

Republic of the Philippines
DEPARTMENT OF ENERGY
Taguig City
Metro Manila

SERVICE CONTRACT

This SERVICE CONTRACT (the "Contract") is made and entered into this [] day of [] 20[] at Taguig City, Metro Manila, Philippines, by and between:

THE GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES, hereinafter referred to as the "Government", acting through the DEPARTMENT OF ENERGY, with principal office at Energy Center, Merritt Road, Fort Bonifacio, Taguig City, Metro Manila, in this act represented by the Secretary, **RAPHAEL P. M. LOTILLA**, hereinafter referred to as the "DEPARTMENT";

- and -

COMPANY NAME, a corporation organized and existing under and by virtue of the laws of **Country**, with postal address at **Complete Office Address**, in this act represented by its **Official's Position**, **NAME OF OFFICIAL**, hereinafter **collectively** referred to as the "CONTRACTOR";

In the implementation of this Contract, the Government shall act through and be represented by the DEPARTMENT. The DEPARTMENT and the CONTRACTOR are hereinafter referred to individually as "Party", and collectively as "Parties".

W I T N E S S E T H ; That:

WHEREAS, all Petroleum, Crude Oil, Crude, Natural Gas and/or Casinghead Petroleum Spirit of the Philippines belong to the State and their disposition, exploration, development, exploitation and utilization are governed by Presidential Decree No. 87, as amended, otherwise known as the Oil Exploration and Development Act of 1972 (the "Act") and Section 2, Article XII of the 1987 Constitution;

WHEREAS, the Act declares it to be the policy of the State to hasten the discovery and production of indigenous Petroleum through the utilization of Government and/or private resources;

WHEREAS, the CONTRACTOR desires and agrees to provide funds, and apply its appropriate and advanced technology and expertise to cooperate with the DEPARTMENT for the exploration, development and exploitation of Petroleum resources within the Contract Area and agrees to be subject to the laws and decrees of the Government and other rules and regulations of the DEPARTMENT in the implementation of the Contract;

NOW, THEREFORE, in view of the foregoing premises, the DEPARTMENT and CONTRACTOR hereby stipulate and agree, as follows:

SECTION I

SCOPE

- 1.01 This Contract is entered into pursuant to Section 7 of the Act with all necessary technology and financing as well as the required services to be furnished by the CONTRACTOR in accordance with the provisions herein contained. The CONTRACTOR shall undertake and execute the Petroleum Operations contemplated herein under the full control, management and supervision of the DEPARTMENT.
- 1.02 The CONTRACTOR shall be responsible to the DEPARTMENT for the execution of the Petroleum Operations in accordance with the provisions of this Contract, and is hereby appointed and constituted the exclusive party to conduct the Petroleum Operations on behalf of the Government. The DEPARTMENT shall have the right to require performance of any or all obligations of the CONTRACTOR under this Contract against any or all of the companies comprising the CONTRACTOR.
- 1.03 The CONTRACTOR shall assume all exploration risks such that if no Petroleum in Commercial Quantity is discovered and produced, it will not be entitled to reimbursement of expenses incurred in connection with this Contract.
- 1.04 During the term of this Contract, the total production achieved in the conduct of the Petroleum Operations shall be accounted for between the Parties in accordance with Section X hereof.

SECTION II

DEFINITIONS

In this Contract, the following words and terms defined in Section 3 of the Act shall, unless otherwise specified therein, have meaning in accordance with the following definitions:

- 2.01 **Act** – refers to Presidential Decree No. 87, as amended.
- 2.02 **Accounting Procedures** – refers to the set of procedures, guidelines and arrangement between the Parties to govern the recording and proper entry of expenses, costs and income, attached as Annex “B” to this Contract.
- 2.03 **Affiliate** - means: (a) a company in which any one of the companies comprising the CONTRACTOR holds directly or indirectly at least fifty percent (50%) of its outstanding shares entitled to vote; or, (b) a company which holds directly or indirectly at least fifty percent (50%) of the outstanding shares entitled to vote of one of the companies comprising the CONTRACTOR; or, (c) a company in which at least fifty percent (50%) of its outstanding shares entitled to vote are held by a company which holds directly or indirectly at least fifty percent (50%) of the outstanding shares entitled to vote of one of the companies comprising the CONTRACTOR.
- 2.04 **Annual Gross Production of Crude Oil** – means the total amount of Crude Oil produced from each Oil Field and/or Gas Field within the Contract Area considered separately in each Calendar Year, less the amount of Crude Oil used for Petroleum Operations and the amount of losses, which is saved and measured by a device jointly-approved before the Date of Commencement of Commercial Production at the Delivery Point.
- 2.05 **Annual Gross Production of Natural Gas** – means the total amount of Natural Gas produced from each Oil Field and/or Gas Field within the Contract Area considered separately in each Calendar Year, less the amount of Natural Gas used for Petroleum Operations and the amount of losses, which is saved and measured by a device jointly-approved before the Date of Commencement of Commercial Production at the Delivery Point.
- 2.06 **Appraisal Well** – means a well drilled for the purpose of evaluating the commerciality of a geological trap in which Petroleum has been discovered.
- 2.07 **Appraisal Work Program** – refers to the Work Program and Budget developed by the CONTRACTOR and approved by the DEPARTMENT to determine the commerciality of a Petroleum discovery.

- 2.08 **Associated Gas** – means all gaseous hydrocarbons produced in association with Crude Oil from oil reservoirs, including residue gas remaining after the extraction of liquid hydrocarbons therefrom.
- 2.09 **Barrel** - means 42 U.S. gallons or 9702 cubic inches at a temperature of 60 degrees Fahrenheit (60°F).
- 2.10 **Calendar Quarter** – means a period of three (3) consecutive Gregorian months under the Gregorian calendar beginning on the first (1st) day of January, the first (1st) day of April, the first (1st) day of July, or the first (1st) day of October.
- 2.11 **Calendar Year** - means a period of twelve (12) consecutive months commencing with January 1 and ending on the following December 31.
- 2.12 **Casinghead Petroleum Spirit** - means any hydrocarbon, including condensate, existing in liquid form at a temperature of sixty degrees Fahrenheit (60°F) and at an atmospheric pressure of 14.65 PSIA, which is obtained from Natural Gas at the well head or by separation or by any chemical or physical process or ethane, propane, and butane produced by gas processing.
- 2.13 **Contract** - means this Service Contract.
- 2.14 **Contract Area** - means, at any time, the area within the territory of the Philippines, which is the subject of this Contract. The Contract Area is outlined and more particularly described in Annex "A" attached hereto.
- 2.15 **CONTRACTOR** – means the Contractor specified in the Recital of Parties hereto, including assignee(s) in accordance with Section XXIV hereof.
- 2.16 **Contract Year** - means a period of twelve (12) consecutive months counted from the Effective Date of this Contract and, thereafter, from each anniversary of such Effective Date.
- 2.17 **Crude Oil** - means oil in its natural state before the same has been refined or otherwise treated. It does not include oil produced through destructive distillation of coal, bituminous shales, or other stratified deposits, either in its natural state or after the extraction of water and sand or other foreign substances therefrom.

- 2.18 **Crude Oil Exported** – means not only Crude Oil exported as such, but also indigenous Crude Oil refined in the Philippines for export.
- 2.19 **Date of Commencement of Commercial Production** – means the date of commencement of production of Crude Oil and/or Natural Gas from any Oil Field and/or Gas Field within the Contract Area determined and announced by the DEPARTMENT as Oil Field and/or Gas Field containing Petroleum in Commercial Quantity in accordance with the provisions in Section IX hereof, after completion of the Development Operations as provided in the Overall Development Program for the said Oil Field and/or Gas Field. This excludes production from extended well test (EWT) and drillstem test (DST).
- 2.20 **Deepwater Area** - refers to an area where water depths are in excess of two hundred (200) meters.
- 2.21 **Deepwater Contract** - refers to a service contract in which at least eighty-five percent (85%) of the total contract area is in water depths beyond two hundred (200) meters.
- 2.22 **Deepwater Contractor** - means the Contractor in a Deepwater Contract, whether acting alone or in consortium with others.
- 2.23 **Deep Well** - refers to a well drilled to a subsea depth of at least 10,000 feet (3,048 meters) at a minimum cost of Five Million United States Dollars (US\$ 5,000,000.00).
- 2.24 **Delivery Point** – means the point at which Petroleum reaches the delivery facility as agreed upon by the CONTRACTOR and the buyer in the sales contract, a copy of which shall be provided to the DEPARTMENT.
- 2.25 **DEPARTMENT** - means the Department of Energy of the Government, or its successor.
- 2.26 **Development Area** – means a portion of the Contract Area covering an Oil Field and/or Gas Field, which has been designated for development and any potential contiguous extension areas to such field(s) within the Contract Area. The Development Area(s) shall be proposed by the CONTRACTOR, demarcated by the DEPARTMENT and delineated as such in the Overall Development Program approved by the DEPARTMENT. The Development Area shall automatically cease to be in force as of the date of approval of the Production Area.
- 2.27 **Development Cost** – means cost incurred by the CONTRACTOR for Development and Marketing Operations.

- 2.28 **Development and Marketing Operations** – mean operations carried out for the realization of Petroleum production from the date of approval of the Overall Development Program for any Oil Field and/or Gas Field by the DEPARTMENT including design, construction, installation, drilling, and related research work as well as relevant activities, such as marketing of expected production, carried out before the Date of Commencement of Commercial Production for the realization of Petroleum production.
- 2.29 **Development Well** – means any well drilled in a Development Area or a Production Area after the date of approval of the Overall Development Program for the purpose of producing Petroleum, increasing production or accelerating extraction of Petroleum, including production wells, injection wells and dry holes unless such well is designated in the Overall Development Program as an Exploration Well.
- 2.30 **Effective Date** - means the date of execution of this Contract by the Parties.
- 2.31 **Expatriate Employee** – means an alien who is a permanent resident of a foreign country and is legally employed by the CONTRACTOR or Subcontractor for the Petroleum Operations within the scope of this Contract.
- 2.32 **Exploration Area** – means a portion of the Contract Area which has not been relinquished before the expiration of the Exploration Period and which is not included in a Development Area or a Production Area.
- 2.33 **Exploration Cost** – means cost incurred by the CONTRACTOR for Exploration Operations.
- 2.34 **Exploration Operations** – mean operations carried out for the purpose of discovering Petroleum-bearing traps by means of geological, geophysical, geochemical and other methods including exploratory well drilling; all the work undertaken to determine the commerciality of traps in which Petroleum has been discovered including Appraisal Well drilling and feasibility studies, formulation of the Overall Development Program; and activities related to all such operations, including any work done prior to approval of the Overall Development Program in an attempt to identify a market for Natural Gas.
- 2.35 **Exploration Period** – means the seven (7)-year period, or any extension thereof, referred to in Section 4.01 of this Contract during which the CONTRACTOR is allowed to perform exploration works in the Contract Area.
- 2.36 **Exploration Well** – means any Wildcat Well and/or Appraisal Well drilled within the Exploration Period, including dry hole(s) and discovery well(s).

- 2.37 **Filipino Participation Incentive Allowance or "FPIA"** - means:
- (a) the sliding scale allowance from one and one-half percent (1.5%) to seven and one-half percent (7.5%) of the gross proceeds granted to the CONTRACTOR when the aggregate participation in the Contract by one or more Filipino citizens and/or Philippine Corporations is from fifteen percent (15%) to thirty percent (30%), in accordance with OEA Circular No. 87-12-003; or,
 - (b) the allowance of seven and one-half percent (7.5%) of the gross proceeds granted to CONTRACTOR when the aggregate participation in the Contract by one or more Filipino citizens and/or Philippine Corporations is at least fifteen percent (15%) in respect of a Deepwater Contract, in accordance with OEA Circular No. 92-10-05; or,
 - (c) the allowance of seven and one-half percent (7.5%) of the gross proceeds granted to the CONTRACTOR when the aggregate participation in the Contract by one or more Filipino citizens and/or Philippine Corporations is at least fifteen percent (15%) in respect of the drilling of a well by the CONTRACTOR in water depths beyond two hundred (200) meters, whether within or outside a Deepwater Area, in accordance with DOE Circular No. 94-01-01.
- 2.38 **Filipino Personnel** – means any citizen of the Republic of the Philippines employed by the CONTRACTOR and/or the Subcontractor(s), involved in Petroleum Operations under the Contract.
- 2.39 **Force Majeure** – refers to events or circumstances that cannot be foreseen or which, though foreseen, are inevitable, as provided in Section 26.01 (b) herein.
- 2.40 **Foreign Exchange** - means any currency other than the Philippine currency which is freely convertible into gold or currencies eligible to form part of the country's international reserves and is acceptable to the DEPARTMENT and the CONTRACTOR.
- 2.41 **Gas Field** - means an accumulation of gas within the Contract Area composed of one or several overlapping gas-bearing zones, within one (1) trap or within associated traps of the same independent geological structure including gas caps, which may or may not be complicated by faulting, and which has commercial value determined in accordance with the procedures stipulated in Section XIII hereof.
- 2.42 **Government** - means the Government of the Philippines.

- 2.43 **GSEC** – means Geophysical Survey and Exploration Contract.
- 2.44 **Gross Income** - means the gross proceeds from the sale, exchange or disposition of all Petroleum, Crude Oil, Natural Gas and/or Casinghead Petroleum Spirit produced under this Contract and sold or exchanged during the Calendar Year at Posted Price or Market Price, as the case may be, all as determined pursuant to Section X, and all such other income which are incidental to or arising from any one or more of the Petroleum Operations of the CONTRACTOR.
- 2.45 **Market Price** - means the price which is or would be realized for Petroleum produced under this Contract if sold in a transaction between independent persons dealing at arm's length in a free market; *Provided*, however, that the Market Price for Natural Gas including condensate shall be determined in accordance with Section X and Section XIII hereof.
- 2.46 **Moratorium**– refers to a period not exceeding three (3) years during which this Contract shall be suspended in accordance with Section 4.03.
- 2.47 **Natural Gas** - means Non-Associated Gas and Associated Gas in their natural state including gas obtained from boreholes and wells and consisting primarily of hydrocarbons.
- 2.48 **Net Proceeds** - has the meaning set forth in Section 10.04 hereof.
- 2.49 **Non-Associated Gas** – means all gaseous hydrocarbons produced from gas reservoirs, including wet gas, dry gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas.
- 2.50 **Oil Field** – means an accumulation of oil within the Contract Area composed of one (1) or several overlapping oil-bearing zones, within one (1) trap or within associated traps of the same independent geological structure, which may or may not be complicated by faulting, and which has commercial value determined in accordance with the procedures stipulated in Section IX hereof.
- 2.51 **Oil Field and/or Gas Field Straddling a Boundary** – means any Oil Field and/or Gas Field extending beyond the Contract Area.

- 2.52 **Operating Cost** – means the cost incurred by the CONTRACTOR for the Production Operations.
- 2.53 **Operating Expenses** - mean the total expenditures incurred by CONTRACTOR both within and outside the Philippines in all Petroleum Operations performed pursuant to this Contract as determined in accordance with the Accounting Procedures attached hereto and made part thereof as Annex "B". These expenses shall include, but are not necessarily limited to, the cost of seismic surveys, reprocessing and special processing of seismic data, geological and geophysical studies, drilling, equipping and completing wells, engineering studies, construction of well platforms and tank batteries, flowline systems and terminals, the cost of operating and maintaining all such facilities including general and administrative costs and expenses, home office overhead, in accordance with the Accounting Procedures (Annex "B"). Operating Expenses shall also include, but are not necessarily limited to, charges relating to lifting, transportation, storage, handling, and sale of Petroleum as specified in Section X, whether for export or domestic consumption, together with two-thirds (2/3) of interest and financing charges for development and production operations. However, the cost of transportation of petroleum by pipeline shall be subject to separate agreement referred to in Section 2.57 hereof. If the CONTRACTOR has any previous expenditures for Petroleum Operations over the Contract Area under previous Geophysical Survey and Exploration Contracts (GSECs) before the Effective Date of this Contract then the expenditures shall be included as Operating Expenses up to its participation in those GSECs and expenses account transferred by other previous contractors in those GSECs, subject to validation by the DEPARTMENT.
- 2.54 **Overall Development Program** – means a plan prepared by the CONTRACTOR for the development of an Oil Field and/or Gas Field which has been reviewed and approved by the DEPARTMENT and such plans shall include, but shall not be limited to recoverable reserves, the Development Well pattern, master design, production profile, economic/feasibility analysis and time schedule of the Development and Marketing Operations.
- 2.55 **Petroleum** - means any Crude Oil or mineral oil, Natural Gas or hydrocarbon gas, condensate, Casinghead Petroleum Spirit, bitumen, asphalt, mineral gas, and all other similar or naturally associated substances with the exception of coal, peat, bituminous shale and/or other stratified mineral fuel deposits.
- 2.56 **Petroleum in Commercial Quantity** - means Petroleum in such quantities which will permit its being economically developed, either on its own or in combination with other existing and/or future discoveries of Petroleum, as determined by the CONTRACTOR

and approved by the DEPARTMENT, in accordance with such policies or guidelines as may be issued, after taking into consideration the location of the Petroleum reserves, the depths and number of wells required to be drilled, the availability or potential availability of a market, and the transport and terminal facilities needed to exploit the Petroleum which has been discovered.

- 2.57 **Petroleum Operations** - mean searching for and obtaining Petroleum within the Philippines under this Contract, drilling and natural flow or suction or the like, and all other operations incidental thereto. It includes the transportation, storage, handling and sale (whether for export or domestic consumption) of Petroleum so obtained but does not include any: (1) transportation of Petroleum outside the Philippines; (2) processing or refining at a refinery; or (3) any transaction in the products so refined. It includes both transportation of Petroleum up to Delivery Point to the buyer or buyers thereof, and the facilities upstream of said Delivery Point for extraction of such Petroleum. In the event that the DEPARTMENT agrees to the participation of the CONTRACTOR in pipeline installation and operation to transport the Petroleum, then the Parties shall negotiate a separate agreement covering construction and operation of such pipeline. However, Petroleum Operations do not include pipeline gas distribution as a public utility under applicable law or, in the absence thereof, such guidelines or issuances of the DEPARTMENT.
- 2.58 **Philippine Corporation** - means a corporation organized under Philippine laws at least sixty percent (60%) of the voting capital of which is owned and held by Filipino citizens and/or other Philippine corporations.
- 2.59 **Philippine Income Tax** - refers to taxes imposed under the National Internal Revenue Code of the Philippines, as amended, upon taxable corporate income.
- 2.60 **Philippines** – means the Republic of the Philippines
- 2.61 **Posted Price** - means the Free on Board (FOB) price established by the CONTRACTOR and the DEPARTMENT for each grade, specific gravity, and quality of Crude Oil offered for sale to buyers generally for export at the particular point of export, which price shall be based upon geographical location and the fair market export values for Crude Oil of comparable grade, specific gravity, quality and quantity.
- 2.62 **Production Area** - means that portion of the Contract Area where all reservoirs containing Petroleum in Commercial Quantity are delineated by the CONTRACTOR with the approval of the DEPARTMENT.

- 2.63 **Production Operations** – mean operations and all activities related thereto carried out for Petroleum production of an Oil Field and/or Gas Field from the Date of Commencement of Commercial Production, such as extraction, injection, stimulation, treatment, storage, transportation, and lifting, etc.
- 2.64 **Production Period** – means the twenty-five (25)-year period, or any adjustment thereof, referred to in Section 4.01 of this Contract during which the CONTRACTOR is allowed to perform production works or activities in the Production Area.
- 2.65 **Production Year** – means, in respect of each Oil Field and/or Gas Field, a period of twelve (12) consecutive Gregorian months under the Gregorian calendar beginning on the Date of Commencement of Commercial Production of such Field and thereafter from the anniversary thereof.
- 2.66 **Subcontractor(s)** – means an individual or entity which provides the CONTRACTOR with goods or services under a separate agreement by which the CONTRACTOR performs or causes to perform some of its activities and/or obligations under this Contract.
- 2.67 **Sub-Phase** - means the phase within the Exploration Period as determined in accordance with Section 4.01 herein.
- 2.68 **Taxable Net Income** - shall have the meaning set forth in Section XI hereof.
- 2.69 **Third Party** - means any individual or entity except the DEPARTMENT and the CONTRACTOR.
- 2.70 **United States Dollars (US\$)** - mean bills or notes of legal tender in the United States of America
- 2.71 **Wildcat Well** – means a well drilled on any geological trap for the purpose of searching for Petroleum accumulations, including wells drilled for the purpose of obtaining geological and geophysical parameters.
- 2.72 **Work Program and Budget** – means all types of plans formulated for the performance of the Petroleum Operations, including plans for exploration, development, and production, and the corresponding budget for such activities. For these purposes, the Overall Development Program shall be the Work Program and Budget pertaining to such portions of the Contract Area under the Production Period.

SECTION III
EFFECTIVITY

This Contract shall come into effect on the Effective Date.

SECTION IV
TERM

- 4.01 The Exploration Period under this Contract shall be seven (7) years consisting of Sub-Phases, the duration of which depends on the proposed Work Program and Budget, commencing on the Effective Date. The Exploration Period may be extended for a maximum period of three (3) years provided that the CONTRACTOR:
- (a) has not been in default in its exploration work obligations and other obligations;
 - (b) has drilled to a combined depth, measured from ground level, of a minimum of ten thousand feet of test wells; and,
 - (c) has provided a work obligation for the extension acceptable to the DEPARTMENT

Unless Petroleum is discovered at the end of such extension period, the extended Exploration Period shall automatically terminate on the last day of the extension. If Petroleum is discovered by the end of the original or the extended Exploration Period, the CONTRACTOR shall be entitled to an additional extension, as necessary, of the Exploration for a period not exceeding one (1) year, to determine if the Petroleum discovered is of commercial quantity subject to the DEPARTMENT's approval of a Work Program and Budget submitted by the CONTRACTOR. This additional extension shall be deemed part of the initial twenty-five (25)-year period for Production Operations if the Contract Area is subsequently developed by the CONTRACTOR.

- 4.02 Where Petroleum in Commercial Quantity is discovered during the Exploration Period or any extension thereof, this Contract shall remain in force in respect of any Production Areas delineated pursuant to Section V hereof, during:
- a) the balance of the Exploration Period, or any extension thereof, as the case may be, and
 - b) the Production Period which may be renewed for a series of five (5)-year periods but in no case shall such renewal exceed a total of fifteen (15) years under such terms and conditions as may be agreed upon by the Parties at the time of renewal.

Provided that:

- (i) the term of this Contract shall in no case exceed fifty (50) years from the Effective Date inclusive of the Moratorium or any extension thereof, if any, and
- (ii) if, during the Production Period, the CONTRACTOR fails to continue production of Petroleum for more than one (1) year without the prior approval of the DEPARTMENT, then the DEPARTMENT may unilaterally terminate this Contract.

4.03 If the CONTRACTOR discovers Petroleum under this Contract in sufficient quantity that could be normally produced except that, due to inadequate technology, the capability to produce the Petroleum in Commercial Quantity does not yet exist, the CONTRACTOR shall notify the DEPARTMENT and the Parties will jointly review the findings of the CONTRACTOR. Upon mutual satisfaction that technological means to extract Petroleum in Commercial Quantity does not yet exist, then the corresponding work and expenditure obligations under this Contract shall be suspended for a period not exceeding three (3) years (the "Moratorium"), provided that the CONTRACTOR, subject to the approval of the DEPARTMENT, shall delineate the Oil Field and/or Gas Field that will be put under Moratorium and elect to either relinquish or continue the Work Program and Budget over the rest of the Contract Area, subject to Section V hereof. The decision as to whether a Moratorium is justified shall be based, among others, on projects and operations found elsewhere in the world at comparable depths and conditions to those encountered by the CONTRACTOR under this Contract.

4.04 During the Moratorium, the CONTRACTOR shall actively pursue the necessary research, by itself or in joint industry studies, to develop the technology necessary to produce the discovered Petroleum in Commercial Quantity. The CONTRACTOR shall semi-annually report to the DEPARTMENT its progress in developing the requisite technology. If during the Moratorium the CONTRACTOR and the DEPARTMENT mutually agree that technology has developed sufficiently to allow the discovered Petroleum to be Petroleum in Commercial Quantity, then the CONTRACTOR must elect either to: (a) continue with its obligations under this Contract with respect to the Production Area established for the discovered Petroleum, or (b) relinquish the said Production Area without further commitment or obligation under this Contract.

SECTION V

EXCLUSION OF AREAS

- 5.01 On or before the end of the Second (2nd) Sub-Phase, the CONTRACTOR shall surrender at least twenty-five percent (25%) of the initial Contract Area.
- 5.02 On or before the end of the Third (3rd) Sub-Phase, the CONTRACTOR shall surrender an additional area equal to at least twenty-five percent (25%) of the initial Contract Area.
- 5.03 In the event that on or before the end of any Sub-Phase during the Exploration Period, the CONTRACTOR has delineated any Production Area, the extent of such Production Area shall be deducted from the initial Contract Area for the purpose of determining the size of such area that must be surrendered pursuant to Sections 5.01 and 5.02 above.
- 5.04 If Petroleum in Commercial Quantity is discovered during any Sub-Phase of the Exploration Period or any extension thereof, the CONTRACTOR may retain after the Exploration Period twelve and one-half percent (12 ½%) of the initial Contract Area for further exploration and development, in addition to the delineated Production Areas; *Provided*, that the CONTRACTOR shall prepare and submit the Work Program and Budget in accordance with Section 8.01 for the area to be retained subject to the approval of the DEPARTMENT; *Provided further*, that the CONTRACTOR shall pay after the Exploration Period as annual rentals to the DEPARTMENT on such twelve and one-half percent (12 ½%) retained area of One Hundred Pesos (PhP100.00) per hectare or fraction thereof; and, *Provided finally*, that such annual rentals shall be offset by the amount spent by the CONTRACTOR for exploration on such retained area during the Contract Year. Failure of the CONTRACTOR to implement the Work Program as approved by the DEPARTMENT in any Contract Year will cause the automatic surrender of the retained area to the DEPARTMENT.
- 5.05 Within thirty (30) days prior to the date of each relinquishment, the CONTRACTOR shall submit to the DEPARTMENT a written report on its completed Exploration Operations on the areas to be relinquished, including a map showing the areas to be relinquished with the coordinates of the connecting points of the boundary lines.
- 5.06 The CONTRACTOR shall have the right to submit written notice to the DEPARTMENT to surrender or abandon the entire Contract Area prior to the end of any Contract Year or exploration Sub-Phase and be relieved of any work commitment or expenditure amount related to future Contract Years or exploration Sub-Phases; *Provided*, that if the CONTRACTOR surrenders or abandons the entire Contract Area prior to satisfying its minimum work and expenditure commitments for any of the Contract Year or exploration Sub-Phase, it shall pay the DEPARTMENT the amount it should have spent, but did not, for exploration work during the pertinent unfinished Contract Year or Sub-Phase as specified under Section VI. The performance guarantee posted by the CONTRACTOR,

in accordance with Section 7.01(g) of this Contract, shall be liable for any such deficiency.

5.07 The CONTRACTOR shall have the right, within thirty (30) days prior to the end of each Sub-Phase, to surrender or abandon any portion of the Contract Area. Any portion surrendered shall be credited against that portion of the Contract Area which the CONTRACTOR is next required to surrender under the provisions of Sections 5.01 and 5.02 hereof.

5.08 With respect to any surrender of area pursuant to this Section V, the CONTRACTOR shall advise the DEPARTMENT of the portion to be surrendered at least thirty (30) days in advance of the date of surrender. The areas being surrendered shall each be of sufficient size and convenient shape by themselves or in conjunction with areas outside the Contract Area to enable Petroleum Operations to be conducted thereon.

SECTION VI

MINIMUM WORK COMMITMENT AND MINIMUM EXPECTED EXPLORATION EXPENDITURES

6.01 The CONTRACTOR shall begin to perform the Exploration Operations within six (6) months from the Effective Date of the Contract.

6.02 The CONTRACTOR shall fulfill the minimum exploration work commitment for each Sub-Phase of the Exploration Period in accordance with the following provisions:

(a) During the [REDACTED] Sub-Phase of the Exploration Period covering Contract Year [REDACTED], the CONTRACTOR shall [REDACTED], with an expected equivalent total minimum expenditure of amount in words United States Dollars (US\$ [REDACTED].00).

(b) During the [REDACTED] Sub-Phase of the Exploration Period covering [REDACTED], the CONTRACTOR shall drill [REDACTED], with an expected equivalent total minimum expenditure of amount in words United States Dollars (US\$ [REDACTED].00).

(c) During the [REDACTED] Sub-Phase of the Exploration Period covering Contract Years [REDACTED], the CONTRACTOR shall [REDACTED], with an expected equivalent minimum expenditure of amount in words United States Dollars (US\$ [REDACTED].00).

(d) If the CONTRACTOR is able to drill one (1) Deep Well, then such Deep Well drilling shall be considered as equivalent to drilling two (2) Exploration Wells committed under this Contract.

6.03 Before the end of each Sub-Phase, except for the **last** Sub-Phase, of the Exploration Period, the CONTRACTOR has the following options in accordance with the terms of this Contract to:

(a) enter the next Sub-Phase and continue exploration upon prior approval by the DEPARTMENT; or

(b) conduct only an Appraisal Work Program in the Petroleum discoveries awaiting appraisal based on procedures under Section IX of the Contract, and/or Development Operations as approved by the DEPARTMENT, provided that the minimum obligations during the current exploration Sub-Phase have been fulfilled; and the areas under Section V hereof have been relinquished; or

(c) terminate the Contract.

The CONTRACTOR shall notify the DEPARTMENT in writing of its option at least thirty (30) days before the end of each Sub-Phase.

6.04 If the CONTRACTOR fails to comply with the work obligations provided for in this Contract, it shall pay to the DEPARTMENT the amount it should have spent but did not in direct prosecution of its work obligations. If the CONTRACTOR elects to terminate the Contract before the end of any Sub-Phase during the Exploration Period and there are unfulfilled work obligations in the Sub-Phase in question, the CONTRACTOR shall pay the value of the unfulfilled balance of the minimum exploration work commitment for such Sub-Phase or Sub-Phases in US\$ after it has been converted into a cash equivalent using the method provided in Annex "B" – Accounting Procedures hereto. However, if the minimum exploration work commitment for any Sub-Phase during the Exploration Period is fulfilled while its expected corresponding minimum exploration expenditures are not fulfilled, the unspent part shall be deemed as a saving and shall not be paid to the DEPARTMENT.

6.05 Subject to the approval of the DEPARTMENT and provided that the work commitments in the Work Program and Budget for the preceding Sub-Phase have been fulfilled, the CONTRACTOR may commence any Sub-Phase during the Exploration Period earlier

than the scheduled date. If the exploration work actually fulfilled by the CONTRACTOR exceeds the minimum exploration work commitment for the said Sub-Phase, the excess part may be credited, subject to the approval of the DEPARTMENT, against the minimum exploration work commitment for the next Sub-Phase (s).

SECTION VII

CONTRACTOR

7.01 The CONTRACTOR shall have the following obligations

- (a) Perform all Petroleum Operations and provide all necessary services, technology, and financing in connection therewith; *Provided*, that no Foreign Exchange requirements of the Petroleum Operations shall be funded from the Philippine banking system unless otherwise allowed under applicable laws and regulations;
- (b) Be subject to the provisions of applicable laws relating to labor, health, safety, indigenous people's rights, environment and specially protected areas and ecology;
- (c) Provide insurance to adequately cover/answer for any oil spill which may cause pollution and/or damage to the environment, lives and/or property;
- (d) Operate the Production Area in accordance with good international petroleum practices and pursuant to an efficient and economic program of operation, by using modern and scientific methods to enable maximum economic production of Petroleum once a Production Area has been established. The CONTRACTOR shall avoid hazards to life, health, and property, pollution of air, land, and waters;
- (e) Allow examiners of the Bureau of Internal Revenue and other representatives authorized by the DEPARTMENT, at all reasonable times upon prior written notice, full access to accounts, books, and records relating to Petroleum Operations hereunder for tax and other fiscal purposes;
- (f) Give priority in employment to qualified personnel (as determined by the CONTRACTOR) in the municipalities or provinces where the Petroleum Operations are located;

- (g) Within sixty (60) days after the Effective Date of this Contract or upon implementation of the succeeding Sub-phases to post a bond or other guarantee of sufficient amount, but not less than the minimum expenditure commitment for that particular Sub-phase, in favor of the DEPARTMENT and with surety or sureties satisfactory to the DEPARTMENT, conditioned upon the faithful performance by the CONTRACTOR of any or all of its exploration and development activities under this Contract. Upon the request of the CONTRACTOR, the amount of guarantee for each Sub-phase may be subsequently reduced based on the CONTRACTOR's performance of its work and expenditure commitments;
- (h) Include in the Overall Development Program, submitted to the DEPARTMENT for approval, a provision for abandonment and payment of abandonment costs. It shall provide that beginning on the Date of Commencement of Commercial Production the estimated abandonment and decommissioning cost of the Oil Fields and/or Gas Fields in the Contract Area shall be determined (with annual reviews and adjustments thereafter to be included in the annual Work Program and Budget) accrued and recovered annually as Operating Expenses over the productive life of the Oil Fields and/or Gas Fields. In this regard, the CONTRACTOR shall be responsible in the proper abandonment and rehabilitation of all sites affected by its Petroleum Operations. For this purpose, the CONTRACTOR shall establish and maintain a sinking fund in the form of deposit account within one (1) year after the Date of Commencement of Commercial Production. The CONTRACTOR shall then submit to the DEPARTMENT a certification from the concerned bank that the account has been established for the benefit and purpose provided in this Section;
- (i) Apply the appropriate and advanced technology and business experience in performing the Petroleum Operations reasonably, economically and efficiently in accordance with sound international petroleum industry practice;
- (j) Prepare the annual Work Program and Budget for the DEPARTMENT's approval to carry out the Petroleum Operations;
- (k) Be responsible for procurement of installations, equipment and supplies and enter into subcontracts related to the Petroleum Operations, in accordance with the approved Work Program and Budget;
- (l) Maintain complete and accurate accounting records of all the costs and expenditures for the Petroleum Operations in accordance with the provisions of

Annex "B" – Accounting Procedures hereto and to keep the accounting books secure in good order;

- (m) Make necessary preparation for regular meetings of Parties, and to submit in advance to the Parties necessary information related to the matters to be reviewed and approved by the Parties;
- (n) Give preference to local companies/agencies in entering into subcontracts on projects or services which are required in the Petroleum Operations but are not carried out by the CONTRACTOR, provided that these companies/agencies are competitive and the services required are locally available;
- (o) Inform all the Subcontractors which render services for the Petroleum Operations and all the Expatriate Employees of the operator and of Subcontractors who are engaged in the Petroleum Operations in the Philippines that they shall be subject to the laws, decrees of the Government, and other rules and regulations of the DEPARTMENT;
- (p) Report quarterly to the DEPARTMENT its work accomplishment and actual expenditure relative to Section VI hereof. All technical reports should be signed by a duly licensed technical personnel of or engaged by the CONTRACTOR who is responsible for the Petroleum Operations.
- (q) Handle the information, samples or reports in accordance with the following provisions:
 - (i) Provide the DEPARTMENT with various information and data in accordance with Section VIII and Section XIV hereof;
 - (ii) Furnish the DEPARTMENT in a timely manner with reports on safety, environmental protection and accidents related to the Petroleum Operations and with financial reports prepared in accordance with the provisions of Annex "B" – Accounting Procedures hereto; and
 - (iii) Furnish the DEPARTMENT with the following:
 - (a) procurement plans for purchasing equipment and materials, inquiries, offers, orders and services, etc;
 - (b) manuals, technical specifications, design criteria, design documents (including design drawings), construction records and

information, consumption statistics, equipment inventory, spare parts inventory, etc.;

- (c) technical investigation and cost analysis reports; and
 - (d) other information relating to the Petroleum Operations already acquired by the CONTRACTOR in the performance of the Contract.
- (r) Abide by the laws, decrees of the Government and other rules and regulations of the DEPARTMENT with respect to environmental protection and safety of the Petroleum Operations and shall endeavor in accordance with the international petroleum industry practice to:
- (i) prevent the damage and destruction to marine organisms and their living oceanic environments;
 - (ii) control blowouts promptly and prevent or avoid waste or loss of Petroleum discovered in or produced from the Contract Area;
 - (iii) prevent Petroleum from flowing into low pressure formations or damaging adjacent Petroleum-bearing formations;
 - (iv) prevent water from flowing into Petroleum-bearing formations through dry holes or other wells, except for the purpose of secondary recovery; and
 - (v) prevent damage to crops, buildings and other installations.
- (s) Maintain detailed technical records and accounts of Petroleum Operations;
- (t) Meet with the DEPARTMENT on a monthly basis during the formulation of the CONTRACTOR's Overall Development Plan and all issues relative to the development;
- (u) Conform to the Government regulations regarding, among others, safety, demarcation of the Contract Area, non-interference with the rights of other Petroleum, mineral, and natural resources operators;
- (v) Install and maintain all meters and measuring equipment in good order and, upon proper notification from an inspection group, allow access to these as well as to

the exploration and production sites to inspectors authorized by the DEPARTMENT;

- (w) Be subject to Philippine Income Tax under the provisions of the National Internal Revenue Code and the Act, both as amended;
- (x) After the Date of Commencement of Commercial Production in the Contract Area, supply a portion of the domestic requirements of the Philippines on a *pro rata* basis, from the CONTRACTOR's and the Government's shares in such production, which portion shall be offered for sale at Market Price and shall be determined as follows: in respect of each year, by multiplying the total quantity of Petroleum required for domestic consumption by the ratio of the total quantity of Petroleum produced from the Contract Area to the entire Philippine production of Petroleum. The CONTRACTOR, subject to the approval of the DEPARTMENT, which approval shall not be unreasonably withheld, shall be entitled to sell its portion of such Petroleum in the open market in case domestic purchasers of the Petroleum are not willing or otherwise unable to timely purchase the Petroleum or timely pay the Market Price therefore;
- (y) The CONTRACTOR, in accordance with good international petroleum industry practices, shall at all times ensure rig availability in connection with the performance of its obligations hereunder;
- (z) Secure the petroleum facilities including wells, platform, pipelines and all other equipment installed which are necessary for the Petroleum Operations. Costs and expenses for securing the petroleum facilities shall be included as Operating Expenses under Section X; and
- (aa) Refrain from issuing press releases, media statements and interviews on any oil/gas discovery, estimated oil/gas reserves and any well drilling operations, tests, and/or results, unless otherwise approved or allowed by the DEPARTMENT. The DEPARTMENT shall have the exclusive right to make any such press releases or interviews on the mentioned activities/information.

7.02 The CONTRACTOR shall have the following rights:

- (a) Exemption from all national taxes, except Philippine Income Tax, subject to Section 21.04 hereof, under the provisions of the National Internal Revenue Code and the Act, as amended;

- (b) Exemption from all levies, tariffs, duties, compensating tax and value added tax subject to Section 21.04 hereof, on the importation into the Philippines of all machinery, equipment, spare parts, and all materials required for, and to be used exclusively by the CONTRACTOR or its Subcontractor(s) in the Petroleum Operations, on the following conditions 1) said machinery, equipment, spare parts, and materials of comparable price, quality and quantity are not manufactured domestically nor readily available to the CONTRACTOR or its Subcontractor(s) within the same or better time frame; (2) said machinery, equipment and spare parts are directly and actually needed, and will be used exclusively by the CONTRACTOR in its Petroleum Operations or in the operations for it by a Subcontractor(s) and are covered by shipping documents in the name of the CONTRACTOR to whom the shipment will be delivered directly by the customs authorities; and, (3) the prior approval of the DEPARTMENT was obtained by the CONTRACTOR prior to the importation of such machinery, equipment, spare parts, and materials, which approval shall not be unreasonably withheld; *Provided*, however, that if the CONTRACTOR or its Subcontractor(s) sell, transfer, or dispose of such machinery, equipment, spare parts, and materials within the Philippines without the prior approval of the DEPARTMENT, the CONTRACTOR shall pay twice the amount of the tax exemption granted on the equipment sold, transferred or disposed; *Provided further*, that the DEPARTMENT shall allow, and approve the sale, transfer, or disposition of the said items within the Philippines, without tax, if made: (1) to another contractor who is granted similar Philippine duty-exempt status; (2) for reasons of technical obsolescence; or, (3) for purposes of replacement to improve and/or expand the Petroleum Operations of the CONTRACTOR;
- (c) Exemption from posting of performance/surety bond during the Production Period of the Contract;
- (d) Exemption, upon approval by the DEPARTMENT, which approval shall not be unreasonably withheld, from laws, regulations and/or ordinances restricting Petroleum Operations the exportation of machinery, equipment, spare parts and materials which were imported solely for the CONTRACTOR's Petroleum Operations when no longer needed therefore;
- (e) Exemption from publication requirements under Republic Act Number five thousand four hundred fifty-five (R.A. 5455), and the provisions of Republic Act Number six thousand one hundred seventy-three (R.A. 6173), as amended, with

respect to the exploration, production, exportation, sale, or disposition of Petroleum discovered and produced in the Contract Area;

- (f) Exportation of Petroleum subject to the obligation to supply a portion of domestic requirements as provided in Section 7.01(x) above;
- (g) Entry, upon the sole approval of the DEPARTMENT, which approval shall not be unreasonably withheld, of alien technical and specialized personnel (including the immediate members of their families), who may exercise their professions solely for the Petroleum Operations of the CONTRACTOR; *Provided*, that if the employment or connection of such alien with the CONTRACTOR ceases, the applicable laws and regulations on immigration shall apply to him and his immediate family; *Provided further*, that Filipinos shall be given preference to positions for which they have adequate training and experience (as determined by the CONTRACTOR); *Provided finally*, that the CONTRACTOR shall adopt and implement a training program for Filipinos along technical or specialized lines;
- (h) Have at all times the right of ingress to and egress from the Contract Area and to and from facilities wherever located;
- (i) Subject to the regulations of the *Bangko Sentral ng Pilipinas*, be entitled to:(1) repatriate over a reasonable period the capital investment and all costs and expenses actually spent on or brought into the country in Foreign Exchange or other assets and registered with the *Bangko Sentral ng Pilipinas*; (2) retain abroad all Foreign Exchange representing proceeds arising from exports accruing to the CONTRACTOR and/or its designated Operator: (a) the Foreign Exchange to be converted into pesos in an amount sufficient to cover the costs of the Petroleum Operations payable in Philippine currency; and, (b) revenues payable to the Government on such Crude Oil exported; (3) convert into Foreign Exchange and remit abroad at prevailing rates no less favorable to the CONTRACTOR than those available to any other purchaser of foreign currencies, any excess balances of the CONTRACTOR's peso earnings from Petroleum production and sale over and above the current working capital they require; and, (4) convert Foreign Exchange into Philippine currency for all purposes in connection with its Petroleum Operations at prevailing rates no less favorable to the CONTRACTOR than those available to any other purchaser of such currency;
- (j) Be allowed the Filipino Participation Incentive Allowance (FPIA); and

(k) Exemption from the investment requirements of foreign corporations under Section 126 in relation to Section 148 of the Corporation Code of the Philippines.

(l) May block off, upon notice to and approval by the DEPARTMENT, which approval shall not be unreasonably withheld, any delineated structure that straddles or adjoins a portion of the Contract Area and a free area. Such blocked-off area(s) shall thereupon be deemed a part of the Contract Area subject to the terms and conditions of this Contract and, subject further to Section V hereof;

7.03 The DEPARTMENT shall remit, on behalf of each company comprising the CONTRACTOR, all Philippine Income Taxes as defined under Section II of this Contract, the National Internal Revenue Code, and the Act based on income or profit derived from Petroleum Operations under this Contract. The DEPARTMENT shall separately remit such Philippine Income Tax to, and obtain separate official receipts acknowledging payment of said taxes from, the proper Government authority and shall furnish to each of the companies comprising the CONTRACTOR their respective official receipts issued in their names.

SECTION VIII

WORK PROGRAM AND BUDGET

8.01 Before the end of October of each Calendar Year after the Effective Date of the Contract, the CONTRACTOR shall submit and present to the DEPARTMENT for review and approval its annual Work Program and Budget for the next Calendar Year. Within forty-five (45) days following the receipt of the annual Work Program and Budget, the DEPARTMENT shall notify the CONTRACTOR in writing of its approval or suggest modifications thereto with its detailed reasons. If the DEPARTMENT requests any modifications on the aforesaid annual Work Program and Budget, the Parties shall promptly hold meetings to discuss modifications and all suggested modifications will be respectively considered by the CONTRACTOR. Any modifications agreed upon by the Parties shall be effected immediately. In case the DEPARTMENT fails to act on the proposed annual Work Program and Budget within forty-five (45) days from receipt, the proposed annual Work Program and Budget shall be deemed to have been approved by the DEPARTMENT. The CONTRACTOR shall conduct the Petroleum Operations in accordance with the approved or modified annual Work Program and Budget.

8.02 The CONTRACTOR may, in accordance with the following provisions, incur excess expenditures or expenditures outside the budget in carrying out the Work Program and Budget, provided that the objectives in the approved Work Program and Budget are not changed.

- (a) In carrying out an approved budget for a single item, such as the drilling of well, the CONTRACTOR may, if necessary, incur excess expenditures of no more than ten percent (10%) of the budgeted amount. The CONTRACTOR shall inform the DEPARTMENT in writing of such possible excess of aggregate amount ten (10) days prior to incurring such expenditures and explain the need for such expenditures.
- (b) For the efficient performance of the Petroleum Operations, the CONTRACTOR may, without approval of the DEPARTMENT, undertake certain case of emergency works, such as blowout and oil spill corrective measures which are not included in the Work Program and Budget, but the CONTRACTOR shall, within fifteen (15) working days after such emergency expenditures are incurred, make a written report to the DEPARTMENT.
- (c) In the event that the aggregate of excess expenditures under Section 8.02(a) herein and expenditures under Section 8.02(b) herein in a Calendar Year cause the total expenditures of that Calendar Year to exceed the approved annual budget, such excess shall not exceed five percent (5%) of the approved annual budget for that Calendar Year. If the aforesaid excess is expected to be in excess of five percent (5%) of the annual budget, the CONTRACTOR shall present its reasons therefore to the DEPARTMENT in writing and also meet with the DEPARTMENT to discuss the expenditures for approval prior to incurring such expenditures.

SECTION IX

DETERMINATION OF COMMERCIALITY

9.01 If any Crude Oil or Natural Gas discovery is made within the Contract Area, the CONTRACTOR shall promptly report in writing such discovery to the DEPARTMENT indicating therein the preliminary assessment or report on such discovery and, if there is a need for more time to decide on its next action, the expected date at which the CONTRACTOR shall inform the DEPARTMENT of its decision whether or not it shall pursue appraisal of the discovery.

On such date indicated, the CONTRACTOR shall inform the DEPARTMENT of its decision; if it decides that a Crude Oil/Natural Gas discovery is worthy of appraisal, the CONTRACTOR shall submit to the DEPARTMENT an Appraisal Work Program providing in detail the appraisal work and timetable for such discovery. For Crude Oil discovery, such Appraisal Work Program shall be prepared and submitted by the CONTRACTOR to the DEPARTMENT not later than ninety (90) days from the date of the notice of such decision made by the CONTRACTOR. For a Natural Gas discovery, such Appraisal Work Program shall be prepared and submitted on the date that the CONTRACTOR shall indicate in the notice of its decision sent to the DEPARTMENT. The Appraisal Work Program shall, insofar as is practicable, be prepared on the basis of continuous appraisal work, with a view to commencing Petroleum Operations within one hundred eighty (180) days from the date of the aforesaid decision was made by the CONTRACTOR.

- 9.02 After the submission to and approval by the DEPARTMENT of the Appraisal Work Program referred to in Section 9.01 herein, the CONTRACTOR shall carry out the operations as soon as possible without unreasonable delay in accordance with the timetable set forth in the approved Appraisal Work Program.
- 9.03 Within one hundred eighty (180) days after the completion of the last Appraisal Well, the CONTRACTOR shall submit to the DEPARTMENT a detailed report on the appraisal of the commerciality of the discovery. Under special circumstances, the above-mentioned periods may be reasonably extended upon agreement of the Parties. The appraisal report shall include the evaluation on geology, development, engineering and economics.
- 9.04 Within thirty (30) days following the submission of the appraisal report on any Crude Oil bearing trap, the CONTRACTOR shall convene a meeting with the DEPARTMENT to review such report. When Parties decide unanimously after its review that the said Crude Oil bearing trap may be an Oil Field containing Petroleum in Commercial Quantity, then the CONTRACTOR shall, within a reasonable period of time, submit an Overall Development Program to the DEPARTMENT. The Overall Development Program shall include the maximum efficient rate (MER) and the expected duration of the production determined in accordance with the international petroleum industry practice. The discovery and appraisal of discovery of Natural Gas is provided for in Section 13.02 of this Contract.

Prior to the submission of the Overall Development Program, the CONTRACTOR shall submit to the DEPARTMENT a report of Crude Oil and Natural Gas reserves in place for

review. The CONTRACTOR shall likewise submit to the DEPARTMENT for approval the Overall Development Program of the said Oil Field to be developed.

- 9.05 In the event of an Oil Field and/or Gas Field straddling a boundary, the CONTRACTOR shall endeavor to arrange with the neighboring parties involved to work out a unitized Overall Development Program for such Field and to negotiate the relevant provisions thereof.
- 9.06 If a Petroleum bearing trap without commercial value within the Contract Area can be most economically developed as a commercial Oil Field and/or Gas Field by linking it up with facilities located outside the Contract Area, then the development of such Field shall be dealt with in the same manner as provided in Section 9.05 herein or other manner agreed by the neighboring parties.
- 9.07 The procedures specified in this Section IX shall be applied, by analogy, to the determination of additional development projects in any Oil Field within the Contract Area during the Production Period, such projects being designed to increase the level of production and/or total quantity of Petroleum recoverable from the said Field.
- 9.08 If an appraisal trial production or temporary trial production or an EWT is deemed by the CONTRACTOR to be necessary with respect to any trap in which Petroleum is discovered or any Oil Field and/or Gas Field within the Contract Area, the Parties shall mutually agree on the terms and conditions of an appraisal trial production or temporary trial production or an EWT which shall then be governed by a written agreement signed by the Parties and forming part of this Contract.
- 9.09 Nothing in this Section shall limit the right of the DEPARTMENT, on behalf of the State, as owner of the Petroleum resources in respect of such portions of the Contract Area relinquished by the CONTRACTOR or in respect of such Petroleum resources in the Production Area that are not covered by or included in the declaration of Petroleum in Commercial Quantity.

SECTION X

RECOVERY OF OPERATING EXPENSES AND ACCOUNTING FOR PROCEEDS OF PRODUCTION

- 10.01 For the purpose of determining gross proceeds, Petroleum shall be valued as follows:

- (a) All Petroleum sold, exchanged, or otherwise disposed for consumption in the Philippines, or for export, shall be valued at Market Price; *Provided*, that the actual sales price for such Petroleum shall be deemed to be the Market Price if such Petroleum is sold in a transaction between independent persons dealing at arm's length in a free market.
- (b) If there are no transactions, which can be used to determine the Market Price of Crude Oil, then such Petroleum shall be valued at the Posted Price.
- (c) If there are no transactions which can be used to determine the Market Price of Natural Gas, then the value of Natural Gas produced from the Contract Area shall be agreed upon based on general pricing principles prevailing internationally and other mechanisms for determining the same, including the conduct of a transparent and competitive marketing and solicitation process, taking into account such factors as the market, quality and quantity of the Natural Gas, including equivalent hydrocarbon substitute energy imported into the Philippines.
- (d) The value determined under Section 10.01(a), (b) or (c) above shall be reduced by reasonable commissions or brokerage fees incurred in connection with sales to Third Parties but shall not exceed the customary and prevailing rate.

10.02 In each Calendar Year, the CONTRACTOR shall recover from the Gross Income resulting from the sale, exchange, or other disposition of all Petroleum produced under this Contract an amount equal to all unrecovered Operating Expenses in accordance with Accounting Procedure; *Provided*, that the amount so recovered shall not exceed seventy percent (70%) of the Gross Income from Petroleum production in any Calendar Year; *Provided further*, that if, in any Calendar Year, the unrecovered Operating Expenses exceed seventy percent (70%) of the Gross Income from Petroleum production, or if there is no Gross Income, then the unrecovered Operating Expenses shall be recovered from the Gross Income in the succeeding Calendar Year(s).

10.03 Unless elected otherwise by the DEPARTMENT, the CONTRACTOR shall market the Government share of Petroleum. The CONTRACTOR shall have the right and privilege of receiving in kind and disposing of the CONTRACTOR's portion of the Petroleum produced and saved from the Contract Area.

10.04 If the DEPARTMENT elects to receive its entire share of Petroleum in kind, which is equivalent to sixty percent (60%) of the estimated Net Proceeds from each Petroleum lifting or delivery operation, then the DEPARTMENT shall notify the CONTRACTOR of

such election at least six (6) months in advance of any Calendar Year in which Petroleum is to be received. However, if the CONTRACTOR markets the Government share of Petroleum produced, the CONTRACTOR shall account for the proceeds from such sales as provided in this Section X. For purposes of this Section X, Net Proceeds means the difference between Gross Income, and the sum of: (1) the Operating Expenses recoverable pursuant to Section 10.02 and (2) the Filipino Participation Incentive Allowance (FPIA) pursuant to Section 7.02(j)

- (a) If the CONTRACTOR markets the Government's entire share of Petroleum production, the CONTRACTOR shall within three (3) working days from the collection date, but in no case beyond sixty (60) days from lifting or delivery date, pay to the DEPARTMENT, with respect to such Petroleum production, an amount equal to sixty percent (60%) of estimated Net Proceeds from each Petroleum lifting or delivery operation. The payment corresponding to the first lifting or delivery of the Calendar Year shall include any adjustments on the Government's share for the preceding Calendar Quarter. Provided, that if the CONTRACTOR failed to remit the share of the Government on the Net Proceeds within due date, any unremitted amount shall carry an interest of **ten percent (10%)** per annum reckoned from the day immediately following the three (3) working days from collection date or sixty (60) days from lifting or delivery date whichever comes later.
- (b) If the payment for the Petroleum marketed or committed for sale under a sales contract or agreement is not received by the CONTRACTOR within sixty (60) days from a lifting or delivery date, the CONTRACTOR shall accordingly notify the DEPARTMENT in writing of the delay and the reason thereof. The CONTRACTOR and the DEPARTMENT shall then meet to agree on the terms by which the CONTRACTOR's obligation shall be performed. Failure by the CONTRACTOR to furnish the DEPARTMENT with such written notice of the delay creates the presumption that the delay in remittance of payment is due to the fault of the CONTRACTOR in which case Section 10.04(a) shall apply.

10.05 If the CONTRACTOR has not been authorized to market the Government's entire share of Petroleum production, then with respect to such Petroleum, the Government shall be entitled to receive in kind and shall take Petroleum equal in value to sixty percent (60%) of the Net Proceeds.

10.06 The CONTRACTOR shall retain its share of Petroleum as service fee equivalent to forty percent (40%) of the Net Proceeds from Petroleum Operations.

10.07 If the DEPARTMENT and the CONTRACTOR elect to take their respective shares of Petroleum in kind, the Parties will enter into separate agreements providing, among others, for the manner and form of deliveries, offtake procedures, over/under reconciliation, terminal operations procedures, terminal Force Majeure details and appropriate quarterly adjustments.

SECTION XI

INCOME TAXES

11.01 The CONTRACTOR shall be liable each taxable year for Philippine Income Tax under the provisions of the National Internal Revenue Code and the Act, both as amended.

11.02 The Taxable Net Income shall be equivalent to the gross-up amount of the CONTRACTOR's share on Net Proceeds.

11.03 The CONTRACTOR shall render to the DEPARTMENT a return for each taxable year in duplicate in such form and manner as provided by law setting forth its Taxable Net Income. The DEPARTMENT shall file the CONTRACTOR's return with the Commissioner of Internal Revenue or his deputies or other persons authorized to receive such return within the period specified in the National Internal Revenue Code and the Rules and Regulations promulgated thereunder.

11.04 The DEPARTMENT shall separately remit the Philippine Income Taxes of each company comprising the CONTRACTOR and, upon payment, shall obtain separate official receipts in the name of each company comprising the CONTRACTOR and shall furnish such receipts to each company. Each of the companies comprising the CONTRACTOR shall be subject to tax separately on its share of income.

SECTION XII

PAYMENTS

All payments which this Contract obligates the CONTRACTOR to make to the DEPARTMENT shall be in Foreign Exchange at a bank to be designated by the DEPARTMENT and agreed upon by the *Bangko Sentral ng Pilipinas*; *Provided*, that the CONTRACTOR may make such payments in Philippine Pesos to the extent that such currency is realized as a result of the domestic sale of Petroleum. All such payments shall be translated at the applicable exchange rate as defined in the Accounting Procedures attached hereto as Annex "B".

SECTION XIII

NATURAL GAS

13.01 Associated Gas.

- (a) Associated Gas produced from any Oil Field within the Contract Area shall be used primarily for purposes related to the Production Operations and production enhancement of Oil Fields including, without limitations, oil treating, gas injection, gas lifting and power generation.
- (b) Based on the principle of full utilization of the Associated Gas and with no impediment to normal production of the Crude Oil, the Overall Development Program of each Oil Field shall include a plan of utilization of Associated Natural Gas. If there is any excess Associated Gas remaining in any Oil Field after utilization pursuant to Section 13.01(a) herein, the CONTRACTOR shall carry out a feasibility study regarding the commercial utilization of such excess Associated Gas. Such feasibility study, if carried out before the Development Operations of an Oil Field, shall be included as part of the feasibility study on the development of the Oil Field.
 - (i) If the Parties agree that excess Associated Gas has no commercial value, then such gas shall be disposed of by the CONTRACTOR, provided that there is no impediment to normal production of the Crude Oil.
 - (ii) If the Parties agree that excess Associated Gas has commercial value, the CONTRACTOR shall complete the gas sales contract(s) and other commercial and technical arrangements required to develop such Gas with prior approval of the DEPARTMENT. The DEPARTMENT shall participate in all gas sales negotiations to be entered into for the sale of Associated Gas to be produced from the Contract Area.
 - (iii) If any Party considers that excess Associated Gas has commercial value while the other Party considers that excess Associated Gas has no commercial value, the Party which considers excess Associated Gas to have commercial value may utilize such excess Associated Gas, at its own cost and expense and without impeding the production of Crude Oil and without affecting the shares of Crude Oil and Gas otherwise allocable

to the Parties under the other provisions of this Contract, but if such excess Associated Gas is not so utilized at any time or from time to time, then such excess Associated Gas shall be disposed of by the CONTRACTOR, provided that there is no impediment to normal production of the Crude Oil.

13.02 Non-Associated Gas.

- (a) For Non-Associated Gas discovery pursuant to Sections 9.01 and 9.02 herein, an Appraisal Work Program shall be prepared and submitted by the CONTRACTOR to the DEPARTMENT not later than twenty-four (24) months from the submission of the discovery report. During this period the CONTRACTOR will conduct preliminary market studies in order to analyze the markets for the Non-Associated Gas as well as investigate such technical issues as reserve size ranges, deliverability and other issues pertaining to the exploitation of the Non-Associated Natural Gas.
- (b) Following the completion of the Appraisal Work Program and review of the potential of the discovery, the CONTRACTOR shall submit an appraisal report to the DEPARTMENT within one (1) Year from the completion of the last Appraisal Well. If the CONTRACTOR with the approval of the DEPARTMENT decides that the discovery is commercial, the Parties shall agree on a development plan for the Gas Field. The CONTRACTOR shall complete the gas sales contract(s) and other commercial and technical arrangements required to develop such Natural Gas, a copy of which shall be submitted to the DEPARTMENT. The CONTRACTOR shall regularly inform the DEPARTMENT of its gas sales negotiations and the DEPARTMENT may participate in all gas sales negotiations to be entered into for the sale of the Non-Associated Gas to be produced from the Contract Area.
- (c) If the Parties decide unanimously that a Non-Associated Gas reservoir is non-commercial, the corresponding area covered by the Non-Associated Gas reservoir may be retained in the Contract Area as long as the CONTRACTOR is actively seeking in good faith to solve technical issues and find a market for the Non-Associated Gas, but in no event can the CONTRACTOR retain the area longer than ten (10) years from the submission of the discovery report nor beyond the termination of this Contract.
- (d) Prior to the expiration of the Exploration Period, if the DEPARTMENT considers that a Non-Associated Gas reservoir which has been determined to be non-

commercial needs to be reappraised because of some favorable factors, it may require the CONTRACTOR, and the CONTRACTOR shall comply, to work out a new evaluation report on that Non-Associated Gas reservoir and submit the same to the DEPARTMENT for review and approval.

13.03 Natural Gas Transportation.

- (a) To the extent allowed by law, the DEPARTMENT may allow the participation of the CONTRACTOR in the pipeline installation and operation to transport Natural Gas, subject to a separate pipeline agreement between the DEPARTMENT and the CONTRACTOR. If the CONTRACTOR participates in the installation and operation of such pipeline(s), the installation and operation of such pipeline(s) may be included in the Overall Development Program and Petroleum Operations under this Contract.
- (b) If a Third Party provides Natural Gas pipeline transportation services to the CONTRACTOR, the tariffs charged to the CONTRACTOR for such services shall be fair and reasonable based on the investment and shall be appropriate for pipeline infrastructure projects in the Philippines.

SECTION XIV

TECHNICAL DATA AND REPORTS SUBMISSION

14.01 All technical data and reports, except for proprietary techniques used in developing such technical data and reports, must be submitted by the CONTRACTOR to the DEPARTMENT within sixty (60) days after such technical data and reports become available. Appropriate penalties shall apply for late/non-submission of this requirement based on guidelines issued or to be issued by the DEPARTMENT in this regard. The technical data and reports to be submitted by the CONTRACTOR include but are not limited to the following:

- (a) Unprocessed and migrated seismic data in tapes, CD (format compatible with available DEPARTMENT software/hardware) and hard copies
- (b) Geological and geochemical reports, including geological maps, petrographic data and geochemical data/analysis
- (c) Geophysical Reports
 - (i) Seismic acquisition, processing and interpretation reports

- (ii) Gravity & Magnetic Surveys
 - iii) Navigation data of surveys
 - iv) Other geophysical surveys
- (d) Rock cores, rock cuttings, geological logs and hydrocarbon or fluid samples obtained from drilling
 - (e) Drillstem and well test data, analysis and interpretation
 - (f) Well drilling, completion and abandonment reports
 - (g) All petrophysical and geophysical logs from wells in digital and hard copies
 - (h) Data, analysis, and interpretation on oil and gas reservoir characteristics
 - (i) Oil, gas and condensate production reports
 - (j) Other relevant data and reports generated from Petroleum Operations

SECTION XV

ASSETS AND EQUIPMENT

- 15.01 The CONTRACTOR shall acquire for the Petroleum Operations only such assets and equipment as are reasonably estimated to be required in carrying out the Petroleum Operations and approved in the Work Program and Budget.
- 15.02 The CONTRACTOR may also utilize in the Petroleum Operations, equipment owned and made available by the CONTRACTOR. Charges to the Petroleum Operations account for the use of such equipment shall be made as provided in the Annex "B" - Accounting Procedures.
- 15.03 The CONTRACTOR shall own all assets purchased, installed and/or constructed under the Work Program and Budget, subject to the pertinent rules under Annex "B" - Accounting Procedures.

The CONTRACTOR shall transfer possession and ownership of fully cost recovered assets, as is, upon termination of this Contract or within the period agreed by the Parties, *Provided* however, that: (a) all liability for maintenance, damage and in respect

of third parties shall remain with the CONTRACTOR for the duration of its period of ownership and/or possession or use of such assets; and (b) in case the DEPARTMENT does not elect to possess certain assets which have been fully cost recovered at the time of full recovery or time of transfer, the CONTRACTOR shall remove or dispose of said assets within one (1) year after the termination of this Contract, or within the period agreed by the Parties.

Notwithstanding the foregoing, (a) the CONTRACTOR shall have the right to continue to use the aforementioned assets until it has concluded its use of them in accordance with obligations under this Contract, as extended from time to time; (b) an income derived from the use or possession of these assets shall be included in the computation of Gross Income and subject to the terms of Annex "B" (Accounting Procedures).

This clause 15.03 shall not apply to assets owned by a Third Party and leased or used by the CONTRACTOR for the performance of its obligations in this Contract.

15.04 The ownership of all data, records, samples, and other technical data obtained in the course of performing the Petroleum Operations shall be vested in the DEPARTMENT.

15.05 The CONTRACTOR will not remove any material, equipment or facilities covered by this Contract from the Contract Area without the prior written consent of the DEPARTMENT. The ownership of all materials, equipment and facilities erected or placed within the Contract Area shall be transferred to the DEPARTMENT immediately after the recoupment by the CONTRACTOR of all costs pertaining to such materials, equipment and facilities; Provided, that all materials, equipment and facilities which are of a movable nature and the costs for which have not been fully recouped by the CONTRACTOR shall remain the property of the CONTRACTOR unless not removed from the Contract Area within one (1) year after termination of this Contract. The DEPARTMENT shall assume ownership of the materials, equipment and facilities subject to all financing agreements, liens and other burdens thereon but may delay assuming ownership thereof pending the satisfaction and release of any such burdens. Notwithstanding the transfer of ownership to the DEPARTMENT, the CONTRACTOR shall: (i) have the right to transfer the materials, equipment and facilities within the Contract Area; (ii) have the right to use the materials, equipment and facilities free of charge other than the obligation to maintain or repair the same as deemed necessary in accordance with generally accepted offshore oil field and marine practices; and, (iii) be permitted to fully recoup all expenditures for such purposes. The provisions of this Section shall not apply to leased or chartered materials, equipment and facilities.

SECTION XVI

CONSULTATION AND ARBITRATION

- 16.01 The Parties shall make their best efforts to settle amicably through consultation any dispute arising in connection with the performance or interpretation of any provision hereof.
- 16.02 Disputes arising between the DEPARTMENT and the CONTRACTOR relating to this Contract or the interpretation and performance of any of its clauses, which cannot be settled amicably, shall be settled by arbitration, subject to the provisions of Section 16.04 below. The DEPARTMENT and the CONTRACTOR shall each appoint one (1) arbitrator and so advise the other Party within thirty (30) days after receipt of a written request to do so. Such two (2) arbitrators shall appoint a third arbitrator. If either Party fails to appoint an arbitrator within thirty (30) days after receipt of a written request from the other Party to do so, such arbitrator shall be appointed, at the request of the other Party, by the President of the International Chamber of Commerce. If the first two (2) arbitrators appointed as aforesaid fail to agree on a third arbitrator within thirty (30) days after receipt of a written request from the other Party to do so, such third arbitrator shall be appointed, at the request of either Party, by the President of the International Chamber of Commerce. If an arbitrator fails or is unable to act, his successor will be appointed in the same manner as the arbitrator whom he succeeds. Unless the Parties agree otherwise, the Philippines shall be the venue of the arbitration proceedings.
- 16.03 The English language shall be the official language to be used in the arbitral proceedings. All hearing materials, statement of claim or defense, award and the reasons supporting them shall be written in English.
- 16.04 The decision of a majority of the arbitrators shall be final and binding upon the Parties. Judgment upon the award rendered may be entered in any court having jurisdiction or application may be made to such court for a judicial acceptance of the award and an order of enforcement, as the case may be. Each Party shall bear its respective cost of arbitration unless the arbitrators decide otherwise.
- 16.05 Except as provided in this Section XVI, arbitration shall be conducted in accordance with the Rules of Arbitration of the International Chamber of Commerce, then in effect.

16.06 The right to continue or complete arbitration proceedings commence during the term of this Contract shall survive the termination or cancellation of this Contract.

SECTION XVII

EMPLOYMENT AND TRAINING OF PHILIPPINE PERSONNEL

17.01 The CONTRACTOR agrees to employ qualified Filipino Personnel (as determined by CONTRACTOR) in the Petroleum Operations and, after the Date of Commencement of Commercial Production, will undertake the education and training of such Filipino Personnel for labor and staff positions, including administrative, technical and management positions.

17.02 The CONTRACTOR shall provide assistance for training programs, conferences, seminars and other similar activities for the DEPARTMENT's personnel with a total training commitment of **amount in words** United States Dollars (US\$.00) per year, cumulative during exploration/development period and **amount in words** United States Dollars (US\$.00) per year, cumulative during Production Period. Any unfulfilled training obligation shall survive the cancellation/termination of this Contract.

17.03 Costs and expenses of training Filipino/Foreign personnel for the CONTRACTOR's own employment and the training assistance of the DEPARTMENT's personnel shall be included as Operating Expenses in the Work Program and Budget under Section VIII hereof.

17.04 The CONTRACTOR shall provide assistance in the amount of **amount in words** United States Dollars (US\$.00), for the petroleum industry development program as directed by the DEPARTMENT.

SECTION XVIII

BOOKS OF ACCOUNTS AND AUDIT

18.01 The CONTRACTOR shall be responsible for keeping complete books of accounts, both in United States Dollars and Philippine peso denominations, reflecting all transactions in connection with the Petroleum Operations in accordance with Annex "B" - Accounting Procedures. The basic currency of the determination of cost recovery shall be United States Dollars.

18.02 The DEPARTMENT shall have the right to inspect and audit the CONTRACTOR's books of accounts relating to this Contract for any Calendar Year within twenty-four (24) months following the end of such Calendar Year. Any such audit shall be completed within eighteen (18) months after its commencement of such audit. Any exception must be made to the CONTRACTOR in writing within ninety (90) days following the completion of such audit. If the DEPARTMENT fails to give such written exception within such time, or fails or declines to conduct an audit of the CONTRACTOR's books of accounts within the time period stated above, then the CONTRACTOR's books of accounts and statements of Operating Expenses for such Calendar Year shall be established as correct and final for all purposes including the recovery of Operating Expenses.

18.03 The DEPARTMENT is entitled upon prior notice access to all relevant joint account, records, files and other information and may inspect such sites and facilities as necessary

18.04 If the DEPARTMENT notifies the CONTRACTOR of an exception to the CONTRACTOR'S books of accounts within the time period specified in Section 18.02 above, the CONTRACTOR shall within ninety (90) days after receipt of such notice confer with the DEPARTMENT regarding the exception and the Parties shall attempt to reach a mutually acceptable resolution of such exception within a period not to exceed three (3) months. If any cost or expense included in the CONTRACTOR's statement of Operating Expenses is the subject of an exception which cannot be resolved during such three (3) months period, then such cost or expense shall be excluded as Operating Expenses and shall not be recoverable from gross proceeds pending the resolution of such exception through mutual agreement or arbitration. If such cost or expense is subsequently determined to be properly included in the CONTRACTOR's statement of Operating Expenses, either by mutual agreement or arbitration, then the CONTRACTOR's current statement of Operating Expenses shall be increased by the amount of such cost or expense.

SECTION XIX

MISCELLANEOUS PROVISIONS

19.01 Any notice required or given by either Party to the other Party shall be in writing and shall be effective when a copy thereof is handed to or served upon the Party's designated representative or the person in charge of the Party's office or place of

business; or, when sent by facsimile, notice shall be effective upon the issuance of a confirmation report that the notice was successfully transmitted to addressee's number; or, when sent by registered mail, notice shall be effective upon actual receipt by the addressee; *Provided*, that if addressee fails to claim its mail from the post office within five (5) days from the date of the first notice of the postmaster, service shall take effect at the expiration of such time. All such notices shall be addressed, as follows:

To the GOVERNMENT -

The Director

Energy Resource Development Bureau

DEPARTMENT OF ENERGY

Energy Center

Merritt Road, Fort Bonifacio

Taguig City, Metro Manila, Philippines

Telefax : +632 840-2068

To the CONTRACTOR -

The Official's Position

COMPANY NAME,

Complete Postal Address

Tel. No.

Fax No.

Any Party may substitute or change its address on written notice thereof to the other Parties.

19.02 The laws of the Philippines shall apply to this Contract.

19.03 Subject to Section XXI of this Contract, the CONTRACTOR shall abide by the circulars, rules and regulations on petroleum issued or to be issued by the DEPARTMENT; *Provided*, however, that the DEPARTMENT shall send notice to the CONTRACTOR of the complete text of any new or amended circulars, rules and regulations issued on or after the Effective Date immediately upon the issuance of any such new or amended circulars, rules and regulations.

19.04 The DEPARTMENT shall have the power to cancel and annul this Contract after due written notice for failure of the CONTRACTOR without justifiable cause to: (a) fulfill its work obligation in any Contract Year or exploration Sub-Phase; (b) remit the government share within sixty (60) days from lifting or delivery date; (c) post the required

performance bond pursuant to Section 7.01 (g); (d) implement safety measures required by the DEPARTMENT, and; (e) submit the reportorial requirements.

19.05 At such time as the CONTRACTOR has established commercial production, the CONTRACTOR may undertake technical and economic studies to determine the feasibility of establishing downstream facilities such as petrochemical, liquefied natural gas (“LNG”), liquefied petroleum gas (“LPG”), compressed natural gas (CNG) or middle distillate synthesis plants in the Philippines to utilize a portion of the Petroleum produced from the Contract Area. If the studies indicate that a particular downstream facility could be constructed and operated in an economical and technically feasible manner, then the CONTRACTOR shall have the option, subject to the DEPARTMENT’s approval, to design, construct, and operate such facility. The DEPARTMENT shall assist the CONTRACTOR in obtaining such approvals.

SECTION XX

PAYMENTS BY THE CONTRACTOR

20.01 The CONTRACTOR shall pay the DEPARTMENT a signature bonus equivalent to **amount in words** United States Dollars (US \$.00) within sixty (60) days from the Effective Date.

20.02 The CONTRACTOR shall, within sixty (60) days following the Date of Commencement of Commercial Production, pay to the DEPARTMENT the total sum of **amount in words** United States Dollars (US\$.00) as discovery bonus.

20.03 On the first occasion that there shall be produced and sold from the Contract Area an average rate, over a period of sixty (60) consecutive days, of either twenty-five thousand (25,000) barrels of Crude Oil and/or Casinghead Petroleum Spirit per day (BPD); or two hundred fifty million (250,000,000) cubic feet of Natural Gas per day (CFGD), the CONTRACTOR shall, within sixty (60) days following the expiration of said sixty (60)-day period, pay to the DEPARTMENT as production bonus, the total sum of **amount in words** United States Dollars (US\$.00); *Provided*, it is understood that the CONTRACTOR, in order to sustain said rate of twenty-five thousand (25,000) BPD of Crude Oil and/or Casinghead Petroleum Spirit or two hundred fifty million (250,000,000) CFGD for said sixty (60) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil and/or gas field practice prevalent in the international petroleum industry.

20.04 On the first occasion that there shall be produced and sold from the Contract Area an average rate, over a period of sixty (60) consecutive days, of either fifty thousand (50,000) BPD of Crude Oil and/or Casinghead Petroleum Spirit or five hundred million (500,000,000) CFGD, the CONTRACTOR shall, within sixty (60) days following the expiration of said sixty (60) day period, pay to the DEPARTMENT as production bonus, the total sum of amount in words United States Dollars (US\$.00); *Provided*, it is understood that the CONTRACTOR, in order to sustain said rate of fifty thousand (50,000) BPD of Crude Oil and/or Casinghead Petroleum Spirit or five hundred million (500,000,000) CFGD for said sixty (60) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil and/or gas field practice prevalent in the international petroleum industry.

20.05 On the first occasion that there shall be produced and sold from the Contract Area an average rate, over a period of sixty (60) consecutive days, of either seventy-five thousand (75,000) BPD of Crude Oil and/or Casinghead Petroleum Spirit or seven hundred fifty million (750,000,000) CFGD, the CONTRACTOR shall, within sixty (60) days following the expiration of said sixty (60) day period, pay to the DEPARTMENT as production bonus, the total sum of amount in words United States Dollars (US\$.00); *Provided*, it is understood that the CONTRACTOR, in order to sustain said rate of seventy-five thousand (75,000) BPD of Crude Oil and/or Casinghead Petroleum Spirit or seven hundred fifty million (750,000,000) CFGD for said sixty (60) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil and/or gas field practice prevalent in the international petroleum industry.

SECTION XXI

STABILIZATION

21.01 Rights and obligations under this Contract shall be deemed as essential considerations for the conclusion hereof and shall not be unilaterally changed or impaired.

21.02 This Contract shall not be annulled, amended or modified in any respect except by the mutual consent in writing of the Parties hereto.

21.03 The CONTRACTOR's rights under this Contract shall not be impaired and its obligations shall not be increased by: (1) any change in Philippine laws or regulations; or, (2) any change in the manner of implementing any existing laws or regulations; or (3) any

introduction of new laws or regulations; or (4) any cancellation of existing laws or regulations.

21.04 In the event of any change in existing laws or regulations that increases or results in increase of, among others, the percentage (%) for cost recovery allowed to the CONTRACTOR, the amount of or extension of the FPIA or the benefits relating to cross recovery of deepwater incentives, the Parties shall immediately meet and negotiate on an equitable allocation of the benefits with the end in view of retaining the commercial terms or gains by which this Contract was agreed to by the Parties.

SECTION XXII

INSURANCE

22.01 The CONTRACTOR shall work out an insurance program for the Exploration Operations and submit the same to the DEPARTMENT for review and approval within one hundred twenty (120) days after the Effective Date of this Contract. The CONTRACTOR shall obtain the insurance contracts in accordance with such program as approved by the DEPARTMENT before commencement of Petroleum Operations within the Contract Area. Similar provisions shall apply in respect of Development and Marketing Operations and Production Operations.

22.02 The insurance programs worked out by the CONTRACTOR shall include, but not be limited to, the following insurance covering:

- (a) damages to and expenses for all drilling installations and equipment, including damages to and expenses for the properties used in work sites and supply bases for the Petroleum Operations, while any damage to and expense for the equipment and properties owned by any Third Party rendering services to the CONTRACTOR shall be handled in accordance with Section 22.04 herein;
- (b) damages to and expenses for any of the equipment or installations for production, storage and transportation, and buildings in the course of construction and installation both onshore and offshore;
- (c) damages to and expenses for the Crude Oil and/or Natural Gas production installations, facilities, equipment and pipelines, both onshore and offshore;
- (d) liability to Third Party;

- (e) liability for pollution and expenses for cleaning up in the course of drilling and Production Operations;
- (f) expenses for killing blowouts;
- (g) liability incurred by the CONTRACTOR who takes the responsibility in chartering drilling vessels, supply boats or other boats, ships and aircraft serving the Petroleum Operations;
- (h) liability for removal of wrecks; and
- (i) losses and expenses incurred during the transportation and storage in transit of goods shipped from different parts of the world to work sites.

22.03 Losses within the deductible limits of the insurance program reviewed and approved by the DEPARTMENT in accordance with Section 22.01 herein shall be chargeable as Operating Expenses.

22.04 The CONTRACTOR shall endeavor to ensure that its Subcontractors and lessors to insure themselves against relevant losses.

SECTION XXIII

CONFIDENTIALITY

23.01 All documents, information, data and reports related to the Petroleum Operations within the Contract Area ("Confidential Information") shall be kept confidential, pursuant to this Section 23, except in cases as specified in Sections 23.02, 23.03, 23.04.

23.02 Without the written consent of the DEPARTMENT, no company comprising the CONTRACTOR or any assignee shall disclose the Confidential Information to any Third Party and to any Affiliate not directly connected with the implementation of the Contract except the Third Parties and Affiliates in Section 23.03 herein, and no Party shall otherwise transfer, present, sell or publish it in any way.

The DEPARTMENT shall bear the obligations for confidentiality for the Confidential Information. However, the DEPARTMENT has the right to furnish the following original

information and data or interpretation thereon with respect to the Contract Area to any Third Parties

- (a) raw and/or processed data generated and held by the CONTRACTOR for over two (2) years from the date the data were generated; and
- (b) interpretations of information and data generated and held by the CONTRACTOR for over seven (7) years.

23.03 The CONTRACTOR may, furnish necessary Confidential Information to the following Third Parties and Affiliates

- (a) Banks or other credit institutions from which finance is sought by any party to the Contract for the implementation of the Contract;
- (b) Third Parties and Affiliates which provide services for the Petroleum Operations, including Subcontractors and other service contractors; and,
- (b) A prospective assignee or assignees to whom rights and obligations under the Contract are intended to be assigned.

23.04 Necessary Confidential Information may be furnished by the CONTRACTOR to governments and stock exchanges in accordance with the laws of the relevant countries.

23.05 The CONTRACTOR when furnishing Confidential Information to Third Parties and Affiliates as mentioned in Section 23.03 herein shall require them to assume the confidentiality obligations as set forth herein.

SECTION XXIV

ASSIGNMENTS AND AUTHORIZATION

24.01 The CONTRACTOR may assign part or all of its rights and/or obligations under the Contract to its Affiliate with prior written notice to the DEPARTMENT, subject to any procedure or guidelines issued or to be issued by the DEPARTMENT in this regard and provided that the assignment shall be effective subject to the following provisions:

- (a) the CONTRACTOR shall submit to the DEPARTMENT copies of a written agreement on the corresponding part of its rights and/or obligations to be assigned;

(b) the CONTRACTOR shall guarantee in writing to the DEPARTMENT the performance of the assigned obligations; and

(c) no such assignment shall interfere with the performance of the Petroleum Operations or affect the organizational structure.

24.02 The CONTRACTOR may assign part or all of its rights and/or obligations under this Contract to any Third Party, provided that such assignment, to be effective, shall be approved in writing by the DEPARTMENT pursuant to its guidelines, such approval not to be unreasonably withheld.

24.03 The CONTRACTOR may authorize its subsidiaries, branches or regional corporations to implement this Contract, but the CONTRACTOR shall remain responsible for the faithful performance of this Contract.

SECTION XXV

HEALTH, ENVIRONMENTAL PROTECTION AND SAFETY

25.01 In the performance of the Petroleum Operations, the CONTRACTOR shall be subject to the laws, decrees and regulations on environmental protection, indigenous peoples rights and safety promulgated by the Government and endeavor to make its best efforts to prevent pollution and damage to the atmosphere, oceans, rivers, lakes, harbors and land, and secure the safety and health of the operating personnel. The CONTRACTOR shall use all reasonable endeavors as are applicable to eliminate promptly any pollution occurring in the performance of the Petroleum Operations and minimize its consequences.

25.02 When the Government assigns any person to inspect for environmental protection and safety within the scope of the Petroleum Operations according to relevant laws, decrees, rules and regulations, the CONTRACTOR shall provide such reasonable facilities and assistance as are applicable to enable the inspectors to carry out such inspection smoothly. The CONTRACTOR shall be given reasonable notice of all such inspections.

SECTION XXVI

FORCE MAJEURE

26.01 Force Majeure

- (a) Any failure or delay on the part of either Party in the performance of its obligations or duties hereunder shall be excused to the extent attributable to Force Majeure. If operations are delayed, curtailed, or prevented by such causes, then the time for enjoying the rights and carrying out of the obligations thereby affected, and all rights and obligations hereunder shall be extended for a period equal to the period of delay, curtailment or prevention.
- (b) Force Majeure shall include Acts of God, unavoidable accidents, acts of war or conditions attributable to or arising out of war (declared or undeclared), laws, rules, regulations, and orders by any government or governmental agency strikes, lockouts, or other labor or political disturbances, insurrections, riots, and other civil disturbances, hostile acts of hostile forces constituting direct and serious threat to life and property, and all other matters or events of a like or comparable nature beyond the control of the Party concerned, other than rig availability; *Provided*, that laws, rules, regulations, and orders of the Government or any of its agencies shall not constitute Force Majeure as to the DEPARTMENT.
- (c) The Party whose ability to perform its obligations is impaired due to Force Majeure shall notify the other Party in writing of such fact with reasonable detail as to the cause and nature thereof and both Parties shall do what is reasonably within their power to remove such cause.

SECTION XXVII

TERMINATION

27.01 This Contract shall be terminated as provided in **Sections 4.01 and 4.02** hereof.

IN WITNESS WHEREOF, the Parties hereto have executed this Contract as of the day and year first above written.

**GOVERNMENT OF THE REPUBLIC OF
THE PHILIPPINES**

**COMPANY NAME
("CONTRACTOR")**

**THROUGH THE
DEPARTMENT OF ENERGY**

By: _____

RAPHAEL PERPETUO M. LOTILLA
Secretary

By: _____

NAME OF OFFICIAL
Official's Position

TABLE OF CONTENTS

Petroleum Service Contract

PAGE	SECTION	TITLE	REMARKS
1		Service Contract	
2	SECTION I	Scope	
3	SECTION II	Definitions	
12	SECTION III	Effectivity	
12	SECTION IV	Term	
14	SECTION V	Exclusion of Areas	
16	SECTION VI	Minimum Work Commitment and Minimum Expected Exploration Expenditures	<ul style="list-style-type: none"> • Sub-Phases
17	SECTION VII	Contractor	
25	SECTION VIII	Work Program and Budget	
26	SECTION IX	Determination of Commerciality	
28	SECTION X	Recovery of Operating Expenses and Accounting of Proceeds of Production	
31	SECTION XI	Income Taxes	
31	SECTION XII	Payments	
32	SECTION XIII	Natural Gas	<ul style="list-style-type: none"> • Associated Gas • Non-Assoc. Gas • Nat. Gas Transportation
34	SECTION XIV	Technical Data and Reports Submission	
35	SECTION XV	Assets and Equipment	
37	SECTION XVI	Consultation and Arbitration	
38	SECTION XVII	Employment and Training of Philippine Personnel	<ul style="list-style-type: none"> • Training Fund • Technical Assistance
39	SECTION XVIII	Books of Accounts and Audit	
40	SECTION XIX	Miscellaneous Provisions	<ul style="list-style-type: none"> • Notices
41	SECTION XX	Payments by the Contractor	<ul style="list-style-type: none"> • Signature Bonus • Discovery Bonus • Production Bonus
43	SECTION XXI	Stabilization	
43	SECTION XXII	Insurance	
45	SECTION XXIII	Confidentiality	
46	SECTION XXIV	Assignments and Authorization	
47	SECTION XXV	Health, Environmental Protection and Safety	
47	SECTION XXVI	Force Majeure	
48	SECTION XXVII	Termination	
48		Signing Page	

Table of Contents for Model SC 10.27.06_mrk_tbl_lnk