall be “Profit Petroleum” and allocated between MOGE and CONTRACTOR according to the following incremental scale, based on average daily production, in an accounting period, from the relevant Development and Production Area:

a) Crude Oil

Production Rate in Barrels per Day	MOGE Share (%)	CONTRACTOR Share (%)
0-10,000	60	40
10,001-20,000	65	35
20,001-50,000	70	30
50,001-100,000	80	20
100,001-150,000	85	15
>150,000	90	10

b) Natural Gas

Production Rate in Million Cubic Feet per Day	MOGE Share (%)	CONTRACTOR Share (%)
Up to 60	60	40
61-120	65	35
121-300	70	30
301-600	80	20
601-900	85	15
>900	90	10

9.8 (a) Subject to its obligations under Section 14, CONTRACTOR shall receive for each accounting period at the Delivery Point and may separately dispose of Crude Oil to which it is entitled pursuant to Section 9.4 plus its share of the balance of Petroleum as stipulated in Section 9.7. Title and risk of loss shall pass to CONTRACTOR at such Delivery Point; CONTRACTOR shall have the right to export freely all Crude Oil to which it is entitled.

(b) Natural Gas will be disposed of pursuant to CONTRACTOR's obligations under Section 14 and provision of Section 13.

9.9 CONTRACTOR shall conduct a review of production programme prior to the commencement of Commercial Production from any Development and Production Area and shall establish production at the maximum efficient rate needed to achieve the maximum ultimate economic recovery of Petroleum from that Development and Production Area in accordance with generally accepted standards of the international petroleum industry.

9.10 At least one hundred and eighty (180) days prior to commencement of Commercial Production from a Development and Production Area, MOGE and CONTRACTOR shall agree on a procedure for lifting of their respective entitlement of Crude Oil, such procedure to contain reasonable provisions for underlift and overlift and for each Party to have the right to accumulate and lift economic sized cargoes.

9.11 The provision regarding payment of Income Tax imposed upon CONTRACTOR under the applicable provisions of the Income Tax Laws of the Republic of the Union of Myanmar shall be applied as follows:

- (a) CONTRACTOR shall be subject to the Myanmar Income Tax Laws and shall comply with requirements of the law in particular with respect to filing of returns, assessment of tax, keeping and showing of books and records.
- (b) CONTRACTOR's annual taxable income for Myanmar Income Tax purposes shall be an amount equal to the CONTRACTOR's net income attributable to the Profit Petroleum allocated to the CONTRACTOR pursuant to Section 9.7 as adjusted for all other expenditures that may not be cost recoverable, but that are by reason of being normal business expenditures, deductible under the Income Tax Laws of the Republic of the Union of Myanmar.
- (c) The CONTRACTOR shall pay Myanmar Income Tax on its annual net taxable income in accordance with the provisions of the Income Tax Laws of the Republic of the Union of Myanmar and subject to the entitlement under the provisions of the Union of Myanmar Foreign Investment Law (The State Law and Order Restoration Council Law No. 10/88).
- (d) MOGE shall assist the CONTRACTOR to obtain proper official receipts evidencing the payment of CONTRACTOR's Myanmar Income Tax. Such receipts shall be issued by a duly constituted authority for the collection of Myanmar Income Taxes and shall state the amount and other particulars customary for such receipts. Provisional receipts shall be issued within ninety (90) days following the commencement of the next ensuing Financial Year and final receipt shall be issued not later than ninety (90) days after provisional receipts have been issued.
- (e) As used herein, Myanmar Income Tax shall be inclusive of all taxes on income payable to the Republic of the Union of Myanmar.

SECTION 10

ROYALTY

- 10.1 CONTRACTOR shall pay to the Government, a Royalty equal to twelve point five percent (12.5%) of the value of Available Petroleum from the Contract Area, determined in accordance with Section 12, and adjusted by deducting an amount equal to the cost of transportation from the Delivery Point to the usual point of export.
- 10.2 Royalty shall be paid in whole or in part, in cash or in kind, at the option of the Government. In the absence of such option on the part of the Government, Royalty accruing during an accounting period shall be paid in cash within thirty (30) days after the end of that accounting period. CONTRACTOR shall be given at least one hundred and eighty (180) days prior notice of an option by the Government to take Royalty in kind and such option shall be effective for a minimum period of one (1) year. Unless otherwise agreed by the Government and CONTRACTOR, Petroleum Royalty taken in kind by the Government shall be delivered at the Delivery Point and shall be supplied in regular and even lifting so as not to disrupt CONTRACTOR's lifting schedules.
- 10.3 Royalty shall not be recoverable from Cost Petroleum.

SECTION 11

BONUSES

11.1 Signature Bonus

CONTRACTOR shall, within thirty (30) days after the date of signing of this Contract by the Parties, pay to MOGE the sum of US Dollars (US\$) as a Signature Bonus. Such amount shall not be credited to CONTRACTOR's minimum work commitment under Section 5 and shall not be recoverable from Cost Petroleum under Section 9.

11.2 Production Bonuses

11.2.1 **Crude Oil:**

CONTRACTOR shall pay the following "Crude Oil Production Bonuses" to MOGE with respect to each Development and Production Area for Crude Oil productions:

- (a) US Dollars Five Hundred Thousand (US\$ 500,000) within thirty (30) days of approval of the Development Plan.
- (b) US Dollars One Million and Five Hundred Thousand (US\$ 1,500,000) within thirty (30) days after the first date when total average daily Crude Oil Production from the Development and Production Area over any consecutive ninety (90) days period reached Ten Thousand (10,000) Barrels per day.
- (c) US Dollars Two Million (US\$ 2,000,000) within thirty (30) days after the first date when total average daily Crude Oil Production from the Development and Production Area over any consecutive ninety (90) days period reached Twenty Thousand (20,000) Barrels per day.
- (d) US Dollars Three Million (US\$ 3,000,000) within thirty (30) days after the first date when total average daily Crude Oil Production from the Development and Production Area over any consecutive ninety (90) days period reached Fifty Thousand (50,000) Barrels per day.
- (e) US Dollars Four Million (US\$ 4,000,000) within thirty (30) days after the first date when total average daily Crude Oil Production from the Development and Production Area over any consecutive ninety (90) days period reached One Hundred Thousand (100,000) Barrels per day.
- (f) US Dollars Six Million (US\$ 6,000,000) within thirty (30) days after the first date when total average daily Crude Oil Production from the Development and

Production Area over any consecutive ninety (90) days period reached One Hundred and Fifty Thousand (150,000) Barrels per day.

11.2.2 **Natural Gas:**

CONTRACTOR shall pay the following “Natural Gas Production Bonuses” to MOGE with respect to each Development and Production Area for Natural Gas productions:

- (a) US Dollars Five Hundred Thousand (US\$ 500,000) within thirty (30) days of approval of the Development Plan.
- (b) US Dollars One Million and Five Hundred Thousand (US\$ 1,500,000) within thirty (30) days after the first date when total average daily Natural Gas Production from the Development and Production Area over any consecutive ninety (90) days period reached Sixty Million Cubic Feet (60,000,000 ft³) per day.
- (c) US Dollars Two Million (US\$ 2,000,000) within thirty (30) days after the first date when total average daily Natural Gas Production from the Development and Production Area over any consecutive ninety (90) days period reached One Hundred and Twenty Million Cubic Feet (120,000,000 ft³) per day.
- (d) US Dollars Three Million (US\$ 3,000,000) within thirty (30) days after the first date when total average daily Natural Gas Production from the Development and Production Area over any consecutive ninety (90) days period reached Three Hundred Million Cubic Feet (300,000,000 ft³) per day.
- (e) US Dollars Four Million (US\$ 4,000,000) within thirty (30) days after the first date when total average daily Natural Gas Production from the Development and Production Area over any consecutive ninety (90) days period reached Six Hundred Million Cubic Feet (600,000,000 ft³) per day.
- (f) US Dollars Six Million (US\$ 6,000,000) within thirty (30) days after the first date when total average daily Natural Gas Production from the Development and Production Area over any consecutive ninety (90) days period reached Nine Hundred Million Cubic Feet (900,000,000 ft³) per day.

11.3 Production Bonuses paid in accordance with this Section 11.2 shall not be recoverable from Cost Petroleum; however, they shall be a tax-deductible expense in the calculation of income tax payable.

SECTION 12

VALUATION OF PETROLEUM

12.1 Terms used in this Section shall have the following meanings:

- a) “**Arms Length Sales**” means sales on the international market in freely convertible currencies between willing and unrelated sellers and buyers, excluding sales between Affiliates, sales between governments or government owned entities, sales affected by other commercial relationships between seller and buyer, transactions involving barter, and more generally any transactions motivated by considerations other than the usual commercial incentives.
- b) “**Reference Crude**” means crude oil(s) produced in Asia, which is of comparable gravity, and quality to the Crude Oil valued hereunder. The appropriate crude oil comprising Reference Crude shall be selected and agreed by MOGE and CONTRACTOR prior to commencement of Commercial Production from any Development and Production Area.
- c) “**Reference Crude Price**” means the average Free on Board (“FOB”) point of export spot price for Reference Crude during the relevant time period, as quoted in Platt’s Oilgram Price Report or such other publication as MOGE and CONTRACTOR may agree, adjusted as necessary to exclude non-Arms Length Sales and to reflect thirty (30) day payment terms and differences in gravity and quality between the Reference Crude and the Crude Oil being valued hereunder.
- d) “**Transportation Cost**” means the transportation cost determined by reference to the Average Freight Rate Assessment (“AFRA”) last published by the London Tanker Broker and Association, or such other published Crude Oil Freight Rate as MOGE and CONTRACTOR may agree, applicable to voyages between the points specified, using vessels of appropriate size.

12.2 For the purpose of Section 9 and Section 10 a US Dollar value per Barrel of Crude Oil shall be determined each accounting period. Such value shall be the Fair Market Value determined in accordance with Section 12.3 or Section 12.4 whichever is applicable.

12.3 If at least thirty percent (30%) of all the Crude Oil sales by CONTRACTOR during the relevant accounting period are Arms Length Sales, Fair Market Value for all Crude Oil shall be the price actually received by CONTRACTOR in such sales, adjusted to reflect FOB point of export delivery terms and thirty (30) day payment terms.

12.4 If less than thirty percent (30%) of all the Crude Oil sales by CONTRACTOR during the relevant accounting period are Arms Length Sales, the Fair Market Value shall be

the volume-weighted average of:

- a) The price actually received by CONTRACTOR during the relevant accounting period in Arms Length Sales, if any, adjusted to reflect FOB point of export delivery terms and thirty (30) day payment terms; and
- b) The Reference Crude Price applicable for Crude Oil sold by CONTRACTOR during the relevant accounting period in non-Arms Length Sales, adjusted to a Yangon point of export basis by adding the Transportation Cost of the Reference Crude from its point of export to the market in which Myanmar Crude Oil would normally be sold and subtracting the Transportation Cost from Yangon to the market in which Myanmar Crude Oil would normally be sold.

12.5 Within twenty (20) days following the end of each accounting period, CONTRACTOR shall determine Crude Oil value in accordance with this Section and shall notify MOGE. Unless within twenty (20) days after receipt of such notice MOGE notifies CONTRACTOR that it does not agree with CONTRACTOR's determination and specifies in such notice the basis for such disagreement, the CONTRACTOR's determination shall conclusively be deemed to have been accepted.

12.6 In the event MOGE shall have timely notified CONTRACTOR, within the above-described twenty (20) days period that it disagrees with CONTRACTOR'S determination of Crude Oil value, MOGE and CONTRACTOR shall meet to discuss the CONTRACTOR's determination. Should MOGE and the CONTRACTOR fail to reach agreement on the Crude Oil value within seventy-five (75) days after the end of the accounting period in question, either party may submit the value determination (and the selection of the Crude Oil to comprise Reference Crude if not previously agreed) to an expert in accordance with the provisions of Section 22.

12.7 The allocation of Crude Oil for Section 9, Section 10 and Section 14 shall be based on the value last determined or, in the event of a dispute pursuant to Section 12.6, the average of the value determined by CONTRACTOR and the value proposed by MOGE. When a new value is determined, that value shall be applied retroactively for the accounting period in which the sales used in the determination occurred, and appropriate adjustments shall then be made in the allocations of the parties to reflect the retrospective application of the new Crude Oil value.

12.8 Natural Gas produced and sold during an accounting period shall be valued at the weighted average net price received by MOGE and CONTRACTOR for sales under the Natural Gas sales agreements.

SECTION 13

NATURAL GAS

- 13.1 Any Natural Gas produced from the Contract Area, to the extent not used in operations hereunder, may be flared if the processing or utilization thereof is not economical. Such flaring shall be permitted to the extent that Natural Gas is not required to effectuate the economic recovery of Petroleum by secondary recovery operations, including reprocessing and recycling.
- 13.2 Should MOGE and CONTRACTOR consider and choose to undertake the processing of Natural Gas and utilization thereof, of the Natural Gas not required for Petroleum Operations hereunder, it is hereby agreed that all costs for production and delivery up to a point to be agreed with the gas buyer and the proceeds derived therefrom shall be treated on a basis equivalent to that provide for herein concerning the distribution and allocation of Crude Oil. MOGE and CONTRACTOR may enter into further negotiations as may be necessary to cover the financing of processing, liquefaction, handling and transportation of such Natural Gas.
- 13.3 In the event, however, CONTRACTOR considers that the processing and utilization of Natural Gas is not economical, then MOGE may choose to take and utilize such Natural Gas, free of charge, that would otherwise be flared, all costs of taking and handling to be for the sole account and risk of MOGE.

SECTION 14

DOMESTIC CRUDE OIL AND NATURAL GAS REQUIREMENT

- 14.1 The CONTRACTOR shall after Commercial Production of Crude Oil commences, fulfill its obligation toward the supply of the Domestic Crude Oil market in Myanmar by making a share of its entitlement available to MOGE. CONTRACTOR's obligatory share of the domestic market obligation will be in the proportion that CONTRACTOR'S entitlement to Crude Oil under Section 9.4 (for recovery of Operating Costs) and Section 9.7 (for division of remainder) bears to all Crude Oil produced in the Republic of the Union of Myanmar. The price MOGE shall pay CONTRACTOR for such Crude Oil up to an amount not to exceed twenty percent (20%) of the Crude Oil allocated to CONTRACTOR under Section 9.7 hereof shall be the equivalent of ninety percent (90%) of the value per Barrel of Crude Oil during the accounting period in question as determined in accordance with Section 12 hereof, payable in US Dollars within thirty (30) days after lifting. For any amount of Crude Oil in excess of that limit, required to satisfy CONTRACTOR's Domestic Market Obligation, the price shall be one hundred percent (100%) of the value per barrel of Crude Oil during the accounting period in question as determined in accordance with Section 12 hereof, payable in US Dollars as set out above.
- 14.2 CONTRACTOR obligations to supply the domestic market under this Section shall not exceed the extent to which the Government of the Republic of the Union of Myanmar shall make available US Dollars, which may be remitted abroad by CONTRACTOR in payment for such domestic market share.
- 14.3 The provisions of Section 14.1 and 14.2 shall apply, mutatis mutandis, to the production of Natural Gas, provided, however that CONTRACTOR's obligatory share of the domestic market obligation will be in the proportion that CONTRACTOR'S entitlement to Natural Gas under Section 9.4 (for recovery of Petroleum Costs) and Section 9.7 (for division of remainder) bears to all Natural Gas produced in the Republic of the Union of Myanmar or twenty-five percent (25%) of the Natural Gas allocated to CONTRACTOR under Section 9.7, whichever is less.

SECTION 15

EMPLOYMENT AND TRAINING

- 15.1 In conducting Petroleum Operations hereunder, CONTRACTOR shall select its employees and determine the number thereof. CONTRACTOR shall endeavor to employ qualified citizens of Myanmar to the maximum extent possible.
- 15.2 CONTRACTOR shall spend a minimum of US Dollars Twenty Five Thousand (US\$25,000) per Contract Year during the Exploration Period of this Contract for one or more of the following purposes:
- a) the purchase for MOGE of advanced technical literature, data and scientific instruments;
 - b) to train MOGE personnel and to send qualified MOGE personnel to selected accredited universities;
 - c) to send selected MOGE personnel to special courses offered by accredited institutions of higher learning or other recognized organizations in the fields of petroleum science, engineering and management.
- 15.3 Upon commencement of the Development and Production Period for the first Development and Production Area, CONTRACTOR's minimum expenditure commitment under this Section shall be increased to US Dollars Fifty Thousand (US\$50,000) per Contract Year.
- 15.4 The expenditure of sums for the purposes specified above shall be made pursuant to detailed annual training programmes to be prepared by CONTRACTOR and submitted to MOGE for approval. CONTRACTOR shall submit the first proposed Training Programme to MOGE within four (4) months after the Commencement of the Operation Date.
- 15.5 If training expenditures pursuant to an approved Training Programme fall short of the minimum training expenditure obligations for a Contract Year or if MOGE and CONTRACTOR do not agree on a Training Programme for any Contract Year, the deficiency shall be paid to MOGE or carried forward and expended in succeeding Contract Years. If training expenditures in any Contract Year exceed the minimum training expenditure obligation for that Contract Year the excess shall be credited to the training expenditure obligations for succeeding Contract Years.
- 15.6 All expenditures made pursuant to this Section 15 relating to training and education, including any payments made to MOGE pursuant to Section 15.5, shall be fully recoverable from Cost Petroleum pursuant to Section 9.

15.7 The CONTRACTOR shall establish a “Research & Development Fund” in the sum of zero point five (0.5) percentage of its share of Profit Petroleum and the expenditure of this Fund will be determined in consultation with MOGE. Research and Development Fund paid in accordance with this Section 15 shall not be recoverable from Cost Petroleum

SECTION 16

TITLE OF ASSETS

- 16.1 CONTRACTOR's physical assets, which are acquired for purposes of the Petroleum Operations, shall become the property of MOGE, and shall be cost recoverable by CONTRACTOR pursuant to Section 9, upon importation into Myanmar or upon acquisition in Myanmar. Data, information, reports and samples acquired or prepared by CONTRACTOR for the Petroleum Operations shall become the property of MOGE, and shall be cost recoverable by CONTRACTOR pursuant to Section 9, when acquired or prepared.
- 16.2 The physical assets, referred to in Section 16.1 shall remain in the custody of CONTRACTOR during the term of this Contract and CONTRACTOR shall have the unrestricted and exclusive right to use such assets in the Petroleum Operations free of charge subject to the provisions of Section 17. CONTRACTOR may retain and freely use, within or outside Myanmar, copies of all data, information and reports and representative portions of all samples, including but not limited to geologic, core, cutting and Petroleum samples.
- 16.3 The provisions of Section 16.1 shall not apply to assets rented or leased by CONTRACTOR or its Affiliates and used in Petroleum Operations, nor to assets owned by CONTRACTOR's Contractors, Subcontractor, Affiliates or other parties.

SECTION 17

RIGHTS AND OBLIGATIONS OF MOGE AND CONTRACTOR

17.1 MOGE shall:

- (a) have and be responsible for the management of the operations contemplated hereunder, however MOGE shall assist and consult with CONTRACTOR in the execution of the Work Programme;
- (b)
 - i) except as provided in Section 17.2(b) and 17.2 (c) below, and in Section 9.11, assume and discharge all Myanmar's taxes imposed upon CONTRACTOR, its contractors and sub-contractors, including import and export duties, customs duties, sales tax and other duties levied on materials, equipment and supplies brought into Myanmar by CONTRACTOR, its contractors and sub-contractors;
 - ii) assume and discharge all exactions applicable under the laws of the Republic of the Union of Myanmar in respect of property, capital net worth and operations, including any tax imposed upon goods procured domestically, sales, gross receipts or transfers of property or any levy on or in connection with operations performed hereunder by CONTRACTOR, its Contractors and Sub-contractors;
 - iii) not be obliged to pay taxes on tobacco, liquor, and other taxes charged on goods and services, import and export duties, customs duties and sales tax and any other tax levied upon articles imported for personal use by the CONTRACTOR's, its contractors' and sub-contractors' employees engaged in Petroleum Operations under this Contract;
- (c) assist and expedite CONTRACTOR's execution of the Work Programme by providing at cost, facilities, supplies and personnel including, but not limited to, supplying or making available all necessary visas, work permits, transportation, security protection and rights of way and easements as may be requested by CONTRACTOR and made available from the resources under MOGE's control. In the event such facilities, supplies and personnel are not readily available, then MOGE shall promptly secure the use of such facilities, supplies and personnel from alternative sources. Expenses thus incurred by MOGE at CONTRACTOR's request shall be reimbursed to MOGE by CONTRACTOR and included in the Operating Cost. Such reimbursements will be made in US Dollars computed at the commercial rate of exchange prevailing at the time the expense was incurred as set by a Bank in Myanmar authorized to set such rate;
- (d) have title to all original and interpreted data resulting from the Petroleum operations including but not limited to geological, geophysical, petrophysical, engineering,

data, well logs and completion status reports and any other data as CONTRACTOR may compile during the term hereof for which CONTRACTOR is entitled to retain copies;

- (e) to the extent that it does not interfere with CONTRACTOR's performance of the Petroleum Operations use the equipment which becomes its property by virtue of this Contract solely for the Petroleum Operations or for any alternative purpose, provided that approval of CONTRACTOR is first obtained;
- (f) have the right to ask for immediate removal and replacement of any of the CONTRACTOR's employees at the cost of the CONTRACTOR, if in the reasonable consideration of MOGE the employee is incompetent in his work and/or unacceptable to MOGE by reason of his acts or behavior;
- (g) appoint its authorized representative with respect to this Contract.

17.2 CONTRACTOR shall:

- (a) furnish all such funds as may be necessary for the entire Petroleum Operations executed pursuant to this Contract;
- (b) be responsible to withhold and pay the withholding tax for the payments made for goods and services and for all Income Tax and other levies if any, for which expatriate personnel of CONTRACTOR, its Contractors and Sub-contractors are liable under the Income Tax Laws of the Republic of the Union of Myanmar for the portion of their income in Myanmar;
- (c) be responsible to pay to appropriate authorities import duties, customs duties, sales tax and other duties levied on motor vehicles brought into Myanmar for personnel use and not for field use by CONTRACTOR, its Contractors and Sub-contractors. The cost and expenses incurred shall be Cost Recoverable as Petroleum Costs under Section 9.4;
- (d) be responsible for execution of Work Programmes, which shall be implemented in a workmanlike manner, and by appropriate scientific methods, and CONTRACTOR shall take the necessary precautions for protection of navigation and fishing, if necessary, and shall prevent environment pollution. It is also understood that the execution of the Work Programme shall be exercised so as not to conflict with the laws of the Republic of the Union of Myanmar;
- (e) be entitled to import CONTRACTOR's physical assets on investment basis as well as import CONTRACTOR's leased property, property of its contractors and its subcontractors on draw-back basis;
- (f) be entitled to export all property which are imported on draw-back basis;

- (g) have the right to sell, assign, transfer, convey or otherwise dispose of all or any part of its rights and interests under this Contract to an Affiliate or other parties only with the prior written consent of MOGE. The consent by MOGE on this matter shall not be unreasonably withheld.

Provided that notwithstanding anything contained elsewhere in the Contract, CONTRACTOR is liable to pay to the Government of the Republic of the Union of Myanmar the following trenches out of the Net Profit made on the sale or transfer of the shares in the Company formed under Section 5.1:

- | | |
|---|-----|
| (i) If the amount of Net Profit is up to US Dollars 100 Million | 40% |
| (ii) If the amount of Net Profit is between US Dollars 100 Million and US Dollars 150 Million | 45% |
| (iii) If the amount of Net Profit is over US Dollars 150 Million | 50% |

- (h) have the right of access to and from the Contract Area and to and from facilities wherever located at all times;
- (i) submit to MOGE weekly staff returns, agreed daily drilling reports (where applicable), weekly and monthly progress reports;
- (j) submit to MOGE copies of all such original and interpreted geological, geophysical, drilling, well production and any other data and reports as it may compile during the term hereof;
- (k) prepare and carry out plans and programmes for industrial training and education of Myanmar nationals selected by MOGE from its staff for all job classifications with respect to operations contemplated hereunder;
- (l) appoint authorized representative for Myanmar with respect to this Contract, who shall have an office in Yangon and/or Nay Pyi Taw, such representative to represent CONTRACTOR in the conduct of Petroleum Operations hereunder;
- (m) unavoidably give preference to such goods and services which are available in Myanmar or rendered by Myanmar nationals approved by MOGE, provided such goods and services are offered at comparable conditions with regard to quality, price, availability at the time and in the quantities required; such payments for goods and services shall be made in US Dollars or local currency as appropriate in accordance with prevailing regulations;
- (n) unavoidably execute Petroleum Operations in accordance with the Work Programme utilizing twenty-five (25) percent of the approved Budget for each Financial Year for goods and services that are available in Myanmar or rendered by Myanmar nationals, subject to the approval of MOGE unless otherwise agreed upon by both parties;

- (o) procure such goods and services for the execution of the Work Programme through international tender subject to approval by MOGE unless otherwise agreed upon by both parties;
- (p) allow duly authorized representatives of MOGE to have access to the Contract Area covered by this Contract and to the Petroleum Operations conducted thereon. Such representatives may examine data, books, registers and records of CONTRACTOR, and make a reasonable number of surveys, drawings and tests for the purpose of enforcing this Contract. They shall, for such purpose, be entitled to make reasonable use of machinery and instruments of the CONTRACTOR. Such representatives shall be given reasonable assistance by the agents and employees of the CONTRACTOR so that none of their activities shall endanger or hinder the safety or efficiency of the operations. The CONTRACTOR shall offer such representatives all privileges and facilities accorded to its own employees in the Contract Area and shall provide them, free of charge, the use of reasonable office space while they are in the Contract Area and transportation facilities for them to and from the Contract Area for the purpose of facilitating the objectives of this Section.
- (q) CONTRACTOR and its personnel, while in Myanmar, shall respect and abide by all laws and regulations of the Republic of the Union of Myanmar and shall refrain from interfering in the internal affairs of the Republic of the Union of Myanmar.
- (r) CONTRACTOR is responsible for the Environmental Protection and Management in the Contract Area in accordance with the laws, rules, regulations, directives and notifications of the Republic of the Union of Myanmar and in conformity with International Petroleum Industry's practices with respect to environment protection and mitigation.
- (s) CONTRACTOR shall abide by the laws, rules, regulations, directives and notifications with respect to forestry and agriculture sector and shall not cut and/or fell trees unnecessarily and/or not to extract timber from the Contract Area without any prior permission. In the event that, if it is required to cut and/or fell trees for Petroleum Operation in the Contract Area, CONTRACTOR shall consult with MOGE and with the agreement of MOGE to seek prior permission(s) from respective Ministries and authorities concerned before cutting and/or felling of trees in the Contract Area.
- (t) employ safety precautions and safe working practices during the Petroleum Operations as are consistent with international petroleum practices.
- (u) prior to the Petroleum Operations commencement date, nominate a person to act as the safety officer of CONTRACTOR who shall be the representative directly responsible for enforcing CONTRACTOR's safety rules.
- (v) not later than ninety (90) days after the Effective Date, establish an office within Myanmar to coordinate the operations to be conducted within the Contract Area.

SECTION 18

MANAGEMENT COMMITTEE

18.1 MOGE retains, under this Contract, all rights of Management but recognizes that CONTRACTOR is responsible for the execution of the Work Programmes. For the purpose of the proper implementation of this Contract, the parties shall establish a Management Committee (“The Management Committee”) within forty-five (45) days from the Commencement of the Operation Date. The Management Committee shall have overall supervision and Management of Petroleum Operations including approved Works Programmes and Budgets. The Duties and Responsibilities of the Management Committee shall be as prescribed in Annexure “E”.

SECTION 19

STATE PARTICIPATION

- 19.1 MOGE shall have the right to demand from CONTRACTOR a fifteen percent (15%) undivided interest in the total rights and obligations under this Contract and MOGE may extend up to 25% at its own discretion.
- 19.2 The right referred to in Section 19.1 shall lapse unless exercised by MOGE not later than three (3) months after CONTRACTOR'S notification by registered letter to MOGE of its first Discovery of Petroleum in the Contract Area, which in the judgment of CONTRACTOR after consultation with MOGE can be produced commercially. MOGE shall make its demand known to CONTRACTOR by registered letter.
- 19.3 CONTRACTOR shall make its offer by registered letter to MOGE within one (1) month after receipt of MOGE's registered letter referred to in Section 19.2. CONTRACTOR's letter shall be accompanied by a copy of this Contract and a draft operating agreement embodying the manner in which CONTRACTOR and the MOGE shall cooperate. The main principles of the draft operating agreement are contained in Annexure "F" to this Contract.
- 19.4 The offer by CONTRACTOR to MOGE shall be effective for a period of six (6) months. If MOGE has not accepted this offer by registered letter to CONTRACTOR within the said period, CONTRACTOR shall be released from the obligation referred to in this Section.
- 19.5 In the event of acceptance by MOGE of CONTRACTOR's offer, MOGE shall be deemed to have acquired the undivided interest on the date of CONTRACTOR's notification to MOGE referred to in Section 19.2.
- 19.6 For the assignment of the undivided interest in the total of the rights and obligations arising out of this Contract, the MOGE shall reimburse CONTRACTOR an amount equal to the same percentage of the sum of Operating Costs which CONTRACTOR has incurred for and on behalf of its activities in the Contract Area up to the date of CONTRACTOR's notification to MOGE mentioned in Section 19.2, the same percentage of the Signature Bonus paid to MOGE referred to in Section 11.1 of this Contract.
- 19.7 At the option of MOGE the said amount shall be reimbursed:
- (a) either by transfer of the said amount by MOGE within three (3) months after the date of its acceptance of CONTRACTOR's offer referred to in Section 19.3, to CONTRACTOR's account with the banking institution to be designated by it, in the

currency in which the relevant costs have been financed; or

(b) by way of “Payment out of Production” of fifty percent (50%) of MOGE’S production entitlement under this Contract valued in the manner as described in Section 12 of this Contract, commencing as from the beginning of Commercial Production.

19.8 At the time of its acceptance of CONTRACTOR’S offer, MOGE shall state whether it wishes to reimburse in cash or out of production in the manner indicated in Section 19.7.

SECTION 20

FORCE MAJEURE

- 20.1 The term “Force Majeure” as employed herein shall mean act of god., restraint of a government, strikes, lockouts, industrial disturbances, explosions, fires, floods, earthquakes, storms, lightning and every any other causes similar to the kind herein enumerated, which are beyond the control of either party, and which by the exercise of due care and diligence, either party is unable to overcome.
- 20.2 If either party is temporarily rendered unable, wholly or in part, by Force Majeure to perform its duties or accept performance by the other party under this Contract, it is agreed that the affected party gives notice to the other party within fourteen (14) days after the occurrence of the cause, relied upon giving full particulars in writing of such Force Majeure. The duties of such party as are effected by such Force Majeure, shall with the approval of the other party, be suspended during the continuance of the inability so caused, but for no longer period, and such cause shall as far as possible be removed with all reasonable dispatch. Neither party shall be responsible for delay, damage or loss caused by Force Majeure.

SECTION 21

GOVERNING LAW AND JURISDICTION

- 21.1 This Contract shall be governed by and construed and interpreted in all respects in accordance with the laws of the Republic of the Union of Myanmar, and the parties hereby agree to submit to the jurisdiction of the relevant Court of Myanmar and all Courts competent to hear appeals therefrom.
- 21.2 No term or provisions of this Contract, including the agreement of the parties to submit to arbitration herein, shall prevent or limit the Government of the Republic of the Union of Myanmar from exercising its inalienable rights.

SECTION 22

CONSULTATION AND ARBITRATION

- 22.1 If any dispute arises out of this Contract or any other agreement or document executed in connection with this Contract, the parties hereto shall consult with each other in good faith in order to settle such dispute amicably.
- 22.2 In the event that such dispute cannot be settled amicably in a reasonable time, it shall be settled in the Republic of the Union of Myanmar by arbitration, through two arbitrators, each one of whom each party shall appoint. Should the arbitrators fail to reach an agreement, then such dispute shall be referred to an umpire nominated by those arbitrators. The decision of the arbitrators or the umpire shall be final and binding upon both parties.
- 22.3 The arbitration proceedings shall in all respects conform to the Myanmar Arbitration Act, 1944 (Myanmar Act IV, 1944) or any subsisting statutory modification thereof. The venue of arbitration shall be in Yangon, Republic of the Union of Myanmar. The arbitration costs shall be borne by the losing party.

SECTION 23

BANKING

- 23.1 CONTRACTOR shall supply all funds necessary for Petroleum Operations in Myanmar in freely convertible currency from abroad except to the extent that Myanmar currency is generated in connection with the performance of the Petroleum Operations.
- 23.2 CONTRACTOR in accordance with the Foreign Investment Law and the Foreign Exchange Regulation Act of the Republic of the Union of Myanmar existing as of the date hereof, shall have the right to open and maintain foreign bank accounts in Myanmar at authorized banks and to receive abroad, remit abroad, retain abroad and use the entirety of the Foreign Exchange proceeds which are received from export and local sales of its share of Petroleum from the Contract Area or which are in any way generated in connection with the performance of the Petroleum Operations.
- 23.3 CONTRACTOR in accordance with the foreign exchange rules and regulations of the Republic of the Union of Myanmar existing as of the date hereof, shall be entitled to purchase Myanmar currency at authorized banks whenever required for the Petroleum Operations, and to convert into convertible foreign currency any excess Myanmar currency which is not then needed for local requirements.
- 23.4 The rate of exchange for transactions referred to in Section 23.3 shall not be less favorable to CONTRACTOR than the market rate through Government-recognized exchange centers applicable for similar transactions undertaken by any private or state enterprise on the date the transaction is initiated. Normal bank commissions and costs of transfers relating to currency conversions or remittances shall be borne by CONTRACTOR.
- 23.5 CONTRACTOR shall be entitled to pay its foreign-controlled Contractors and Sub-contractors and its expatriate employees in foreign currency abroad, and such Contractors, Sub-contractors and expatriate employees shall be entitled to receive and retain such foreign currency abroad.
- 23.6 The provisions of Section 23.2, 23.3, 23.4, and 23.5 shall also apply to CONTRACTOR's expatriate employees and CONTRACTOR's foreign-controlled Contractors, Sub-contractors and their expatriate employees.
- 23.7 Unless otherwise expressly agreed, all payments by CONTRACTOR to MOGE or the Government hereunder and all payments by MOGE or the Government to CONTRACTOR hereunder shall be made in US Dollars at a bank in Myanmar or abroad as specified by the recipient.

SECTION 24

INSURANCE

- 24.1 As to all operations performed by the CONTRACTOR under this Contract, the CONTRACTOR shall secure and maintain insurance in accordance with Section 19 of the Union of Myanmar Foreign Investment Law and Rule 15 of the procedures relating to the Union of Myanmar Foreign Investment Law. The CONTRACTOR shall furnish MOGE with certificates of insurance evidencing such coverage and containing a statement that such insurance shall not be materially changed or cancelled without at least thirty (30) days prior written notice.
- 24.2 The CONTRACTOR shall require that its subcontractors procure similar insurance to those required to be procured by the CONTRACTOR and such additional insurance as CONTRACTOR shall deem appropriate, all to be evidenced by certificates of insurance.
- 24.3 To eliminate controversy, the expense and inconvenience thereof, as between MOGE and the CONTRACTOR, it is agreed that the insurance policies shall be endorsed so that the underwriters, insurers and insurance carriers of each with respect to this Contract shall not have any right of recovery against either of the parties hereto or their representatives in any form whatsoever; and the rights of recovery with respect to this operation are mutually waived. All policies of insurance herein provided and obtained or required by either party shall be suitably endorsed to effectuate this waiver of recovery.

SECTION 25

TERMINATION

- 25.1 In addition to the termination provisions set forth in Section 3, this Contract may be terminated by the CONTRACTOR by giving not less than ninety (90) days written notice to MOGE provided, however, CONTRACTOR may not so terminate this Contract during the Exploration Period or its extension or extensions prior to CONTRACTOR spending on Petroleum Operations the minimum expenditures required hereunder unless CONTRACTOR pays to MOGE the unexpended portion of the minimum expenditures as specified in Section 5.2 to 5.4 but subject to Section 5.10.
- 25.2 This Contract shall be terminated in its entirety by MOGE, if it is proved that the CONTRACTOR is intentionally and knowingly involved in political activities detrimental to the Government of the Republic of the Union of Myanmar. On such termination, the unexpended portion of the minimum expenditures as specified in Section 5.2 to 5.4 and all equipment purchased by the CONTRACTOR and brought into Myanmar under Section 16.1 shall pass to MOGE.
- 25.3 If the CONTRACTOR is in material breach of any of its obligations under this Contract, MOGE shall give notice to remedy such breach within sixty (60) days. If CONTRACTOR fails to remedy such breach within the said sixty (60) days, MOGE shall have the right to terminate this Contract by delivering a notice of termination to the CONTRACTOR. Once terminated, the unexpended portion of the minimum expenditure as specified in Section 5.2 to 5.4 and all equipment purchased by the CONTRACTOR and brought into Myanmar under Section 16.1 shall pass to MOGE.
- 25.4 Subject to earlier termination upon notice by CONTRACTOR pursuant to Section 25.1, this Contract shall automatically terminate in its entirety as follows:
- (a) If there is no Commercial Discovery of Petroleum in the Contract Area during the Exploration or Extension Period;
 - (b) At the end of the Production Periods relating to all Production Areas within the Contract Area.

SECTION 26

BOOKS AND ACCOUNTS AND AUDITS

- 26.1 Subject to the requirement of Section 17.2 CONTRACTOR shall be responsible for keeping complete books and accounts with the assistance of MOGE reflecting all Petroleum Costs as well as monies received from the sale of Crude Oil, consistent with modern petroleum industry practices and proceedings as described in Annexure “C” attached hereto. Should there be any inconsistency between the provisions of this Contract, and the provisions of Annexure “C” then the provisions of this Contract shall prevail.
- 26.2 MOGE and the Government of the Republic of the Union of Myanmar shall, at its cost, have the right to inspect and audit CONTRACTOR’s books and accounts relating to this Contract for any Financial Year covered by this Contract. Any exception must be made in writing within sixty (60) days following the completion of such audit. Such audit shall be performed within two Financial Years after the closing of the related Financial Year.

SECTION 27

GENERAL PROVISIONS

27.1 Notices

- (a) Notices and other communications required or permitted to be given under this Contract shall be deemed given when delivered and received in writing either by hand or through the mails, or by prepaid telex, facsimiles or cable transmission, appropriately addressed as follows:

To MOGE

- i) By hand or mail: MYANMA OIL AND GAS ENTERPRISE
BUILDING NUMBER 44, NAY PYI TAW,
REPUBLIC OF THE UNION OF MYANMAR.

ATTENTION: MANAGING DIRECTOR

- ii) By Telex: MYCORP 21307 BM

- iii) By Facsimiles: 95-067-411 125

To CONTRACTOR PARTIES:

- i) By hand or mail:-

ATTENTION:

- ii) By Facsimiles:

- (b) MOGE and CONTRACTOR may change its address or addresses by giving notice of the change to each other.

27.2 Language of Text

This Contract is made and entered into in the English Language.

27.3 Effectiveness

This Contract is legally binding on and from the Effective Date.

27.4 Covenants Against Undue Influence

The CONTRACTOR warrants that no gift or reward has been made, nor will be made, to any officials or employees of the Government of the Republic of the Union of

Myanmar.

27.5 Secrecy

- (a) CONTRACTOR undertakes to maintain in strictest secrecy and confidence all data and information purchased or acquired from MOGE as well as during the course of operations in the Republic of the Union of Myanmar. The CONTRACTOR understands fully that this undertaking and obligation is a continuing one which will be binding also on its successors and permitted assigns, until such time when MOGE agrees in writing to release CONTRACTOR from its undertaking and obligations.

- (b) MOGE may use at its own discretion all the data and information obtained during the course of operations in the Republic of the Union of Myanmar but shall undertake to maintain such data and information in strictest secrecy and confidence during the term of this Contract.

27.6 Change of Conditions

In the event that any situation or condition arise due to circumstances not envisaged in the Contract and warrants amendments to the Contract the parties shall negotiate and make the necessary amendments.

27.7 IN WITNESS WHEREOF, this Contract has been executed by duly authorized signatory of each respective Party named below in Nay Pyi Taw, the Republic of the Union of Myanmar, as of the day, the date and the year first above mentioned.

Signed, sealed and delivered

Signed, sealed and delivered

For and on behalf of
**MYANMA OIL AND GAS
ENTERPRISE**

For and on behalf of

MANAGING DIRECTOR

IN THE PRESENCE OF:

DIRECTOR GENERAL
ENERGY PLANNING DEPARTMENT

ANNEXURE “A”

This Annexure “A” is attached to and made an integral part of the Contract between MYANMA OIL AND GAS ENTERPRISE and -----

Dated: -----, 2011.

Description of Contract Area

COORDINATES OF ONSHORE BLOCK -----

<u>POINTS</u>	<u>LATITUDE(N)</u>	<u>LONGITUDE(E)</u>
<u>NO.</u>	<u>DEG. MIN. SEC.</u>	<u>DEG. MIN. SEC.</u>
1		
2		
3		
4		
5		
6		
1		

Area of Block ----- = ----- Sq. Miles

ANNEXURE “B”

This Annexure “B” is attached to and made an integral part of the Contract between MYANMA OIL AND GAS ENTERPRISE and ----- .

Dated: -----, 2011.

Map of Contract Area

ANNEXURE “C”

This Annexure “C” is attached to and made an integral part of the Contract between MYANMA OIL AND GAS ENTERPRISE and ----- .

Dated: -----, 2011.

ACCOUNTING PROCEDURE

ARTICLE 1 – GENERAL PROVISIONS

This Accounting Procedure applies to and shall be observed in the establishment, keeping and control of all accounts, books and records of accounts under the Contract.

The Contract and this Accounting Procedure are intended to be correlative and mutually explanatory. Should however any discrepancy arise, then the provisions of the Contract shall prevail.

The parties agree that if any procedure established herein proves unfair or inequitable to any Party, the parties shall meet and endeavor to agree on the changes necessary to correct that unfairness or inequity.

1.1 DEFINITIONS

1.1.1 The terms used in this Accounting Procedure have the same meaning as set out for the same terms in the Contract and otherwise in accordance with the provisions of the Contract.

1.1.2 “Capital Expenditure” means expenditures incurred for the purchase of tangible physical assets which, by generally accepted international accounting principles of the international petroleum industry, are classified as capital and the cost of which is amortizable. Such assets include, but are not limited to:

- drilling and well equipment including wellheads, casing, pipe, flow lines and pumps;
- gathering systems including pipe, field storage, and crude oil separation and treatment plants and equipment;
- pipelines for the transportation of petroleum to the point of export, sale or delivery;
- storage tanks and loading facilities at the point of export, sale or delivery; and
- any other plant, equipment or fixtures in the Republic of the Union of Myanmar reasonably necessary to carry out Petroleum operations.

1.1.3 “Controllable Material” means Material which the CONTRACTOR subjects to record control and inventory in accordance with good international petroleum industry practice.

1.1.4 “Material” means any equipment, machinery, materials, articles, supplies and consumables either purchased, or leased, or rented, or transferred by CONTRACTOR and used in the Petroleum Operations.

1.2 BOOKS AND RECORDS

Books and records of account will be kept in accordance with a generally accepted and recognized accounting system consistent with modern petroleum industry practices and procedures and in the English language and US Dollars, supplemented and supported by such books, records or entries in other currencies as may be necessary for completeness and clarity and to implement the Contract in accordance with its terms.

1.3 CURRENCY EXCHANGE

Any costs incurred or proceeds received, in a currency other than US Dollars including the currency of the Republic of the Union of Myanmar shall be converted into US Dollars computed at the prevailing rate of exchanges set by an authorized bank in Myanmar on the day on which the costs or expenditures were paid or the proceeds were received.

1.4 INDEPENDENT AUDITOR

The CONTRACTOR shall in consultation with MOGE, appoint an independent auditor of international standing, to audit annually the accounts and records of Petroleum Operations and report thereon, and the cost of such audit and report shall be promptly delivered to the MOGE and shall be chargeable under the Contract.

ARTICLE 2-PETROLEUM COSTS

2.1 PETROLEUM COSTS

The Parties shall maintain a “Petroleum Costs Account” in which there shall be reflected all petroleum costs incurred in connection with the Petroleum Operations carried out under the provisions of the Contract.

Such Petroleum costs shall be recoverable by the CONTRACTOR in accordance with the provisions of the Contract and as farther set out below. Without limiting the generality of the foregoing, the costs and expenditures considered in 2.2 to 2.12 hereafter are included in petroleum costs.

Petroleum costs shall be recoverable in the following manner:

- a) Petroleum costs, including all intangible drilling costs, with the exception of the Capital Expenditures, incurred in respect of the Petroleum Operations under this Contract Area, shall be recoverable either in the Financial Year in which these Petroleum Costs are incurred or the Financial Year in which Commercial Production occurs, whichever is the later;
- b) Exploration and Appraisal Expenditures, incurred in respect of the Contract Area, shall be recoverable in the Financial Year in which Commercial Production occurs.
- c) Capital Expenditures incurred in respect of the Petroleum Operations under this Contract shall be recoverable at a rate of twenty-five percent (25%) per annum based on amortization at that rate starting either in the Financial Year in which such Capital Expenditure is incurred or the Financial Year in which Commercial Production from the Contract Area commences, whichever is the later; and
- d) Capital Expenditures, including but not limited to expenditure for aircraft, camps, offices, warehouses, vehicles, workshops, power plants, tools and equipment, incurred outside of a Development Area, shall be recoverable at a rate of twenty-five percent (25%) per annum, based on amortization at that rate starting either in the Financial Year in which such Capital Expenditure is incurred, or the Financial Year in which Commercial Production from any Development Area commences, whichever is the later, and shall be recoverable from any Development Area.

2.2 LABOR AND RELATED COSTS

2.2.1 CONTRACTOR's locally recruited employees based in the Republic of the Union of Myanmar.

The actual cost of all CONTRACTOR's locally recruited employees who are directly engaged in the conduct of Petroleum Operations in the Republic of the Union of Myanmar. Such costs shall include the costs of employee benefits and Government benefits for employees and taxes and other charges levied on the CONTRACTOR as an employer, transportation and relocation costs within the Republic of the Union of Myanmar and costs of the employee and such employee's family (limited to spouse and dependent children) as statutory or customary for the CONTRACTOR.

2.2.2 Assigned personnel

The cost of the personnel of CONTRACTOR resident in and working in the Republic of the Union of Myanmar for the Petroleum Operations.

The cost of these personnel shall be as per rates which represent the CONTRACTOR's actual cost.

As early as possible in each Financial Year, the CONTRACTOR shall advise the applicable rates referred to above for each subsequent Financial Year. These rates may be subject to revision from time to time at the CONTRACTOR's initiative if actual costs change.

2.2.3 Personnel of the CONTRACTOR based in CONTRACTOR's home country working for Petroleum Operations on a time sheet basis.

Such personnel shall be charged at rates which represent the CONTRACTOR's actual cost. These rates include all costs incidental to the employment of such personnel, but do not include transportation and living expenses they may incur for the performance of such work. In case the work is performed outside CONTRACTOR's home country, the hourly rate will be charged from the date such personnel leave the town where they usually work in CONTRACTOR's home country through their return thereto, including days which are not working days in the country where the work is performed, and excluding any holiday entitlement derived by the employee from his employment in CONTRACTOR's home country. No charge will be made for overtime.

As early as possible in each Financial Year, the CONTRACTOR shall advise these hourly rates for each subsequent year. They may be subject to revision from time to time at the CONTRACTOR's initiative.

2.2.4 Other personnel

Personnel working outside the Republic of the Union of Myanmar for the CONTRACTOR who are not on a time sheet basis shall be deemed compensated by the administrative overheads set forth in subpart 2.11 below.

2.2.5 Provisions common to Subparts 2.2.2 and 2.2.3

Subparts 2.2.2 and 2.2.3 above have been agreed upon considering the present structure of the CONTRACTOR. Should the CONTRACTOR be changed, or should the CONTRACTOR change their present structure or organization, these subparts shall be revised accordingly.

2.2.6 Employees training expenses

Training expenses for the CONTRACTOR's employees resident in the Republic of the Union of Myanmar and the CONTRACTOR's contribution to training under Section 15 of the Contract.

2.3 MATERIAL

2.3.1 The cost of Material shall be charged to the Petroleum Costs Account on the basis set forth below.

The CONTRACTOR does not guarantee the Material. The only guarantees are the guarantees given by the manufacturers or the vendors, as long as they are in force.

2.3.1.1 Except as otherwise provided in Subpart 2.3.1.2 below, Material shall be charged at the actual "Net Cost" incurred by the CONTRACTOR as the vendor's invoice price, packaging, transportation, loading and unloading expenses, insurance costs, duties, fees and applicable taxes less all discounts actually received.

2.3.1.2 Material shall be charged at the rate specified herein below:

a) new Material (Condition "A") shall be valued at the current international Net Cost which shall not exceed the price prevailing in normal arm's length transactions on the open market;

b) Used Material (Conditions "B", "C" and "D" and "Junk Material"):

i) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classified as Condition "B" and priced at seventy five percent (75%) of the current price of new Material defined in (a) above;

ii) Material which cannot be classified as Condition "B" but which after reconditioning will be further serviceable for its original function shall be classified as Condition "C" and priced at fifty percent (50%) of the current price of new Material as defined in (a) above.

The cost of reconditioning shall be charged to the reconditioned Material provided that the value of Condition "C" Material plus the cost of reconditioning do not exceed the value of Condition "B" Material;

iii) Material, which has a value and which cannot be classified as Condition "B" or Condition "C", shall be classified as Condition "D" and priced at a value commensurate with its use.

iv) Material which is usable and which cannot be classified as Condition "B" or Condition "C" or Condition "D" shall be classified as Junk Material and shall be considered as having no value.

2.3.2 Inventories

At reasonable intervals, inventories shall be taken by the CONTRACTOR of all controllable Material. The CONTRACTOR shall give sixty (60) days' written notice of intention to take such inventories to allow the MOGE to choose whether to be represented when the inventory is taken or not to be represented (in which case the MOGE shall elect to accept the inventory taken by the CONTRACTOR).

2.4 TRANSPORTATION AND EMPLOYEE RELOCATION COSTS

2.4.1 Transportation of Material and other related costs, including but not limited to origin services, expediting, crating, dock charges, forwarder's charges, surface and air-freight, and customs clearance and other destination services.

2.4.2 Transportation of employees as required in the conduct of Petroleum Operations, including employees of the CONTRACTOR whose salaries and wages are chargeable under subparts 2.2.2 and 2.2.3 of this Accounting Procedure.

2.4.3 Relocation costs to the Contract Area vicinity of employees permanently or temporarily assigned to Petroleum Operations.

Relocation costs from the Contract Area vicinity, except when employee is reassigned to another location classified as a foreign location by the CONTRACTOR. Such costs include transportation of employee's families and their personal and household effects and all other relocation costs in accordance with the usual practice of the CONTRACTOR.

2.5 SERVICES

2.5.1 The actual costs of contract service, professional consultants, and other services performed by third parties.

2.5.2 Costs of use of facilities and equipment for the direct benefit of the Petroleum Operations, furnished by the CONTRACTOR or third parties at rates commensurate with the cost of ownership, or rental and the cost of operation thereof, but such rates shall not exceed those currently prevailing in normal arm's length transactions on the open market for like services and equipment.

2.6 DAMAGES AND LOSSES TO MATERIAL AND FACILITIES

All costs or expenses necessary for the repair or replacement of Material and facilities resulting from damages or losses incurred by fire, flood, storm, theft, accident, or any other cause. The CONTRACTOR furnish the MOGE written notice of damages or losses for each occurrence or loss involving more than U.S. Dollars One Hundred Thousand (US\$100,000) as soon after the loss occurrence or as practicable.

2.7 INSURANCE AND CLAIMS

2.7.1 Premiums paid for insurance to cover the risks related to Petroleum Operations according to the CONTRACTOR's practice, which is in compliance with international petroleum practice.

2.7.2 Actual expenditure incurred in the settlement of all losses, claims, damages, judgments and other expenses (including legal expenses as set out below) for the benefit of the Petroleum Operations.

2.8 LEGAL EXPENSES

All costs or expenses of litigation or legal services otherwise necessary or expedient including but not limited to legal counsel's fees, arbitration costs, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims. These services may be performed by the CONTRACTOR's legal staff and/or an outside firm as necessary.

2.9 CHARGES AND FEES

All charges and fees which have been paid by the CONTRACTOR with respect to the Contract.

2.10 OFFICES, CAMPS AND MISCELLANEOUS FACILITIES

Cost of establishing, maintaining and operating any offices, sub-offices, camps, warehouses, housing and other facilities such as recreational facilities for employees. If these facilities serve more than one (1) Contract Area the costs thereof shall be allocated on an equitable basis.

2.11 GENERAL AND ADMINISTRATIVE EXPENSE

2.11.1 The services for all personnel of the CONTRACTOR as per subpart 2.2.4 as well as the contribution of the CONTRACTOR to the Petroleum Operations of an intangible nature shall be made compensated by an annual overhead charge based on a sliding scale percentage.

2.11.2 The basis for applying this overhead charge shall be the total Petroleum costs incurred during each Financial Year or fraction thereof.

The sliding scale percentage shall be the following:

For the first five million US Dollars:	4%
For the next three million US Dollars:	2%
For the next four million US Dollars:	1%
Over twelve million US Dollars:	0.5%

2.12 OTHER EXPENDITURES

Any reasonable expenditure not covered or dealt with in the foregoing provisions, which are incurred by the CONTRACTOR and approved by MOGE for the necessary and proper performance of the Petroleum Operations and the carrying out of its obligations under the Contract or related thereto.

2.13 CREDITS UNDER THE CONTRACT

The net proceeds of the following transactions will be credited to the accounts under the Contract:

- a) the net proceeds of any insurance or claim in connection with the Petroleum Operations or any assets charged to the accounts under the Contract;
- b) revenue received from outsiders for the use of property or assets charged to the accounts under the Contract which have become surplus to Petroleum Operations and have been leased to mitigate losses;
- c) any adjustment received by the CONTRACTOR from the suppliers/manufacturers or their agents in connection with defective equipment or material the cost of which was previously charged by the CONTRACTOR under the Contract;
- d) rentals, refunds or other credits received by the CONTRACTOR which apply to any charge which has been made to the accounts under the Contract;
- e) proceeds from all sales of surplus Material charged to the account under the Contract, at the net amount actually collected.

2.14 NO DUPLICATION OF CHARGES AND CREDITS

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

ARTICLE 3-FINANCIAL REPORTS TO THE MOGE

- 3.1 The reporting obligations provided for in this Part shall apply to the CONTRACTOR and shall be in the manner indicated hereunder.
- 3.2 The CONTRACTOR shall submit to MOGE within thirty (30) days of the end of each calendar quarter: -

- 3.2.1 a report of expenditure and receipts under the Contract analyzed by budget item showing: -
- a) actual expenditure and receipts for the quarter in question;
 - b) actual cumulative expenditure to date;
 - c) latest forecast of cumulative expenditure at year end;
 - d) variances between budget expenditure and actual expenditure; and
 - e) explanations therefor.
- 3.2.2 cost recovery statement containing the following information: -
- a) recoverable petroleum costs brought forward from the previous calendar quarter, if any;
 - b) recoverable petroleum costs incurred during the calendar quarter;
 - c) total recoverable petroleum costs for the calendar quarter((a)plus (b)above)
 - d) quantity and value of Cost Petroleum taken and separately disposed of by the CONTRACTOR for the calendar quarter;
 - e) amount of Petroleum recovered for the calendar quarter; and
 - f) amount of recoverable petroleum costs to be carried forward into the next calendar quarter, if any.
- 3.3 After the commencement of production the CONTRACTOR shall, within thirty (30) days after the end of each month, submit a production report to the MOGE showing for each Development Area the quantity of Petroleum; -
- a) held in stocks at the beginning of the month;
 - b) produced during the month;
 - c) lifted, and by whom;
 - d) lost and consumed in Petroleum Operations; and
 - e) held in stocks at the end of the month.
- 3.4 A lifting Party shall submit within thirty (30) days after the end of each month, a report to the MOGE stating the quantities and sales value of each Petroleum sales made in that month.

ANNEXURE “D”

This Annexure “D” is attached to and made an integral part of the Contract between MYANMA OIL AND GAS ENTERPRISE andas stated and referred to in Section 5.6 of this Contract.

LETTER OF GUARANTEE

Dated: -----, 2011.

We hereby absolutely and unconditionally guarantee to the Myanmar Oil and Gas Enterprise, Ministry of Energy, the Government of the Republic of the Union of Myanmar, that CONTRACTOR is financially sound and technically competent and shall perform the tasks such as funding necessary capital, assets and supplying machinery, equipment, tools, technicians, specialists and discharge of expenditure obligations undertaken by it through the Onshore Block (..... Area) Production Sharing Contract for the exploration, extraction and development works of the Onshore Block(.....Area) of the Republic of the Union of Myanmar and we hereby undertake to discharge all its obligations under this Contract on its failure to perform.

This guarantee shall be effective from the Effective Date of this Production Sharing Contract and shall remain in force to the successive limited periods and up to the last exploration period if extended by the consent of the contracting Parties in accordance with Sections 5.3 and 5.4 of this Contract.

For and on behalf of

ANNEXURE “E”

This Annexure “E” is attached to and made an integral part of the Contract between MYANMA OIL AND GAS ENTERPRISE and

Dated:, 2011.

MANAGEMENT PROCEDURE

1. MOGE retains by this Contract all rights of management but recognizes that CONTRACTOR is responsible for the execution of the Work Programme. To obtain the benefits of mutual cooperation and to coordinate their efforts under the Contract, a “Management Committee” (herein called the Committee) shall be established consisting of Four (4) representatives appointed by MOGE, one whom shall act as Chairman of the committee and Three (3) representatives appointed by CONTRACTOR.
2. The initial appointment of representatives to the Committee shall be made by MOGE and by CONTRACTOR, by notice given to other within thirty (30) days after the Commencement of the Operation Date, advising the names of their respective representatives and such appointments may be changed thereafter from time to time by similar notice from the changing party to the other.
3. All decisions required to be taken by the Management Committee shall be taken by the unanimous vote of the representatives present at the meeting, it being understood that no such decisions shall be valid unless at least one representative of MOGE and one representative of the CONTRACTOR is present at the meeting. Decisions taken by the Committee shall be recorded in minutes signed on behalf of both MOGE and CONTRACTOR and shall be binding on the parties hereto.
4. The Committee shall meet whenever required by MOGE or by CONTRACTOR, subject to fifteen (15) days prior notice to its members which notice shall include the agenda for the meeting.
5. The Committee shall have the following functions and responsibilities under this Contract:
 - (a) to provide the opportunity for and to encourage the exchange of information, views, ideas and suggestions regarding plans, performance and results obtained under the Contract.
 - (b) to review and approve Work Programmes and Budgets proposed by CONTRACTOR, taking into consideration any revisions thereto proposed by MOGE and further revisions by both parties.

- (c) to coordinate on all technical, financial, administrative and policy matters of interest to both parties.
 - (d) in case of discovery of Petroleum to review and approve proposal for the appraisal and development of such discovery.
 - (e) to consider and act upon recommendations made to the Committee by its sub-committees.
 - (f) to cooperate towards implementation of the Contract in accordance with its terms.
6. To facilitate the discharge of its functions, the Committee shall appoint sub-committees composed of representatives of both MOGE and the CONTRACTOR such as but not limited to:
- (a) Technical sub-committee to review and consult upon Work Programme and any variation thereof, to supervise all safety procedures to be used in the conduct of Petroleum Operations, to advise the parties on the progress of the current Work Programme, pertaining to exploration, development and production and to perform any other task that the parties may ascribe by common agreement.
 - (b) Procurement sub-committee to review and recommend the international tender being applied for purchase of equipment and the selection of sub-contractors and supplies of services for Petroleum Operations hereunder.
 - (c) Accounting sub-committee to review the incomes and expenditures related to Petroleum Operations in accordance with this Contract and any questions arising thereto.
 - (d) Petroleum Valuation sub-Committee to set the value, the International Market Price FOB Myanmar per barrel of Crude Oil for purposes of Cost Recovery and division of net sales proceeds. The valuation shall be based upon enquiries made by MOGE and CONTRACTOR internationally for the specific type of quality of Crude Oil such as API gravity, sulphur content, viscosity, pour-point, etc. The valuation of Natural Gas will be determined at delivery point to Gas buyer.

ANNEXURE “F”

This Annexure “F” is attached to and made an integral part of the Contract between MYANMA OIL AND GAS ENTERPRISE and

Dated:, 2011.

MEMORANDUM ON PARTICIPATION

The operating agreement between CONTRACTOR and MOGE referred to in Section 19.3 shall embody, inter alia, the following main principles:

1. CONTRACTOR shall be the Sole Operator of the venture under properly defined rights and obligations.
2. Authorized representatives of both parties shall meet periodically for the purpose of conducting the venture’s operations. All decisions shall be taken by majority vote except in case of terminating the main Contract which decision shall require the unanimous consent of both parties. However if either of the parties wishes to withdraw from the venture it shall transfer without cost its undivided interest to the other party.
3. Both parties shall have the obligation to provide or cause to be provided their respective proportions of such finance and in such currencies as may be required from time to time by the Operator for the operations envisaged under the main Contract. The effects of a party’s failure to meet calls for funds within the prescribed time limits shall be provided.
4. The Operator shall prepare the annual Work Programme and Budgets which shall be submitted to the authorized representative of both parties for decision prior to their submission to MOGE in accordance with the provisions of the main Contract.
5. In respect of any exploratory drilling operation a “Sole Risk” provision shall be made which assure MOGE that it does not have to participate in such operation if it were to disagree to the inclusion of such operation in the Work Programme and Budget and which in case of success adequately compensates CONTRACTOR for the cost and risk incurred by the latter.
6. Subject to adequate lifting tolerances each Party shall offtake at CONTRACTOR’s point of export its production entitlement. However, if MOGE is not in a position to market such quantity wholly or partly it shall in respect of the quantity which it cannot market itself have the option under an adequate notification procedure, either to require CONTRACTOR to purchase that quantity, or to lift that quantity at a later date under an adequate procedure within the period of time defined in such related procedures.

7. If Natural Gas (associated gas and non-associated gas) is encountered in commercial quantities, special provisions shall be drawn having due regard inter alia, to the long term character of Natural Gas supply Contracts.