

REPUBLIC OF THE PHILIPPINES

DEPARTMENT OF ENERGY

**MINISTRY OF ENVIRONMENT,
NATURAL RESOURCES AND ENERGY**

PETROLEUM SERVICE CONTRACT NO. ____

This SERVICE CONTRACT (the "Contract") is made and entered into this ____ day of _____ 20__ by and among:

THE GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES, hereinafter referred to as the "GOVERNMENT", represented herein by His Excellency President FERDINAND R. MARCOS, JR.;

-and-

/ _____, a corporation organized and existing under and by virtue of the laws of the Republic of the Philippines hereinafter referred to as "CONTRACTOR", with its principal address at _____, in this act represented by its _____.

In the implementation of this Contract, the GOVERNMENT shall act through and be represented jointly by the DEPARTMENT OF ENERGY ("DEPARTMENT") and the MINISTRY OF ENVIRONMENT, NATURAL RESOURCES AND ENERGY ("MINISTRY"). The GOVERNMENT and the CONTRACTOR are hereinafter referred to individually as "Party" and collectively as "Parties".

**(IN CASE THE DOE SECRETARY AND MENRE MINISTER ARE
AUTHORIZED BY THE PRESIDENT TO EXECUTE)**

THE GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES, hereinafter referred to as the "GOVERNMENT", acting jointly through the DEPARTMENT OF ENERGY ("DEPARTMENT"), with principal office at Energy Center, Rizal Drive corner 34th Street, Bonifacio Global City, Taguig City, in this act represented by Secretary RAPHAEL P.M.

LOTILLA, and the MINISTRY OF ENVIRONMENT, NATURAL RESOURCES AND ENERGY (“MINISTRY”), with principal office at Bangsamoro Government Center, Cotabato City, in this act represented by Minister AKMAD A. BRAHIM;

-and-

I _____, a corporation organized and existing under and by virtue of the laws of _____, with its principal address at _____, in this act represented by its _____, hereinafter referred to as “CONTRACTOR”;

(IN CASE OF A JOINT VENTURE / CONSORTIUM)

_____, a corporation organized and existing under and by virtue of the laws of _____, with its principal address at _____, in this act represented by its _____, hereinafter referred to as “_____”;

_____, a corporation organized and existing under and by virtue of the laws of _____, with its principal address at _____, in this act represented by its _____, hereinafter referred to as “_____”;
hereinafter collectively referred to as “CONTRACTOR”.

The GOVERNMENT 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, Section 2, Article XII of the 1987 Constitution states that *"all lands of the public domain, waters, minerals, coal, petroleum, and other mineral oils, all forces of potential energy, and other natural resources are owned by the State"* and that *"the exploration, development, and utilization of natural resources shall be under the full control and supervision of the State"*;

WHEREAS, Presidential Decree (“PD”) No. 87, as amended, otherwise known as *“The Oil Exploration and Development Act of 1972”* and Republic Act (“RA”) No. 7638, as amended, otherwise known as the *“Department of Energy Act of 1992”* declare it the policy of the State to

“hasten the discovery and production of indigenous petroleum through the utilization of Government and/or private resources”;

WHEREAS, RA No. 11054, also known as the *“Organic Law for the Bangsamoro Autonomous Region in Muslim Mindanao,”* established the political entity known as the *“Bangsamoro Autonomous Region”*, wherein governmental powers is exercised by the Bangsamoro Government including those on natural resources and technical cooperation; and

WHEREAS, in pursuance of the above-stated policy, the Government and the CONTRACTOR agree to enter into a Petroleum Service Contract (“Contract”) whereby the CONTRACTOR provides funds, applies appropriate and advanced technology and expertise for the exploration, development and exploitation of petroleum resources within the Contract Area under the full control, management and supervision of the GOVERNMENT;

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

SECTION I SCOPE

- 1.01 The CONTRACTOR shall be responsible to the GOVERNMENT for the execution of the Petroleum Operations in accordance with the provisions of this Contract and is hereby appointed and constituted as the exclusive party to conduct the Petroleum Operations on behalf of the GOVERNMENT. The GOVERNMENT, notwithstanding, shall have the right to require performance of any or all obligations of the CONTRACTOR under this Contract from any or all of the companies comprising the CONTRACTOR.
- 1.02 The CONTRACTOR shall assume all exploration risks such that if no Petroleum of Commercial Quantity is discovered and produced, it will not be entitled to reimbursement of expenses incurred in connection with this Contract.
- 1.03 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 XI hereof.

SECTION II
DEFINITIONS

In this Contract, the following words and terms shall have the following definitions:

- 2.01 **Act** – refers to Presidential Decree No. 87, as amended.
- 2.02 **Accounting Procedure** – refers to the set of procedures, guidelines and arrangements between the Parties to govern the recording and proper entry of expenses, costs and income, attached as Annex “___” to this Contract.
- 2.03 **Affiliate** – means (a) a company in which a contractor holds directly or indirectly at least fifty per cent (50%) of its outstanding shares entitled to vote; (b) a company which holds directly or indirectly at least fifty per cent (50%) of the contractor’s outstanding shares entitled to vote; or (c) a company in which at least fifty per cent (50%) of its share outstanding and entitled to vote are owned by a company which owns directly or indirectly at least fifty per cent of the shares outstanding and entitled to vote of 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, 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, which is saved and measured by a device jointly approved before the date of commencement of commercial production at the delivery point.
- 2.06 **Annual Net 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.
- 2.07 **Annual Net 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.
- 2.08 **Appraisal Well** – means a well drilled to the side of a discovery well to determine how far the new reservoir extends to calculate the estimated reserves (also known as delineation well).
- 2.09 **Appraisal Work Program** – refers to the Work Program and Budget developed by the Contractor and approved by the Government to determine the commerciality of a Petroleum discovery.
- 2.10 **Associated Gas** – gas produced as a byproduct of the production of crude oil.
- 2.11 **Barrel** – means 42 U.S. gallons (159 liters) or 9702 cubic inches (0.159 cubic meters) at a temperature of 60-degree Fahrenheit (60°F) or 15.56-degree Centigrade (15.56°C).
- 2.12 **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.
- 2.13 **Calendar Year** – means a period of twelve (12) consecutive months commencing on January 1 and ending on December 31 of the same year.
- 2.14 **Casinghead Petroleum Spirit** – means any hydrocarbon, including condensate, existing in liquid form at a temperature of 60 degrees Fahrenheit (60°F) and at an atmospheric pressure of 14.65 psi, 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.
- 2.15 **Contract** – means this Petroleum Service Contract.
- 2.16 **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.
- 2.17 **Contract Year** – means a period of twelve (12) consecutive months counted from the effectivity of this contract and, thereafter, from each anniversary of such effectivity.

- 2.18 **Crude Oil** – means oil in its natural state before it 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.
- 2.19 **Crude Oil Exported** – means not only crude oil exported as such, but also indigenous crude oil refined in the Philippines for export.
- 2.20 **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 Government as oil field and/or gas field containing petroleum in commercial quantity in accordance with the provisions in Section VIII hereof, after completion of the development operations as provided in the Plan of Development for the said oil field and/or gas field.
- 2.21 **Deepwater Area** – refers to an area where water depths are in excess of two hundred (200) meters.
- 2.22 **Deepwater Contract** – refers to a service contract in which at least eighty-five percent (85%) of the total contract area is located in deepwater area(s).
- 2.23 **Deepwater Well** – refers to a well drilled on water depths beyond 200 meters, whether within or without a deepwater contract.
- 2.24 **Deep Well** – refers to a well drilled to a subsea depth of at least 10,000 feet (3,048 meters).
- 2.25 **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 and/or purchase order.
- 2.26 **Development Area** – refers to 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 Government and delineated as such in the Plan of Development approved by the Government. The development area shall automatically cease to be in force as of the date of approval of the production area.
- 2.27 **Development and Marketing 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 Plan of Development for any oil field and/or gas field by the Government including the 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 Plan of Development 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 Plan of Development as an exploration well.
- 2.30 **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.
- 2.31 **Exploration Area** – refers to 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.
- 2.32 **Exploration Cost** – means the cost incurred by the Contractor for exploration operations.
- 2.33 **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 Plan of Development; and activities related to all such operations, including any work done prior to approval of the Plan of Development in an attempt to identify a market for petroleum.
- 2.34 **Exploration Period** – means the seven (7)-year period, or any extension thereof, referred to in Section 3.01 of this contract during which the Contractor is allowed to perform exploration operations in the contract area.
- 2.35 **Exploration Well** – means any wildcat and/or appraisal well drilled within the Exploration Period, including dry hole(s) and discovery well(s).

- 2.36 **Filipino Participation Incentive Allowance or “FPIA”** – means 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 accordance with DOE Circular No. 94-01-01.
- 2.37 **Filipino Personnel** – means any citizen of the Republic of the Philippines employed by the Contractor and/or the subcontractor(s), in connection with the petroleum operations under the contract.
- 2.38 **Foreign Currency** – 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 Government and the Contractor.
- 2.39 **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 IX hereof.
- 2.40 **Gross Income** – means the gross proceeds from the sale, exchange or disposition of all petroleum, crude oil, natural gas and/or casing head 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.
- 2.41 **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 IX and Section X hereof.
- 2.42 **Natural Gas** – means gas obtained from boreholes and wells and consisting primarily of hydrocarbons.
- 2.43 **Net Proceeds** – has the meaning set forth in Section 10.04 hereof.
- 2.44 **Non-Associated Gas** – a naturally occurring gas that is not dissolved in crude oil in a reservoir where oil is extracted. This gas is also found in gas and condensate wells where

there is little or no crude oil present. There may or may not be condensate production together with the gas.

- 2.45 **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 VIII hereof.
- 2.46 **Oil Field and/or Gas Field Straddling a Boundary** – means any oil field and/or gas field extending beyond the contract area.
- 2.47 **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 procedure. 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 procedure. 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, transportation of petroleum by pipeline shall be subject to separate agreement referred to in Section 2.56 hereof.
- 2.48 **Operator** – means a member of the joint venture/consortium required to be appointed as the sole representative of the Contractor in its dealings with the Government.
- 2.49 **Petroleum** – means any mineral oil, hydrocarbon gas, 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.
- 2.50 **Petroleum in Commercial Quantity** – means petroleum in such quantities which will permit its being economically developed as determined by the contractor after taking into consideration the location of the reserves, the depths and number of wells required to be drilled and the transport and terminal facilities needed to exploit the reserves which have been discovered.

- 2.51 **Petroleum Operations** – mean searching for and obtaining petroleum within the Philippines under this contract, either through drilling, natural flow, suction and 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.
- 2.52 **Philippine Corporation** – means a corporation organized under Philippine laws at least sixty percent (60%) of the capital of which is owned and held by citizens of the Philippines.
- 2.53 **Philippine Income Tax** – refers to taxes imposed under the National Internal Revenue Code of the Philippines, as amended, upon taxable corporate income.
- 2.54 **Plan of Development** – 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 Government. Such plans shall include, but 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. In addition, decommissioning and abandonment plan shall be included and integrated herein, as specified in Section 6.01(h).
- 2.55 **Posted Price** – means the Free on Board (FOB) price established by the Contractor and the Government 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.
- 2.56 **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 Government.
- 2.57 **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.
- 2.58 **Production Period** – means the period of this Contract during which the Contractor is allowed to perform production operations or activities in the production area.

- 2.59 **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.
- 2.60 **Subcontractor** – means an individual or entity which provides the Contractor with services under a separate agreement by which the Contractor performs or causes to perform some of its activities and/or obligations under this contract.
- 2.61 **Sub-Phase** – means the phase within the exploration period as determined in accordance with Section 3.01 and Section 5.02 herein.
- 2.62 **Wildcat Well** – means an exploratory well drilled in an area that has no production or is drilled to test a new reservoir rock that has no current production in a producing area.
- 2.63 **Work Program and Budget** – means all types of plans formulated for the performance of the petroleum operations, including plans and programs for exploration, development, and production, decommissioning, and other related activities, with corresponding budget for such activities. For these purposes, the Plan of Development shall be the work program and budget pertaining to such portions of the contract area under the production period.

SECTION III

TERMS

- 3.01 The Exploration Period under this Contract shall be seven (7) years consisting of ___ Sub-Phases, as set forth in Section 5.02, the duration of which depends on the proposed Work Program and Budget, commencing from effectivity. The Exploration Period may be extended for a maximum period of three (3) years provided that the CONTRACTOR:

The Exploration Period under this Contract shall be seven (7) years consisting of ___ Sub-Phases, as set forth in Section 5.02, the duration of which depends on the proposed Work Program and Budget, commencing from effectivity. 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 and other obligations; and

- (b) has provided a Work Program and Budget for the extension that is approved by the GOVERNMENT.

Unless Petroleum is discovered at the end of the Exploration Period, or any extension thereof, this Contract shall lapse on the last day thereof. If Petroleum is discovered by the end of the Exploration Period or any extension thereof, the CONTRACTOR may request for a further extension of one (1) year for exploration solely for the purpose of determining whether the Petroleum discovered is of commercial quantity or not. For this purpose, the CONTRACTOR shall submit an Appraisal Work Program and Budget for the GOVERNMENT's approval. This additional period 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.

3.02 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 IV 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 CONTRACTOR has not been in default in its approved Work Program and Budget and other obligations;
 - (ii) the term of this Contract shall in no case exceed fifty (50) years from the effectivity inclusive of any moratoriums or extensions thereof, if any; and
 - (iii) 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 GOVERNMENT, then the GOVERNMENT may unilaterally terminate this Contract.

3.03 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 GOVERNMENT 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 ("moratorium"), provided that the CONTRACTOR, subject to the approval of the GOVERNMENT, 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 IV 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. Any other conditions not expressly provided herein, as basis for moratorium shall be subject to the approval of the GOVERNMENT.

- 3.04 During the moratorium, the CONTRACTOR shall actively pursue the necessary research or activities by itself or in joint industry studies, to address the reason for the moratorium. The CONTRACTOR shall semi-annually report to the GOVERNMENT its progress in such research or activities. If the GOVERNMENT determines that the reason for the moratorium has been sufficiently resolved, the CONTRACTOR shall elect either to:
- (a) continue with its obligations under this Contract effective on the first day following the formal notice lifting the moratorium; or,
 - (b) relinquish the said Contract Area without further commitment or obligation.

SECTION IV EXCLUSION OF AREAS

- 4.01 At the end of the fifth (5th) year from the effectivity, or its equivalent sub-phase as indicated in the approved Work Program and Budget, the CONTRACTOR shall surrender at least twenty-five percent (25%) of the initial Contract Area.
- 4.02 At the end of the seventh (7th) year from the effectivity, or its equivalent sub-phase as indicated in the approved Work Program and Budget, the CONTRACTOR shall surrender an additional area equal to at least twenty-five percent (25%) of the initial Contract Area.
- 4.03 In the event that on or before the end of the fifth (5th) or seventh (7th) year from the effectivity, or its equivalent sub-phase as indicated in the approved Work Program and Budget, 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 4.01 and 4.02 above.

- 4.04 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 (12.5%) 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 7.01 for the area to be retained subject to the approval of the GOVERNMENT; Provided further, that the CONTRACTOR shall pay after the Exploration Period as annual rentals to the GOVERNMENT on such twelve and one-half percent (12.5%) retained area of One Hundred Pesos (PhP 100.00) 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 GOVERNMENT in any Contract Year will cause the automatic surrender of the retained area to the GOVERNMENT.
- 4.05 Within thirty (30) days prior to the date of each relinquishment, the CONTRACTOR shall submit to the GOVERNMENT 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.
- 4.06 The CONTRACTOR shall have the right to submit written notice to the GOVERNMENT 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 GOVERNMENT 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 V. The performance guarantee posted by the CONTRACTOR, in accordance with Section 6.01(g) of this Contract, shall be liable for any such deficiency.
- 4.07 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 4.01 and 4.02 hereof.

- 4.08 With respect to any surrender of area pursuant to this Section IV, the CONTRACTOR shall advise the GOVERNMENT 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 appraisal Contract Area to enable Petroleum Operations to be conducted thereon.

SECTION V
MINIMUM WORK COMMITMENT AND MINIMUM EXPECTED
EXPLORATION EXPENDITURES

- 5.01 The CONTRACTOR shall begin to perform the Exploration Operations from the Effectivity of the Contract.

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

- a. _____
- b. _____
- c. _____
- d. _____
- e. 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.

- 5.03 At least thirty (30) calendar days before the end of each Sub-Phase of the Exploration Period, the CONTRACTOR, based on the following options in accordance with the provisions of this Contract shall notify in writing the GOVERNMENT either to:

- (a) enter the next Sub-Phase and continue exploration upon prior approval by the GOVERNMENT; or
- (b) conduct only an Appraisal Work Program in the Petroleum discoveries awaiting appraisal based on procedures under Section VIII of the Contract, and/or Development and Marketing Operations as approved by the GOVERNMENT, provided that the minimum obligations during the current exploration Sub-Phase have been fulfilled; and the areas under Section IV hereof have been relinquished;
or

- (c) terminate the Contract.
- 5.04 If the CONTRACTOR fails to comply with the work obligations during any Sub-Phase provided for in this Contract, it shall pay to the GOVERNMENT the amount it should have spent but did not in direct execution 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 in US Dollars. 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 GOVERNMENT.
- 5.05 Subject to the approval of the GOVERNMENT and provided that the work commitments in the Work Program and Budget for the preceding Sub-Phase have been fulfilled, the CONTRACTOR may commence to the next Sub-Phase during the Exploration Period earlier than the scheduled date.

SECTION VI

RIGHTS AND OBLIGATIONS OF THE CONTRACTOR

- 6.01 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 Currency 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, in accordance with existing laws, rules and regulations;
 - (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 exert its best efforts to 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 GOVERNMENT, at all reasonable times upon prior fifteen (15) days 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) To post a performance bond, within sixty (60) days after the effectivity of this Contract or upon implementation of the succeeding Sub-phases, of sufficient amount but not less than the minimum expenditure commitment for that particular Contract Year, in favor of the GOVERNMENT and 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 Contract Year may be subsequently reduced based on the CONTRACTOR's performance of its work and expenditure commitments;
- (h) Include in the Plan of Development, submitted to the GOVERNMENT for approval, a provision for abandonment and payment of abandonment costs pursuant to OEA Circular No. 89-06-08 or its amendment. It shall provide that beginning on the Date of Commencement of Commercial Production the estimated abandonment and relinquishment 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 for 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 a trust account with a reputable commercial bank in the Philippines in favor of the GOVERNMENT the amount of which shall be equivalent to the estimated abandonment and relinquishment cost within one (1) year after the Date of

Commencement of Commercial Production. The CONTRACTOR shall then submit to the GOVERNMENT 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/submit for the GOVERNMENT's review and approval an annual Work Program and Budget;
- (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 the Accounting Procedure and to keep the accounting books secure and in good order;
- (m) Make necessary preparation for regular meetings of Parties, and to submit in advance to the Parties the 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/qualified 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 GOVERNMENT;
- (p) Submit to the GOVERNMENT a quarterly report on its work accomplishment and actual expenditure relative to Section V hereof covered by a transmittal letter duly signed by the responsible official of the CONTRACTOR. In addition, all technical reports should be signed by duly licensed technical personnel of, or engaged by, the CONTRACTOR;

- (q) Handle the information, samples or reports in accordance with the following provisions:
- (i) provide the GOVERNMENT with various data and information in accordance with Section IX and Section XII hereof;
 - (ii) furnish the GOVERNMENT quarterly reports on safety, environmental protection and accidents related to the Petroleum Operations and with financial reports prepared in accordance with the provisions of the Accounting Procedure; and,
 - (iii) furnish the GOVERNMENT with the following:
 - (a) annual procurement plans for purchasing equipment and materials, inquiries, offers, orders and services, etc., in accordance with the approved Work Program and Budget;
 - (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 acquired by the CONTRACTOR;
- (r) Abide by the laws, decrees and other rules and regulations of the GOVERNMENT 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 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 GOVERNMENT on a quarterly basis or as needed during the formulation of the CONTRACTOR's Plan of Development and all issues relative to the Petroleum Operations;
- (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 other energy 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 GOVERNMENT;
- (w) Be subject to Philippine Income Tax under the provisions of the National Internal Revenue Code and the Act, including their amendments;
- (x) After the Date of Commencement of Commercial Production in the Contract Area, supply a portion of the domestic requirements of the Philippines when needed as certified by the GOVERNMENT 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 GOVERNMENT, 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) Acting as a reasonably prudent operator following sound oil and/or gas field practices prevalent in the international petroleum industry, exert best effort to 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, subject to the approval by the GOVERNMENT. 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 GOVERNMENT. The GOVERNMENT shall have the exclusive right to make any such press releases or interviews on the mentioned activities/information.
- (bb) Incur costs and expenses of training Filipino personnel for the CONTRACTOR's own employment and the training assistance of the GOVERNMENT's personnel as Operating Expenses in the Work Program and Budget under Section VII hereof.

6.02 The CONTRACTOR shall have the following rights:

- (a) Exemption from all taxes, except Philippine Income Tax, pursuant 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 pursuant 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 GOVERNMENT 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 without the prior approval of the GOVERNMENT, the CONTRACTOR shall pay twice the amount of the tax exemption granted on the equipment sold, transferred or disposed;

Provided further, that the GOVERNMENT 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 GOVERNMENT, which approval shall not be unreasonably withheld, from laws, regulations and/or ordinances restricting the exportation of machinery, equipment, spare parts and materials which were imported solely for the CONTRACTOR's Petroleum Operations when no longer needed;
 - (e) Exportation of Petroleum subject to the obligation to supply a portion of domestic requirements as provided in Section 6.01(x) above;
 - (f) Entry, upon endorsement of the GOVERNMENT to the appropriate governmental agency for the issuance of necessary visa, which endorsement 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 which will be part of the approved Work Program and Budget;

- (g) Have at all times the right of ingress and egress to the Contract Area and related facilities wherever located;
- (h) Subject to the regulations of the *Bangko Sentral ng Pilipinas*, be entitled to:
 - (1) repatriate the capital investment and all costs and expenses actually spent on or brought into the country in Foreign Currency or other assets and registered with the *Bangko Sentral ng Pilipinas*;
 - (2) retain abroad all Foreign Currency representing proceeds arising from exports accruing to the CONTRACTOR and/or its designated Operator over and above:
 - (a) the Foreign Currency to be converted into pesos in an amount sufficient to cover, or equivalent to, the local costs for administration and operations of the exported Petroleum; and,
 - (b) revenues payable to the GOVERNMENT on such Petroleum exported;
 - (3) convert into Foreign Currency 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 Currency 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;

- (i) Be allowed the Filipino Participation Incentive Allowance (FPIA);
- (j) Exemption from the investment requirements of foreign corporations under Section 143 of Republic Act No 11232, otherwise known as the “Revised Corporation Code of the Philippines”;
- (k) May block off, upon notice to and approval by the GOVERNMENT, 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 IV hereof.
- (l) Relinquish this Contract upon settlement of all other obligations under this Contract. Any unfulfilled financial obligations shall survive the relinquishment of this Contract.

SECTION VII
WORK PROGRAM AND BUDGET

- 7.01 Before the end of October of each Calendar Year after the effectivity of the Contract, the CONTRACTOR shall submit and present to the GOVERNMENT for review and approval of its annual Work Program and Budget for the next Calendar Year. Within forty-five (45) calendar days following the receipt of the annual Work Program and Budget, the GOVERNMENT shall notify the CONTRACTOR in writing of its approval or suggest modifications thereto with its detailed reasons. If the GOVERNMENT 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 GOVERNMENT fails to act on the proposed annual Work Program and Budget within forty-five (45) calendar days from receipt, the proposed annual Work Program and Budget shall be deemed to have been approved by the GOVERNMENT. The CONTRACTOR shall conduct the Petroleum Operations in accordance with the approved or modified annual Work Program and Budget.
- 7.02 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. The CONTRACTOR shall advise the GOVERNMENT of any significant changes on the Work Program and Budget, as follows:

- (a) In carrying out an approved budget for a single item, such as the drilling of well, the CONTRACTOR may, if necessary, incur excess expenditure(s) of no more than fifty percent (50%) of the budgeted amount. However, any excess beyond fifty percent (50%) shall only be allowed for cost-recovery if the CONTRACTOR is able to provide the GOVERNMENT justification for incurring such excess expenditure(s).
- (b) For the efficient performance of the Petroleum Operations, the CONTRACTOR may, without approval of the GOVERNMENT, undertake certain case of emergency works, including but not limited to preventive measures for blowout and oil spill which are not included in the Work Program and Budget, but the CONTRACTOR shall, within fifteen (15) calendar days after such emergency expenditures are incurred, make a written report and request for approval of supplemental budget to the GOVERNMENT.
- (c) In the event that the aggregate of excess expenditures under Section 7.02(a) herein and expenditures under Section 7.02(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 fifteen percent (15%) of the approved annual budget for that Calendar Year. However, any excess beyond fifteen percent (15%) shall only be allowed for cost-recovery if the CONTRACTOR is able to provide the GOVERNMENT justification for incurring such excess expenditure(s).

SECTION VIII

DETERMINATION OF COMMERCIALITY

8.01 If any Crude Oil or Natural Gas is discovered within the Contract Area, the CONTRACTOR shall promptly report in writing such discovery to the GOVERNMENT 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 GOVERNMENT of its decision whether or not it shall pursue appraisal drilling of the discovery.

For Crude Oil discovery, such Appraisal Work Program shall be prepared and submitted by the CONTRACTOR to the GOVERNMENT not later than ninety (90) calendar 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 the CONTRACTOR shall indicate in the notice of its decision sent to the GOVERNMENT. The Appraisal Work Program shall, insofar as is practicable, be prepared on the basis of continuous appraisal work, with a view to commence such Appraisal Work Program within one hundred eighty (180) calendar days from the date of the aforesaid decision was made by the CONTRACTOR.

8.02 Within one hundred eighty (180) calendar days after the completion of the last Appraisal Well, which period may be extended for reasonable cause as may be agreed upon by the Parties, the CONTRACTOR shall submit to the GOVERNMENT a detailed report on the appraisal of the commerciality of the discovery. The appraisal report shall include the evaluation on geology, development, engineering and economics, including a report of Crude Oil and Natural Gas reserves in place for review.

8.03 Within thirty (30) calendar days following the submission of the appraisal report on any Crude Oil-bearing trap, the CONTRACTOR shall convene a meeting with the GOVERNMENT 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 one hundred and eighty (180) calendar days submit for the GOVERNMENT's review and approval, an Plan of Development The Plan of Development 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 9.02 of this Contract.

8.04 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 Plan of Development for such Field and to negotiate the relevant provisions thereof.

If such field extends to an adjacent area not covered by a service contract, then the Contract Area may be extended, subject to the approval of the GOVERNMENT within a reasonable time, to include such part of the adjacent area as is necessary to cover such field. If the size of the additional area exceeds ten percent (10%) of the size of the original Contract Area, the GOVERNMENT and the CONTRACTOR shall negotiate a new service contract for the additional area.

8.05 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, such as but not limited to, by linking it up with facilities located outside the Contract Area, then the

development of such Field shall be dealt within the same manner as provided in Section 8.05 herein or other manner agreed by the neighboring parties.

- 8.06 The procedures specified in this Section VIII 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.
- 8.07 If an extended well test (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 EWT which shall then be governed by a written agreement signed by the Parties and forming part of this Contract.
- 8.08 Nothing in this Section shall limit the right of the GOVERNMENT, 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 IX NATURAL GAS

- 9.01 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 Plan of Development 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 9.01(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 Associated Gas with prior approval of the GOVERNMENT. The CONTRACTOR shall negotiate and execute contracts for the sale of Associated Gas, including the GOVERNMENT share, if the GOVERNMENT has not elected to get its share in the gas production in kind. The CONTRACTOR shall inform and coordinate with the GOVERNMENT about material developments in the negotiations that significantly affect its interest. The GOVERNMENT may elect to join the negotiations and such participation shall however not in any way restrict or limit the right of CONTRACTOR to dispose of its share of Associated Gas.
- (iii) If any Party considers that excess Associated Gas has commercial value while the other Party considers the same to have no commercial value, the former may utilize such excess Associated Gas, at its own cost and expense. Such action shall be done without impeding the production of Crude Oil and affecting the shares of Crude Oil and Gas otherwise, allocable to the Parties under the preceding section. However, if such excess Associated Gas is not utilized at any time, the same shall be disposed of by the CONTRACTOR, provided that there is no impediment to normal production of the Crude Oil.

9.02 Non-Associated Gas

- (a) For Non-Associated Gas discovery pursuant to Sections 8.01 and 8.02 herein, the CONTRACTOR shall submit for the GOVERNMENT's approval, an Appraisal Work Program 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 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 GOVERNMENT within one (1) Year from the completion of the last Appraisal Well. If the CONTRACTOR, with the approval of the GOVERNMENT, 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. The CONTRACTOR shall negotiate and execute contracts for the sale of Non-Associated Gas, including the GOVERNMENT share, if the GOVERNMENT has not elected to get its share in the gas production in kind. The CONTRACTOR shall inform and coordinate with the GOVERNMENT about material developments in the negotiations that significantly affect its interest. The GOVERNMENT may elect to join the negotiations and such participation shall however not in any way restrict or limit the right of CONTRACTOR to dispose of its share of Non-Associated Gas.

- (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 CONTRACTOR together with the GOVERNMENT considers that a Non-Associated Gas reservoir which has been determined to be non-commercial needs to be reappraised because of some favorable factors, the CONTRACTOR shall work out a new evaluation report on that Non-Associated Gas reservoir and submit the same to the GOVERNMENT for review and approval.

9.03 Natural Gas Transportation

- (a) To the extent allowed by law, the GOVERNMENT may agree to the participation of the CONTRACTOR in the pipeline installation and operation to transport Natural Gas, subject to a separate pipeline agreement between the GOVERNMENT and the CONTRACTOR and/or Third Parties. 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 Plan of Development 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 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;
- (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 GOVERNMENT, the CONTRACTOR shall market the GOVERNMENT share of Petroleum produced. 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 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 10.2 and (2) the Filipino Participation Incentive Allowance pursuant to Section 6.2(j). If the GOVERNMENT elects to receive its entire share of Petroleum produced, which is equivalent to sixty percent (60%) of the estimated Net Proceeds from each Petroleum lifting or delivery operation, then the GOVERNMENT 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.

(a) If the CONTRACTOR markets the GOVERNMENT's entire share of Petroleum production, the CONTRACTOR shall within three (3) calendar days from the collection date, but in no case beyond sixty (60) days from lifting or delivery date, pay to the GOVERNMENT, 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 LIBOR plus one percent (1%) per annum reckoned from the day immediately following the three (3) calendar 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 GOVERNMENT in writing of the delay and the reason thereof. The CONTRACTOR and the GOVERNMENT shall then meet to agree on the terms by which the CONTRACTOR's obligation shall be performed. Failure by the

CONTRACTOR to furnish the GOVERNMENT 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 GOVERNMENT 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. The Philippine Income Tax shall be part of the Government Share, subject to applicable laws, rules and regulations.
- 11.02 The Taxable Net Income shall be equivalent to the CONTRACTOR's service fee grossed-up for the amount of the Philippine Income Tax.
- 11.03 Each company comprising the CONTRACTOR shall render to the GOVERNMENT a return for each taxable year in duplicate in such form and manner as provided by law setting forth its Taxable Net Income. The CONTRACTOR shall file its Income Tax 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 CONTRACTOR shall pay and remit the Philippine Income Taxes of each company comprising it and furnish the GOVERNMENT with a copy of the receipts evidencing the

timely payment thereof. Each of the companies comprising the CONTRACTOR shall be subject to tax separately on its share of income.

11.05 The CONTRACTOR shall abide by a final and executory decision of the Supreme Court of the Philippines relative to the effect of the Philippine Income Tax assumption provisions of other existing Petroleum Service Contracts; provided, that any advantage, favor, privilege, exemption or immunity with regard to Philippine Income Tax that is granted or may hereafter be granted to other Philippine Service Contracts shall ipso facto become part of this Contract.

SECTION XII TECHNICAL DATA AND REPORTS SUBMISSION

12.01 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 GOVERNMENT within sixty (60) calendar days after such technical data and reports become available.

12.02 The technical data and reports to be submitted by the CONTRACTOR shall include but are not limited to the following:

- (a) Unprocessed and migrated seismic data in tapes and other media (e.g. CD format compatible with available GOVERNMENT software/hardware);
- (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; and,
 - (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; and,
- (j) Other relevant data and reports generated from Petroleum Operations.

SECTION XIII
ASSETS AND EQUIPMENT

- 13.01 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.
- 13.02 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 Accounting Procedure.
- 13.03 The CONTRACTOR shall own for and on behalf of the Petroleum Operations all assets purchased, installed and/or constructed under the Work Program and Budget, subject to the pertinent rules under the Accounting Procedure. The CONTRACTOR shall transfer possession and ownership of fully cost recovered assets to the GOVERNMENT, as is, upon termination of this Contract or upon the CONTRACTOR's request for disposal ("time of transfer"), *Provided* however, that:
- (a) all liability for maintenance and loss or damage to third parties incurred during the period of the CONTRACTOR's ownership and/or possession of the assets or arising from its use thereof, shall remain with the CONTRACTOR; and
 - (b) the GOVERNMENT, at the time of transfer, may elect to possess the assets which have been fully cost-recovered or require the CONTRACTOR to remove and dispose the said assets within one (1) year from the termination of this Contract or within the period agreed by the Parties.

Notwithstanding the foregoing, any additional income outside of the Petroleum Operation derived from the use or possession of these assets shall be included in the computation of Gross Income and subject to the terms of the Accounting Procedure. However, use of the assets of this nature shall be subject to the approval of the GOVERNMENT.

This clause 13.03 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.

- 13.04 The disposal of fully cost recovered assets shall be done through public bidding.
- 13.05 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 GOVERNMENT.
- 13.06 The CONTRACTOR will not remove any fully cost recovered material, equipment or facilities covered by this Contract from the Contract Area without the prior written consent of the GOVERNMENT.

The ownership of all materials, equipment and facilities erected or placed within the Contract Area shall be transferred to the GOVERNMENT 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 for and on behalf of the Petroleum Operation unless CONTRACTOR fails to remove such property from the Contract Area within one (1) year after termination of this Contract.

The GOVERNMENT shall assume ownership of the materials, equipment and facilities subject to all financing agreements, liens and other burdens thereon and shall promptly inform third party right holders of the same, but may delay assuming ownership thereof pending the satisfaction and release of any such burdens.

SECTION XIV CONSULTATION AND ARBITRATION

- 14.01 The Parties shall make their best efforts to settle amicably any dispute arising in connection with the performance or interpretation of any provision hereof.

14.02 Disputes arising between the GOVERNMENT and the CONTRACTOR relating to this Contract or the interpretation and performance of any of its clauses shall be settled amicably. Disputes which cannot be settled amicably shall be settled by arbitration subject to the provisions of Section 14.04 below. The GOVERNMENT 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 **<insert which tribunal - either the Philippine Dispute Resolution Center Inc. for local arbitration, or the International Chamber of Commerce for international arbitration, at the option of the CONTRACTOR>**.

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 **<insert which tribunal - either the Philippine Dispute Resolution Center Inc. for local arbitration, or the International Chamber of Commerce for international arbitration, at the option of the CONTRACTOR>**.

If an arbitrator fails or is unable to act, his successor will be appointed in the same manner as the arbitrator whom he succeeds.

14.03 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.

14.04 The decision of a majority of the arbitrators shall be final and binding upon the Parties. The Judgment upon the award rendered may be entered in any court having jurisdiction or an application may be made to such court for a judicial acceptance of the award including the request for an issuance of an order of enforcement, as the case may be. Each Party shall bear its respective cost of arbitration, unless the arbitrators decide otherwise.

14.05 Except as provided in this Section XIV, arbitration shall be conducted in accordance with the Rules of Arbitration of **<insert which rules shall apply - either the Philippine**

Dispute Resolution Center Inc., or the International Chamber of Commerce then in effect.

- 14.06 The right to continue or complete arbitration proceedings commenced during the term of this Contract shall survive the termination or cancellation of this Contract.

**SECTION XV
PAYMENTS**

- 15.01 All payments to be made by the CONTRACTOR, including government share, pursuant to this Contract shall be in US Dollars, which may be made in cash, manager's cheque, direct or over-the-counter bank deposit, or via wire/bank transfer payable separately to the "Department of Energy" and the "Ministry of Environment, Natural Resources and Energy" through the following bank details:

For the DEPARTMENT:

Account Name : DOE Trust Fund
Account Number : 0052-1155-58
Bank Address : Land Bank of the Philippines, Buendia Branch
Swift Code : TLBPPHMM
Beneficiary : Department of Energy, Energy Center, BGC, Taguig City

For the MINISTRY:

Account Name : MINISTRY
Account Number : _____
Bank Address : Land Bank of the Philippines, Cotabato City
Swift Code : _____
Beneficiary : Ministry of Environment, Natural Resources and Energy

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 Procedure.

SECTION XVI

EMPLOYMENT, SCHOLARSHIP, AND ASSISTANCE TO HOST COMMUNITIES

- 16.01 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.
- 16.02 The CONTRACTOR shall provide scholarships to qualified individuals residing within the vicinity of the Contract Area, preferably in state colleges and universities, in the minimum amount of Five Thousand United States Dollars (US\$ 5,000.00) per year, cumulative during exploration/development phase, and a minimum amount of Ten Thousand United States Dollars (US\$ 10,000.00) per year, cumulative during the Production Period.
- 16.03 Subject to the prior approval of the GOVERNMENT as part of the annual WP&B, the CONTRACTOR shall undertake Social Development Programs the during the Production Period of this Contract, whether by itself or through partner institutions or third parties, in the host communities or vicinity of the Contract Area or areas utilized by the CONTRACTOR to support Petroleum Operations. The costs of Social Development Programs shall be included in the annual WP&B and shall be cost-recovered as Operating Expenses in accordance with the Accounting Procedures. This notwithstanding, the GOVERNMENT may nominate Social Development Programs for implementation by the CONTRACTOR.

SECTION XVII

SIGNATURE BONUS, DEVELOPMENT ASSISTANCE, AND TRAINING COMMITMENTS

- 17.01 The CONTRACTOR shall pay, upon signing this Contract, a signature bonus in the amount of <insert amount which shall in no case be less than US\$50,000.00>.
- 17.02 The CONTRACTOR shall pay, every end of the Contract Year, training commitments for programs, scholarships, conferences, seminars and other related programs and activities for the GOVERNMENT's personnel, with a total minimum training commitment of <insert amount which shall in no case be less than US\$ 20,000.00> per year, cumulative during the Exploration Period, and <insert amount which shall in no case

be less than US\$50, 000.00> per year, cumulative during the Development and Production Period. The cost and expenses incurred hereto by the OPERATOR shall form part of recoverable Operating Expenses. Any unfulfilled training obligation shall survive the cancellation/termination of this Contract.

17.03 The CONTRACTOR shall provide a one (1) time developmental assistance in the amount of **<insert amount which shall in no case be less than US\$ 60,000.00>** payable within sixty (60) calendar days from the effectivity of the Contract.

SECTION XVIII

OTHER FINANCIAL COMMITMENTS OF THE CONTRACTOR

18.01 The CONTRACTOR shall, within sixty (60) calendar days following the Date of Commencement of Commercial Production, pay to the GOVERNMENT the total sum of Three Hundred Thousand United States Dollars (US\$ 300,000.00) as discovery bonus.

18.02 On the first occasion that there shall be produced and sold from the Contract Area an average rate, over a period of sixty (60) 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) calendar days following the expiration of said sixty (60)-day period, pay to the GOVERNMENT as production bonus, the total sum of Five Hundred Thousand United States Dollars (US\$ 500,000.00); *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.

18.03 On the first occasion that there shall be produced and sold from the Contract Area an average rate, over a period of sixty (60) calendar 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) calendar days following the expiration of said sixty (60)-day period, pay to the GOVERNMENT as production bonus, the total sum of One Million United States Dollars (US\$ 1,000,000.00); *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.

- 18.04 On the first occasion that there shall be produced and sold from the Contract Area an average rate, over a period of sixty (60) 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) calendar days following the expiration of said sixty (60)-day period, pay to the GOVERNMENT as production bonus, the total sum of Two Million United States Dollars (US\$ 2,000,000.00); *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 XIX

BOOKS OF ACCOUNTS AND AUDIT

- 19.01 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 the Accounting Procedure. The basic currency of the determination of cost recovery shall be United States Dollars.
- 19.02 The Government shall have the right to inspect the Contractor's books of accounts directly relating to the Contract for any Contract Year.
- 19.03 The period to conduct audit, the prescriptive period of audit, and the review and appeal process of audit and/or assessments shall be in accordance with the Guidelines on the Conduct of Audit and Reportorial and Remittance Obligations of Energy Contractors and/or Energy Resource Developers issued by the GOVERNMENT.
- 19.04 The GOVERNMENT, upon at least fifteen (15) calendar days advance written notice to the CONTRACTOR, is entitled to access, during reasonable hours without affecting petroleum operations, all books of accounts and records and may inspect such sites and facilities as necessary.

SECTION XX
TERMINATION

20.01 The GOVERNMENT may, after due notice, terminate this Contract for:

- (a) failure of the CONTRACTOR to fulfill its work obligation in any Contract Year or exploration Sub-Phase;
- (b) failure of the CONTRACTOR to remit the government share without justifiable cause within sixty (60) calendar days from lifting or delivery date, or any other financial obligation;
- (c) failure of the CONTRACTOR to post the required performance bond or insurance;
- (d) failure of the CONTRACTOR to implement safety measures required by the GOVERNMENT pursuant to Section 6.01(r);
- (e) gross negligence of the CONTRACTOR in complying with the reportorial requirements of this Contract. The non-submission of reports after one (1) year following the due date shall be considered gross negligence; or
- (f) failure of the CONTRACTOR to comply with the provisions of PD 87, as amended and all other existing applicable implementing circulars, rules and regulations and such others as may be issued by the GOVERNMENT; or
- (g) failure to comply with all other obligations under this Contract.

20.02 The termination of the Contract by the GOVERNMENT is without prejudice to its right to cancel/forfeit the performance bond under Section VI (g) of this Contract to satisfy any and all obligations due to the GOVERNMENT.

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 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;

(2) any change in the manner of implementing any existing laws or regulations;

(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 submit for the GOVERNMENT's approval, an insurance program for the Exploration Operations within one hundred twenty (120) calendar days after the effectivity of this Contract. The CONTRACTOR shall obtain the insurance contracts in accordance with such program as approved by the GOVERNMENT before commencement of Petroleum Operations within the Contract Area. The requirement to secure insurance contracts shall extend to the subsequent Development, Production, and Marketing Operations.

22.02 The insurance programs shall include, as applicable, 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 GOVERNMENT 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 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 XXIII, except in cases as specified in Sections 23.02, 23.03, 23.04, provided that

the release of such Confidential Information is based on justifiable grounds as determined by the GOVERNMENT or are mandated by existing laws or regulations.

23.02 The GOVERNMENT reserves 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 and interpretations of information and data generated and held by the CONTRACTOR after three (3) years from generation thereof;
- (b) raw and/or processed data and interpretations of information and data that will be used by the GOVERNMENT in the performance of its mandate or when required by other government agencies, from generation thereof;

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;
- (c) A prospective assignee or assignees to whom rights and obligations under the Contract are intended to be assigned; and,
- (d) Consultants, auditors, officers or employees and persons engaged by the CONTRACTOR, where necessary for the performance of its obligations and in pursuance of its rights under this Contract.
- (e) A Party may disclose confidential information which would otherwise be confidential if and to the extent required by the law of any relevant jurisdiction or by any relevant authority to which the Party making the disclosure is subject, whether or not such requirement has the force of law; or required by existing contractual obligations; or required to vest the full benefit of this Contract in any of the parties; or when disclosure is made to the professional advisers, auditors and bankers of any of the Parties; or when the confidential information has come into the public domain through no fault of that Party; or the other Parties have given prior written approval to the disclosure.

- 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 Parties 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 qualified Affiliate or any interested party, subject to compliance with pertinent provisions of PD 87 and applicable rules, regulations and/or issuances of the Government.

The GOVERNMENT's approval shall be required if at least a majority of the shares or other ownership interest in relation to the CONTRACTOR (or any member of the CONTRACTOR consortium) are directly or indirectly transferred to another party, or if a transaction results, directly or indirectly, in a change in control of the CONTRACTOR, including a change in control of any member of the CONTRACTOR consortium.

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, 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 at least fifteen (15) calendar days prior to such inspections.

SECTION XXVI
FORCE MAJEURE

26.01 Force Majeure

- (a) Force Majeure shall include Acts of God, storms, typhoons, earthquakes, 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; *Provided*, that the Government may not invoke as Force Majeure the issuance of such orders, laws, rules, and regulations.

- (b) 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.

- (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 within a period of ten (10) calendar days from the existence of the Force Majeure 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
EFFECTIVITY

27.01 The terms and conditions of this Contract shall be effective upon due execution hereof by the Parties.

SECTION XXVIII
MISCELLANEOUS PROVISIONS

28.01 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 served upon the Party's duly designated representative or the person in charge of the Party's office or place of business; or, when sent by electronic mail, notice shall be effective upon successful transmittal to the designated email address/es of the Party; 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) calendar days from the date of the first notice of the postmaster, service shall take effect at the expiration of such time.

28.02 Any data, information, report, or notice required to be submitted to the GOVERNMENT shall be made through the MENRE.

All such notices shall be addressed, as follows:

for the GOVERNMENT -

Minister

Designated email address/es:

1. Name, designation, email address
2. Name, designation, email address
3. PCECP email address

for the CONTRACTOR -

Designated email address/es:

1. Name, designation, email address
2. Name, designation, email address
3. ____ email address

Any Party may substitute or change its address (business and electronic mail) on written notice thereof to the other Parties, otherwise, such a change shall not be binding.

28.03 The laws of the Philippines shall govern this Contract.

28.04 All GOVERNMENT laws, circulars, rules and regulations shall form part of this Contract.

28.05 Downstream Facilities. 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. All expenditures for such studies shall be considered Operating Expenses, provided that the same is included in the Work Program and Budget approved by the GOVERNMENT. 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 GOVERNMENT's approval, to design, construct, and operate such facility. The GOVERNMENT shall assist the CONTRACTOR in obtaining such approvals.

28.06 The headings for the Sections and sub-Sections of this Contract are made for convenience only and shall not be construed so as to limit or in any way change the substantive provisions of any part of this Contract.

28.07 None of the rights, requirements or provisions of this Contract shall be deemed to have been waived by any Party by reason of such Party's failure to enforce any right or remedy granted it hereunder, or take advantage of any default, and each Party shall at all times hereunder have the right to require the strict compliance of the other Party with the provision of this Contract.

28.08 If, for any reason, any stipulation of this Contract is declared invalid, other stipulations that are not affected by such declaration shall continue to be in full force and effect.

28.09 This Contract constitutes the entire agreement between the Parties and supersedes all prior negotiations and agreements, whether oral or written.

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**

CONTRACTOR

President

Representative

[If DOE Secretary and MENRE Minister are authorized by the President]

**GOVERNMENT OF THE
REPUBLIC OF THE PHILIPPINES**

CONTRACTOR

**Secretary
DEPARTMENT OF
ENERGY**

**Minister
MINISTRY OF
ENVIRONMENT,
NATURAL RESOURCES
AND ENERGY**

Representative

REPUBLIC OF THE PHILIPPINES

DEPARTMENT OF ENERGY

**MINISTRY OF ENVIRONMENT,
NATURAL RESOURCES, AND
ENERGY**

ACCOUNTING PROCEDURE

Attached to and made an integral part of the Contract between the GOVERNMENT and the CONTRACTOR dated _____, 20__.

ARTICLE I : GENERAL PROVISIONS

1. Definitions

The Accounting Procedure herein provided for is to be followed and observed in the performance of all obligations under the Contract. Unless otherwise specified, the terms used herein shall have the same meaning as those defined in the Contract.

Policies, systems, and procedures, as identified and provided under this Accounting Procedure do not preclude the GOVERNMENT from adopting best industry practices and generally accepted accounting and auditing principles, practices, and procedures.

2. Purpose

Generally, the purpose of this Accounting Procedure is to set out principles and procedures of accounting which will enable the GOVERNMENT to monitor effectively the CONTRACTOR's costs, expenditures, production and income as well as Government's entitlement to Net Proceeds pursuant to the terms of the Contract. More specifically, the purpose of this Accounting Procedure is to:

- classify costs and expenditures and to define which costs and expenditures shall be allowable for cost recovery, production sharing and participation purposes;
- specify the manner in which the CONTRACTOR's accounts shall be prepared and approved; and
- address numerous other related accounting matters.

For purposes of Article III, the CONTRACTOR herein shall refer to the operator who is designated in accordance with the CONTRACTOR's operating agreement to conduct the Petroleum Operations in the Contract Area for the joint account of the CONTRACTOR except for Article III. 2 L and P.

3. Conflicts

If there should be any conflict between the provisions of this Accounting Procedure and the Contract, the provisions of the Contract shall prevail.

4. Working Language and Units of Account

The CONTRACTOR shall maintain all books of accounts, records, reports and financial reports for the Petroleum Operations in the English language. The amounts shall be recorded in United States Dollars in accordance with generally accepted international petroleum industry accounting principles and practices.

The CONTRACTOR should provide their local currency or any other currency used for the transaction for proper conversion to the United States Dollars.

5. Currency Translation

For conversion purposes for transactions between United States Dollars and Philippine Pesos or any other currency, the applicable exchange rate shall be the exchange rate as quoted by the Philippine Dealing System on the day of the transactions.

It is agreed, however, that any adjustment resulting from the exchange of currency required for the use of this Petroleum Operations or from the translation

above mentioned, shall be charged or credited to the Operating Expenses. The matter of translation rates will be reconsidered if it is determined that the above methods result in inequities.

6. Accounting Records and Reports

All accounting records related to the Petroleum Operations shall be established and maintained by the CONTRACTOR within the Philippines during the development/production period.

In implementing Section X of the Contract, the CONTRACTOR shall render to the GOVERNMENT financial reports of all charges and credits to the Petroleum Operations summarized by appropriate classifications indicative of the nature thereof.

Notwithstanding the generality of the foregoing, pursuant to BED Circular No. 81-01-01, the CONTRACTOR shall make regular financial reports relating to the Petroleum Operations as follows:

- A. Expenditure Reports
 - CD Form 1 - Exploration, Development and Production Summary
 - CD Form 2 - Summary of Inventory
 - CD Form 3 – Depreciable/ Amortizable Assets
 - CD Form 4 – Direct Survey Expenditures
 - CD Form 5 – Details of Direct Well Costs
 - CD Form 6 – Direct Intangible Development Costs
 - CD Form 8 – Overhead/ Indirect Expenses

- B. Production Reports
 - CD Form 7 – Direct Production Expense Summary

- C. Reports of Revenue and Distribution
 - CD Form 9 – Recoverable Investment and Production Sharing

- D. Budget Report
 - CD Form 10 – Guidelines in the preparation of Budget Summary

The proforma financial reports are attached in ANNEX ___ hereof.

The Government may require submission of other financial reports which may be deemed necessary.

7. Adjustments

Subject to the provisions of Section 20.02 of the Contract, all financial reports rendered to the GOVERNMENT by the CONTRACTOR during any Calendar Year shall conclusively be presumed to be true and correct and reasonable unless within the period provided in Section 20.03, the GOVERNMENT takes written exception thereto and makes claim on the CONTRACTOR for adjustment. Failure on the part of the GOVERNMENT to make written claim on the CONTRACTOR for adjustment within such period shall establish the correctness and reasonableness thereof and preclude the filing of exceptions thereto or making claims for adjustment thereon.

8. Arm's Length Transactions

Unless otherwise specifically provided for in the Contract, all transactions giving rise to revenues or expenditures which will be credited or charged to the accounts prepared, maintained or submitted hereunder shall be conducted at arm's length or under comparable conditions and circumstances as a transaction with an independent party, as provided under Bureau of Internal Revenue (BIR) Revenue Regulation (RR) No. 02-2013.

9. Audit and Inspection

Without prejudice to the statutory rights and upon at least fifteen (15) working days advance written notice to the CONTRACTOR, the GOVERNMENT shall have the right to inspect and audit, during normal business hours, all records and documents supporting costs, expenditures, receipts and income, such as the CONTRACTOR's books of accounts, records, invoices, cash vouchers, debit notes, price lists or similar documentation with respect to the Petroleum Operations conducted in each Calendar Year, within thirty-six (36) months following the end of each Calendar Year.

In connection with such audit, the GOVERNMENT shall also have the right to visit and inspect, at reasonable times, all sites, plants, facilities, warehouses and offices of the CONTRACTOR directly or indirectly serving the Petroleum Operations, and to physically examine other properties, facilities and stocks used

in Petroleum Operations, wherever located and to question personnel associated with those operations.

The GOVERNMENT shall undertake the conduct of the audit through its own representatives and the costs of such audit shall be borne by the CONTRACTOR as a general and administrative cost. Provided, the GOVERNMENT shall request the CONTRACTOR for reasonable assistance and logistical support such as, but not limited to, suitable office space, equipment, stationery, and local area transportation.

Within sixty (60) calendar days following the completion of such audit, the GOVERNMENT shall issue an initial audit report, including audit exceptions on the reported revenues and expenditures, if any.

10. Review and Appeals Process of Audit and/or Assessments

Within forty-five (45) calendar days upon receipt of the initial audit report, the OPERATOR may file a Letter of Reconsideration (LR) along with supporting documents, records and/or data contesting the exceptions and/or assessment. The LR shall be addressed to the DOE Director of the Financial Services (FS) and Director of MENRE-EMDS and shall be submitted to the MENRE.

Unless the CONTRACTOR timely files an LR, the exceptions and/or assessment in the initial audit report shall be deemed final, due, and demandable.

When the CONTRACTOR timely contests the validity of the audit exceptions and/or assessments, the DOE Director of the Financial Services (FS) and Director of MENRE-EMDS shall jointly resolve the contested assessment and/or exceptions within forty-five (45) calendar days from receipt of the LR and pertinent documents, records and/or data. Such decision of the DOE Director of the Financial Services (FS) and Director of MENRE-EMDS shall become final and executory if not appealed within ten (10) calendar days from receipt thereof by the CONTRACTOR to the Office of the Supervising Undersecretary of FS and MENRE Director General for Energy.

The concerned Supervising Undersecretary of FS and MENRE Director General for Energy shall resolve jointly within forty-five (45) calendar days the issues raised by the CONTRACTOR in its appeal. Such decision shall become final and executory if not appealed within seven (7) calendar days upon receipt thereof. The

CONTRACTOR shall then be given a period of seven (7) calendar days from the finality of the exceptions and/or assessment to pay the amount due.

However, the auditee may further appeal to the Office of the Secretary and MENRE Minister the decision of the Supervising Undersecretary and MENRE Director General for Energy within seven (7) calendar days. The Secretary and MENRE Minister shall issue their joint decision within thirty (30) calendar days, which shall become final and executory. The CONTRACTOR shall then be given a period of seven (7) calendar days from the finality of the exceptions and/or assessment to pay the amount due.

In all cases, the CONTRACTOR shall be given a grace period of seven (7) calendar days from the finality of the exceptions and/or assessment to pay the amount due. Failure to pay within the seven (7) calendar days grace period will result in the imposition of ten percent (10%) interest per annum from the date of finality of the assessment until full payment of the amount due.

11. Revision of the Accounting Procedure

By mutual agreement between the GOVERNMENT and the CONTRACTOR, this Accounting Procedure may be revised from time to time, in writing, signed by the Parties, stating the date upon which the amendments shall become effective.

ARTICLE II : CLASSIFICATION, DEFINITION AND ALLOCATION OF COSTS AND EXPENDITURES

1. Segregation of Costs

The costs shall be segregated in accordance with the purposes for which such expenditures are made. All costs and expenditures allowable under Article III, relating to Petroleum Operations, shall be classified, defined and allocated as set out below in this Article. Expenditure records shall be maintained in such a way as to enable proper allocation to each Oil Field or Gas Field in the event of more than one Oil Field or Gas Field.

The report to be submitted by the CONTRACTOR to the GOVERNMENT in this regard shall be in the form required by the GOVERNMENT.

2. Depreciable/Amortizable Assets

Plant, property and equipment including production, processing, storage, transportation and other facilities and equipment used directly in the Petroleum Operations.

3. Direct Survey Expenditures

- A. Survey expenditures include all geological and geophysical expenditures incurred in performing activities such as geological studies and mapping, and geophysical prospecting, the various phases of which cover data acquisition, data processing, interpretation and restudies.
- B. The costs of contracted and company performed services should be segregated into contracted services and in-house costs. Contracted services, include those, which were supplied by Third Parties and covered by contracts/agreements. In- house costs should include that portion of exploration survey, which are directly performed by the CONTRACTOR.

4. Direct Well Costs

Included are exploration, appraisal and development drilling costs. The following activities are covered:

- A. Exploration and Appraisal – Location of potential oil or gas trap including the drilling of Exploration Well and the examination of specific oil and gas reserves.
- B. Development – Activities needed to obtain access to proved reserves and to provide facilities for extracting, treating, gathering, and storing oil and gas. More specifically, Development Cost and other costs directly identifiable with development activities are costs incurred to:
 - a) Gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building and relocating public roads, gas lines and power lines, to the extent necessary in developing the proved reserves.

- b) Drill and equip Development Well, including the cost of well equipment such as casing, tubing, pumping equipment and the wellhead assembly.

5. Direct Development Costs

Materials and equipment for the construction of the facilities for extracting, treating, gathering and storing Crude Oil and Natural Gas.

Intangible Development Costs represent development expenditures other than cost of development wells and production facilities such as but not limited to installation costs, mobilization of barges to be used in installation, engineering studies and the like.

6. Direct Production Expenses

Direct production expenses are generally regarded as those expenditures which are absolutely essential to the Production Operations. Indirect production expenses are those which facilitate or are incidental to the Production Operations but do not directly contribute to it.

7. Overhead/Indirect Expenses

A. Expenses incurred in operating one or more administrative levels in exploration, development and production activities are to be included herein.

B. Overhead/indirect expenses shall include expenses incurred in the following:

District Office(s) – an office which may be established to serve the Petroleum Operations in the vicinity of the Petroleum Operations.

Principal Office – an office established in the Philippines which may serve all activities.

Outside the Philippines – the operator's home office or parent company or Affiliate.

**ARTICLE III : REVENUES, COSTS, EXPENDITURES AND
INCIDENTAL INCOME OF THE CONTRACTOR**

1. Revenue definition

- A. Gross proceeds shall be valued in accordance with Section 11.01 of the Contract.
- B. Other income as enumerated in Article III.5 of this Accounting Procedures

2. Recoverable and Allowable Costs Under the Contract

The costs incurred by the CONTRACTOR on Petroleum Operations pursuant to the Contract as classified under the headings referred to in Article II shall be cost recoverable and allowable for purposes of the Contract except to the extent provided in Article III.4 or anywhere in this Accounting Procedure, subject to audit as provided for herein.

A. Surface Rights

All direct costs attributed to the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the Petroleum Operations hereunder when paid by the CONTRACTOR in accordance with the provisions of the Contract.

B. Labor and Associated Labor Cost

- 1) Salaries and wages of the CONTRACTOR's employees directly engaged in the conduct of Petroleum Operations of the Contract Area within the Philippines. Salaries and wages shall include everything constituting gross pay to employees as reflected on the CONTRACTOR's payroll. To the extent not included in the salaries and wages, the Operating Expenses shall also be charged with overtime pay, rest day pay, holiday pay, vacation pay, and vacation travel pay, sickness and disability benefits, bonuses and customary allowances.
- 2) The costs of expenditures or contributions made pursuant to obligations imposed by the governmental authority which are applicable to the CONTRACTOR's labor costs or salaries and wages.

- 3) Personal income and fringe benefit taxes where and when they are paid by the CONTRACTOR to the Government of the Philippines for the employee, in accordance with the CONTRACTOR's standard personnel policies.
- 4) The CONTRACTOR's cost of established plans for employee's group life insurance, health insurance, pension retirement, thrift and other benefits of like nature.
- 5) For Home Office based employees, salaries and wages and employees benefits shall be charged to Operating Expenses based on the percentage of time dedicated to the Petroleum Operations under the Contract.

C. Materials and Equipment

1) General

So far as it is reasonable, practicable and consistent with efficient and economical operation, only such materials shall be purchased or furnished by the CONTRACTOR for use in the Petroleum Operations as may be required for use in the reasonably foreseeable future and the accumulation of surplus stocks shall be avoided. Materials and equipment held in inventory shall only be charged to Operating Expenses when such materials and equipment are removed from inventory and used in Petroleum Operations.

2) Warranty

In the case of defective materials or equipment, any adjustment received by the CONTRACTOR from the suppliers or manufacturers or their agents in respect of any warranty on materials or equipment shall be credited to the accounts under the Contract.

3) Value of materials charged to the account under the Contract

- a) Except as otherwise provided in subparagraph (b) below, materials purchased by the CONTRACTOR for use in the Petroleum

Operations shall be valued to include invoice price less trade and cash discounts, if any, purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, custom duties, consular fees, other items chargeable against imported material and, where applicable, handling and transportation costs from point of importation to warehouse or operating site, and these costs shall not exceed those currently prevailing in normal arm's length transactions in the open market.

b) Materials purchased from or sold to Affiliates or transferred to or from activities of the CONTRACTOR other than Petroleum Operations under the Contract:

1. New materials (hereinafter referred to as condition A) shall be valued at the price prevailing in normal arm's length transactions in the open market;
2. The cost of inventories shall comprise all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present locations and condition. The cost of purchase of inventories comprise the purchase price, import duties and other taxes, and transport, handling and other costs directly attributable to the acquisition of finished goods, material and services. Trade discounts, rebates and other similar items are deducted in determining the cost of purchase.

D. Transportation Costs

- 1) Reasonable transportation and travel expenses of employees of the CONTRACTOR including those made for travel and relocation of the Expatriate Employees and their families (limited to spouse and dependent children) assigned in the Philippines. Transportation costs for returning Expatriate Employees and their families to their country of origin shall be chargeable to the Operating Expenses provided that Operating Expenses shall not be charged expenses incurred in moving Expatriate Employees beyond their point of origin established at the time of their transfer to the Philippines.

- 2) Reasonable costs of transportation of equipment, materials and supplies for the conduct of Petroleum Operations under the Contract, including directly related costs such as unloading charges, dock fees and inland and ocean freight charges.

E. Services

- 1) Third Parties

The actual costs of contract services, services of professional consultants, utilities and other services necessary for the conduct of Petroleum Operations under the Contract performed by Third Parties other than an Affiliate provided that the corresponding contracts for services are registered with the GOVERNMENT.

- 2) Affiliate

- a) Professional and Administrative Personnel

The costs of professional and administrative services provided by an Affiliate for the direct benefit of Petroleum Operations, including, but not limited to, services provided by the legal, financial, insurance, accounting and computer services. The charges shall be equal to the actual cost of providing their services, but shall not include any element of profit and shall not be any higher than the most favorable prices charged by the Affiliate to third parties for comparable services under similar terms and conditions elsewhere and will be fair and reasonable in the light of prevailing international petroleum industry principles and practices. These expenses shall be considered in the computation under Article III.2.O of this Accounting Procedures.

- b) Technical Personnel

The costs of technical personnel services provided by an Affiliate of CONTRACTOR for the direct benefit of Petroleum Operations, which costs shall be charged on a cost of service basis. The charges therefore shall not exceed charges for comparable services currently provided by outside technical service

organizations of comparable qualifications.

- c) Equipment, facilities and property owned and furnished by the CONTRACTOR's Affiliate, at rates commensurate with the cost of ownership and operation provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment, facilities and property on comparable rates in the area where the Petroleum Operations are being conducted. The equipment and facilities referred to herein shall exclude major investment items such as (but not limited to) drilling rigs, producing platforms, oil and gas treating facilities, oil and gas loading and transportation systems, storage and terminal facilities and other major facilities, rates for which shall be subject to separate agreement with the GOVERNMENT.

F. Damages and Losses

All costs or expenses necessary to replace or repair damages or losses not recovered from insurance incurred by fire, flood, storm, theft, accident or any other cause not controllable by the CONTRACTOR through the exercise of reasonable diligence. The CONTRACTOR shall furnish the GOVERNMENT written notice of damages or losses incurred as soon as practicable after report of the same has been received by the CONTRACTOR.

G. Communication

The costs of acquiring, leasing, installing, operating, repairing and maintaining communication systems including radio and satellite communication facilities between the Contract Area and the CONTRACTOR's nearest base facility.

H. Office, Shore Bases and Miscellaneous Facilities

The costs of establishing, maintaining and operating any office, sub-office, shore base facility, warehouse, housing or other facility directly serving the Petroleum Operations. If any such facility serves contract areas other than the Contract Area, or any business other than Petroleum Operations, the costs thereof shall be allocated on an equitable and consistent basis.

I. Environmental Studies and Protection

The costs incurred in conducting the environmental impact studies for the Petroleum Contract Area, and in taking environmental protection measures pursuant to the terms of the Contract or in compliance with environmental laws, rules and regulations.

J. Duties, Fees and Other Charges

Any duties, levies, fees and charges imposed by any governmental or taxing authority in connection with the CONTRACTOR's activities under the Contract and paid directly by the CONTRACTOR except those charges and assessments for which the CONTRACTOR is solely liable under the terms of the Contract.

K. Insurance and Claims

- 1) Premium paid for insurance required to be carried for the Petroleum Operations conducted under the Contract, together with all the expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services not recovered from the insurer.
- 2) All actual expenditures relative to the Petroleum Operations incurred and paid by the CONTRACTOR in settlement of any and all losses, claims, damages, judgments and any other expenses not covered by insurance, including legal services shall be charged to the Operating Expenses.

L. Legal Expenses

All reasonable costs and expenses resulting from the handling, investigating, asserting, defending or settling of any claim or legal action necessary or expedient for the procuring, perfecting, retention and protection of the Contract Area and in defending or prosecuting lawsuits involving the Contract Area or any Third Party claim arising out of Petroleum Operations under the Contract, or sums paid in respect of legal services necessary for the protection of the joint interest of the GOVERNMENT and the CONTRACTOR. Such expenditures shall include

attorney's fees, court costs, costs of investigation and procurement of evidence and amounts paid in settlement or satisfaction of any such litigation and claims provided such costs are not covered elsewhere in the Accounting Procedure.

M. Training Costs

All costs and expenses of training the CONTRACTOR's personnel for the direct benefit of the Petroleum Operations and the costs of training of the GOVERNMENT's personnel shall be charged as Operating Expenses.

N. Administrative Overhead within the Philippines

The costs and expenses incurred by the CONTRACTOR for an office and staff established in the Philippines which may serve all activities of the Petroleum Operations under the Contract. Allocation of such costs and expenses between the CONTRACTOR's other activities and Petroleum Operations activities hereunder shall be made on actual expenditures or other equitable basis. Examples of such services which are chargeable to the Petroleum Operations include, but are not necessarily limited to the following:

- 1) Administrative and Managerial
- 2) Accounting and Internal Control
- 3) Legal and Tax
- 4) Human Resource and Medical
- 5) Communications
- 6) Purchasing
- 7) Treasury and Financial Services
- 8) Insurance
- 9) Safety and Security

10) Budgeting and Planning

O. Administrative Overhead – Outside the Philippines

- 1) Administrative overhead refers to the costs for the managerial and operational services provided by the CONTRACTOR's management organizations for the Petroleum Operations, including management, administration, accounting, treasury, intercompany audit, tax, legal matters, human resources or employee relations, financing, purchasing, medical, the collection of economic data and costs, and related office costs incurred by the parent company or an Affiliate outside the Philippines. The administrative overhead outside the Philippines applicable to Petroleum Operations shall be charged and limited on the following percentages of the adjusted net expenditures:

For first U.S. \$2,000,000 per year 3% but not less than US\$6,000.00 per year

For next U.S \$1,000,000 per year 2%

Over U.S. \$3,000,000 per year 1%

- 2) Net expenditures for purposes of applying the percentage charges stipulated in sub-paragraph (1) above shall be adjusted to exclude the following:

- a) Administrative overhead charged under Article III.2.O.1 above;
- b) Nonrecoverable costs as provided in Article III.4 of this Accounting Procedure;
- c) Surface taxes and rentals;
- d) Major construction projects covered by Article III.2.O.3 below;
- e) Settlements of judgments or claims in excess of five thousand United States Dollars (US\$5,000.00) per

transaction;

- f) Proceeds received from sale of assets (including division in kind) amounting to more than five thousand United States Dollars (US\$5,000.00) per transaction;
 - g) Foreign Currency adjustments; and
 - h) Pipeline tariff costs paid to outsider.
- 3) Administrative overhead for major construction projects such as but not limited to offshore platforms, pipelines, gas and/or water repressuring and processing plants, tanker, loading and terminal facilities, shall be agreed to by the Parties.
- 4) Operator's administrative overhead outside the Philippines shall be reviewed by the Parties periodically upon request of either Party and the future charges adjusted upward or downward as indicated by the operator's cost experience.

P. Interest

Any interest, charges, fees or other consideration paid or suffered in respect of financing the CONTRACTOR's Petroleum Operations including but not limited to, financial advisor fees, investment banker fees, registration and stamp fees and all closing costs, as approved by the Government, shall be considered Operating Expenses to the extent of two-thirds (2/3) of the amount thereof, except interest on loans or indebtedness incurred to finance the Exploration Operations. The GOVERNMENT's approval of such interest, charges, fees or other considerations shall not be withheld if reflective of prevailing conditions in the international capital market.

Q. Abandonment Costs

The CONTRACTOR shall integrate its abandonment and rehabilitation plan in its Overall Development Plan prior to the Date of Commencement of Commercial Production.

The CONTRACTOR shall charge as Operating Expenses such costs on a per unit or production per quarter basis, commencing with the first quarter of the first Calendar Year of commercial production.

At least ninety (90) days prior to each subsequent Calendar Year, the CONTRACTOR shall present to the GOVERNMENT an adjusted estimate of such abandonment costs, which shall be subject to the GOVERNMENT's approval.

The quarterly recoverable abandonment cost shall be subject to the cost recovery limit contained in Section 11.02 of the Contract and shall be deposited into an interest earning escrow account with a mutually acceptable licensed bank, subject to an escrow agreement between the CONTRACTOR and the GOVERNMENT. An amount equal to the quarterly recoverable abandonment costs, less any interest earned in the escrow account during the applicable Calendar Quarter, shall be paid into the escrow account within thirty (30) days after the end of such Calendar Quarter.

The CONTRACTOR shall give the GOVERNMENT at least twelve (12) months notice prior to the commencement of abandonment operations in respect of any Production Area. Within ninety (90) days from receipt of the abandonment notice, the GOVERNMENT shall notify the CONTRACTOR either:

- 1) That the CONTRACTOR is authorized to abandon the Petroleum Operations in the Production Area, in which event the amount in the escrow account shall be transferred to the CONTRACTOR and the CONTRACTOR shall carry out the abandonment operations in accordance with accepted industry practices for international offshore Petroleum Operations and all applicable Philippine laws, rules and regulations; or
- 2) That the GOVERNMENT desires to take over the responsibility of abandonment of Petroleum Operations in the Production Area, in which event the amount in the escrow account shall be transferred to the GOVERNMENT, and the CONTRACTOR shall be relieved of any further liability for the Petroleum Operations in the Production Area to be abandoned;

Provided, however, that the amount in the escrow account shall be adjusted to be equal to the current approved estimate of total abandonment costs. Any deficiency in the escrow account at that time shall be funded by the CONTRACTOR. Any excess in the escrow account at that time shall be considered as an offset against Operating Expenses.

3. Other Expenditures

Any costs paid and incurred in connection with the disposal of assets provided under Section 14.03 of this Contract, may be deducted against the proceeds of disposal. These include marketing and publication fees, reasonable commissions, brokerage fees, logistics, and other usual and necessary expenses for such undertaking. Provided, however, that it shall not exceed the ordinary and prevailing rate.

4. Costs not recoverable and not allowed under the Contract

The following costs and expenditures shall not be recoverable nor allowed for cost recovery and production sharing purposes under the Contract:

- A. Processing/application fees, bonuses, rentals and other payments made to the GOVERNMENT such as but not limited to the payments for signature bonus, discovery bonus, production bonus and tax exemption certificates;
- B. Costs attributed to posting the performance guaranty deposits required under this Contract;
- C. Costs and charges incurred before the effective of this Contract including costs in respect of preparation, signature or ratification of this Contract;
- D. Expenditures in respect of any financial transaction to negotiate, float or otherwise obtain or secure funds which are not used for Petroleum Operations;
- E. Costs of marketing or transportation of Petroleum beyond Delivery Point;

- F. Expenditures incurred in obtaining, furnishing and maintaining the guarantees required under the Contract and any other amounts spent on indemnities with regard to non-fulfillment of contractual obligations;
- G. Fines and penalties imposed by courts of law of the Republic of the Philippines;
- H. Donations and contributions beyond the limitations set under The National Internal Revenue Code as amended.
- I. Costs incurred in the creation of any partnership or joint venture arrangement;
- J. Membership and club dues not related to professional organizations;
- K. Costs incurred as a result of failure to insure where insurance is required pursuant to the Contract, or where the CONTRACTOR has elected to self-insure, or has under-insured;
- L. Provisions, Revaluation of Assets, and other accrued expenses where no actual incurrence or payment of expenses was made.
- M. Costs and expenditures incurred as a result of willful misconduct or negligence of the CONTRACTOR;
- N. Costs and expenditures related to Corporate Social Responsibility (CSR) are non-recoverable, except for Social Development Programs (SDP) which are part of the CONTRACTOR's regulatory compliance as approved and included in the Work Program and Budget (WP&B); and
- O. Any costs and expenditures which by reference to generally accepted international petroleum industry accounting principles and practices can be shown to be excessive.

5. Incidental Income and Credits

All incidental income and proceeds received from Petroleum Operations under the Contract, including but not limited to the items listed below, shall be credited to the accounts under the Contract and shall be treated as follows:

A. As part of Gross Income

- 1) Revenue received from third parties for the use of property or assets, the cost of which has been charged to the accounts under the Contract;
- 2) Proceeds from sale of sulphur or a by-product of the H₂S extraction process;
- 3) Such other income which is incidental to and/or arising from any Petroleum Operations or other aspects of the Contract.

B. As offset against Operating Expenses

- 1) Proceeds of any insurance or claim or judicial awards in connection with Petroleum Operations under the Contract or any assets charged to the accounts under the Contract where such operations or assets have been insured and the premiums charged to the accounts under the Contract;
- 2) Any adjustment received by the CONTRACTOR from the suppliers/manufacturers or their agents in connection with defective materials, the costs of which was previously charged by the CONTRACTOR to the accounts under the Contract;
- 3) Refunds or other credits received by the CONTRACTOR which apply to any charge which has been made to the accounts under the Contract;
- 4) Net dividends received from utilities and dividends received from investments;
- 5) Costs originally charged to the accounts under the Contract for materials subsequently exported from the Republic of the Philippines without being used in Petroleum Operations under the Contract;
- 6) Legal costs charged to the accounts and subsequently recovered by the CONTRACTOR; and

- 7) In the event that the proceeds on sale of assets are equal to or less than the net book value.

C. As hundred percent (100%) revenue for the GOVERNMENT

In the event the proceeds on sale of assets are more than the net book value, the difference between the proceeds of sale and net book value, shall be 100% revenue for the GOVERNMENT.

ARTICLE IV : RECOVERY OF EXPENDITURES

1. Tangible Investments

The initial costs of physical assets classified as depreciable in accordance with the generally accepted international petroleum industry accounting principles and practices purchased and/or fabricated by the CONTRACTOR, and used by the CONTRACTOR in its Petroleum Operations shall include such costs as export broker's fees, purchasing agent's fees, transportation charges, loading and unloading fees, license fees associated with the procurement of materials and equipment, duties and customs fees, in-transit losses not recovered through insurance and installation costs necessary to put the asset ready for use. All tangible investments shall be allocated to Operating Expenses over a five-(5) year period if the Contract qualifies as a Deepwater Contract and a ten-(10) year period for other assets if the Contract is not a Deepwater Contract, beginning in the Calendar Year in which Petroleum production starts or in the Calendar Year in which the costs are incurred, whichever is later. The total cost of the asset shall be allocated to Operating Expenses under either of the following methods, at the option of the CONTRACTOR:

- a) The straight-line method, or
- b) The double declining balance method in the first three (3) years and then straight-line method in the last two (2) years of the five (5) year period.

2. Leasehold Improvements

Improvements and betterments on leasehold which can be capitalized in accordance with generally accepted international petroleum industry accounting

principles and practices shall be allocated to Operating Expenses in accordance with depreciation principles established in Article IV.1 above. Such improvements shall include but not be limited to office improvements, additional equipment and other improvements installed on a ship operated under a bareboat charter, etc.

3. Intangible Investments

Notwithstanding any other provision of this Accounting Procedure, all intangible investments shall be recoverable in full in the Calendar Year in which these are incurred.

ARTICLE V : REVENUE SHARING

In implementing Sections XI and XII of this Contract, the following shall be observed by the Contractor to determine the revenue to be shared between the GOVERNMENT and CONTRACTOR:

1. Net Proceeds from Petroleum Operations

The Net Proceeds shall be the difference between the Gross Income, and the sum of:

- a) the Operating Expenses recoverable pursuant to Section 11.2 and
- b) the Filipino Participation Incentive Allowance pursuant to Section 7.2(i)

2. Share of Contractor

A Service Fee equivalent to forty percent (40%) of the Net Proceeds shall be retained by the Contractor as its share from Petroleum Operations.

3. Determination of Income Tax

The CONTRACTOR shall be liable for Philippine Income Tax for each taxable year. It shall be computed in accordance with the provisions of the National Internal Revenue Code and the Act, both as amended. The Philippine Income Tax shall be part of the Government Share, subject to applicable laws, rules and regulations.

The Taxable Net Income shall be the grossed-up value determined by dividing the CONTRACTOR's service fee by the difference between one hundred percent (100%) and the applicable corporate income tax rates.

The Philippine Income Tax is calculated by multiplying the Taxable Net Income by the statutory corporate income tax rate.

4. Government Share

The remaining sixty percent (60%) of the Net Proceeds from Petroleum Operations shall be remitted to the Government, subject to the following provisions:

- a. The computed Philippine Income Tax provided above shall form part of the Government Share.
- b. One and 1/2 percent (1.5%) of the proceeds of the Government share collected, excluding tax, shall be remitted to the Renewable Energy Trust Fund (RETF) pursuant to Section 28 of Republic Act 9513¹ or the Renewable Energy Act of 2008.
- c. Net Government Share shall be the remaining amount after deducting items (a) and (b) above

5. Net Government Share

5.1 Petroleum Operations within the Territorial Jurisdiction of any Local Government Unit:

- a. Forty percent (40%) of the Net Government Share shall be allocated to the Local Government Unit (LGU).
- b. Sixty percent (60%) of the Net Government Share shall be shared equally between DOE and MENRE.

5.2 Offshore Petroleum Operations outside the Territorial Jurisdiction of any Local Government Unit, the Net Government Share shall be shared equally between DOE and MENRE.

¹ <https://www.officialgazette.gov.ph/2008/12/16/republic-act-no-9513/>