

Republic of the Philippines  
PETROLEUM BOARD  
Manila

SERVICE CONTRACT

between

THE PETROLEUM BOARD

and

, PHILIPPINES-CITIES SERVICE, INC.

HUSKY (PHILIPPINES) OIL, INC.

ORIENTAL PETROLEUM AND MINERALS  
CORPORATION

PHILIPPINE-OVERSEAS DRILLING & OIL  
DEVELOPMENT CORPORATION

BASIC PETROLEUM AND MINERALS, INC.

LANDOIL RESOURCES CORPORATION

WESTTRANS PETROLEUM, INC.

PHILIPPINE NATIONAL OIL COMPANY

THIS CONTRACT, made and entered into this 17<sup>th</sup> day of December,  
1975 in the City of Manila by and between THE PETROLEUM BOARD,  
established pursuant to "THE OIL EXPLORATION AND DEVELOPMENT ACT  
OF 1972", as First Party.

and

*R.H.*  
*AMT*  
PHILIPPINES-CITIES SERVICE, INC., a corporation  
organized and existing under the laws of the State of  
Delaware, U.S.A., with principal office at Houston,  
Texas, U.S.A. (hereinafter called "CITIES").

*X-7*  
HUSKY (PHILIPPINES) OIL, INC., a corporation  
organized and existing under the laws of the State of  
Delaware, U.S.A., with principal office at Cody, Wyoming,  
U.S.A. (hereinafter called "HUSKY").

*AMT*  
ORIENTAL PETROLEUM AND MINERALS CORPORATION,  
a corporation organized and existing under the laws of the  
Philippines, with principal office at Suite 12-E, G.E.  
Antonino Building, T.M. Kalaw Street, Ermita, Manila,  
(hereinafter called "ORIENTAL").

PHILIPPINE-OVERSEAS DRILLING & OIL DEVELOPMENT CORPORATION, a corporation organized and existing under the laws of the Philippines with principal office at Philex Building, Brixton Road, Pasig, Rizal, (herein called ("PHILODRIL").

BASIC PETROLEUM AND MINERALS, INC., a corporation organized and existing under the laws of the Philippines with principal office at Suite 700, Sarmiento Building, Ayala Avenue, Makati, Rizal, Philippines (herein called "BASIC").

LANDOIL RESOURCES CORPORATION, a corporation organized and existing under the laws of the Philippines with principal office at 2nd Floor, Zaragoza Building, Gamboa Street, Legaspi Village, Makati, Rizal, Philippines, (herein called "LANDOIL").

WESTRANS PETROLEUM, INC., a corporation organized and existing under the laws of the State of Delaware, United States, with principal office at 250 Park Avenue, New York (herein called "WESTRANS").

PHILIPPINE NATIONAL OIL COMPANY, a corporation organized and created under the laws of the Philippines, with principal office at Petrophil Building, Makati Avenue, Makati, Rizal (herein called "PNOC").

as second party, whose respective interests are set forth in Annex "A" attached hereto, hereinafter collectively referred to as "CONTRACTOR", and the PETROLEUM BOARD and CONTRACTOR, hereinafter referred to collectively as the "Parties".

WITNESSETH:

*Alb*  
WHEREAS, The Oil Exploration and Development Act of 1972 (hereinafter called "The Act") declares it to be the policy of the State to hasten the discovery and production of indigenous petroleum; and

*guy*  
WHEREAS, Under the provision of the Act, the Government of the Republic of the Philippines may explore for and produce indigenous petroleum under service contracts as provided in the Act; and

*Alb*  
WHEREAS, In the pursuance of its above-stated policy the government acting through the Petroleum Board wishes to avail itself of the resources of the Contractor through a service contract under which Contractor will furnish the necessary services and technology and will provide financing

WHEREAS, Contractor wishes to enter into such a service contract covering the Contract Area as hereinafter defined; and

WHEREAS, Contractor has the financial resources, technical competence and professional skills necessary to carry out the Petroleum Operations;

NOW, THEREFORE, In consideration of the payment of Sixty Thousand Dollars (\$60,000) to be paid by Contractor to The Petroleum Board during the First Quarter of 1976 for use by Philippine National Petroleum Center, such amount at the option of the Petroleum Board may be substituted in materials and equipment of equivalent value, and of the mutual covenants and conditions herein contained, it is hereby stipulated and agreed as follows:

SECTION I  
SCOPE

- 1.1 This Contract is a service contract entered into pursuant to Section 7 of the Act with all necessary services, technology and financing to be furnished by Contractor in accordance with the provisions herein contained. The Contractor shall undertake and execute the Petroleum Operations contemplated hereunder.
- 1.2 Contractor shall be responsible to the Petroleum Board for the execution of such Operations in accordance with the provisions of this Contract, and is hereby appointed and constituted the exclusive party to conduct the Petroleum Operations. The Petroleum Board shall have the right to require performance of any or all obligations under this Contract against any or all of the second parties. Provided that in the event of non-performance of any of such obligations, the Petroleum Board will have recourse to the Bond or Guarantee referred to in Section 6.1 and payment to the Petroleum Board under such Bond or Guarantee shall relieve any

- 1.3 Contractor shall assume all exploration risks such that if no Petroleum in Commercial Quantity is discovered and produced, it will not be entitled to reimbursement.
- 1.4 During the term of this Contract the total production achieved in the conduct of such Operations shall be accounted for between the Parties in accordance with Section VII hereof.
- 1.5 Pursuant to the provisions of any Operating Agreement which may be entered into by and among appropriate parties, CITIES shall be designated as the initial Operator for carrying out the Petroleum Operations under this Contract in accordance with the terms of such Operating Agreement. Notices communicated in accordance with this Contract to the Operator from The Petroleum Board shall constitute notice to CONTRACTOR.

*[Handwritten signatures]*

*[Signature]*

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## SECTION II DEFINITIONS

In the text of this Contract, the words and terms defined in Section 3 of the Act shall, unless otherwise specified herein, have meaning in accordance with such definitions.

- 2.1 Contract Area means at any time the Area within the mining territory of the Republic of the Philippines which is the subject of this Contract. The Contract Area is outlined and more particularly described in Annex "A" attached hereto.
- 2.2 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.
- 2.3 Crude Oil or Crude means oil in its natural state before the same has been refined or otherwise treated. It does not include oil produced through destructive distillation of coal, bituminous shale or other stratified deposits, either in its natural state or after the extraction of water, and sand or other foreign substances therefrom.
- 2.4 Natural Gas means gas obtained from boreholes and wells and consisting primarily of hydrocarbons.
- 2.5 Casinghead Petroleum Spirit means any liquid hydrocarbons obtained from natural gas by separation or by any chemical or physical process.
- 2.6 Petroleum Operations or Operations means searching for and obtaining Petroleum within the Philippines through drilling and pressure or suction or the like, and all other operations incidental thereto.

(Contd. from page 5 - no. 2.6)

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 transactions in the products so refined.

2.7 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.

2.8 Operating Expenses means the total expenditures incurred by the Contractor both within and without the Philippines in Petroleum Operations pursuant to this Contract and determined in accordance with the Accounting Procedure attached hereto and made part hereof as Annex "B".

These expenses will include but not be limited to the cost of seismic surveys, geological studies, drilling and equipping wells, engineering studies, construction of well platforms, tank batteries, pipelines, systems and terminals and the cost of operating and maintaining all such facilities.

2.9 Effective Date means the date of the execution of this Contract by the Parties.

2.10 Foreign Exchange means currency other than that of the Republic of the Philippines that are freely convertible into gold or currencies eligible to form part of the country's international reserves or currencies acceptable to the Petroleum Board and to the Contractor.

2.11 Calendar Year or Year means a period of twelve (12) consecutive months commencing with January 1 and ending on the following December 31, according to the Gregorian Calendar.

2.12 Contract Year means a period of twelve (12) consecutive months according to the Gregorian Calendar counted from the Effective Date of this Contract or from the anniversary of such Effective Date.

2.13 Production Area means that portion of the Contract Area where all reservoirs containing Petroleum in Commercial Quantity are delineated by the Contractor in consultation with the Petroleum Board.

2.14 Gross Income means the gross proceeds from the sale of crude, natural gas or casinghead petroleum spirit produced under the Contract and sold during the taxable year at posted or market price, as the case may be, all as determined pursuant to Section VII, and such other income which are incidental to and arising from any one or more of the Petroleum Operations of the Contractor.

2.15 Posted Price means the FOB price established by the Contractor and the Petroleum Board for each grade, 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, gravity and quality.

2.16 Market Price means the price which is realized for Petroleum produced under this Contract if sold in a transaction between independent persons dealing at arm's length in a free market.

2.17 Barrel means 42 U.S. gallons or 9702 cubic inches at a temperature

- 2.18 Government means the Government of the Republic of the Philippines.
- 2.19 Filipino Participation Incentive means the allowance of seven and one-half percent of Posted or Market Price, as the case may be, which is granted to Contractor to be applied as provided in Section VIII below.
- 2.20 Affiliate means (a) a company in which a Contractor holds directly or indirectly at least fifty percent (50%) of its outstanding shares entitled to vote; or (b) a company which holds directly or indirectly at least fifty percent (50%) of the Contractor's outstanding shares entitled to vote; or (c) a company in which at least fifty percent (50%) of its shares outstanding and entitled to vote are owned by a company which owns directly or indirectly at least fifty percent (50%) of the shares outstanding and entitled to vote of the Contractor.
- 2.21 Crude Oil Exported shall include not only Crude Oil exported as such but also indigenous Crude Oil refined in the Philippines for export.
- 2.22 Contract means this service contract.
- 2.23 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.
- 2.24 Taxable Net Income means the Gross Income less the deductions provided in Sub-section 8.1 below.

SECTION III  
TERM

- 3.1 The exploration period under this Contract shall be seven (7) years from the Effective Date, extendible for three (3) years if (a) the Contractor has not been in default in its exploration work obligations and other obligations; (b) has drilled a minimum of 30,000 feet of test wells and (c) has provided a work obligation for the extension acceptable to the Petroleum Board, after which time this Contract shall automatically terminate unless Petroleum has been discovered by the end of the tenth year and the Contractor requests a further extension of one (1) year to determine whether the discovery is in Commercial Quantity, in which event, another extension of one (1) year for exploration will be granted.
- 3.2 Where Petroleum in Commercial Quantity is discovered during the exploration period, this Contract shall, as to any Production Areas delineated pursuant to sub-section 6.1 (b) below, remain in force during the balance of the exploration period or any extension thereof and for an additional period of twenty-five (25) years, thereafter renewable for a period not exceeding fifteen (15) years under such terms and conditions as may be agreed upon by the Parties at the time of the renewal.

SECTION IV  
EXCLUSION OF AREAS

- 4.1 On or before the end of the fifth Contract Year, Contractor shall surrender twenty-five percent (25%) of the initial Contract Area.
- 4.2 On or before the end of the initial seven (7) years exploration period, if Contractor elects to extend the period for an additional three (3) years, Contractor shall surrender an additional area equal to twenty-five percent (25%) of the initial Contract Area.
- 4.3 In the event that Contractor has delineated any Production Areas pursuant to Sub-section 6.1 (b) below, the extent of such Production Areas shall be deducted from the initial Contract Area for the purpose of determining the size of such area that must be surrendered pursuant to Sub-sections 4.1 and 4.2 above.
- 4.4 If Petroleum in Commercial Quantity has been discovered during the exploration period, or any extension thereof, the Contractor may retain after the exploration period and during the effectiveness of the Contract, twelve and one-half percent (12-1/2%) of the Initial area in addition to the delineated Production Area:
- Provided, however, That the Contractor shall pay annual rentals on such twelve and one-half percent retained area of twenty (20) pesos per hectare or fraction thereof: Provided, finally, That such annual rentals shall be reduced by the amount spent by Contractor for exploration on such retained area during the Contract Year.
- 4;5 Contractor shall have the right, on at least thirty (30) days written notice to the Petroleum Board, to surrender all or any portion of the Contract Area. Any portion so surrendered shall be credited against that portion of the Contract Area which Contractor is next required to surrender under the provisions

(Contd. from page 10 - no. 4.5)

of Sub-sections 4.1 and 4.2 hereof. The areas being surrendered shall be of sufficient size and convenient shape to enable Petroleum operations to be conducted thereon.

- 4.6 In case the Contractor surrenders or abandons wholly or partly the area covered by this Contract within two (2) years from its Effective Date, it shall in respect of the abandoned area pay the Government the amount it should have spent, but did not, for exploration work during said two (2) years as specified under Section 5.1, for which payment, among other obligations, the performance guarantee posted by the Contractor shall be answerable.
- 4.7 With respect to the mandatory surrenders pursuant to Sub-sections 4.1 and 4.2 as qualified by Sub-section 4.3, Contractor shall advise the Petroleum Board 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 to enable the Petroleum Operations to be conducted thereon.
- 4.8 All areas surrendered shall conform to the Petroleum Board's blocking system by which this Contract Area was determined.

SECTION V

WORK PROGRAM AND EXPENDITURES

- 5.1 During each Contract Year, Contractor shall be obligated to spend not less than the amounts and fulfill not less than the Work Commitments as specified below in connection with Petroleum Operations including the direct prosecution of exploration work under this Contract:

<u>CONTRACT YEAR</u>	<u>WORK COMMITMENT</u>	<u>AMOUNT</u>
Years 1 and 2	Drill one (1) well	US\$2,500,000
Year 3	Drill one (1) well	2,500,000
Year 4	Drill one (1) well	1,500,000
Year 5	None	2,000,000
Year 6	Drill one (1) well	2,750,000
Year 7	Drill one (1) well	2,750,000

Provided, however, Contractor shall have the right, by giving written notice to the Petroleum Board at least thirty (30) days prior to the end of the Second (2nd) Contract Year or any subsequent Contract Year, to surrender the Contract Area and thereby be relieved of all subsequent obligations, Provided further, if during any Contract Year, Contractor shall spend more than the amount of money required to be spent by Contractor or drill more wells than are required to be drilled,

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the excess may be credited against the amount of money or wells required of the Contractor during the succeeding Contract Years and Provided further, That should the Contractor fails to comply with the work obligations provided for in this Contract for any Contract Year, it shall pay to the Government the amount it should have spent but did not in direct prosecution of its work obligations. For purposes of this proviso, failure to meet a commitment to drill a well shall be deemed

(Contd. from page 12 Section V-5,1)

a failure to spend the amount committed above which is left unspent or One Million Five Hundred Thousand U.S. Dollars (US\$1,500,000.00) whichever is higher. Provided, finally, That the Contractor shall commence drilling within three (3) months after the effective date of this Contract.

- 5.2 Within a period of three (3) months after the Effective Date of this Contract and three (3) months prior to the beginning of each succeeding Contract Year, Contractor shall prepare and submit a Work Program and Budget for the Contract Area setting forth the Petroleum Operations which Contractor proposes to carry out during the ensuing Contract Year and shall advise the Petroleum Board of any significant changes thereon.
- [Handwritten signatures and initials follow, including "Lay", "M. A. H.", "H. R.", and "W. J. H."]*

SECTION VI  
RIGHTS AND OBLIGATIONS OF THE PARTIES

6.1 Contractor shall have the following obligations:

- (a) Perform all Petroleum Operations and provide all necessary services, technology and financing in connection therewith; Provided, That no foreign exchange requirements of the Operations shall be funded from the Philippine banking system.
- (b) Upon each discovery of Petroleum in quantities that may be commercial as determined by the Contractor, delineate in consultation with the Petroleum Board the reservoir in a prudent and diligent manner and in accordance with good oil field practices within a six (6) month period or such additional period as Contractor may demonstrate to the Petroleum Board to be reasonably necessary to effect such delineation. If after such delineation, it is determined that the reservoir contains Petroleum in Commercial Quantity, the area so delineated shall constitute a Production Area.
- (c) Be subject to the provisions of laws of general application relating to labor, health, safety, and ecology;
- (d) Once Petroleum in Commercial Quantity is discovered, operate the field in accordance with accepted good oil field practices using modern and scientific methods to enable maximum economic production of Petroleum; avoiding hazards to life, health and waters; and pursuant to an efficient and economic program of operation;
- (e) Furnish the Petroleum Board promptly with geological and other information, data and reports relative to the operation except for proprietary techniques used in developing said information, data and reports, such information shall remain

- (f) Maintain detailed technical records and accounts of its operation;
- (g) Conform to regulations regarding, among others, safety, demarcation of the Contract Area, non-interference with the rights of other petroleum, mineral and natural resources operators;
- (h) Maintain all meters and measuring equipment in good order and allow access to these as well as to the exploration and production sites and operations to inspectors authorized by the Petroleum Board;
- (i) Allow examiners of the Bureau of Internal Revenue and other representatives authorized by the Petroleum Board at all reasonable times full access to accounts, books, and records relating to Petroleum Operations hereunder for tax and other fiscal purposes;
- (j) Be subject to Philippine income tax;
- (k) Give priority in employment to qualified personnel in the municipality or municipalities or province where the exploration or production operations are located.
- (l) Within sixty (60) days after the Effective Date of the Contract, post a bond or other guarantee of sufficient amount in favor of the Government and with surety or sureties satisfactory to the Petroleum Board, conditioned upon the faithful performance by the Contractor of any or all of the obligations under and pursuant to this Contract;  
and
- (m) After commercial production commences in the Contract Area, supply from such production a portion of the domestic requirements of the Republic of the Philippines on a pro-rata basis, which portion shall be sold at Market Price and shall be determined as follows: In respect of each

(Contd. from page 15 - letter (m))

Year multiply the total quantity of Crude Oil required for domestic consumption by the ratio of the total quantity of Crude Oil produced from the Contract Area to the entire Philippine production of Crude Oil.

6.2 Contractor shall have the following rights:

- (a) Exemption from all taxes except income tax;
- (b) Exemption from payment of tariff duties and compensating tax on the importation into the Philippines of all machinery, equipment, spare parts and all materials required for and to be used exclusively by Contractor or subcontractor in Petroleum Operations on the conditions that said machinery, equipment, spare parts and materials of comparable price and quality are not manufactured domestically, are directly and actually needed and will be used exclusively by the Contractor in its operations or in the operations for it by a subcontractor; are covered by shipping documents in the name of the Contractor to whom the shipment will be delivered direct by the customs authorities; and the prior approval of the Petroleum Board was obtained by the Contractor before the importation of such machinery, equipment, spare parts and materials which approval shall not be unreasonably withheld: Provided, however, That the Contractor or its subcontractor may not sell, transfer, or dispose of such machinery, equipment, spare parts and materials within the Philippines without the prior approval of the Petroleum Board and payment of taxes due the Government: Provided, further, That should the Contractor or its subcontractor sell, transfer or dispose of these machinery, equipment, spare parts or materials within the
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(Contd. from page 16 - no. 6.2 letter b.)

Philippines without the prior consent of the Petroleum Board, it shall pay twice the amount of the tax exemption granted: Provided, finally, That the Petroleum Board shall allow and approve the sale, transfer, or disposition of the said items within the Philippines without tax if made (1) to another contractor; (2) for reasons of technical obsolescence; or (3) for purposes of replacement to improve and/or expand operations of the Contractor;

- (c) Exemption upon approval by the Petroleum Board from laws regulations and/or ordinances restricting the (1) construction, installation, and operation of power plant for the exclusive use of the Contractor if no local enterprise can supply within a reasonable period and at reasonable cost the power needed by the Contractor in its Petroleum Operations, (2) exportation of machinery and equipment which were imported solely for its Petroleum Operations when no longer needed therefor;

- (d) Exemption from publication requirements under Republic Act Numbered Five thousand four hundred fifty-five; and the provisions of Republic Act Numbered Sixty-one hundred and seventy-three with respect to the exploration production, exportation or sale or disposition of Crude Oil discovered and produced in the Philippines;

- (e) Exportation of Petroleum subject to the obligation to supply a portion of domestic requirement as provided in Section 6.1 (m) above;

- (f) Entry, upon the sole approval of the Petroleum Board which 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 Operation of the Contractor: Provided,

(Contd. from page 17 - letter f.)

That if the employment or connection of any such alien with 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 had adequate training; and  
Provided, finally, That the Contractor shall adopt and implement a training program for Filipinos along technical or specialized lines, in accordance with the provisions of Section XIII hereof;

- (g) Rights and obligations in this Contract shall be deemed as essential considerations for the conclusion thereof and shall not be unilaterally changed or impaired;
- (h) Be entitled to (1) repatriate over a reasonable period the capital investment actually brought into the country in Foreign Exchange or other assets and registered with the Central Bank; (2) retain abroad all Foreign Exchange representing proceeds arising from exports accruing to the Contractor over and above (a) the Foreign Exchange to be converted into pesos in an amount sufficient to cover the costs of Contractor's Petroleum Operations payable in Philippine Currency and (b) revenues due the Government on such crude; (3) convert into Foreign Exchange and remit abroad at prevailing rates no less favorable to Contractor than those available to any other purchaser of foreign currencies, any excess balances of their peso earnings from petroleum production and sale over and above the working current balances they require; and (4) convert foreign exchange into Philippine currency for all purposes in connection with its petroleum operations at prevailing rates no less favorable to Contractor than those available

- (i) Have at all times the right of ingress to and egress from the Contract Area and to and from facilities wherever located;
  - (j) Subject to such restrictions as the Petroleum Board may impose, have the right to use and have access to all geological, geophysical, drilling, well, production and other information held by the Petroleum Board or by any other governmental agency, relating to the Contract Area including well location maps, which information and maps the Petroleum Board is not under obligation to keep Confidential.
- 6.3 In addition to the rights outlined in Section 6.2 above, Contractor shall have a Filipino Participation Incentive of seven and one-half (7-1/2%) percent, subject to the provisions of Section 2.19 hereof.
- 6.4 The Petroleum Board shall assume and pay on behalf of Cities, Husky and Westrans and their shareholders and the other parties contractor out of the net proceeds attributable to a portion of the production which is specifically retained for inclusion in the Petroleum Board's net proceeds as described in section 7.3 (a) for that purpose, all income taxes payable to the Republic of the Philippines based on income or profits and with respect to Cities, Husky and Westrans, all dividends, withholding, and other taxes imposed by the Government of the Philippines on the distribution of income or profits to their respective shareholders, derived from Petroleum Operations. The Petroleum Board shall furnish to each of the companies, jointly referred to as Contractor, the respective official receipts issued in the name of each company separately by any duly empowered Government authority, acknowledging the payment of said taxes. ✓
- [Handwritten signatures and initials are present throughout the document, including "John", "Hed", "J.W.", and "A.J."]*

SECTION VII  
RECOVERY OF OPERATING EXPENSES AND ACCOUNTING  
FOR PROCEEDS OF PRODUCTION

- 7.1 Contractor, if authorized by the Petroleum Board to market the Petroleum Board's share of Petroleum produced and saved from the Contract Area, shall account for the proceeds from such sales as provided in this Section VII. Contractor shall have the right and privilege of receiving in kind and disposing of petroleum produced and saved from the Contract Area equal to the sum of (1) its fee of the net proceeds as provided in 7.3 (a) below and, (2) the Filipino Participation Incentive Allowance, as well as the Petroleum allocated to the recovery of Operating Expenses as described in Section 7.2.
- 7.2 In each Year Contractor will recover from the gross proceeds resulting from the sale of all Petroleum produced under this Contract an amount equal to all Operating Expenses: Provided, That the amount so recovered shall not exceed Sixty (60%) Per Cent of the gross proceeds from production in any Year: Provided, further, That if in any year the operating costs exceeds Sixty (60%) Per Cent of the gross proceeds from the production, or there are no gross proceeds, then the unrecovered expenses shall be recovered from the gross proceeds in succeeding years.
- 7.3 (a) The net proceeds from the Contract Area shall be divided between the Petroleum Board and Contractor on the basis set out below:

	Petroleum Board	Contractor
On Production from 0 to 75,000 BOPD	62.5%	37.5%
On Production from 75,000 to 125,000 BOPD	65%	35%
On Production above 125,000 BOPD	70%	30%

- (b) For the purpose of this Section VII, net proceeds means the difference between gross income and the sum of the operating expenses recovered pursuant to Section 7.2 and the Filipino Participation Incentive Allowance.
- (c) If the Contractor has been authorized to market the Petroleum Board's share of production, it shall on or before the last day of the month following each quarter, // 30 days remit to the Petroleum Board an amount equal to the Petroleum Board's net proceeds interest calculated from (a) above of estimated net proceeds from the Petroleum Operations in said quarter. This payment shall be calculated in accordance with the U.S. dollar amounts recorded in the books and accounts pursuant to Section XV. The payment corresponding to the first quarter of the calendar year, shall include any adjustments on Government's share of the preceding calendar year.
- (d) The Petroleum Board shall be entitled to receive in kind petroleum equal in value to the net proceeds to which they are entitled by (a) above, Provided, sufficient notice is given to Contractor so as not to interfere with existing Crude Sales Contracts.

7.4 If the Petroleum Board and the Contractor elect to take their respective shares in kind, the Parties to this Contract will enter into separate agreement providing among others, for the manner and form of deliveries and appropriate quarterly adjustments.

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

- (a) All Crude Oil sold for consumption in the Philippines shall be valued at Market Price for such crude oil.

- (b) All Crude Oil exported shall be valued at the Posted Price.
- (c) All Natural Gas and/or Casinghead Petroleum Spirit  
exported or sold for consumption in the Philippines shall  
be valued at the prevailing Market Price thereof.
- (d) Reasonable commissions or brokerages incurred in connection  
with sales to third parties, if any; shall be deductible from  
gross proceeds but shall not exceed the customary and  
prevailing rate.

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SECTION VIII  
INCOME TAXES

8.1 Contractor shall be liable each taxable year for Philippine income tax under the provisions of the National Internal Revenue Code and the Oil Exploration and Development Act of 1972.

The Contractor's gross income shall consist of:

- { (a) Gross proceeds determined in accordance with Section 7.5 above, and
- (b) Such other income which is incidental to and/or arising from any Petroleum Operation or other aspects of the Contract.

In computing the Taxable Net Income, Contractor shall be allowed the following deductions:

- (a) Filipino Participation Incentive, and
- (b) Operating Expenses recovered pursuant to Section 7.2 above.

8.2 In ascertaining the Contractor's taxable net income, no deduction from gross income shall be allowed in respect of any interest or other consideration paid or suffered in respect of the financing of its Petroleum Operations.

8.3 Each individual company comprising Contractor shall render to the Petroleum Board a return for each taxable year in duplicate in such forms and manner as provided by law setting forth its gross income and the deductions herein allowed. Provided, however, that in no event shall the total tax liability of the companies comprising Contractor be less than if a single return been filed on behalf of Contractor. The returns shall be filed by the Petroleum Board with the Commissioner of Internal Revenue or his deputies or other persons authorized by him to receive such returns within the period specified in the National Internal

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*AG*  
*XWY*  
*JBL*

8.4 The Petroleum Board, upon payment by it of each company comprising Contractor's respective income taxes shall procure official receipts evidencing such payment. Each of the second parties shall be subject to tax separately on its share of income and The Petroleum Board shall supply each with an individual receipt in its own name.

*John A. Holt*

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*John A. Holt*

SECTION IX  
PAYMENTS

9.1 All payments which this Contract obligates Contractor to make to the Petroleum Board shall be in Foreign Exchange at a bank to be designated by the Petroleum Board and agreed upon by the Central Bank of the Philippines except that Contractor may make such payments in Philippine Pesos to the extent that such currency is realized as a result of the domestic sale of Crude Oil or Natural Gas. All such payments shall be translated at the applicable exchange rates as defined in the Accounting Procedure attached hereto as Annex "B".

*[Handwritten signatures and initials follow, including "Lay", "Abd", "Haw", and "F."]*

SECTION X  
NATURAL GAS

10.1 After meeting requirements for Operations, priority shall be given to supplying prospective demand for Natural Gas in the Philippines. Any Natural Gas produced from the Contract Area to the extent not used in operations hereunder, may be flared if the processing or utilization thereof is not deemed economical by Contractor or required by Contractor for secondary recovery operations, including repressuring and recycling: Provided, That the Petroleum Board may take and utilize such Natural Gas that would otherwise be flared, in which event all costs of taking and handling such Natural Gas will be for the sole account and risk of the Petroleum Board.

*[Handwritten signatures and initials follow: a signature, "Hart", "RCH", "JL", "XAF", and "JW". There is also a large, stylized initial "F" at the bottom left.]*

SECTION XI  
ASSETS AND EQUIPMENT

- 11.1 Contractor shall acquire for the Petroleum Operations only such assets as more reasonably estimated to be required in carrying out the Petroleum Operations.
- 11.2 All materials, equipment, plants and other installations erected or placed on the Contract Area of a movable nature by the Contractor shall remain the property of the Contractor unless not removed therefrom within one year after the termination of this Contract in which case, ownership shall be vested with the Petroleum Board.
- 11.3 Contractor may also utilize in the Petroleum Operations equipment owned and made available by Contractor and charges to the Petroleum Operations account for use of such equipment shall be made as provided in the Accounting Procedure.

*Aug 1 Nov 1981*

*Attn:  
John*

SECTION XII  
CONSULTATION AND ARBITRATION

- 12.1 Disputes, if any, arising between the Petroleum Board and Contractor relating to this Contract or the interpretation and performance of any of the clauses of this Contract, and which cannot be settled amicably, shall be settled by arbitration. The Petroleum Board on the one hand and Contractor on the other hand shall each appoint one arbitrator and so advise the other Party and these two arbitrators will appoint a third. If either Party fails to appoint an arbitrator within thirty (30) days after receipt of a written request of the other Party to do so, such arbitrator shall, at the request of the other Party, if the Parties do not otherwise agree, be appointed by the President of the International Chamber of Commerce. If the first two arbitrators appointed as aforesaid fail to agree on a third within thirty (30) days following the appointment of the second arbitrator, the third arbitrator shall, if the Parties do not otherwise agree, be appointed, at the request of either Party, by the President of the International Chamber of Commerce. If an arbitrator fails or is unable to act, his successor will be appointed in the same manner as the arbitrator whom he succeeds. Unless the Parties agree otherwise, the Philippines shall be the venue of the arbitration proceedings.
- 12.2 The decision of a majority of the arbitrators shall be final and binding upon the Parties. Judgment upon the award rendered may be entered in any court having jurisdiction or application may be made to such court for a judicial acceptance of the award and an order of enforcement, as the case may be.
- 12.3 Except as provided in this Section, arbitration shall be conducted in accordance with the Rules of Arbitration of the International

SECTION XIII  
EMPLOYMENT AND TRAINING OF PHILIPPINE PERSONNEL

- 13.1 Contractor agrees to employ qualified Filipino personnel in the Operations and after commercial production commences will undertake, upon prior approval of the Petroleum Board, the schooling and training of Filipino personnel for labor and staff position, including administrative, technical and executive management positions.. Contractor shall undertake upon prior approval of the Petroleum Board a program of training assistance for Petroleum Board personnel.
- 13.2 Costs and expenses of training Filipino personnel for Contractor's own employment shall be included in Operating Expenses. Costs and expenses of a program of training for Petroleum Board's personnel shall be borne on a basis to be agreed upon by the Petroleum Board and Contractor.

*Allen* *Aldo* *now*

*Jan 83*  
*John*

SECTION XIV  
TERMINATION

This Contract shall be terminated and Contractor shall be relieved of its obligations:

- 14.1 As provided in Section 3.1 hereof; or
- 14.2 On expiration of the terms, or extension thereof provided for in Sub-Section 3.2 hereof; or
- 14.3 Upon surrender by Contractor of the entire Contract Area pursuant to Sub-Sections 4.5 and 5.1, subject to the provisions of Sub-Section 4.6 hereof.
- 14.4 Upon payment under the Bond or Guarantee as referred to in Sub-Section 1.2 hereof when such payment is required under the provisions of this Contract.

*[Handwritten signatures and initials follow, including "Fay", "ABH", "Ran", and "J.W."]*

*[Handwritten signature, possibly "D. H. [initials]"]*

*[Handwritten signature, possibly "D. H. [initials]"]*

SECTION XV  
BOOKS AND ACCOUNTS AND AUDITS

15.1 Books and Accounts

Contractor shall be responsible for keeping complete books and accounts, both in United States and Philippine currency, reflecting all transactions in connection with Petroleum Operations in accordance with Accounting Procedure attached hereto as Annex "B".

15.2 Audits

The Petroleum Board shall have the right to inspect and audit Contractor's books and accounts relating to this Contract for any Calendar Year within the one (1) year period following the end of such Calendar Year. Any such audit will be completed within twelve (12) months after its commencement. Any exception must be made in writing within sixty (60) days following the completion of such audit and failure to give such written exception within such time shall establish the correctness of Contractor's books and accounts for the period of such audit.

*[Handwritten signatures]*

*[Handwritten signature]*

*[Handwritten signature]*

SECTION XVI  
OTHER PROVISIONS

16.1 Notices

Any notice required or given by either party to the other party shall be in writing and shall be effective when a copy thereof is handed to or served upon the Party's duly designated representative or the person in charge of the office or place of business; or when sent by registered mail, notice shall be effective upon actual receipt by the addressee, but if he fails to claim his mail from the post office within five (5) days from the date of the first notice of the postmaster, service shall take effect at the expiration of such time.

All such notices shall be addressed to:

To the first Party -

The Chairman of the Petroleum Board  
c/o Petrophil Building  
Makati Avenue, Makati, Rizal

To the second Party -

Philippines-Cities Service, Inc.  
2nd floor CMS Building  
2293 Pasong Tamo Extension  
Makati, Rizal

Any Party may substitute or change such address on written notice thereof to the others.

16.2 Governing Law

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

16.3 Suspension of Obligations

- (a) Any failure or delay on the part of either Party in the performance of its obligations or duties hereunder shall be excused to the extent attributable to Force Majeure.

(Contd. from page 32, Sec. XVI - 16.3)

- (b) If operations are delayed, curtailed or prevented by such causes, then the time for enjoying the rights and carrying out the obligations thereby affected, and all rights and obligations hereunder shall be extended for a period equal to the period thus involved, except that the term of this Contract as provided in Section III hereof shall not thereby be extended.
- (c) Force Majeure shall include Acts of God, unavoidable accidents, acts of war or conditions arising out of or attributable to war (declared or undeclared), laws, rules, regulations and orders by any Government or governmental agency, strikes lockouts and other labor disturbances, delays in transportation, floods, storms, and other natural disturbances, insurrections, riots, and other civil disturbances, and all other matters beyond the control of the Party concerned (other than rig availability): Provided, however, That as to the Petroleum Board only, laws, rules and regulations and orders by Government or any governmental agency of the Republic of the Philippines shall not constitute Force Majeure.
- (d) The Party whose ability to perform its obligations is so affected shall notify the other Party thereof in writing stating the cause and both Parties shall do all reasonably within their power to remove such cause. *now*

(Contd. from page 33)

16.4 Assignment

The rights and obligations of Second Party under this Contract shall not be assigned or transferred without the prior approval of the Petroleum Board: Provided, That with respect to the assignment or transfer of such rights and obligations to an Affiliate of the transferor, the approval thereof by the Petroleum Board shall be automatic, if the transferee is as qualified as the transferor to enter into such contract with the Government: Provided, further, That the Affiliate relationship between the original transferor or a company which holds at least Fifty (50%) Per Cent of the Contractor's outstanding shares entitled to vote and each transferee shall be maintained during the existence of the Contract: Provided, finally, That with respect to transfers of rights and obligations between Second Parties, as contemplated in Annex "A", notice to the Petroleum Board shall effect the transfer.

16.5 Petrochemical Facility

At such time as Contractor has established Commercial production, as defined in Section 2.7, Contractor will undertake technical and economic studies as to the feasibility of establishing a petrochemical facility in the Philippines to utilize a portion of said production. Contractor will conduct such studies at its sole cost and expense. To the extent that it is mutually agreed between all parties that such studies indicate that such facilities would be technically and economically feasible, Contractor will finance and construct or cause to be financed and constructed, such facility.

SECTION XVII  
PAYMENTS BY CONTRACTOR

- 17.1 Contractor shall, within sixty (60) days following the declaration of a discovery of Petroleum in Commercial Quantity, pay to the First Party the total sum of U.S.\$250,000.
- 17.2 If and when there shall be produced from the Contract Area Twenty-five Thousand (25,000) barrels of oil per day (BOPD) at an average rate for thirty (30) consecutive days, Contractor shall, within a sixty (60) day period thereafter, pay to First Party the total sum of One Million U.S. Dollars (U.S.\$1,000,000). provided, it is understood that Contractor, in order to sustain said rate of 25,000 BOPD for said thirty (30) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil field practice prevalent in the industry.
- 17.3 If and when there shall be produced from the Contract Area Fifty Thousand (50,000) barrels of oil per day (BOPD) at an average rate for thirty (30) consecutive days, Contractor shall, within sixty (60) days following the expiration of said thirty (30) day period pay to First Party the total sum of One Million U.S. Dollars (U.S.\$1,000,000); provided, it is understood that Contractor, in order to sustain said rate of 50,000 BOPD for said thirty (30) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil field practice prevalent in the industry.
- 17.4 If and when there shall be produced from the Contract Area Seventy-five Thousand (75,000) barrels of oil per day (BOPD) at an average rate for thirty (30) consecutive days, Contractor shall, within sixty (60) days following the expiration of said

(Contd. I. page 35 - no. 17.4)

Two Million U.S. Dollars (U.S.\$2,000,000); provided, it is understood that Contractor, in order to sustain said rate of 75,000 BOPD for said thirty (30) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil field practice prevalent in the industry.

- 17.5 If and when there shall be produced from the Contract Area One Hundred Thousand (100,000) barrels of oil per day (BOPD) at an average rate for thirty (30) consecutive days, Contractor shall, within sixty (60) days following the expiration of said thirty (30) day period, pay to First Party the total sum of Three Million U.S. Dollars (U.S.\$3,000,000); provided, it is understood that Contractor, in order to sustain said rate of 100,000 BOPD for said thirty (30) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil field practice prevalent in the industry.
- [Handwritten signatures and initials follow]*

SECTION XVIII  
EFFECTIVENESS

18.1 This Contract shall come into effect on the Effective Date.

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

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

PHILIPPINES-CITIES SERVICE, INC.

By:

THE PETROLEUM BOARD

By:

HUSKY (PHILIPPINES) OIL, INC.

By:

ORIENTAL PETROLEUM AND MINERALS CORPORATION

By:

PHILIPPINE-OVERSEAS DRILLING & OIL DEVELOPMENT CORPORATION

By:

BASIC PETROLEUM AND MINERALS, INC.

By:

LANDOIL RESOURCES CORPORATION

By:

WESTTRANS PETROLEUM, INC.

By:

PHILIPPINE NATIONAL OIL COMPANY

By:

*See me*

ALCORN (PRODUCTION) PHILIPPINES, INC.

19th Floor, Sanlak Building  
Pasay de Roxas, Makati, Metro Manila  
Tel. 812 6021  
Telex 22709 454761911

EVP-GM/010

January 12, 1987

Bureau of Energy Development  
PNPC Complex, Merritt Road  
Fort Bonifacio, Makati  
Metro Manila

Attention: Atty. W. R. de la Paz  
Director

Gentlemen:

Attached is a copy of a "Basic Agreement" between Service Contract-6 and Service Contract-14. This Basic Agreement has been signed by all parties of Service Contract-14 and by Alcorn (Palawan) Production, Inc. as Operator on behalf of the Service Contract-6 Consortium.

This Basic Agreement was drawn up to facilitate the allocation of expenditures for the Matinloc to Cadlao pipeline.

Your approval of this Basic Agreement would be most appreciated.

Very truly yours,

*E. M. McGuire*

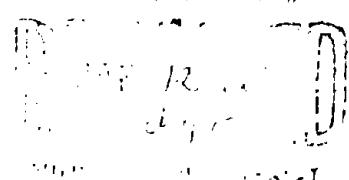
E. M. McGuire  
Executive Vice President  
& General Manager

EMM/Lyn

BUREAU OF ENERGY DEVELOPMENT  
OFFICE OF THE DIRECTOR

Attachment

cc: Atty. E. F. Hernandez - w/ attachment  
Mr. O. de Venecia - " "  
Dr. W. Brown - " "  
Mr. R. O. Feliciano - " "  
Mr. V. A. Walston - " "



## BASIC AGREEMENT

THIS BASIC AGREEMENT is made this 5th day of May 1986 between ALCORN (PRODUCTION) PHILIPPINES, INC., ALCORN (PHILIPPINES) INC., ORIENTAL PETROLEUM & MINERALS CORPORATION, PHILIPPINE-OVERSEAS DRILLING AND OIL DEVELOPMENT CORPORATION, BASIC PETROLEUM & MINERALS, INC., AND LANDOIL RESOURCES CORPORATION (collectively the "Matinloc Oil Production Complex" Consortium - MOPC Consortium) and Alcorn (Palawan) Production, Inc. as Operator of Service Contract-6.

### WITNESSETH: That

WHEREAS, a pipeline will be constructed and laid by the Service Contract-6 Consortium which will connect the Cadlao Oil Field with the Matinloc Oil Production Complex for the purpose, among others, of extending the economic lives of both fields by reducing operating costs for both fields; and

WHEREAS, the MOPC Consortium desires to secure crude oil storage and offloading facilities and services;

NOW, THEREFORE, the parties hereto agree as follows:

1. Allocation of Costs and Payments - The necessary Operating Budget for Service Contracts 6 and 14 shall be agreed upon by the members of each Service Contract on a yearly basis. Such budget shall, among others, allocate expenditures for the pipeline, crude oil storage and offloading facilities and services which will be correspondingly charged through monthly cash calls.
2. Governing Law - This Agreement shall be governed by and interpreted for all purposes according to the laws of the Republic of the Philippines.

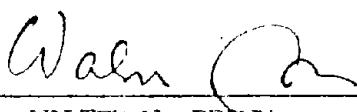
IN WITNESS WHEREOF, the undersigned have caused this Basic Agreement to be executed by their undersigned duly authorized representatives as of the date and year first above written.

MOPC CONSORTIUM CONFORME:

ORIENTAL PETROLEUM & MINERALS  
CORPORATION, a Philippine  
Corporation

By:   
Name: EDUARDO F. HERNANDEZ  
Title: President

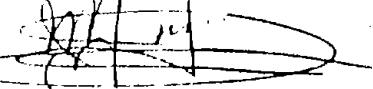
PHILIPPINE-OVERSEAS DRILLING &  
OIL DEVELOPMENT CORPORATION,  
a Philippine Corporation

By:   
Name: WALTER W. BROWN  
Title: President

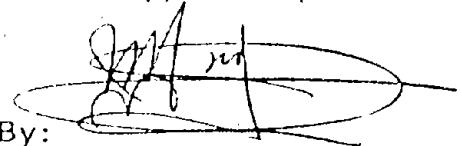
ALCORN (PRODUCTION) PHILIPPINES,  
INC., a Delaware Corporation

By:   
Name: E. M. McGUIRE  
Title: Executive Vice President

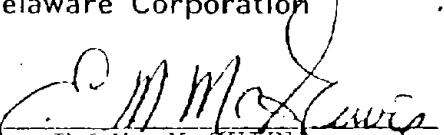
BASIC PETROLEUM & MINERALS  
INC., a Philippine  
Corporation

By:   
Name: MARIO M. USON  
Title: Executive Vice-President

LANDOIL RESOURCES CORPORATION  
a Philippine Corporation

By:   
Name: MARIO M. USON  
Title: Executive Vice President

ALCORN (PHILIPPINES), INC.  
a Delaware Corporation

By:   
Name: E. M. McGUIRE  
Title: Executive Vice President

SERVICE CONTRACT-6 OPERATOR CONFORME:

ALCORN (PALAWAN) PRODUCTION,  
INC. a Delaware Corporation

By:   
Name: E. M. McGUIRE  
Title: Executive Vice President

FARM-OUT AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

This Agreement is made and entered into by and between:

ALCORN (PHILIPPINES), INC., and ALCORN (PALAWAN), INC., both U.S. corporations duly authorized to do business in the Philippines with offices at the Solidbank Building, 77 Paseo de Roxas, Makati, Metro Manila, Philippines, represented in this act by its duly authorized Executive Vice President & General Manager, E. M. McGuire, hereinafter called ALCORN;

- AND -

ORIENTAL PETROLEUM & MINERALS CORPORATION, a corporation duly organized in accordance with Philippine laws, with principal offices at Corinthian Plaza, Paseo de Roxas, Makati, Metro Manila, Philippines, represented in this act by its duly authorized President, EDUARDO F. HERNANDEZ, hereinafter called ORIENTAL;

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

WHEREAS, last August 28, 1986, in Houston, Texas, ALCORN and ORIENTAL entered into a Memorandum of Agreement, under which each party, for valuable consideration and under certain terms and conditions, ALCORN assigned and conveyed certain interests in Service Contract No. 6 and Service Contract No. 14 with the Republic of the Philippines.

NOW, THEREFORE, pursuant to said Agreement, ALCORN hereby conveys to ORIENTAL: (1) 35% of the 50% working interest in Service Contract No. 6 held by Amoco Philippines at the time such corporation was acquired from Amoco Production Company (Amoco) by ALCORN (Palawan) on February 5, 1986; (2) 35% of the 16.475% working interest in the Matinloc Oil Production Facility and 25% of the 52.483% working interest in the NIDO Block 100, both pursuant to Service Contract No. 14 and held by PCSI at the time such corporation was acquired by ALCORN (Philippines) on December 5, 1985; and (3) 35% of the 8-1/3% interest of Husky in Service Contract No. 6 acquired by ALCORN (Palawan) from Husky.

Upon approval by the Bureau of Energy Development of this assignment, the parties will own the following undivided working interest in all rights and obligations under the Service Contract.

SERVICE CONTRACT-14

SERVICE CONTRACT-6

	<u>Nido</u>	<u>Matinloc</u>	<u>Cadlao</u>
Alcorn (Production) Philippines, Inc.	34.114%	25.724%	Alcorn (Palawan) Production, Inc. 32.500%
Alcorn (Philippines), Inc.		32.932%	Alcorn (Palawan), Inc. 30.416%
Oriental Petroleum & Minerals Corp.	51.415%	16.851%	Oriental Petroleum & Minerals Corp. 20.417%

In the event of silence, conflict or inconsistency between the terms of this agreement and the foregoing Memorandum of Agreement executed in Houston, Texas, the parties hereto agree that the said Memorandum of Agreement will prevail.

IN WITNESS WHEREOF, the parties hereto have hereunto signed these documents this 30<sup>th</sup> day of Sept., 1986 at

ALCORN (PHILIPPINES), INC.  
ALCORN (PALAWAN), INC.  
(ALCORN)

E. M. McGuire  
Executive Vice President  
General Manager

ORIENTAL PETROLEUM &  
MINERALS CORPORATION  
(ORIENTAL)

BY:

  
EDUARDO F. HERNANDEZ  
President

Signed in the presence of:

REPUBLIC OF THE PHILIPPINES  
(MUNICIPALITY OF MAKATI) S.S.  
*City of Manila*

BEFORE ME, a Notary Public for and in the (Municipality of Makati,  
Manila, Philippines, this 30<sup>th</sup> day of Sept., 1986, personally  
observed the following:

L.B. MCGUIRE, with Passport No. Z3060259, issued at  
Manila, on December 14, 1982, the duly authorized  
Executive Vice President & General Manager of Alcorn  
(Philippines), Inc. and Alcorn (Palawan), Inc.; and

EDUARDO F. HERNANDEZ, with Reg. Cert. A-17724711,  
issued at Makati, on April 14, 1986, the duly auth-  
orized President of Oriental Petroleum & Minerals  
Corporation;

both known to me and to me known to be the same persons who executed the  
foregoing instrument and acknowledged to me that the same is their free  
and voluntary act and deed and the free and voluntary act and deed of the  
corporations they respectively represent.

WITNESS MY HAND AND SEAL on the date and place first above-  
mentioned.

  
NOTARY PUBLIC

JAIME M. VIBAR

Notary Public

Until December 31, 1987

PTR No. S739161/1-7-86/Makati

BP No. 208857/1-R-94/1

Date No. 11 ;  
Page No. 4 ;  
Book No. 7 ;  
Series of 1986.

REPUBLIC OF THE PHILIPPINES  
NATIONAL ECONOMIC & DEVELOPMENT AUTHORITY  
PETROLEUM BOARD  
MANILA

SERVICE CONTRACT

This is a Contract made and entered into this 15<sup>X</sup> day of September, 1973 in the City of Manila, Philippines by and between -

The PETROLEUM BOARD, established pursuant to "The Oil Exploration and Development Act of 1972", as First Party,

-and-

MOSBACHER PHILIPPINES CORPORATION, a corporation organized and

existing under the laws of the State of Delaware, U.S.A., with principal offices at 21st Floor, Capitol National-Conoco Bldg., 1300 Main Street - Houston, Texas, U.S.A., hereinafter called "MOSBACHER";

HUSKY(PHILIPPINES)OIL, INC., a corporation organized and existing under the laws of the State of Delaware, U.S.A., with principal offices at Cody, Wyoming, U.S.A., hereinafter called "HUSKY";

TRANS-ASIA OIL & MINERAL DEVELOPMENT CORPORATION, a corporation organized and existing under Philippine Laws with principal office at 300 Bank of P.I. Bldg., Ayala Avenue, Makati, Rizal, herein-after called "TRANS-ASIA";

PHILIPPINE OVERSEAS DRILLING & OIL DEVELOPMENT CORPORATION, a corporation organized and existing under Philippine Laws, with principal office at Don Santiago Bldg., Taft Avenue, Manila, hereinafter called "PHILODRILL";

BAGUIO GOLD MINING COMPANY, SABENA MINING CORPORATION, PHILEX MINING CORPORATION, all Philippine corporations with principal offices at Philex Bldg., Brixton and Fairlane Sts., Pasig, Rizal, Philippines, and EDUARDO MARTIN, JR., Filipino, married, and of legal age, with office at Don Santiago Bldg., Taft Avenue, Manila, Philippines, hereinafter collectively called "CONCESSIONAIRES".



The term CONCESSIONAIRES shall be understood to include both TRANS-ASIA and PHILODRILL in respect of the Concessions held or applied for by them unless otherwise indicated.

All the above, as Second Parties, are hereinafter collectively referred to as "CONTRACTOR."

The PETROLEUM BOARD and the CONTRACTOR are hereinafter referred to collectively as "Parties."

WITNESSETH: That

WHEREAS, Concessionaires have been granted certain Petroleum Exploration Concessions(PECs), and have certain duly published Petroleum Exploration Concession Applications(PECAs), all of which together with any free area which may be granted by the Petroleum Board, are referred to as "CONTRACT AREA" and are indicated, numbered and described in the attached ANNEX "A" which is incorporated as part of this Agreement.

WHEREAS, under the provisions of Presidential Decree No. 87, otherwise known as "The Oil Exploration and Development Act of 1972", the Concessionaire of a valid and subsisting petroleum exploration concession under the Petroleum Act of 1949 may convert his concession into a service contract;

WHEREAS, Concessionaires desire to convert all these PECs and PECAs together with other areas which may be granted by the Petroleum Board into a service contract under the Act, under an arrangement with MOSBACHER;

WHEREAS, the Petroleum Board and CONTRACTOR desire to enter into a service contract for the furnishing of the necessary services, technology and financing for Petroleum Operations as herein defined, assuming all exploratory risks;

WHEREAS, Concessionaires are all Philippine nationals and it is agreed they have a total participating interest of at least Fifteen (15%) per cent in the Contract Area;

WHEREAS, CONTRACTOR, particularly MOSBACHER and HUSKY, has the financial ability, technical competence and professional skills necessary to carry out the Petroleum Operations;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, it is hereby agreed as follows:

#### SECTION I

#### SCOPE

- 1.1 This Contract is a Service Contract entered into pursuant to Sec. 7 of the Act with all necessary services, technology and financing to be furnished by Contractor in accordance with the provisions herein contained. The Contractor shall undertake and execute the Petroleum Operations contemplated hereunder, and is hereby authorized to take and dispose of and market either domestically or for export its share of all Petroleum produced under this Contract subject only to supplying the domestic requirements of the Republic of the Philippines on a pro rata basis. In the event that the Contractor should assign a part of its interest subject to the approval of the Petroleum Board herein, Contractor and any assignee each shall be entitled separately to receive in kind and to sell or make other disposition of its respective portion of Petroleum produced hereunder. The term "Contractor" as used in this Contract shall apply, separately, to each such assignee.
- 1.2 Contractor shall be responsible to the Petroleum Board for the execution of such operations in accordance with the provisions of this Contract, and is hereby appointed and constituted the exclusive party to conduct the

- 1.3 Contractor shall assume all exploration risks such that if no petroleum in Commercial Quantity is discovered and produced, it will not be entitled to reimbursement.
- 1.4 During the terms of this Contract, the total production achieved in the conduct of such operations shall be accounted for between the Parties in accordance with the provisions of Section VII hereof.
- 1.5 Pursuant to the provisions of an Operating Agreement to be executed by and among the appropriate Parties, MOSBACHER shall be designated as the Operator for carrying out the Petroleum Operations under this Contract in accordance with said operating agreement.

## SECTION II

### DEFINITIONS

In the text of this Contract, the words and terms defined in Section 3 of the Act shall, unless otherwise specified herein, have meaning in accordance with such definitions.

- 2.1 Contract Area means at any time the Area within the Republic of the Philippines which is subject of this Contract. The Contract Area is outlined and more particularly described in Annex "A" attached hereto.
- 2.2 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.
- 2.3 Crude Oil or Crude means oil in its natural state before the same has been refined or otherwise treated. It does not include oil produced through destructive distillation of coal, bituminous shales or other stratified deposits, either in its natural state or after the extraction of water, sand or other foreign substances therefrom.

- 2.4 Natural Gas means gas obtained from boreholes and wells and consisting primarily of hydrocarbons.
- 2.5 Casinghead Petroleum Spirit means any liquid hydrocarbons obtained from Natural Gas by separation or by any chemical or physical process.
- 2.6 Petroleum Operations or Operations means searching for and obtaining Petroleum within the Philippines through drilling and pressure or suction or the like, and all other operations incidental thereto. It includes the transportation, storage, handling and sale (whether for export or domestic consumption) of Petroleum so obtained but does not include any: (1) transportation of Petroleum outside the Philippines; (2) processing or refining at a refinery; or (3) any transactions in the products so refined.
- 2.7 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.
- 2.8 Operating Expenses means the total expenditures incurred by the Contractor both within and without the Philippines in the Petroleum Operations pursuant to this Contract and determined in accordance with the Accounting Procedure attached hereto and made a part hereof as Annex "B". These expenses will include but not be limited to the cost of seismic surveys, geological studies, drilling and equipping wells, engineering studies, construction of well platforms, tank batteries, pipelines, systems and terminals and the cost of operating and maintaining all such facilities.

- 2.9 Effective Date means the date of the execution of this Contract by the parties.
- 2.10 Foreign Exchange means currency other than that of the Republic of the Philippines acceptable to the Petroleum Board and to Contractor.
- 2.11 Calendar Year or Year means a period of twelve (12) months commencing with January 1 and ending on the following December 31, according to the Gregorian Calendar.
- 2.12 Contract Year means a period of twelve (12) consecutive months according to the Gregorian Calendar counted from the Effective Date of this Contract or from the anniversary of such Effective Date.
- 2.13 Production Area means that portion of the Contract Area where all reservoirs containing Petroleum in Commercial Quantity are delineated by the Contractor in consultation with the Petroleum Board.
- 2.14 Gross Income means the gross proceeds from the sale of crude, natural gas or casinghead petroleum spirit produced under the Contract and sold during the taxable year at Posted or Market Price, as the case may be, all as determined pursuant to Section VII, and such other income which are incidental to and arising from any one or more of the Petroleum Operations of the Contractor.
- 2.15 Posted Price means the FOB price established by the Contractor in consultation with the Petroleum Board for each grade, 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, gravity and quality.

- 2.16 Market Price means the price which is realized for Petroleum produced under this Contract if sold in a transaction between independent persons dealing at arm's length in a free market.
- 2.17 Barrel means 42 U.S. gallons or 9702 cubic inches at a temperature of 60° Fahrenheit.
- 2.18 Government means The Government of the Republic of the Philippines.
- 2.19 Filipino Participation Incentive Allowance means the allowance of seven and one-half percent of Posted or Market Price, as the case may be, which is granted to Contractor to be applied as provided in Section VIII below.
- 2.20 Affiliate means (a) a company in which a Contractor holds directly or indirectly at least fifty percent of its outstanding shares entitled to vote; (b) a company which holds directly or indirectly at least fifty percent of the Contractor's outstanding shares entitled to vote or (c) a company in which at least fifty percent of its shares outstanding and entitled to vote are owned by a company which owns directly or indirectly at least fifty percent of the shares outstanding and entitled to vote of the Contractor.
- 2.21 Crude Oil Exported shall include not only Crude Oil exported as such but also indigenous Crude Oil refined in the Philippines for export.
- 2.22 Contract means this service contract.
- 2.23 Philippine Corporation means a corporation organized under Philippine laws at least sixty percent of the capital of which is owned and held by citizens of the Philippines.
- 2.24 Taxable Net Income means the gross income less the deductions provided in Sub-Section 8.1 (b) below.

- 2.25 Sale (whether the word is capitalized or not) means any disposition other than for the use in operation.
- 2.26 Free Market (whether the word is capitalized or not) means a market in which competitive forces operate unrestrained by artificial price support or depressant.

### SECTION III

#### TERM

- 3.1 The exploration period under this Contract shall be seven years from the Effective Date, extendible for three years (a) if Contractor has not been in default in its exploration work obligations and other obligations and (b) has drilled a minimum footage of 40,000 feet of test wells after which time this Contract shall automatically terminate unless Petroleum has been discovered by the end of the tenth year and the Contractor requests a further extension of one year to determine whether the discovery is in Commercial Quantity, in which event, another extension of one year for exploration will be granted.
- 3.2 Where Petroleum in Commercial Quantity, is discovered during the exploration period, this Contract shall, as to any Production Areas delineated pursuant to Sub-Section 6.1 (b) below, remain in force during the balance of the ten-year exploration period and for an additional period of twenty-five years, thereafter renewable for a period not exceeding fifteen years under such terms and conditions as may be agreed upon by the Parties at the time of renewal.
- 3.3 If at the end of the term of this Contract Contractor wishes to make a request for continued exploration or development efforts regarding one or more parts of the Contract Area, then the Petroleum Board shall give sympathetic consideration to such request.

## SECTION IV

### EXCLUSION OF AREAS

- 4.1 On or before the end of the fifth Contract Year, Contractor shall surrender twenty-five percent (25%) of the initial Contract Area.
- 4.2 On or before the end of the initial seven (7) years' exploration period, if Contractor elects to extend the period an additional three (3) years, Contractor shall surrender an additional area equal to twenty-five percent (25%) of the initial Contract Area.
- 4.3 In the event that Contractor has delineated any Production Areas pursuant to Sub-Section 6.1 (b) below, the extent of such Production Areas 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 4.1 and 4.2 above. For example, if Production Areas equalling 20% of the initial Contract Area have been delineated, Contractor's obligation to surrender under Section 4.1 above will be limited to 25% of 80% of the initial Contract Area.
- 4.4 If Petroleum in Commercial Quantity has been discovered during the exploration period, or any extension thereof, the Contractor may retain after the exploration period and during the effectiveness of the Contract twelve and one-half percent of the initial area in addition to the delineated Production Area: Provided, however, That the Contractor shall pay annual rentals on such twelve and one-half percent additional retained area of ten pesos per hectare or fraction thereof for on-shore areas and twenty pesos per hectare or fraction thereof for off-shore areas: Provided, finally, That such annual rentals shall be reduced by the amount spent by Contractor for exploration on such area during the Contract Year.

- 4.5 Contractor shall have the right, on at least thirty days written notice to the Petroleum Board, to surrender all or any portion of the Contract Area. Any portion so surrendered shall be credited against that portion of the Contract Area which Contractor is required to surrender under the provisions of Sections 4.1 and 4.2 hereof and the work expenditure obligations under Section 5.1 shall be reduced accordingly subject to Section 5.3.
- 4.6 With respect to mandatory surrenders pursuant to Sub-Sections 4.1, 4.2 and as qualified by Section 4.3, Contractor shall advise the Petroleum Board of the portion to be surrendered at least thirty days in advance of the date of surrender. For the purpose of such surrenders, Contractor shall freely select the areas being surrendered; provided, however, such portion shall each be of sufficient size and convenient shape to enable Petroleum Operations to be conducted thereon,

## SECTION V

### WORK PROGRAM & EXPENDITURES

- 5.1 Contractor shall be obliged to spend in direct prosecution of exploration work and in delineation and development following the discovery of Oil in Commercial Quantity not less than the amounts hereinafter specified:

<u>Contract Year</u>	<u>A m o u n t</u>
Years 1 and 2	U.S. \$2 Million
Year 3	U.S. \$2.5 Million
Year 4	U.S. \$4.0 Million
Year 5	U.S. \$7.0 Million

The obligations specified above for years 1 and 2 shall involve the commencement of drilling. Contractor will commence drilling within one (1) year from the effectiveness of this Contract, in accor-

dance with good oil field practices, unless prevented by Force Majeure. But in no case will Contractor delay the commencement of drilling beyond ninety (90) days from the expiration of the one year period from the effectivity of this Contract. Assuming discovery of Petroleum in Commercial Quantities after Year 5, delineation and development expenditures in subsequent years would be such as to realize optimum development of the discovery in keeping with economic and good oil field practice but in no case shall the expenditures be less than the minimum work obligations provided for in The Oil Exploration and Development Act of 1972. Provided, however,, That if during any Contract Year Contractor shall spend more than the amount of money required to be spent by Contractor, the excess may be credited against the amount of money required to be spent by Contractor during the succeeding Years, and Provided, further, That should the Contractor fail to comply with the work obligations provided for in this Contract, it shall pay to the Government the amount it should have spent but did not in direct prosecution of its work obligations.

- 5.2 At least three (3) months prior to the beginning of each Contract Year or at such other times mutually agreed upon by the Petroleum Board and the Contractor, Contractor shall prepare and submit a work program and budget for the Contract Area setting forth the Petroleum Operations which Contractor proposes to carry out during the ensuing Contract Year and shall advise the Petroleum Board of any significant changes thereon.
- 5.3 In case the Contractor holds two or more areas under different service contracts, the total amount of work obligations for exploration required for the initial seven-year term of all the service contracts may be spent within any one or more of them as if they were covered by a single ser-

- 5.4 In case the Contractor surrenders or abandons wholly or partly the area covered by this Contract within two years from its Effective Date, it shall in respect of the abandoned area pay the Government the amount it should have spent, but did not, for exploration work during said two years, for which payment, among other obligations, the performance guarantee posted by the Contractor shall be answerable.

## SECTION VI

### RIGHTS & OBLIGATIONS OF THE PARTIES

- 6.1 Contractor shall have the following obligations:
- (a) Perform all Petroleum Operations and provide all necessary services, technology and financing in connection therewith;
  - (b) Upon each discovery of Petroleum in quantities that may be commercial as determined by Contractor, delineate in consultation with the Petroleum Board the discovered reservoir in a prudent and diligent manner in accordance with good oil field practices, within the period reasonably necessary to effect such delineation. If, after such delineation, it is determined that the reservoir contains Petroleum in Commercial Quantity, the area so delineated shall constitute a Production Area.
  - (c) Be subject to the provisions of laws of general application relating to labor, health, safety, and ecology insofar as they are not in conflict with the provisions of the Act;
  - (d) Once Petroleum in Commercial Quantity is discovered, operate the field in accordance with accepted good oil field practices using modern and scientific methods to enable maximum economic production of Petroleum.

- pursuant to an efficient and economic program of operation;
- (e) Furnish the Petroleum Board promptly with geological and other information, data and reports relative to the operations except for proprietary techniques used in developing said information, data and reports; such geological and other information, data and reports shall remain confidential while this Agreement remains in force in respect of the effective Contract Area;
  - (f) Maintain detailed technical records and accounts of its operations;
  - (g) Conform to regulations regarding, among others, safety demarcation of the Contract Area, non-interference with the rights of other Petroleum, mineral and natural resources operators;
  - (h) Maintain all meters and measuring equipment in good order and allow access to these as well as to the exploration and production sites and operations to inspectors authorized by the Petroleum Board;
  - (i) Allow examiners of the Bureau of Internal Revenue and other representatives authorized by the Petroleum Board at all reasonable times full access to accounts, books and records relating to Petroleum Operations hereunder for tax and other fiscal purposes;
  - (j) Be subject to Philippine income tax.
  - (k) Give priority in employment to qualified personnel in the municipality or municipalities or province where the exploration or production operations are located;
  - (l) Post a bond or other security of sufficient amount in favor of the Government and with surety or sureties satisfactory to the Petroleum Board, conditioned upon the faithful performance by the Contractor of any or all of the obligations under and pursuant to this Contract; and

(m) After commercial production commences in the Contract Area, fulfill its obligation to supply from such production a portion of the domestic requirements of the Republic of the Philippines (as provided in Section 1.1 hereof) which portion shall be sold at Market Price and shall be determined as follows: In respect of each Year multiply the total quantity of Crude Oil required for domestic consumption by a fraction the numerator of which is the total quantity of Crude Oil produced from the Contract Area and the denominator is the entire Philippine production of Crude Oil.

6.2 Contractor shall have the following rights:

- (a) Exemption from all taxes levied or imposed by the Government, or a political subdivision thereof, except income tax imposed by the Government.
- (b) Exemption from payment of tariff duties and compensating tax on the importation into the Philippines of all machinery, equipment, spare parts and all materials and supplies required for and to be used exclusively by Contractor or sub-contractor in Petroleum Operations on the conditions that said machinery, equipment, spare parts, materials and supplies of comparable price and quality are not manufactured domestically; are directly and actually needed and will be used exclusively by the Contractor in its operations or in the operations for it by a subcontractor; are covered by shipping documents in the name of the Contractor to whom the shipment will be delivered direct by the customs authorities; and the prior approval of the Petroleum Board was obtained by the Contractor before the

importation of such machinery, equipment, spare parts and all materials and supplies, which approval shall not be unreasonably withheld: Provided, however, That the Contractor or its subcontractor may not sell, transfer or dispose of such machinery, equipment, spare parts, materials and supplies within the Philippines without the prior approval of the Petroleum Board and payment of taxes due the Government: Provided, further, That should the Contractor or its subcontractor sell, transfer, or dispose of such machinery, equipment, spare parts, materials or supplies within the Philippines without the prior consent of the Petroleum Board, it shall pay twice the amount of the tax exemption granted: And provided, finally, That the Petroleum Board shall allow and approve the sale, transfer or disposition of the said items within the Philippines without tax if made (1) to another contractor; (2) for reasons of technical obsolescence; or (3) for purposes of replacement to improve and/or expand the operations of the Contractor;

- (c) Exemption upon approval by the Petroleum Board from laws, regulations and/or ordinances restricting the (1) construction, installation, and operation of power plant for the exclusive use of the Contractor if no local enterprise can supply within a reasonable period and at reasonable cost the power needed by the Contractor in its petroleum operations, (2) exportation of machinery and equipment which were imported solely for its Petroleum Operations when no longer needed therefor;

- (d) Exemption from publication requirements under Republic Act Numbered Five thousand four hundred fifty-five; and the provisions of Republic Act Numbered Sixty-one hundred and Seventy-three with respect to the exploration, production, exportation or sale or disposition of Crude Oil discovered and produced in the Philippines;
- (e) Exportation of Petroleum subject to the obligation to supply a portion of domestic requirements as provided in Section 6.1(m) above;
- (f) Entry, upon the sole approval of the Petroleum Board which 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 any such alien with Contractor ceases, the applicable laws and regulations on immigration shall apply to him and his immediate family: Provided, further, That the Filipinos shall be given preference to positions for which they have had adequate training: And provided, finally, That the Contractor shall adopt and implement a training program for Filipinos along technical or specialized lines, which program shall be reported to the Petroleum Board;
- (g) Rights and obligations in this Contract shall be deemed as essential consideration for the conclusion thereof and shall not be unilaterally changed or impaired.
- (h) Be entitled to (i) repatriate over a reasonable period the capital investment actually brought into the country in Foreign Exchange or other assets and registered with the Central Bank; (ii) retain

abroad all Foreign Exchange representing proceeds arising from exports accruing to the Contractor over and above (a) the Foreign Exchange to be converted into pesos in an amount sufficient to cover the costs of Contractor's Petroleum Operations payable in Philippine Currency and (b) revenues due the Government on such Crude; (iii) convert into foreign exchange and remit abroad at prevailing rates no less favorable to Contractor than those available to any other purchaser of foreign currencies, any excess balances of their Philippine currency proceeds from Petroleum production and sale over and above the working current balances they require; and (iv) convert foreign exchange into Philippine currency for all purposes in connection with its Petroleum operations at prevailing rates no less favorable to Contractor than those available to any other purchaser of such currency.

- (i) Have the right of ingress to and egress from the Contract Area and to and from facilities wherever located at all times; and
- (j) Have the right to use and have access to, all geological, geo-physical, drilling, well, production and other information held by the Petroleum Board or by any other governmental agency or enterprise, relating to the Contract Area including well location maps.

6.3 The Contractor shall directly pay all income taxes payable to the Republic of the Philippines.

6.4 In addition to the rights outlined in Section 6.2 above, Contractor shall have a Filipino Participation Incentive Allowance of seven and one-half percent pursuant to the provisions of Section 6.5 below.

6.5 As between the parties constituting the Contractor, the Contractor's Fee and the Filipino Participation Incentive Allowance shall be shared in the following manner:-

(A) Concessionaires shall receive a total of 4.95% of the gross proceeds out of Contractor's fee and if necessary out of the Filipino Participation Incentive Allowance,

(B) As between the concessionaires the 4.95% of gross proceeds referred to above, shall be shared as follows:

(a) In respect of production from any Free Area, and/or from PECs and PECA<sub>s</sub> in the name of Philodrill and/or Trans-Asia, the said proceeds will be divided equally between them, except that production from PECA 538, in the name of Trans-Asia, shall be divided:-

Trans-Asia - 5/12

Philodrill - 7/12

(b) Production from PEC and PECA<sub>s</sub> of the Philodrill Group, other than those in the name of Philodrill, shall be divided, 1/3 to Philodrill, 1/3 to Trans-Asia and 1/3 to Philodrill Group concessionaire/applicant of the corresponding PEC or PECA.

(C) MOSBACHER and HUSKY shall receive the balance of the Contractor's Fee and the Filipino Participation Incentive Allowance after deducting the equivalent of 4.95% specified in (A) above, and shall apportion such

SECTION VII

RECOVERY OF OPERATING EXPENSES AND ACCOUNTING  
FOR PROCEEDS OF PRODUCTION

- 7.1 Contractor is authorized by Petroleum Board to market all Petroleum produced and saved from the Contract Area, as provided for in Section 1.1 herein and shall account for the proceeds from such sales as provided in this Section VII. In consideration of all the obligations assumed by Contractor under this Contract, title to such Petroleum shall pass to Contractor at point of export or point of sale in the Philippines. Each of Second Parties shall have the right and privilege of receiving in kind and separately disposing of its portion of the Petroleum produced and saved from the Contract Area.
- 7.2 In each Year Contractor will recover from the gross proceeds resulting from the sale of all Petroleum produced under this Contract an amount equal to all Operating Expenses: Provided, That the amount so recovered shall not exceed seventy (70) per cent of the gross proceeds from production in any Year; Provided, further, That if in any year the operating costs exceed seventy (70) per cent of the gross proceeds from the production, or there are no gross proceeds, then the unrecovered expenses shall be recovered from the gross proceeds in succeeding years.
- 7.3 On or before the last day of the month following each quarter, Contractor will remit to the Petroleum Board an amount equal to sixty (60%) percent of the estimated net proceeds from the Petroleum Operations in said quarter; provided, however, so much of said sixty (60%) percent as may be necessary to pay taxes as provided in Section 6.3 hereof shall be deducted and withheld by Contractor and paid over for such purpose pursuant to Sections VI and VIII

hereof. This payment shall be calculated in accordance with the U.S. dollar amounts recorded in the books and accounts pursuant to Section XV and the payment corresponding to the first quarter of the calendar year shall include any adjustments on Government's share for the preceding calendar year. For the purposes of this Section VII, net proceeds means the difference between gross income and the sum of the Operating Expenses recovered pursuant to Section 7.2 and the Filipino Participation Incentive allowance.

7.4 Contractor will retain an amount equal to the sum of (1) its fee of forty (40) per cent of the net proceeds from the Petroleum Operations and (2) the amount of the Filipino Participation Incentive Allowance pursuant to the provision of Section 6,5 above.

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

- (a) All Crude Oil sold for consumption in the Philippines shall be valued at Market Price for such Crude Oil.
- (b) All Crude Oil exported shall be valued at the Posted Price.
- (c) All Natural Gas and/or Casinghead Petroleum Spirit exported or sold for consumption in the Philippines shall be valued at the prevailing Market Price thereof.
- (d) Reasonable commissions or brokerage incurred in connection with sales to third parties, if any, shall be deductible from gross proceeds but shall not exceed the customary and prevailing rate.

## SECTION VIII

### INCOME TAXES

8.1 Contractor shall be liable each taxable year for Philippine income tax under the provisions of the National Internal Revenue Code and The Oil Exploration and Development Act of 1972 as provided herein below:

(i) Contractor's gross income shall consist of:

(a) Gross proceeds determined in accordance with Section 7.5 above, and

(b) Such other income which are incidental to and/or arising from any Petroleum operation or other aspect of the Contract.

(ii) In computing the Taxable Net Income, Contractor shall be allowed the following deductions:

(a) Filipino Participation Incentive Allowance, and

(b) Operating Expenses recovered pursuant to Section 7.2 above.

8.2 In ascertaining the Contractor's taxable net income, no deduction from Gross income shall be allowed in respect of any interest or other consideration paid or suffered in respect of the financing of its Petroleum Operations.

8.3 Contractor shall render to the Petroleum Board a return for each taxable year in duplicate in such form and manner, as provided by law setting forth its Gross Income and the deductions herein allowed. The return shall be filed by the Petroleum Board with the Commissioner of Internal Revenue or his deputies or other persons authorized by him to receive such return within the period specified in the National Internal Revenue Code and the Rules and Regulations .

8.4 The Contractor upon its payment of the Contractor's or Second Parties income taxes shall deduct and withhold all the amounts so paid from the sixty percent share of net proceeds of the Government in accordance with Sec. 7.3 and in consonance with Sub-Section 18(b) of the Oil Exploration and Development Act of 1972. Each of the Second Parties shall file separate Income Tax Returns on its share of income and will each be supplied with individual receipt in its own name.

#### SECTION IX

##### PAYMENTS

9.1 All payments which this Contract obligates Contractor to make to the Petroleum Board shall be made in Foreign Exchange at a bank to be designated by the Petroleum Board and agreed upon by the Central Bank of the Philippines, except that, Contractor may make such payments in Philippine pesos to the extent that such currency is realized as a result of the domestic sale of Crude Oil or Natural Gas or Petroleum products, if any. All such payments shall be translated at the applicable exchange rate as defined in the Accounting Procedures attached hereto as Annex "B".

#### SECTION X

##### NATURAL GAS

10.1 After meeting requirements for secondary recovery operations, priority shall be given to supplying prospective demand for Natural Gas in the Philippines. Any Natural Gas produced from the Contract Area to the extent not used in operations hereunder or otherwise utilized, may be flared if the processing or utilization thereof is not deemed economical by Contractor or required

by Contractor for secondary recovery operations, including repressuring and recycling; provided, that the Petroleum Board may take and utilize such Natural Gas that would otherwise be flared, in which event all costs of taking and handling such Natural Gas will be for the sole account and risk of The Petroleum Board.

## SECTION XI

### ASSETS AND EQUIPMENT

- 11.1 Contractor shall acquire for the Petroleum Operations only such assets as are reasonably estimated to be required in carrying out the Petroleum Operations.
- 11.2 All materials, equipment, plants and other installations erected or placed on the Contract Area of a movable nature by the Contractor shall remain the property of the Contractor unless not removed therefrom within one year after the termination of this Contract and Contractor shall have the right of ingress to and egress from the Contract Area during such period for such purpose.
- 11.3 Contractor may also utilize in the Petroleum Operations equipment owned and made available by Contractor and charges to the Petroleum Operations Account for use of such equipment shall be made as provided in the Accounting Procedures.

## SECTION XII

### ARBITRATION

- 12.1 Disputes, if any, arising between the Petroleum Board and Contractor relating to this Contract or the interpretation and performance of any of the clauses of this Contract, and which cannot be settled amicably, shall be settled by arbitration.

either hand shall each appoint one arbitrator and so advise the other Party and these two arbitrators will appoint a third.

If either Party fails to appoint an arbitrator within thirty(30) days after receipt of a written request of the other Party to do so, such arbitrator shall, at the request of the other Party, if the Parties do not otherwise agree, be appointed by the President of the International Chamber of Commerce. If the first two arbitrators appointed as aforesaid fail to agree on a third within thirty(30) days following the appointment of the second arbitrator, the third arbitrator shall, if the Parties do not otherwise agree, be appointed, at the request of either Party, by the President of the International Chamber of Commerce.

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

12.2 The decision of a majority of the arbitrators shall be final and binding upon the Parties. Judgment upon the award rendered may be entered in any Court having jurisdiction or application may be made to such Court for a judicial acceptance of the award and an order of enforcement, as the case may be.

12.3 Except as provided in this Section, arbitration shall be conducted in accordance with the Rules of Arbitration of the International Chamber of Commerce, then in effect.

### SECTION XIII

#### EMPLOYMENT AND TRAINING OF PHILIPPINE PERSONNEL

13.1 Contractor agrees to employ and train qualified Philippine personnel as provided in Sub-Section 6.2(f).

13.2 Costs and expenses of training Philippine personnel for Petroleum

## SECTION XIV

### TERMINATION

This Contract shall be terminated and Contractor shall be relieved of its obligations:

- 14.1 As provided in Section 3.1 hereof; or
- 14.2 On expiration of the term, or extension thereof provided for in Sub-Section 3.2 hereof; or
- 14.3 Upon surrender by Contractor of the entire Contract Area pursuant to Sub-Section 4.5, subject to the provisions of Section 5.3 hereof.

## SECTION XV

### BOOKS AND ACCOUNTS AND AUDIT

#### 15.1 Books and Accounts

Contractor shall be responsible for keeping complete books and accounts, both in United States and Philippine currency, reflecting all transactions in connection with Petroleum Operations in accordance with Accounting Procedure attached hereto as Annex "B".

#### 15.2 Audits

The Petroleum Board shall have the right to inspect and audit Contractor's books and accounts relating to this Contract for any Calendar Year within the one (1) year period following the end of such Calendar Year. Any such audit will be completed within twelve (12) months after its commencement. Any exception must be made in writing within sixty (60) days following the completion of such audit and failure to give such written exception within such time shall establish the correctness of Contractor's books and accounts for the period of such audit.

## SECTION XVI

### OTHER PROVISIONS

#### 16.1 Notices

Any notice required or given by either Party to the other shall be in writing and shall be effective when a copy thereof is handed to or served upon the Party's duly designated representative or the person in charge of the office or place of business; or when sent by registered mail, notice shall be effective upon actual receipt by the addressee, but if he fails to claim his mail from the post office within five (5) days from the date of the first notice of the postmaster, service shall take effect at the expiration of such time.

All such notices shall be addressed to:

To the First Party -

The Chairman of the Petroleum Board  
c/o Department of Agriculture and Natural Resources  
Quezon City

To the Second Party -

Mosbacher Philippines Corporation  
21st Floor, Capitol National  
Conoco Building  
1300 Main Street, Houston  
Texas, U.S.A.

Husky (Philippines) Oil, Inc.  
Cody, Wyoming, U.S.A.

Trans-Asia Oil & Mineral Development Corporation  
300 Bank of P.I. Bldg.  
Ayala Avenue, Makati  
Rizal

Philippine Overseas Drilling & Oil Development  
Corporation  
Don Santiago Building  
Taft Avenue, Manila  
Philippines

Baguio Gold Mining Company  
Sabena Mining Corporation  
Davao Mining Company

Eduardo Martin, Jr.  
Don Santiago Building  
Taft Avenue, Manila  
Philippines

Any Party may substitute or change such address on written notice thereof to the others.

16.2 Governing Law

The Laws of the Republic of the Philippines shall apply to this Contract.

16.3 Suspension of Obligations

- (a) Any failure or delay on the part of either Party in the performance of its obligations or duties hereunder shall be excused to the extent attributable to Force Majeure.
- (b) If operations are delayed, curtailed or prevented by such causes, then the time for enjoying the rights and carrying out the obligations thereby affected, the term of this Contract and all rights and obligations hereunder shall be extended for a period equal to the period thus involved.
- (c) The Party whose ability to perform its obligations is so affected shall notify the other Party thereof in writing stating the cause and both Parties shall do all reasonably within their power to remove such cause.
- (d) "Force Majeure" shall include Acts of God, Fire, unavoidable accidents, acts of war or conditions arising out of or attributable to war (declared or undeclared), laws, rules, regulations and orders by any Government or Governmental agency, strikes, lockouts and other

labor disturbances, delays in transportation, floods, storms and other natural disturbances, insurrections, riots and other civil disturbances and all other matters beyond the control of the Party concerned, whether or not similar to those enumerated; provided that, as to the Petroleum Board only, laws, rules and regulations and orders by the Government or any governmental agency of the Republic of the Philippines shall not constitute Force Majeure.

16.4 Assignment

- (a) The rights and obligations of Second Party under this Contract shall not be assigned or transferred without the prior approval of the Petroleum Board; Provided, That with respect to the assignment or transfer of such rights and obligations to an Affiliate of the transferror, the approval thereof by the Petroleum Board shall be automatic, if the transferee is as qualified as the transferror to enter into such contract with the Government; Provided, further, That the Affiliate relationship between the original transferror or a company which holds at least fifty (50) percent of the Contractor's outstanding shares entitled to vote and each transferee shall be maintained during the existence of the Contract.
- (b) The rights and obligations of the Second Parties in this Contract may, subject to the approval of the Petroleum Board, be assigned or transferred to;

- (i) any substantial stockholder or stockholders of a Contractor which is a privately owned family corporation; or to
- (ii) a member of the family of an individual who acquires an interest in the Contract Area subject to this Service Contract, or a trust, partnership, corporation or other entity controlled by or created for the benefit of such member of the family or the individual acquiring such interest.

16.5 United States currency is an acceptable foreign currency.

#### SECTION XVII

##### EFFECTIVENESS

17.1 This Contract shall come into effect on the Effective Date.

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

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

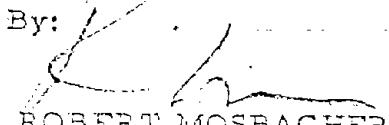
THE PETROLEUM BOARD

By:



MOSBACHER PHILIP-  
PINES CORPORATION

By:

  
ROBERT MOSBACHER

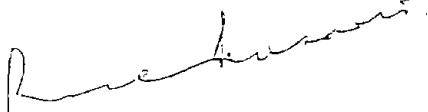
HUSKY(PHILIPPINES)  
OIL, INC.

By:

  
E. H. WAREING

TRANS-ASIA OIL & MINERAL  
DEVELOPMENT CORPORATION

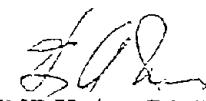
By:



RAMON V. DEL ROSARIO  
President

PHILIPPINE OVERSEAS DRILLING  
& OIL DEVELOPMENT CORPORATION

By:



HENRY A. BRIMO  
President

PHILEX MINING CORPORATION

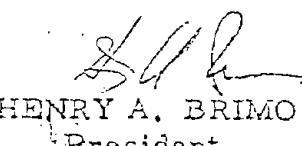
By:



HENRY A. BRIMO  
President

BAGUIO GOLD MINING COMPANY

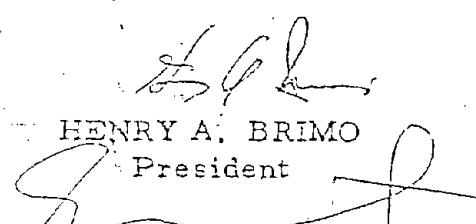
By:



HENRY A. BRIMO  
President

SABENA MINING CORPORATION

By:



HENRY A. BRIMO  
President

EDUARDO MARTIN, JR.  
Concessionaire

ANNEX "A"

MOSEAGIER-HUSKY-TRANS-ASIA-PHILODRILL

CONTRACT AREA

BLOCK NO.	ATTACHED REF. MAP	AREA IN HECTARES	CORRESPONDING PEC/PTCA
Block 1	200,905	47,575 1/4 81,227 38,507* 98,406	295 - Philodrill P-538 Amd. - Trans-Asia Free Area Block A 298 - Philodrill
Block 2	121,708	61,402 60,210	320 - Baguio Gold 313 - Philex
Block 3	69,521	59,521	318 - Sabena
Block 4	111,700	68,007 43,693	321 - Baguio Gold 311 - Philex
Block 5	91,158	91,158	312 - Philex
Block 6	82,027	82,027	336 - E. Martin, Jr.
Block 7	17,500	17,806*	FREE AREA BLOCK B
Block 8	93,178	93,178	327 - E. Martin, Jr.
Block 9	170,200	71,081 98,270	349 - Trans-Asia 350 - Trans-Asia
Block 10	58,402	80,402	296 - Philodrill
Block 11	87,864	87,864	300 - Philodrill
Block 12	102,104	62,203 40,001	310 - Philex 297 - Philodrill
Block 13	61,832*	61,832	415 - Trans-Asia
TOTAL		1,297,505 H.A.	

1/ Please refer to Map Exhibit A-1

2/ Please refer to Map Exhibit A-2.

\* Free Area Block A in West Palawan between 295 and P-538

\* Free Area Block B in Sulu between 349 and 350 and the  
International Boundary Line.

NDD°

87°

100°

115°

120°

121°

PETROLEUM EXPLORATION CONCESSIONS  
PALAWAN - SULU SEA AREAS

BLOCK 1A2  
PAGCOR 50%  
INTEREST  
PECO-GD BLDG

LEGEND

PHILODRILL

SACUJO GOLD

SABENA

PHILEX

E. MARTIN, JR.

TRANS-ASIA

PEREE AREAS

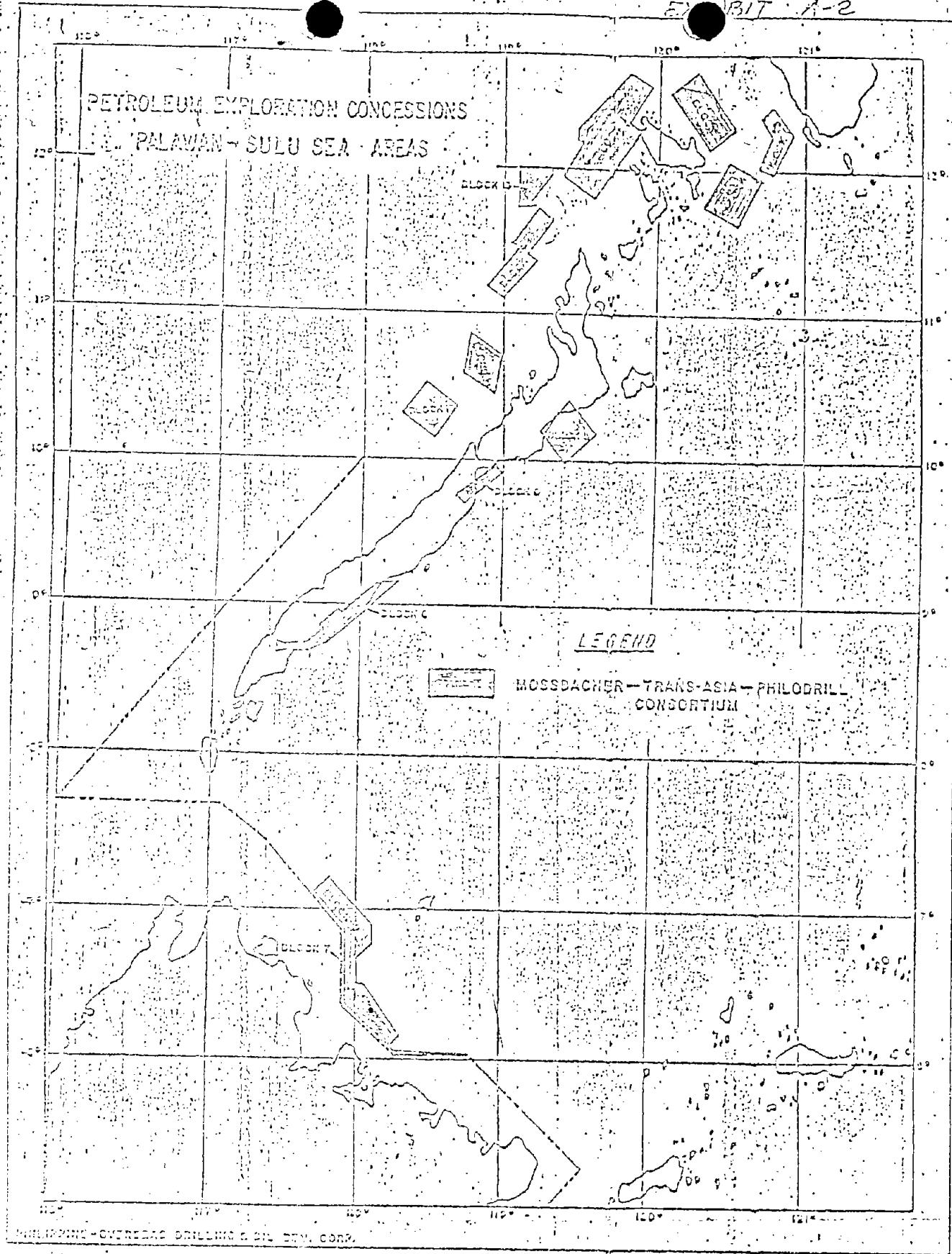
PHILODRILL-SUPERIOR-ENDEAVOUR

CHEVRON-TEXACO-ET AL

PHILIPS PETROLEUM

PROPOSED SERVICE CONTRACT  
AREAS

SERVICE  
CONTRACT  
AREAS



TECHNICAL DESCRIPTION - BLOCK-1  
NORTHWESTERN PALAWAN

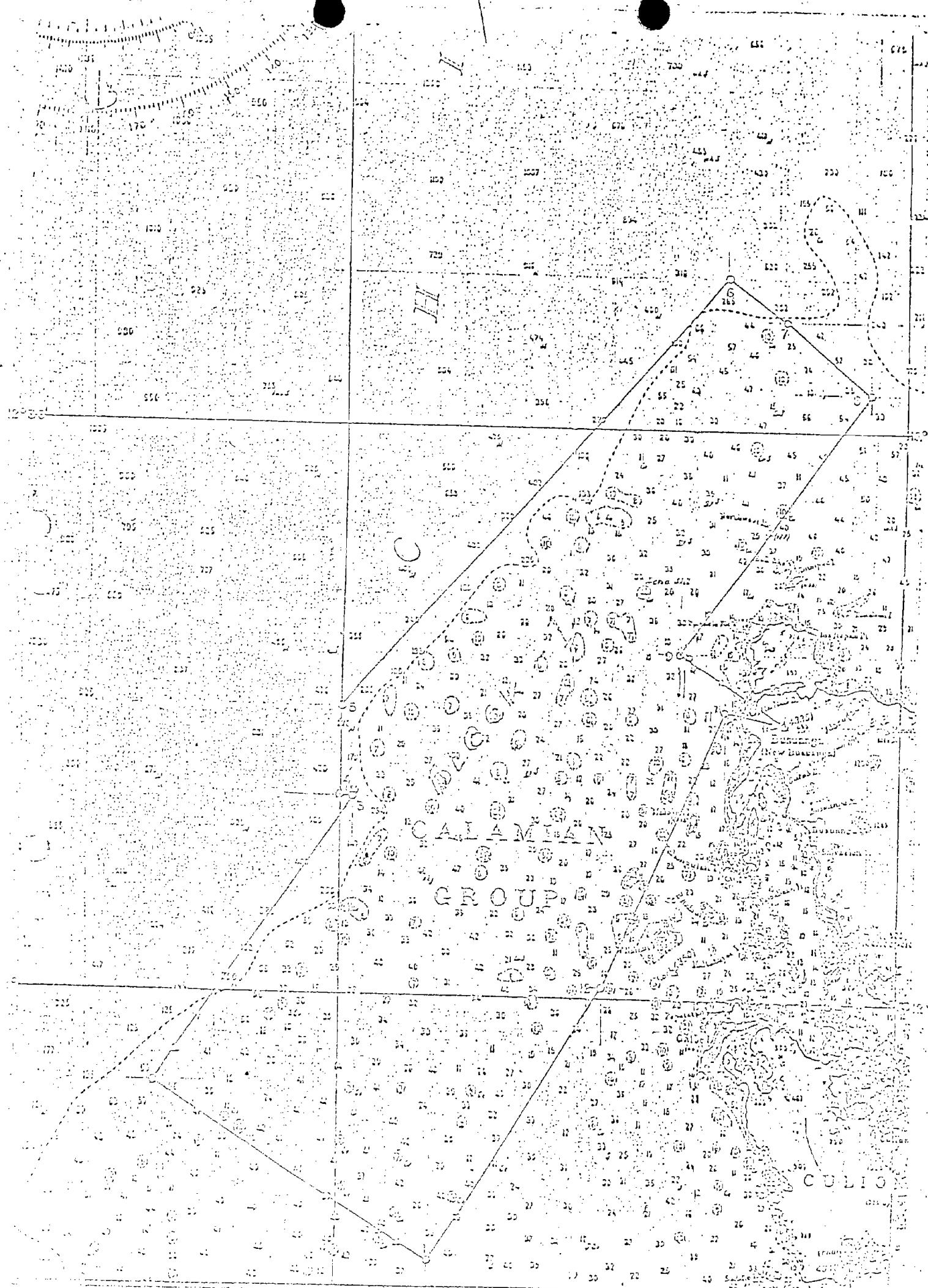
A parcel of exploration block offshore land containing an approximate area of 261,410 hectares, more or less, situated in the marine area in northwestern territorial waters of the province of Palawan, more particularly bounded and described as follows:

Beginning at a point marked "1" being  $11^{\circ}46'30''$  and  $119^{\circ}35'00''$  = 1/PBC-298

THENCE, N.  $55^{\circ}20'W.$ , 52,400 meters to point "2"  
 N.  $36^{\circ}15'E.$ , 32,000.00 " " "3"  
 Due West, 1,300.00 " " "4"  
 Due North, 8,296.29 " " "5"  
 N.  $40^{\circ}45'E.$ , 55,700.00 " " "6"  
 S.  $54^{\circ}45'E.$ , 7,300.00 " " "7"  
 S.  $51^{\circ}44'E.$ , 10,766.62 " " "8"  
 S.  $35^{\circ}21'W.$ , 31,832.47 " " "9"  
 S.  $37^{\circ}30'E.$ , 12,358.07 " " "10"  
 N.  $77^{\circ}15'W.$ , 6,100.00 " " "11"  
 S.  $23^{\circ}47'W.$ , 29,581.18 " " "12"  
 S.  $35^{\circ}00'W.$ , 30,600.00 " " "13"

GEOGRAPHIC COORDINATES

Corners	North-Latitude	East-Longitude
1	$11^{\circ}46'30.00''$	$119^{\circ}35'00''$ = 1/PBC-298
2	$11^{\circ}56'30.00''$	$119^{\circ}20'20.00''$ = 2/PBC-298
3	$12^{\circ}10'30.00''$	" $119^{\circ}30'45.00''$ = 3/PBC-298 4/PBCA-538 Am
4	$12^{\circ}10'30.00''$	$119^{\circ}30'00.00''$ = 3/PBCA-955
5	$12^{\circ}25'00.00''$	$119^{\circ}30'00.00''$ = 4/PBCA-955
6	$12^{\circ}38'00.00''$	$119^{\circ}50'15.00''$
7	$12^{\circ}35'42.00''$	$119^{\circ}53'30.00''$ = 5/PBC-295
8	$12^{\circ}32'05.554''$	$119^{\circ}58'10.969''$ = 4/PBC-295
9	$12^{\circ}18'00.300''$	$119^{\circ}48'00.800''$ = 1/PBC-295
10	$12^{\circ}14'15.00''$	$119^{\circ}54'00.00''$ = 1/NPA/D-295
11	$12^{\circ}15'00.00''$	$119^{\circ}50'42.00''$ = 2/PBCA-538 Am
12	$12^{\circ}00'25.00''$	$119^{\circ}44'10.00''$ = 3/PBCA-538 Am 4/PBC-298



TECHNICAL DESCRIPTION - BLOCK-2  
NORTHEASTERN PALAWAN

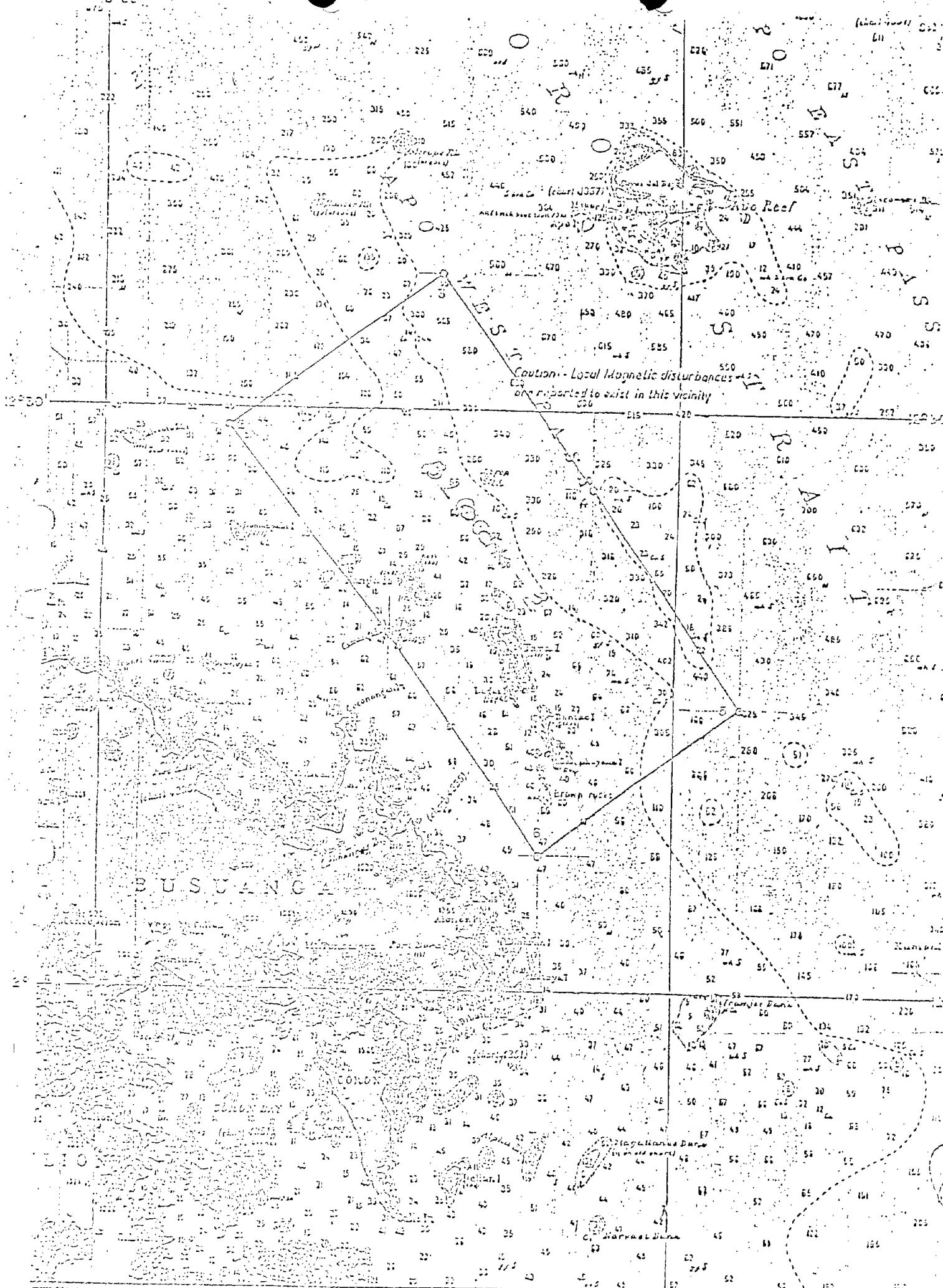
A parcel of exploration block of offshore land containing an area of 121.707 hectares, more or less, situated in the marine area northeastern part of Busuanga Island, more particularly bounded and described as follows:

Beginning at a point marked "1" being N.  $12^{\circ}18'00.00''$  and  $120^{\circ}15'00.00''$  - 1/PBC-313 and 1/PEC-320

THENCE, N.  $37^{\circ}15'W.$ , 25,450 meters to point "2"  
N.  $53^{\circ}20'E.$ , 24,650 " " " " 3 "  
S.  $25^{\circ}50'E.$ , 25,000 " " " " 4 "  
S.  $34^{\circ}25'E.$ , 25,700 " " " " 5 "  
S.  $54^{\circ}00'W.$ , 25,500 " " " " 6 "  
E.  $35^{\circ}55'W.$ , 24,950 meters to point "1"

GEOGRAPHIC COORDINATES

Corner	North-Latitude	East-Longitude
1	$12^{\circ}18'00.00''$	$120^{\circ}15'00.00''$ - 1/PBC-313 1/PEC-320
2	$12^{\circ}29'00.00''$	$120^{\circ}06'30.00''$ - 2/PBC-320
3	$12^{\circ}37'00.00''$	$120^{\circ}17'25.00''$ - 3/PBC-320
4	$12^{\circ}26'00.00''$	$120^{\circ}25'30.00''$ - 2/PBC-313 4/PEC-320
5	$12^{\circ}14'50.00''$	$120^{\circ}33'30.00''$ - 3/PBC-313
6	$12^{\circ}07'00.00''$	$120^{\circ}23'00.00''$ - 4/PBC-313



TECHNICAL DESCRIPTION - BLOCK-3  
NORTHEASTERN PART OF PALAWAN

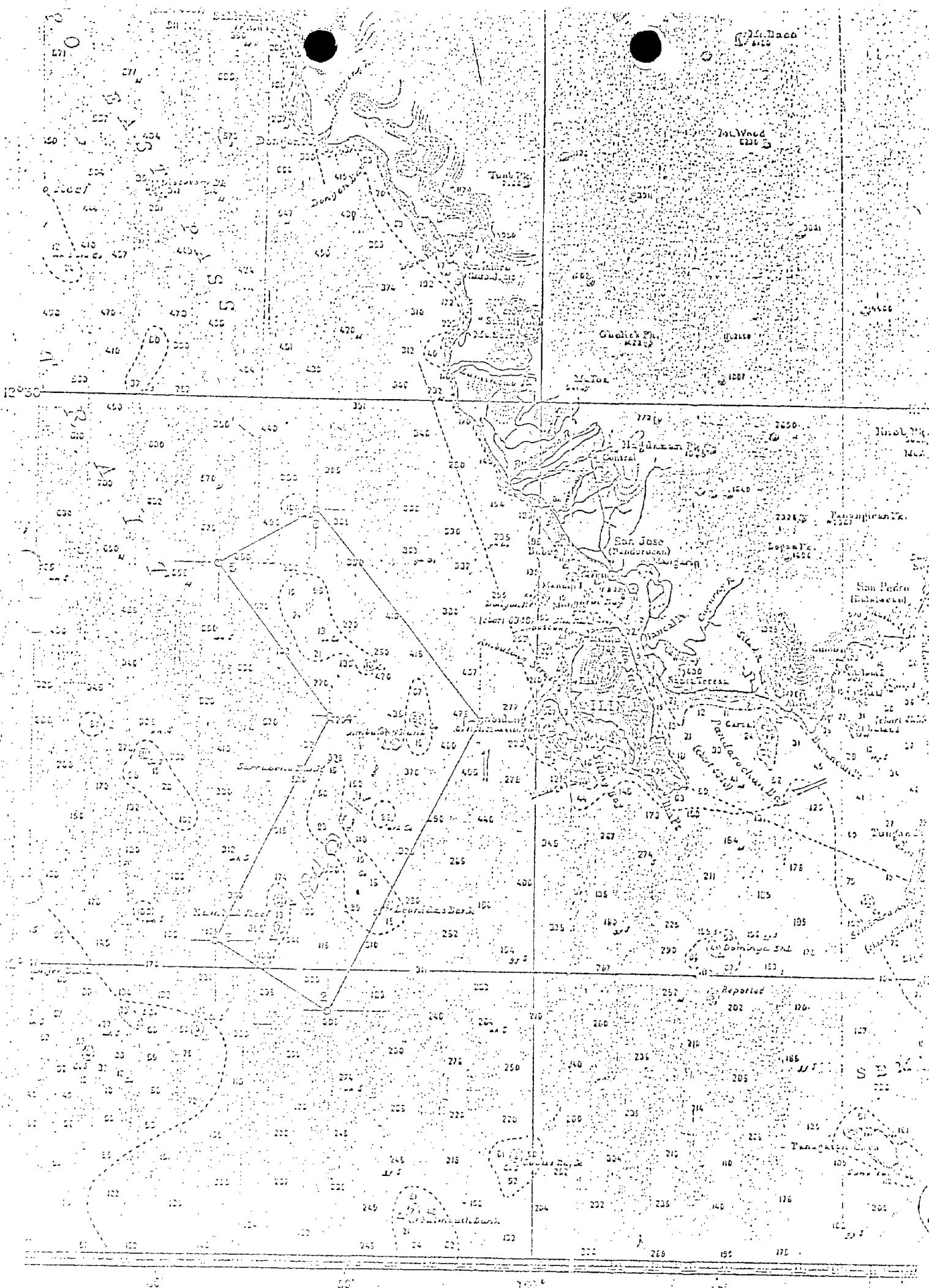
A parcel of exploration block of offshore land containing an area of 59.521 hectares, more or less, situated in the marine area west of Ambulong Island more particularly bounded and described as follows:

Beginning at a point marked "1" being  $12^{\circ}13'00''$  and  $120^{\circ}57'00''$  =  
1/PEC 318

THENCE, S.  $27^{\circ}40'W.$ , 31,250 meters to point "2"  
N.  $59^{\circ}20'W.$ , 12,650 " " " " "3"  
N.  $27^{\circ}10'E.$ , 23,850 " " " " "4"  
N.  $36^{\circ}25'W.$ , 18,350 " " " " "5"  
N.  $58^{\circ}40'E.$ , 10,600 " " " " "6"  
S.  $38^{\circ}50'E.$ , 26,050 meters to point "1"

GEOGRAPHIC COORDINATES

Corner	North-Latitude	East-Longitude
1	$12^{\circ}13'00''$	$120^{\circ}57'00''$ = 1/PEC-318
2	$11^{\circ}58'00''$	$120^{\circ}49'00''$ = 2/PEC-318
3	$12^{\circ}01'30''$	$120^{\circ}43'00''$ = 3/PEC-318
4	$12^{\circ}13'00''$	$120^{\circ}49'00''$ = 4/PEC-318
5	$12^{\circ}21'00''$	$120^{\circ}45'00''$ = 5/PEC-318
6	$12^{\circ}24'00''$	$120^{\circ}48'00''$ = 6/PEC-318



TECHNICAL DESCRIPTION - BLOCK-4  
NORTHWESTERN PALAWAN

A parcel of exploration block of offshore land containing an area of 111,700 hectares, more or less, situated in the marine area northeastern part of Palawan province, more particularly bounded and described as follows:

Beginning at a point marked "1" being  $11^{\circ}53'00''$  and  $120^{\circ}24'00''$  =  
1/PEC-311 and 1/PEC-321

THENCE, N.  $28^{\circ}15' E.$ , 25,000 meters to point "2"

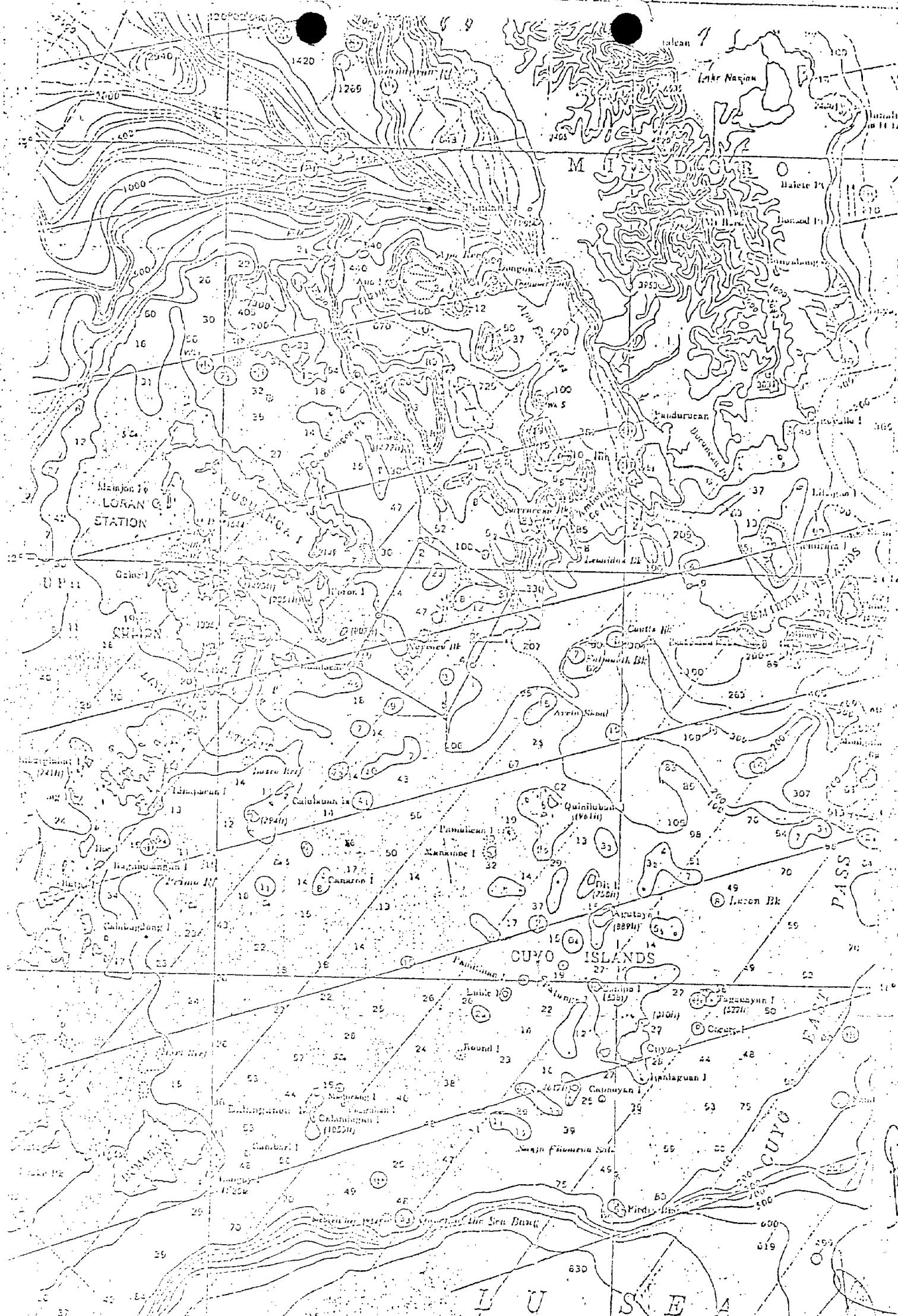
S. 28°15' W., 25,000 ft. n. n. n. 140

S.  $25^{\circ} 20' W.$ , 16,050 " " " " " 58

N.  $27^{\circ}45'W.$ , 15,600 meters to point "1"

#### GEOGRAPHIC COORDINATES

Corner	North-Latitude	East-Longitude
1	11°53'00"	120°24'00" = 1/PEC-311 1/PEC-321
2	12°04'00"	120°30'00" = 2/PEC-321
3	11°57'00"	120°44'00" = 3/PEC-321
4	11°46'00"	120°58'00" = 2/PEC-311 4/PEC-321
5	11°38'00"	120°34'00" = 3/PEC-311
6	11°45'30"	120°20'00" = 4/PEC-311



TECHNICAL DESCRIPTION - BLOCK-5  
SOUTHEASTERN PALAWAN

A parcel of exploration block of offshore land containing an area of 91,453 hectares, more or less, situated in the marine area south-east coast of Palawan, more particularly bounded and described as follows:

Beginning at a point marked "1" being  $10^{\circ}23'00''$  and  $119^{\circ}26'00''$  = 1/PBC-312

THENCE, S.  $35^{\circ}26'E.$ , 32,850 meters to point "2"

S.  $34^{\circ}27'W.$ , 30,100 " " " " 3 "

N.  $35^{\circ}05'W.$ , 27,400 " " " " 4 "

N.  $44^{\circ}20'E.$ , 30,920 meters to point "1"

GEOGRAPHIC COORDINATES

Corner	North-Latitude	East-Longitude
1	$10^{\circ}23'00''$	$119^{\circ}26'00''$ = 1/PBC-312
2	$10^{\circ}08'30''$	$119^{\circ}36'25''$ = 2/PBC-312
3	$9^{\circ}59'00''$	$119^{\circ}23'00''$ = 3/PBC-312
4	$10^{\circ}11'00''$	$119^{\circ}14'00''$ = 4/PBC-312



**MUNICIPAL DISCONTINUATION - BLOCKS  
EAST-CENTRAL PALAMU**

A parcel of exploration block of offshore land, containing an area of 32,027 hectares, more or less, situated in the marine area and onshore of east-central Palawan, more particularly bounded and described as follows:

Beginning at a point marked "11", being  $9^{\circ}41'15''$  North Latitude, and  $118^{\circ}42'00''$  East Longitude which is N.  $28^{\circ}25'11''$ , 6026, 0359 meters from Triangulation. "Table Head" 1916, USC & GS.

THENCE: N.  $44^{\circ}39'$  W. . 8770.2798 meters to point "2"  $\square$

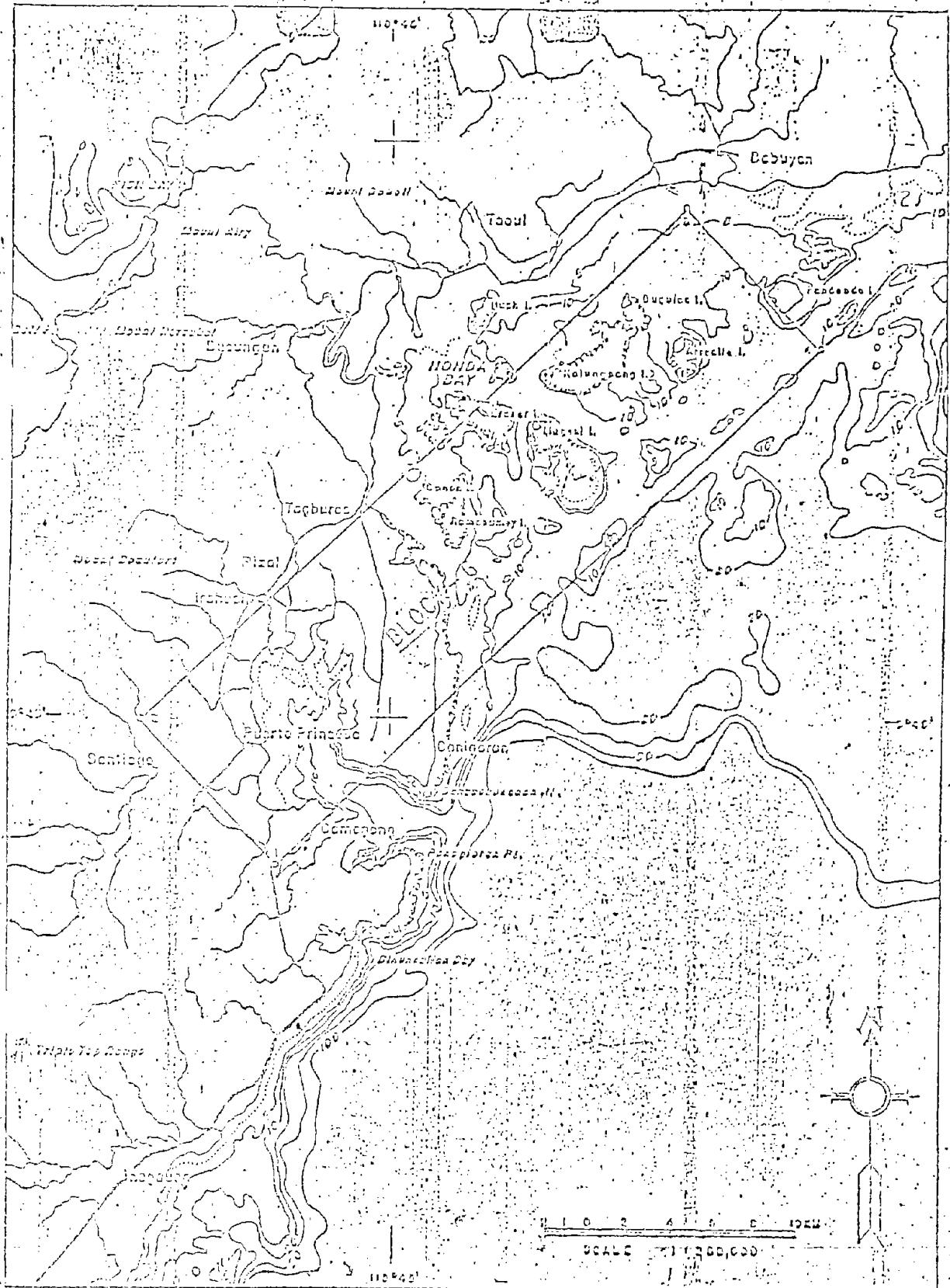
S.  $40^{\circ}41'$  E. 9115.2359 " " " 04"

S.  $45^{\circ}48'$  W. 35,703.8958 " " " " " "

which is the point of beginning

#### GEOGRAPHIC COORDINATES

Corner	North Latitude	East Longitude
1	9°41'15"	118°42'00"
2	9°44'45"	118°38'45"
3	9°58'30"	118°52'45"
4	9°54'45"	118°56'00"



PECA-543 — PRO-535  
AREA # 33, 207.0000 Km.  
EDUARDO MARTIN, JR.

TECHNICAL DESCRIPTION - BLOCK-7  
SOUTHWESTERN SULU SEA

A parcel of exploration block of offshore land containing an area of 17,806 hectares, more or less, situated in the marine area of Southwestern Sulu Sea, more particularly bounded and described as follows:

Beginning at a point marked "1" being  $6^{\circ}00'25''$  and  $118^{\circ}24'22''$  - 6/PEC-405

Thence,	$S.89^{\circ}05'E.$ ,	47,300 meters to point "2"
"	Due West,	56,537    "    "    "    "3"
"	$N.52^{\circ}18'W.$ ,	51,271    "    "    "    "4"
"	Due North,	64,506    "    "    "    "5"
"	$N.44^{\circ}42'W.$ ,	28,700    "    "    "    "6"
"	$N.45^{\circ}00'E.$ ,	1,500    "    "    "    "7"
"	$S.45^{\circ}30'E.$ ,	28,350    "    "    "    "8"
"	Due South,	32,805    "    "    "    "9"
"	Due South,	33,210    "    "    "    "10"
"	$S.53^{\circ}00'E.$ ,	45,360    "    "    "    "11"
"	$S.53^{\circ}00'E.$ ,	5,265    "    "    "    "12"
"	Due East,	7,290 meters to point "1"

GEOGRAPHIC COORDINATES

Corner	North-Latitude	East-Longitude
1	$6^{\circ}00'25''$	$118^{\circ}24'22''$ - 1/PEC-314 & 6/PEC-405
2	$6^{\circ}00'00''$	$118^{\circ}50'00''$ - 9/PEC-314
3	$6^{\circ}00'00''$	$118^{\circ}20'00''$ - 10/R.I.T.L.
4	$6^{\circ}17'00''$	$117^{\circ}58'00''$ - 11/R.I.T.L.
5	$6^{\circ}52'00''$	$117^{\circ}50'00''$ - 12/R.I.T.L.
6	$7^{\circ}03'03''$	$117^{\circ}40'57''$ Subject to correction so that it shall lie on the line of the International Treaty Limits

Technical Description  
Block-7  
Page - 2

<u>Corner</u>	<u>North-Latitude</u>	<u>East-Longitude</u>
7	7°03'36"	117°47'36" - 4/PEC-350
8	6°52'48"	117°58'30" - 3/PEC-350
9	6°54'55"	117°58'30" - 4/PEC-349 & 2/PEC-350
10	6°17'13"	117°58'30" - 3/PEC-349
11	6°02'12"	118°18'00" - 6/PEC-349 & 8/PEC-405
12	6°00'25"	118°20'18" - 7/PEC-405

1. ~~San Miguel I.~~  
2. ~~Mariveles I.~~  
3. ~~Mariveles II~~  
4. ~~Mariveles III~~

5. ~~Mariveles IV~~

6. ~~Mariveles V~~

7. ~~Mariveles VI~~

8. ~~Mariveles VII~~

A T T

1. ~~Mariveles I~~

2. ~~Mariveles II~~

(~~Polo~~ ~~Mariveles~~)  
~~Mariveles~~ ~~Mariveles~~

3. ~~Mariveles III~~

4. ~~Mariveles IV~~

5. ~~Mariveles V~~

6. ~~Mariveles VI~~

7. ~~Mariveles VII~~

8. ~~Mariveles VIII~~

9. ~~Mariveles IX~~

10. ~~Mariveles X~~

11. ~~Mariveles XI~~

12. ~~Mariveles XII~~

13. ~~Mariveles XIII~~

14. ~~Mariveles XIV~~

15. ~~Mariveles XV~~

16. ~~Mariveles XVI~~

17. ~~Mariveles XVII~~

18. ~~Mariveles XVIII~~

19. ~~Mariveles XVIX~~

20. ~~Mariveles XX~~

21. ~~Mariveles XXI~~

22. ~~Mariveles XXII~~

23. ~~Mariveles XXIII~~

24. ~~Mariveles XXIV~~

25. ~~Mariveles XXV~~

26. ~~Mariveles XXVI~~

27. ~~Mariveles XXVII~~

28. ~~Mariveles XXVIII~~

29. ~~Mariveles XXIX~~

30. ~~Mariveles XXX~~

31. ~~Mariveles XXXI~~

32. ~~Mariveles XXXII~~

33. ~~Mariveles XXXIII~~

34. ~~Mariveles XXXIV~~

35. ~~Mariveles XXXV~~

36. ~~Mariveles XXXVI~~

37. ~~Mariveles XXXVII~~

38. ~~Mariveles XXXVIII~~

39. ~~Mariveles XXXIX~~

40. ~~Mariveles XL~~

41. ~~Mariveles XLI~~

42. ~~Mariveles XLII~~

43. ~~Mariveles XLIII~~

44. ~~Mariveles XLIV~~

45. ~~Mariveles XLV~~

46. ~~Mariveles XLVI~~

47. ~~Mariveles XLVII~~

48. ~~Mariveles XLVIII~~

49. ~~Mariveles XLIX~~

50. ~~Mariveles L~~

51. ~~Mariveles LI~~

52. ~~Mariveles LII~~

53. ~~Mariveles LIII~~

54. ~~Mariveles LIV~~

55. ~~Mariveles LV~~

56. ~~Mariveles LX~~

57. ~~Mariveles LXI~~

58. ~~Mariveles LXII~~

59. ~~Mariveles LXIII~~

60. ~~Mariveles LXIV~~

61. ~~Mariveles LXV~~

62. ~~Mariveles LXVI~~

63. ~~Mariveles LXVII~~

64. ~~Mariveles LXVIII~~

65. ~~Mariveles LXIX~~

66. ~~Mariveles LXX~~

67. ~~Mariveles LXI~~

68. ~~Mariveles LXII~~

69. ~~Mariveles LXIII~~

70. ~~Mariveles LXIV~~

71. ~~Mariveles LXV~~

72. ~~Mariveles LXVI~~

73. ~~Mariveles LXVII~~

74. ~~Mariveles LXVIII~~

75. ~~Mariveles LXIX~~

76. ~~Mariveles LXX~~

77. ~~Mariveles LXI~~

78. ~~Mariveles LXII~~

79. ~~Mariveles LXIII~~

80. ~~Mariveles LXIV~~

81. ~~Mariveles LXV~~

82. ~~Mariveles LXVI~~

83. ~~Mariveles LXVII~~

84. ~~Mariveles LXVIII~~

85. ~~Mariveles LXIX~~

86. ~~Mariveles LXX~~

87. ~~Mariveles LXI~~

88. ~~Mariveles LXII~~

89. ~~Mariveles LXIII~~

90. ~~Mariveles LXIV~~

91. ~~Mariveles LXV~~

92. ~~Mariveles LXVI~~

93. ~~Mariveles LXVII~~

94. ~~Mariveles LXVIII~~

95. ~~Mariveles LXIX~~

96. ~~Mariveles LXX~~

97. ~~Mariveles LXI~~

98. ~~Mariveles LXII~~

99. ~~Mariveles LXIII~~

100. ~~Mariveles LXIV~~

101. ~~Mariveles LXV~~

102. ~~Mariveles LXVI~~

103. ~~Mariveles LXVII~~

104. ~~Mariveles LXVIII~~

105. ~~Mariveles LXIX~~

106. ~~Mariveles LXX~~

107. ~~Mariveles LXI~~

108. ~~Mariveles LXII~~

109. ~~Mariveles LXIII~~

110. ~~Mariveles LXIV~~

111. ~~Mariveles LXV~~

112. ~~Mariveles LXVI~~

113. ~~Mariveles LXVII~~

114. ~~Mariveles LXVIII~~

115. ~~Mariveles LXIX~~

116. ~~Mariveles LXX~~

117. ~~Mariveles LXI~~

118. ~~Mariveles LXII~~

119. ~~Mariveles LXIII~~

120. ~~Mariveles LXIV~~

121. ~~Mariveles LXV~~

122. ~~Mariveles LXVI~~

123. ~~Mariveles LXVII~~

124. ~~Mariveles LXVIII~~

125. ~~Mariveles LXIX~~

126. ~~Mariveles LXX~~

127. ~~Mariveles LXI~~

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131. ~~Mariveles LXV~~

132. ~~Mariveles LXVI~~

133. ~~Mariveles LXVII~~

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135. ~~Mariveles LXIX~~

136. ~~Mariveles LXX~~

137. ~~Mariveles LXI~~

138. ~~Mariveles LXII~~

139. ~~Mariveles LXIII~~

140. ~~Mariveles LXIV~~

141. ~~Mariveles LXV~~

142. ~~Mariveles LXVI~~

143. ~~Mariveles LXVII~~

144. ~~Mariveles LXVIII~~

145. ~~Mariveles LXIX~~

146. ~~Mariveles LXX~~

147. ~~Mariveles LXI~~

148. ~~Mariveles LXII~~

149. ~~Mariveles LXIII~~

150. ~~Mariveles LXIV~~

151. ~~Mariveles LXV~~

152. ~~Mariveles LXVI~~

153. ~~Mariveles LXVII~~

154. ~~Mariveles LXVIII~~

155. ~~Mariveles LXIX~~

156. ~~Mariveles LXX~~

157. ~~Mariveles LXI~~

158. ~~Mariveles LXII~~

159. ~~Mariveles LXIII~~

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161. ~~Mariveles LXV~~

162. ~~Mariveles LXVI~~

163. ~~Mariveles LXVII~~

164. ~~Mariveles LXVIII~~

165. ~~Mariveles LXIX~~

166. ~~Mariveles LXX~~

167. ~~Mariveles LXI~~

168. ~~Mariveles LXII~~

169. ~~Mariveles LXIII~~

170. ~~Mariveles LXIV~~

171. ~~Mariveles LXV~~

172. ~~Mariveles LXVI~~

173. ~~Mariveles LXVII~~

174. ~~Mariveles LXVIII~~

175. ~~Mariveles LXIX~~

176. ~~Mariveles LXX~~

177. ~~Mariveles LXI~~

178. ~~Mariveles LXII~~

179. ~~Mariveles LXIII~~

180. ~~Mariveles LXIV~~

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182. ~~Mariveles LXVI~~

183. ~~Mariveles LXVII~~

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191. ~~Mariveles LXV~~

192. ~~Mariveles LXVI~~

193. ~~Mariveles LXVII~~

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197. ~~Mariveles LXI~~

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201. ~~Mariveles LXV~~

202. ~~Mariveles LXVI~~

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204. ~~Mariveles LXVIII~~

205. ~~Mariveles LXIX~~

206. ~~Mariveles LXX~~

207. ~~Mariveles LXI~~

208. ~~Mariveles LXII~~

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210. ~~Mariveles LXIV~~

211. ~~Mariveles LXV~~

212. ~~Mariveles LXVI~~

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214. ~~Mariveles LXVIII~~

215. ~~Mariveles LXIX~~

216. ~~Mariveles LXX~~

217. ~~Mariveles LXI~~

218. ~~Mariveles LXII~~

219. ~~Mariveles LXIII~~

220. ~~Mariveles LXIV~~

221. ~~Mariveles LXV~~

222. ~~Mariveles LXVI~~

223. ~~Mariveles LXVII~~

224. ~~Mariveles LXVIII~~

225. ~~Mariveles LXIX~~

**PHYSICAL DESCRIPTION - BLOCK-8  
SOUTHERN PART OF PALAWAN**

A parcel of exploration block of onshore and offshore land containing an area of 93,173 hectares, more or less, situated in the southeastern part of the province of Palawan, more particularly bounded and described as follows:

Beginning at a point marked "1" being  $8^{\circ}46'09''$  and  
 $117^{\circ}50'22'' = 1/FBC-337$

THENCE, S.	$46^{\circ}56'W.$	19,050.50	meters to point	"20
S.	$50^{\circ}29'W.$	12,263.90	"	"30
N.	$56^{\circ}55'W.$	5,876.70	"	"40
Due West		12,373.16	"	"50
Due North		6,451.41	"	"60
S.	$70^{\circ}15'E.$	6,818.41	"	"70
N.	$65^{\circ}56'E.$	21,800.35	"	"80
N.	$42^{\circ}49'E.$	14,259.59	"	"90
N.	$48^{\circ}20'W.$	33,558.24	"	"100
N.	$42^{\circ}57'E.$	15,110.50	"	"110
S.	$62^{\circ}38'E.$	2,529.10	"	"120
N.	$49^{\circ}45'E.$	37,581.80	"	"130
N.	$73^{\circ}30'E.$	16,983.04	"	"140
E.	$42^{\circ}52'W.$	45,268.06	"	"150
S.	$54^{\circ}25'W.$	21,681.31	meters to point	"160

#### GEOGRAPHIC COORDINATES

Corner	North-Latitude	East-Longitude
1	8°46'09"	117°50'23" = 1/PED-337 1/PED-337
2	8°39'06"	117°42'48" = 2/PED-337
3	8°38'00"	117°36'12" = 3/PED-337
4	8°39'15"	117°33'15" = 4/PED-337
5	8°39'15"	117°26'30" = 5/PED-337
6	8°42'45"	117°26'30" = 6/PED-337
7	8°41'30"	117°30'00" = 7/PED-337
8	8°42'45"	117°41'50" = 8/PED-337
9	8°48'23"	117°47'05" = 9/PED-337
10	8°49'40"	117°45'38" = 10/PED-337
11	8°55'40"	117°51'15" = 11/PED-337
12	8°55'05"	117°52'23" = 12/PED-337
13	8°08'23"	118°07'55" = 13/PED-337
14	8°11'00"	118°16'48" = 14/PED-337
15	8°55'00"	118°00'00" = 15/PED-337



FIDUCIAL DESCRIPTION - BLOCK-9  
WESTERN SULU SEA

A parcel of exploration block of offshore land containing an area of 170,260 hectares, more or less, situated in the marine area southwestern Sulu Sea, more particularly bounded and described as follows:

Beginning at a point marked "1" being  $6^{\circ}05'36''$  and  $118^{\circ}20'18''$  = 1/PBC-349.

THENCE, S.  $37^{\circ}52'W.$ , 7,290 meters to point "2"  
 N.  $55^{\circ}00'W.$ , 45,360 " " " 130 " 24  
 Due North, 53,210 " " " 140 "  
 Due North, 52,805 " " " 150 "  
 N.  $45^{\circ}30'W.$ , 28,350 " " " 160 "  
 N.  $45^{\circ}00'E.$ , 11,340 " " " 170 "  
 S.  $45^{\circ}00'E.$ , 48,600 " " " 180 "  
 S.  $02^{\circ}00'E.$ , 10,935 " " " 190 "  
 S.  $45^{\circ}00'W.$ , 21,870 " " " 200 "  
 Due South, 20,250 " " " 210 "  
 Due East, 2,025 " " " 220 "  
 S.  $42^{\circ}28'E.$ , 46,170 meters to point "1"

GEOGRAPHIC COORDINATES

Corner	North-Latitude	East-Longitude
1	$6^{\circ}05'36''$	$118^{\circ}20'18''$ = 1/PBC-349 1/PBC-405
2	$6^{\circ}02'12''$	$118^{\circ}18'00''$ = 2/PBC-349 8/PBC-405
3	$6^{\circ}17'15''$	$117^{\circ}58'30''$ = 3/PBC-349
4	$6^{\circ}54'55''$	$117^{\circ}58'30''$ = 4/PBC-349 2/PBC-350
5	$6^{\circ}52'48''$	$117^{\circ}58'30''$ = 5/PBC-350
6	$7^{\circ}03'36''$	$117^{\circ}47'56''$ = 4/PBC-350
7	$7^{\circ}08'00''$	$117^{\circ}52'00''$ = 5/PBC-350
8	$6^{\circ}49'00''$	$118^{\circ}10'00''$ = 6/PBC-350
9	$6^{\circ}43'00''$	$118^{\circ}10'40''$ = 7/PBC-350
10	$6^{\circ}34'54''$	$118^{\circ}02'24''$ = 5/PBC-349 1/PBC-350
11	$6^{\circ}23'53''$	$118^{\circ}02'24''$ = 6/PBC-349
12	$6^{\circ}23'53''$	$118^{\circ}05'30''$ = 7/PBC-349

J B



TECHNICAL DESCRIPTION - BLOCK-11  
NORTHWESTERN PALAWAN

A parcel of exploration block of offshore land, containing an area of 87.864 hectares, more or less, situated in the marine area in northwestern territorial waters of the province of Palawan, more particularly bounded and described as follows:

Beginning at a point marked "1" being  $10^{\circ}42'20''$  and  
 $118^{\circ}57'00''$  = 1/FEC-500

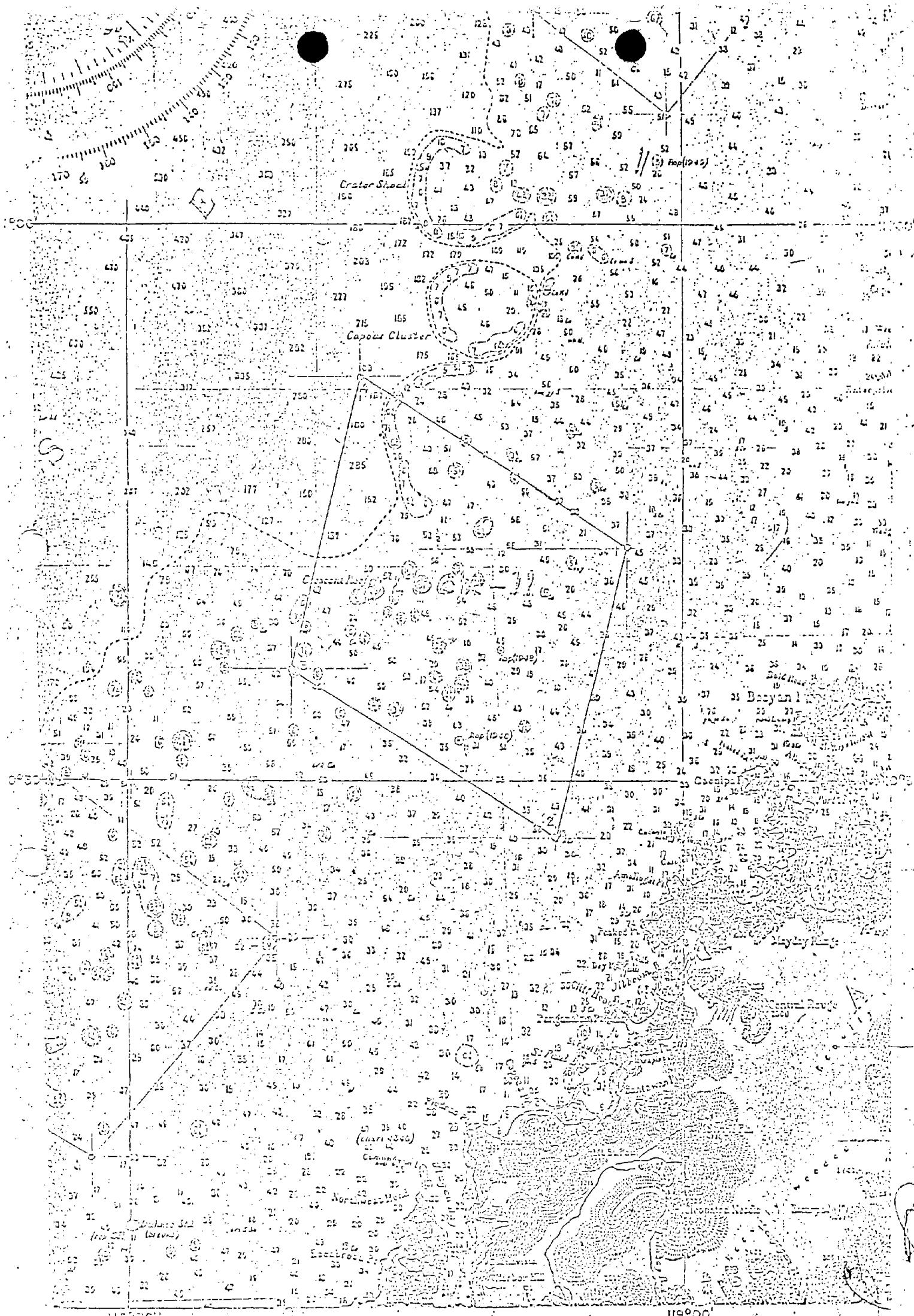
THENCE, S.  $14^{\circ} 20' W.$ , 29,500 meters to point "2"

E.  $13^{\circ}10' E.$ , 30,000 n n n n

S.  $56^{\circ}30' E.$ , 31,700 meters to point "U"

#### GEOGRAPHIC COORDINATES

Corner	North-Latitude	East-Longitude
1	10°42'20"	118°57'00" = 1/PBC-300
2	10°26'50"	118°53'00" = 2/PBC-300
3	10°36'00"	118°58'45" = 3/PBC-300
4	10°51'50"	118°42'30" = 4/PBC-300



TECHNICAL DESCRIPTION - BLOCK  
NORTHWESTERN PALAWAN

A parcel of exploration block of offshore land containing an area of 105,164 hectares, more or less, situated in the marine area in northwestern territorial waters of the province of Palawan, more particularly bounded and described as follows:

Beginning at a point marked "1" being  $11^{\circ}21'30''$  and  $119^{\circ}12'00'' = 1/\text{PEC}-310$

THENCE, S.  $39^{\circ}05'W.$ , 36,800.00 meters to point "2"

N.  $52^{\circ}25'W.$ , 16,650.00 " " "  $n_3$ "

N.  $39^{\circ}05'E.$ , 38,000.00 " " "  $n_4$ "

N.  $55^{\circ}56'W.$ , 8,227.68 " " "  $n_5$ "

N.  $36^{\circ}01'E.$ , 29,630.99 " " "  $n_6$ "

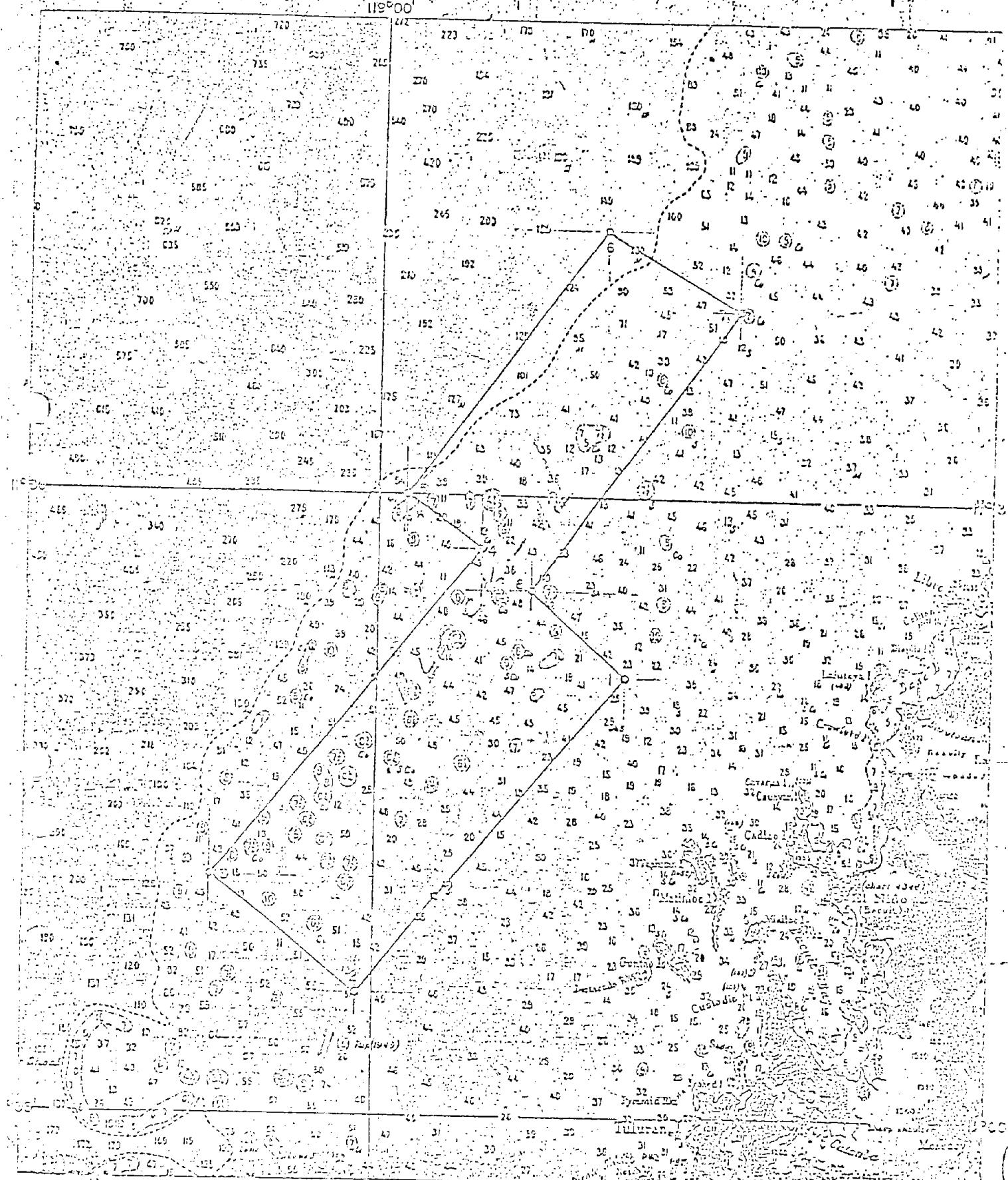
S.  $56^{\circ}47'E.$ , 12,797.8 " " "  $n_7$ "

S.  $36^{\circ}25'W.$ , 30,484.77 " " "  $n_8$ "

S.  $48^{\circ}20'W.$ , 11,256.97 " " "  $n_9$ "

GEOGRAPHIC COORDINATES

Corner	North-Latitude	East-Longitude
1	$11^{\circ}21'30''$	$119^{\circ}12'00'' = 1/\text{PEC}-310$
2	$11^{\circ}06'00''$	$118^{\circ}59'15'' = 2/\text{PEC}-310$
3	$11^{\circ}11'30''$	$118^{\circ}52'00'' = 3/\text{PEC}-310$
4	$11^{\circ}27'30''$	$119^{\circ}05'10'' = 1a/\text{PEC}-297$ $4/\text{PEC}-310$
5	$11^{\circ}30'00.500''$	$119^{\circ}01'25.024'' = 2/\text{PEC}-297$
6	$11^{\circ}43'00.716''$	$119^{\circ}11'00.185'' = 3/\text{PEC}-297$
7	$11^{\circ}38'54.647''$	$119^{\circ}17'21.282'' = 4/\text{PEC}-297$
8	$11^{\circ}25'34.425''$	$119^{\circ}07'26.125'' = 1/\text{PEC}-297$



115°00'

PECHI IL. DESCRIPTION - BLOCK-13  
WESTERN PALAWAN

A parcel of exploration block of offshore land containing an area of 61.831.17 hectares, more or less, situated in the marine area in northwestern territorial waters of the Province of Palawan, more particularly bounded and described as follows:

Beginning at a point marked "1" being  $12^{\circ}00'00''$  and  $119^{\circ}00'00''$  - 1/PEC-415

THENCE, Due East, 27,225.50 meters to point "2"

Due South, 18,804.31 " " " 13"

N.  $84^{\circ}05'W.$ , 11,744.28 " " " 14"

S.  $34^{\circ}36'W.$ , 8,304.17 " " " 15"

S.  $52^{\circ}55'E.$ , 5,350.48 " " " 16"

Due West, 15,109.22 " " " 17"

Due North, 27,653.40 meters to point "1"

GEOGRAPHIC COORDINATES

Corner	North-Latitude	East-Longitude	
1	$12^{\circ}00'00''$	$119^{\circ}00'00''$	- 1/PEC-415
2	$12^{\circ}00'00''$	$119^{\circ}15'00''$	- 2/PEC-415
3	$11^{\circ}49'48''$	$119^{\circ}15'00''$	- 3/PEC-415 5/PECA-910
4	$11^{\circ}50'27.4''$	$119^{\circ}08'33.8''$	- 4/PEC-415 6/PECA-910
5	$11^{\circ}46'45''$	$119^{\circ}05'58''$	- 5/PEC-415 7/PECA-910
6	$11^{\circ}45'00''$	$119^{\circ}08'19''$	- 6/PEC-415
7	$11^{\circ}45'00''$	$119^{\circ}00'00''$	- 7/PEC-415



115' CO'

15'

1300'

300'

BLOCK - 13

4  
3C  
7

2

P R



Republic of the Philippines  
NATIONAL ECONOMIC DEVELOPMENT AUTHORITY  
PETROLEUM BOARD  
Manila

Annex "B"

ACCOUNTING PROCEDURES

Attached to and integral part of the Contract  
between the Petroleum Board and Contractor  
dated the \_\_\_\_\_ day of September, 1973.

ARTICLE I - GENERAL PROVISIONS

1. Definitions

The accounting procedures herein provided for are to be followed and observed in the performance of all obligations under the contract to which this Exhibit is attached. The terms appearing in this Annex "B" shall have the same meaning as those defined in the Contract.

2. Accounts and Currency Exchange

Contractor shall maintain accounting records for the Petroleum Operations in accordance with generally accepted accounting practices used in the petroleum industry and in such a manner that all revenues and expenditures will be segregated or can be allocated to appropriate Contract Areas. All revenues and expenditures applicable to the Petroleum Operations shall be recorded in both U. S. and Philippine Currency. Any transactions between U. S. Dollars and Philippine Pesos shall be stated at the applicable exchange rate. For these purposes, the applicable exchange rate shall be the Interbank Guiding Rate for U. S. Dollars as quoted by the Philippine National Bank, Manila at the close of business on the last banking day of the month preceding the month of disbursements or receipt, or if there were no such quotations on that day, then such rates on the most recent day in such preceding month during which there were such quotations or on such other basis as may be agreed upon by the Parties. Provided, however, That in the event of a significant change in the rate of exchange after the end of the preceding month, then all transactions after such re-evaluation until the end of that

realized in any currency other than the Philippine Pesos or U.S. Dollars shall first be translated into U.S. Dollars as the average of T/T selling and buying rates in the New York money market at the date of transaction. If there were no such quotations on the date of transaction, then the average rate on the most recent date shall be applicable.

It is agreed, however, that any adjustment resulting from the exchange of currency required for the use of this operation or from the translation above listed, shall be charged or credited to the Operating Expense.

The matter of translation rates will be reconsidered if it is determined that the above methods result in inequities.

3. Statements

In implementation of Section VII of the Contract, Contractor shall render to the Petroleum Board a statement of all charges and credits to the Operations, summarized by appropriate classifications indicative of the nature thereof.

4. Adjustments

Subject to the provisions of Section 15.9 of the Contract, all statements rendered to the Petroleum Board by Contractor during any calendar year shall conclusively be presumed to be true and correct and reasonable after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period the Petroleum Board takes written exception thereto and makes claim on Contractor for adjustment.

Failure on the part of the Petroleum Board to make written claim on Contractor for adjustment within such period shall establish the correctness and reasonableness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon.

5. Audits

Audits shall be conducted in the manner and at the time stipulated by Section XV of the Contract.

6. Conflicts

If there should be any conflict between the provisions of this Accounting

## ARTICLE II - OPERATING EXPENSES

Subject to the provisions of the Contract and the limitations herein prescribed, Contractor shall charge the Operating Expenses with the following items:

### 1. Surface Rights

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

### 2. Labour

A. Salaries and wages of Contractor's employees directly engaged for the benefit of the Operations in the exploration, development, maintenance and operation of the Contract Area but shall not include personnel permanently stationed in the home office or in any other office of the Contractor located outside of the Philippines. Salaries and wages shall include everything constituting gross pay to employees as reflected on the Contractor's payrolls. To the extent not included in salaries and wages, the Operating Expenses shall also be charged with overtime, rest day pay, holiday, vacation pay and vacation travel pay, sickness and disability benefits, bonuses, and other customary allowances applicable to the salaries and wages chargeable hereunder and in Paragraph 10 of this Article II, on a "percentage assessment" of such salaries and wages, or on a "cash" basis at Contractor's option. If percentage assessment is used, the rate shall be based on the Contractor's best estimate of such charges, and the rate so charged to the Operating Expenses during that calendar year will be redetermined during the first quarter of the following year to reflect the Contractor's actual cost experience in the Philippines; for such costs and charges to the Operating Expenses will be adjusted accordingly.

tractor's labor cost of salaries and wages as provided under Subparagraph 2A and Paragraph 10 of this Article II.

3. Employees Benefits

- A. For Contractor's employees participating under "Home Office based" benefit plans, Contractor's cost of established plans for employees' group life insurance, health insurance, pension, retirement, thrift, and other benefits of a like nature shall be charged at a percentage rate based on Contractor's cost experience for the preceding year applied to the amount of salaries and wages chargeable under Subparagraph 2A and Paragraph 10 of this Article.
- B. Contractor's employees participating in "non-home office based" benefit plans shall be charged at a percentage rate based on actual payments or accruals made by the Contractor applicable to such employees; actual payments against any amounts accrued will not be chargeable to the Operating Expenses.
- C. Contractor's cost experience rates in SA and SB above shall be redetermined during the first quarter of the following year and charges to Operating Expenses will be adjusted accordingly.

4. Material

Material, equipment, and supplies purchased or furnished by Contractor for use in the Operations and which are not classified as tangible investments under Paragraph 13 of this Article II. Price shall include such costs as export broker's fees, purchasing agent's fees, transportation charges, loading and unloading fees and license fees associated with procurement of materials and equipment, duties and custom fees and in-transit losses not recovered through insurance. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred for use in the Operations as may be required for immediate use; and the accumulation of surplus stocks shall be avoided. Contractor does not

the dealer's or manufacturer's guarantee, and in case of defective materials, credit shall not be passed until adjustment has been received by the Contractor from the manufacturer or its agents.

5. Transportation

Transportation of employees, equipment, material and supplies necessary for the Operations. Employee transportation costs will include travel costs for employees and their families paid by Contractor in conformity with Contractor's established Policy Manual. Transportation costs for returning an employee and his family to their country of Origin shall be chargeable to the Operating Expenses provided that Operating Expenses shall not be charged expenses incurred in moving an employee beyond his point of origin established at the time of his transfer to the Philippines.

6. Services

A. Outside Services: The cost of consultants, contract services and utilities procured from outside sources including all such services as are rendered in connection with geological, geophysical, drilling and development activities.

B. In the event the Contractor from time to time utilizes skilled personnel not regularly resident in the Philippines for performance of services either in the Philippines or elsewhere for benefit of the Petroleum Operations, whose time in full or in part is not otherwise charged hereunder, a proper proportion of the direct and indirect salary and travel expenses of such personnel (including reasonable living expenses while in the Philippines) together with any taxes on such salaries or otherwise imposed upon the employee's service in the Philippines which are payable to the Philippine Government and for which the Contractor assumes responsibility, and any accident or sickness compensation and/or hospitalization cost incurred shall be charged to Operating Expenses.

C. Data processing and computer services acquired for the direct benefit of the Operations may be contracted through third parties, or by arrangement for time rental of computer services from the Contractor's affiliates even though such computer facilities are physically located outside the country. In either case, contracts for computer services must be competitively priced. Charges to the Operating Expenses under this provision for services directly benefiting the Operations shall be in addition to any charges allowed under Paragraph 10 and 11 of this Article II.

D. Use of exclusively owned facilities.

1. Equipment owned by the second party/parties, or any Affiliate or either of them, and not previously charged to the Operating Expenses, either directly or indirectly, may be utilized in the Operations. For the use of any such wholly owned equipment, the Operating Expenses shall be charged a rental rate commensurate with the cost of ownership and operation, but not to exceed commercial rates for the use of like equipment.

2. A fair rate shall be charge for laboratory services performed by the second party/parties, or their Affiliates for the benefit of the Petroleum Operations, such as but not limited to gas, water, core and any other analyses and test, provided such charges shall not exceed those currently prevailing if performed by outside technical service companies.

E. Charges to the Operating Expenses for technical services as contemplated by Paragraph 6B and 6C and 6D above shall be included in the basis upon which overhead charges are applied under Paragraph 11 of this Article II.

7. Damage 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 Contractor through the exercise of reasonable diligence.

Contractor shall furnish The Petroleum Board written notice of damages or losses incurred as soon as practicable after report of the same has been received by Contractor.

8. Legal Expense

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses, as hereinafter provided, together with all judgments obtained against the Parties or any of them on account of the Petroleum Operations, and actual expenses incurred in securing evidence for the purpose of defending against any action or claims prosecuted or urged against the Operations or the subject matter of the Contract. In the event actions or claims affecting interests under the Contract shall be handled by the legal staff not otherwise charged to Operating Expenses of one or more of the Parties, a charge commensurate with cost of providing and furnishing such services may be made against the Operating Expenses.

9. Insurance and Claims

A. Premiums paid for insurance required to be carried for the Petroleum Operations conducted under the Contract, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.

B. All actual expenditures incurred and paid by 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.

10. Administrative Overhead Inside the Philippines

A. Principal Office as used herein means costs and expenses incurred by the

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 Principal Office services which are chargeable to the Operations include, but are not necessarily limited to the following:

- a) Local manager and staff
- b) Accounting
- c) Legal
- d) Personnel Administration
- e) Communications
- f) Purchasing

B. District Office(s) - as used herein means costs and expenses incurred by the Contractor for an office(s) which may be established to serve the Operations in the vicinity of the Operations. Allocation of such costs and expenses between the Contractor's other activities and the Operations activities hereunder shall be made on actual expenditure or other equitable basis. Examples of such District Office(s) service which are chargeable to the Operations include but are not necessarily limited to the following:

- a) Field or District Superintendent and Staff
- b) Geological and geophysical staffs
- c) Engineering and Production staffs
- d) Communication
- e) Camp and Commissary facilities
- f) Clerical staff

11. Administrative Overhead - Outside the Philippines

A. Contractor's administrative overhead - outside the Philippines applicable to Operations shall be charged each month on the following percentages of adjusted net expenditures:

For first U.S. \$2,000,000 per year - 3% but no less than  
U.S. \$10,000 per year

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

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

B. Net expenditures for purposes of applying the percentage charges stipulated in Subparagraph 11A above shall be adjusted to exclude

- 1) Administrative overhead charged under 11A above
- 2) Concession bonus and guaranty deposits
- 3) Surface taxes and rentals
- 4) Major construction projects covered by 11C below
- 5) Settlement of judgments or claims in excess of US.\$5,000 per transaction
- 6) Credits received from sale of assets (including division in kind) amounting to more than U.S.\$5,000 per transaction
- 7) Foreign exchange adjustments
- 8) Pipeline tariff costs paid to outsider

C. A fee for Contractor's 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. If Contractor also performs engineering and design services outside of the Philippines for such major construction projects the Contractor shall be entitled to charge the Operating Expenses a service fee agreed to by the Parties.

D. Contractor's U.S. Administrative Overhead shall be reviewed by the Parties periodically upon request of either Party and the future charges adjusted upward or downward as indicated by Contractor's cost experience.

12. Other Expenditures

Any expenditures, other than expenditures which are covered and dealt with by the foregoing provisions of this Article II, necessarily incurred by the Contractor for the Operations hereunder.

13. Recovery of Tangible Investment

The initial cost of all physical assets classified as depreciable in accordance with generally accepted petroleum industry accounting purchased by Contractor for operations in the Contract Area shall be calculated in accordance with the principles established in Paragraph 4 of Article II hereof and shall be allocated to Operating Expenses over a ten (10) year period beginning in the calendar year in which petroleum production starts or in the calendar year in which the costs are incurred whichever is the later.

**Can abandonment costs, which include the decommissioning of the production platform, be imposed as an obligation on existing service contracts?**

Although title to the petroleum deposited or produced is retained by the State including full ownership and control of the petroleum operations by virtue of the Regalian doctrine, it is submitted that abandonment costs can be imposed as an obligation on existing service contracts.

Alcorn argues that under existing laws and regulations, the service contractor merely finances and manages the search for oil, and the erection of facilities if oil is discovered. The service contractor does not own the land, the reservoir, the oil extracted or the structure erected to extract the oil, with the concept of 'cost recovery' supporting Alcorn's contention. Admitting that production platforms are hazardous structures, Alcorn also cited the Civil Code, which provides that the removal of such is the obligation of an owner, which cannot be passed on to a manager by administrative regulation. Furthermore, Alcorn argues that imposing abandonment costs, as an added obligation would be violative of the constitutional prohibition on the non-impairment of the obligations of contracts.

**Private and Public Law Elements in the Production Sharing Contract**

Under PD 87, the State working through government retains full ownership and control of petroleum operations by entering into a production-sharing agreement<sup>1</sup> with a private entity. Title to petroleum deposited or produced and the right to exploit the resource are retained by the government. The private entity acts a general contractor for the government and as such, carries out all operations required for the extraction of petroleum in the name or on behalf of the latter.

Accordingly, the government performs a dual function in relation to a resource project. First, the government occupies the position of grantor of production sharing agreements. Secondly, it has the familiar task of regulator, controlling the economic, social and environmental effects of the project. The production-sharing contract reflects this dual function.

The private law elements in the production-sharing contract are necessary consequences of the contractual and commercial nature of the transaction. The form of the agreement is contractual, executed as a 'service contract' by the Philippine government on one side and the private entity on the other. The private entity is given the right alone or on behalf of a non-incorporated consortium to search for, produce, export and sell any petroleum discovered for which it is paid an agreed fee in the form of a share in the petroleum produced. The 'service contract' further defines the rights and obligations of the parties and spells out in considerable detail the full range of fiscal impositions applicable to the 'service contractor' for the whole duration of the agreement. Additional elements of private law, consistent with the contractual nature of the 'service contract' concern choice-of-law provisions and the selection of a forum

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<sup>1</sup> The production-sharing contract is a type of arrangement whereby the private enterprise and the host government share the output of the operation in predetermined proportions. It was pioneered in Indonesia in 1966. PD 87 technically provides for a production-sharing regime based on the Indonesian model although contracts are called 'service contracts.'

other than the courts of the host state (usually an international arbitration tribunal) for the interpretation of the agreed terms and resolution of any dispute between the parties.

The public law elements in the ‘service contract’ result from the nature of its subject matter, the statutory regulation through PD 87 of the grant including the regulatory approval of certain aspects of its performance e.g. declaration of commerciality and environmental protection among others. Moreover, the applicable municipal law embody rules which concern and regulate the grant of special powers, privileges, and facilities to the ‘service contractor’ in order to facilitate the works of the operation. PD 87 also set operational, safety, health and welfare standards to be observed by the ‘service contractor.’

It is therefore apparent that while, on the one hand, the ‘service contract’ is in the nature of a commercial undertaking which defines the rights and obligations of the parties and regulates their relationship in much the same way as any other ordinary contract, on the other hand, the agreement possesses elements of public law, which are non-existent in private contracts.

The distinctive characteristic of public law is attributed to the fact that the State is sovereign, and it has concern for the protection of public interest. A State enters into a public law contract on behalf of its citizens representing their collective interests, whereas the private party to the contract represents his own interests. The public law contract thus differs from a contract between private parties in that in the latter, each of the parties is interested in his own profits.<sup>2</sup>

#### The Philippine Government’s Position

It is for this reason that the government has taken the position that ‘service contracts’ being of a long-term nature and often spelling out comprehensively the relations between government and the ‘service contractor’ in respect of the exploitation, marketing and sale of a vital and strategic public resource and specifying all relevant fiscal, ownership and control arrangement is anything but a private contract. Constituting a prominent feature of the development strategies of the Philippine government, ‘service contracts’ are regarded as major instruments of public policy, lying more in the domain of public law than in the province of private contract. It follows that ‘service contracts’ cannot be insulated from the pressures which impinge on public institutions such as the general expectations of the public. In short, petroleum agreements are considered to be administrative contracts, endowing the government with the authority to amend ‘service contracts’ unilaterally, if the public interest so requires.<sup>3</sup> The rationale for the retention by the State as a contracting party of the prerogative powers may be attributed to the peculiar/special or unequal position of the State and to its development goals affecting the whole nation. Such a position of the State demands a different treatment from that of a private investor who is only concerned with his profit-oriented motives.<sup>4</sup> At this point, there is no need to

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<sup>2</sup> A.F. Maniruzzaman, ‘The New Generation of Energy and Natural Resource Development Agreements: Some Reflections’ (1993) 11 *Journal of Energy and Natural Resources Law* 207, 244.

<sup>3</sup> Noel Fabri, ‘The Legal Nature of Petroleum Agreements: A Comparative Analysis’ (1986) 1986 *AMPLA Yearbook* 1, 16.

<sup>4</sup> *Amco Asia Corp. v. Indonesia* [1988] LAR 24, 27-30.

belabour the exception to the non-impairment clause of the Constitution, which is the exercise of police power of the State.

Already the public has reacted strongly against the environmental effects of mining operations and to say that ‘abandonment costs cannot simply be imposed as an added obligation on existing service contracts’ will cause repercussions to the petroleum upstream industry. This will give added ammunitions to anti-development advocates who already have been successful in lodging a constitutional challenge against wholly foreign-owned resource companies.<sup>5</sup> Notwithstanding the elaborate environment protection and rehabilitation provisions in RA 7942 (The Mining Act of 1995) and its implementing rules and regulations, public perception of mining remains low because of the clean up costs. Surely, the government who is actively soliciting risk capital cannot afford a similar perception for petroleum exploration and development.

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<sup>5</sup> *La Bugal-B'laan Tribal Association, Inc. et al v. Victor O. Ramos, Department of Environment and Natural resources et al*, G.R. No. 127882. While the petition was directed against Financial and Technical Assistance Agreements under RA 7942, the petitioners assert that the law allowing fully foreign-owned corporations to explore, develop, utilise and exploit mineral resources is contrary to Section 2, Article XII of the Constitution. The same provision in the Constitution is the basis of the ‘service contracts’ under PD 87.

4 August 2003

**Atty. EDUARDO F. HERNANDEZ**  
EVP & General Manager  
Alcorn (Production) Philippines, Inc.  
2/F First Life Center, 174 Salcedo St.  
Legaspi Village, Makati City

Dear Atty. Hernandez:

This refers to your letter of 25 July 2003 outlining your position and proposals regarding the abandonment plan for the offshore facilities within Service Contract (SC) Nos. 14 and 6.

**1. "Twelve-month Notice of Abandonment"**

Contrary to your statements, we would like to make our message clear that we are not requiring you to issue a twelve-month **Notice of Abandonment** (per OEA Circular No. 89-06-08). You contend that this Notice of abandonment will diminish the attractiveness of your areas in the eyes of investors. We are not requiring you to abandon the Contract Area nor the offshore facilities within twelve months. What we are requiring you is to submit to us a detailed **Abandonment Plan**, with a corresponding budget and financing plan, for the decommissioning and disposal of the offshore facilities, to be implemented by Alcorn once the oilfields in SC Nos. 6 and 14 have become practically subcommercial to produce. While this scenario may still be several years away, as a prudent operator, we enjoin you to submit to us this plan for our evaluation and approval.

**2. Ownership of the Platforms**

While you stated that SC Nos. 14 and 6 are silent as to who the owner of the platforms is, Section 8 (d) of Presidential Decree No. 87 and Section 6.1 (d) of Service Contract No. 6 state that it is the obligation of the Contractor to, "once Petroleum in Commercial Quantity is discovered, **operate the field in accordance with accepted good oil field practices** using modern and scientific methods to enable maximum economic production of Petroleum; **avoiding hazards to life, health and property; avoiding pollution of air, land and waters; ....**".

As an improperly abandoned offshore platform is a major hazard to shipping and may cause catastrophic loss of lives, this provision of the Service Contract makes the responsible officials of the Contractor potentially liable to prosecution once such navigational disaster does occur. Based also on this provision, Contractor may be held liable for any future oil spill coming from improperly abandoned wellheads.

Already the public has reacted strongly against the environmental effects of mining operations and to say that 'abandonment costs cannot simply be imposed as an added obligation on existing service contracts' will cause repercussions to the petroleum upstream

industry. This will give added ammunitions to anti-development advocates who already have been successful in lodging a constitutional challenge against wholly foreign-owned resource companies.<sup>1</sup>

### **3. Private and Public Law Elements in the Production Sharing Contract**

In your letter, you mentioned that “under the Civil Code, the removal of hazardous structures are the obligations of an owner which cannot be passed on to a manager, by administrative regulation”. Though this statement does not appear to follow your statement that P.D. 87 and SC Nos. 14 and 6 are silent as to who the owner of the platforms is, it is apparent that while, on the one hand, the ‘service contract’ is in the nature of a commercial undertaking which defines the rights and obligations of the parties and regulates their relationship in much the same way as any other ordinary contract, on the other hand, the agreement possesses elements of public law, which are non-existent in private contracts.

The distinctive characteristic of public law is attributed to the fact that the State is sovereign, and it has concern for the protection of public interest. A State enters into a public law contract on behalf of its citizens representing their collective interests, whereas the private party to the contract represents his own interests. The public law contract thus differs from a contract between private parties in that in the latter, each of the parties is interested in his own profits.

It for this reason that the government has taken the position that ‘service contracts’ being of a long-term nature and often spelling out comprehensively the relations between government and the ‘service contractor’ in respect of the exploitation, marketing and sale of a vital and strategic public resource and specifying all relevant fiscal, ownership and control arrangement is anything but a private contract. Constituting a prominent feature of the development strategies of the Philippine government, ‘service contracts’ are regarded as major instruments of public policy, lying more in the domain of public law than in the province of private contract. It follows that ‘service contracts’ cannot be insulated from the pressures which impinge on public institutions such as the general expectations of the public. In short, petroleum agreements are considered to be administrative contracts, endowing the government with the authority to amend ‘service contracts’ unilaterally, if the public interest so requires.<sup>2</sup> The rationale for the retention by the State as a contracting party of the prerogative powers may be attributed to the peculiar/special or unequal position of the State and to its development goals affecting the whole nation. Such a position of the State demands a different treatment from that of a private investor who is only concerned with his profit-oriented motives.<sup>3</sup> At this point, there is no need to belabour the exception to the non-impairment clause of the Constitution, which is the exercise of police power of the State.

#### **4. OEA Circular No. 89-06-08 of 28 June 1989**

OEA Circular No. 89-06-08 obligates the Contractor to submit "detailed abandonment plans and procedures which the Contractor shall undertake and estimated financial cost it will entail". Article II Section 6 of this Circular provides that upon approval of the abandonment plan, OEA (now DOE) may elect to issue a Notice to Proceed in accordance with abandonment plan upon Contractor's written request.

#### **5. Abandonment Cost as Operating Expenses Deductible from Gross Revenue**

We agree with your proposal that **Abandonment Costs** should be part of **Operating Expenses** deductible from **Gross Revenue** derived from petroleum production from the SC Nos. 6 and 14 Contract Areas. We believe that this will be a win-win solution to this issue that will be acceptable to both Parties.

While we appreciate your submitted "**Recommended Abandonment Procedure**" in your 25 July 2003 letter, the proposed procedure lacks the technical details, such as the procedures for the disposal of the platforms and the proper abandonment of wellheads. Also lacking is the corresponding budget and financing scheme. For the financing scheme, we suggest that Alcorn put up a sinking fund corresponding to the estimated Abandonment Costs, to be cost recoverable from Gross Proceeds as Operating Expenses each year.

We appreciate your "sincere desire to search for a solution" that will be acceptable to us. We also thank you for your stated preparedness "to submit, based on good oil field practice, a plan to plug and abandon wells". In this regard, please submit and present to us a detailed **Abandonment Plan and Budget** for the offshore facilities under SC Nos. 14 and 6 on or before 30 September 2003.

We would appreciate your giving this matter your preferential attention.

Very truly yours,

**EDUARDO V. MAÑALAC**

Undersecretary

Office of the President  
of the Philippines  
Malacañang

Office of Energy Affairs

DEA CIRCULAR NO. 89-06-08

To: All Petroleum Service Contractors

Pursuant to the provisions of PD 87 otherwise known as The Oil Exploration and Development Act of 1972, particularly with regards to the disposition of the Materials, equipment, plants and other installations erected or placed on the service contract area, the following guidelines are hereby promulgated and is entitled thus:

GUIDELINES ON ABDONMENT AND RELINQUISHMENT  
OF ONSHORE AND OFFSHORE PRODUCTION OPERATIONS

Article I. DEFINITION

1. Abandonment - the act of returning or giving up by Contractor of the delineated production area under a Service Contract to the Government of the Republic of the Philippines represented by the Office of Energy Affairs, before the expiration of the term stipulated in the contract if in the opinion of the Service Contractor, the continued exploitation of the same is no longer economically or technically feasible.
2. Relinquishment - the act of surrendering the production area under the Service Contract to the Government of the Republic of the Philippines represented by the Office of Energy Affairs, on the termination or expiration of the period set forth in the contract or the period of extension given.
3. Contractor - refers to the Service Contractor or Operator under a Service Contract.
4. Property - refers to all materials, equipment, plants and other installations erected or placed on the production area.

## Article II. ABANDONMENT

**Section 1. Notice of Abandonment.** If continued exploitation of a production area is no longer economically or technically viable, Contractor shall give written notice to the OEA of its intention to abandon the production area not less than 12 months prior to abandonment. In such event, Contractor shall submit the following documents together with said notice, to wit:

- a) An economic analysis and description of the delineated production area, showing in detail the reasons why continued exploitation is uneconomical or technically not feasible;
- b) An inventory list of all properties erected or placed on the production area otherwise classified as tangible investments;
- c) Detailed abandonment plans and procedures which the Contractor shall undertake and the estimated financial cost it will entail;

**Section 2. Inventory.** The inventory list to be submitted must contain all the properties erected and/or placed on the production site whether movable or immovable and specifying whether the immovables have been fully or partially amortized. In case of immovables which have been partially amortized, the date of acquisition thereof, the value of the same, the method of depreciation used and the remaining useful life of the property shall likewise be specified. On the other hand, if the immovable has been fully amortized, the same must be explicitly stated as well as the property's salvage value, if any.

Within 30 days from receipt of the inventory list, OEA shall audit and inspect the production site to validate the list given by Contractor, the result of which shall accordingly be relayed within 30 days from the termination of such inspection. If OEA does not make any inspection within the period abovesated or Contractor does not dispute the findings made thereon within 30 days from receipt of validation/exception, the inventory list or the validation/exception, as the case may be, shall be deemed admitted. On the other hand, if Contractor does not submit an inventory list, the findings of the OEA shall become conclusive.

### Section 3. Notice of OEA's Action

- a) Within ninety days from receipt of the notice of abandonment, OEA shall notify CONTRACTOR of its action thereon. If no action is made within the

said period, the abandonment is deemed automatically approved.

- b) If OEA finds the abandoned scheme unacceptable, it shall give CONTRACTOR thirty (30) days within which to submit an acceptable proposal or correct whatever deficiency there is in the original abandonment scheme.

**Section 4. Disposition of Property.** In the preparation of plans for abandonment, the following shall be considered:

- a) In case of movable property, Contractor shall receive the same from the production area within 12 months from date of approval of abandonment, otherwise title thereto passes to OEA. However, movable property which has been fully amortized belongs to OEA.
- b) In case of immovable property, title/ownership thereto passes to OEA upon approval of the abandonment.
- c) If any property is required to be removed from the production site, it shall be at the expense of the Contractor.

**Section 5. Trust Account.** In all cases of abandonment/abtinguishment, Contractor shall be obliged to bear the costs of removing all operations in the production area. Moreover, should OEA decide to takeover the operations, the cost to be incurred in removing these shall be deposited by the Contractor under a trust account in favor of OEA.

**Section 6. Disposal/Execution of the Plan.** Upon approval and ninety (90) days prior to the actual execution of the abandonment plan, OEA shall either:

- a) issue Notice to Contractor in accordance with abandonment plan upon CONTRACTOR's written request; or b) require CONTRACTOR to deposit in a trust account the abandonment cost, in which case CONTRACTOR shall be relieved of its obligation to execute the abandonment plan.

### Article III. RELINQUISHMENT

Twelve (12) months prior to the date of expiration, Contractor must give written notice to OEA that no further extension is sought by Contractor and that it will relinquish the production area upon expiration of the Contract. The reasons for such relinquishment must likewise be expressly stated therein and attaching thereto the documents mentioned in Sec. 1, Art. II.

All other provisions relating to abandonment are likewise made applicable to relinquishment except that instead of approval, an acknowledgement of the expiration of the Contract shall be given by OEA.

### Article IV. OBLIGATIONS OF CONTRACTOR

**Section 1.** Pending review and approval/acknowledgement of OEA of the request for abandonment or relinquishment, Contractor shall observe the following:

- a. No pipelines, machinery, platform, pumps and other properties constructed, put up or built and used or employed by the Contractor in the production site shall be sold, removed or transferred from the production area without prior notice to and approval of OEA;
- b) Prior notice to and approval of OEA is likewise necessary before any productive well can be plugged except those well or boreholes which have been previously approved by OEA to be plugged and abandoned; and
- c) Contractor must maintain in good repair and condition and fit for further operation during the interim 12-month period, all boreholes and wells except those previously abandoned as authorized by OEA.

**Section 2.** Upon approval/acknowledgement of abandonment/relinquishment, Contractor shall be obliged to do the following:

- a) Relinquish and turn over to the OEA all pipelines, platforms, pumps, machinery and other properties constructed, put up or built and used or employed by the Contractor in its operation on the production area and which are at that time

necessary for continued production by the OEA or other parties designated by it in accordance with Sec. 3, Art. II hereof.

- b) Effect the transfer to OEA all productive boreholes or wells drilled by the Contractor in good repair and condition and fit for further working, except such boreholes or wells which have been previously plugged and abandoned as authorized by OEA;
- c) Plug some or all production boreholes and wells if required by OEA;
- d) Remove or cause to be removed at Contractor's expense from the abandoned or relinquished production area within one year from approval/acknowledgment, such production equipment and related property as identified by OEA, brought into the area by the Contractor or by any person engaged or concerned in the operations authorized by the Contractor; and
- e) The installations in the case of offshore facilities should continue to be lit in accordance with normal regulations following the end of production activity and prior to the completion of any partial or complete removal that may be required.
- f) Restore, at Contractor's expense and to the satisfaction of OEA, any or all destruction of land forms, land and marine life which may be affected by the pollution from contractor's production and/or abandonment operations.
- g) Secure a Trust Account in favor of OEA; and
- h) Perform such other activities as contained in the detailed plans and procedures submitted by Contractor which have been approved by OEA.

Article V. EFFECTIVITY

These guidelines shall become effective immediately.

For L. Ron Hubbard Makati, Philippines, June 28, 1989.



Mr. R. DE LA PAZ  
Executive Director

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