
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2016

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 001-35167



Kosmos Energy Ltd.

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

98-0686001
(I.R.S. Employer
Identification No.)

Clarendon House
2 Church Street
Hamilton, Bermuda
(Address of principal executive offices)

HM 11
(Zip Code)

Registrant's telephone number, including area code: +1 441 295 5950

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 2, 2016
Common Shares, \$0.01 par value	385,179,418



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Unless otherwise stated in this report, references to “Kosmos,” “we,” “us” or “the company” refer to Kosmos Energy Ltd. and its subsidiaries. We have provided definitions for some of the industry terms used in this report in the “Glossary and Selected Abbreviations” beginning on page 3.

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**KOSMOS ENERGY LTD.
GLOSSARY AND SELECTED ABBREVIATIONS**

The following are abbreviations and definitions of certain terms that may be used in this report. Unless listed below, all defined terms under Rule 4-10(a) of Regulation S-X shall have their statutorily prescribed meanings.

<i>“2D seismic data”</i>	Two-dimensional seismic data, serving as interpretive data that allows a view of a vertical cross-section beneath a prospective area.
<i>“3D seismic data”</i>	Three-dimensional seismic data, serving as geophysical data that depicts the subsurface strata in three dimensions. 3D seismic data typically provides a more detailed and accurate interpretation of the subsurface strata than 2D seismic data.
<i>“API”</i>	A specific gravity scale, expressed in degrees, that denotes the relative density of various petroleum liquids. The scale increases inversely with density. Thus lighter petroleum liquids will have a higher API than heavier ones.
<i>“ASC”</i>	Financial Accounting Standards Board Accounting Standards Codification.
<i>“ASU”</i>	Financial Accounting Standards Board Accounting Standards Update.
<i>“Barrel” or “Bbl”</i>	A standard measure of volume for petroleum corresponding to approximately 42 gallons at 60 degrees Fahrenheit.
<i>“Bbbl”</i>	Billion barrels of oil.
<i>“BBoe”</i>	Billion barrels of oil equivalent.
<i>“Bcf”</i>	Billion cubic feet.
<i>“Boe”</i>	Barrels of oil equivalent. Volumes of natural gas converted to barrels of oil using a conversion factor of 6,000 cubic feet of natural gas to one barrel of oil.
<i>“Boepd”</i>	Barrels of oil equivalent per day.
<i>“Bopd”</i>	Barrels of oil per day.
<i>“Bwpd”</i>	Barrels of water per day.
<i>“Debt cover ratio”</i>	The “debt cover ratio” is broadly defined, for each applicable calculation date, as the ratio of (x) total long-term debt less cash and cash equivalents and restricted cash, to (y) the aggregate EBITDAX (see below) of the Company for the previous twelve months.
<i>“Developed acreage”</i>	The number of acres that are allocated or assignable to productive wells or wells capable of production.
<i>“Development”</i>	The phase in which an oil or natural gas field is brought into production by drilling development wells and installing appropriate production systems.
<i>“Dry hole”</i>	A well that has not encountered a hydrocarbon bearing reservoir expected to produce in commercial quantities.

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<i>“EBITDAX”</i>	Net income (loss) plus (i) exploration expense, (ii) depletion, depreciation and amortization expense, (iii) equity-based compensation expense, (iv) unrealized (gain) loss on commodity derivatives (realized losses are deducted and realized gains are added back), (v) (gain) loss on sale of oil and gas properties, (vi) interest (income) expense, (vii) income taxes, (viii) loss on extinguishment of debt, (ix) doubtful accounts expense and (x) similar other material items which management believes affect the comparability of operating results.
<i>“E&P”</i>	Exploration and production.
<i>“FASB”</i>	Financial Accounting Standards Board.
<i>“Farm-in”</i>	An agreement whereby a party acquires a portion of the participating interest in a block from the owner of such interest, usually in return for cash and for taking on a portion of the drilling costs of one or more specific wells or other performance by the assignee as a condition of the assignment.
<i>“Farm-out”</i>	An agreement whereby the owner of the participating interest agrees to assign a portion of its participating interest in a block to another party for cash and/or for the assignee taking on a portion of the drilling costs of one or more specific wells and/or other work as a condition of the assignment.
<i>“Field life cover ratio”</i>	The “field life cover ratio” is broadly defined, for each applicable forecast period, as the ratio of (x) the forecasted net present value of net cash flow through the depletion of the Jubilee Field plus the net present value of the forecast of certain capital expenditures incurred in relation to the Jubilee Field and certain other fields in Ghana, to (y) the aggregate loan amounts outstanding under the Facility less the Resource Bridge, as applicable.
<i>“FPSO”</i>	Floating production, storage and offloading vessel.
<i>“Interest cover ratio”</i>	The “interest cover ratio” is broadly defined, for each applicable calculation date, as the ratio of (x) the aggregate EBITDAX (see above) of the Company for the previous twelve months, to (y) interest expense less interest income for the Company for the previous twelve months.
<i>“Loan life cover ratio”</i>	The “loan life cover ratio” is broadly defined, for each applicable forecast period, as the ratio of (x) net present value of forecasted net cash flow through the final maturity date of the Facility plus the net present value of forecasted capital expenditures incurred in relation to the Jubilee Field and certain other fields in Ghana, to (y) the aggregate loan amounts outstanding under the Facility less the Resource Bridge, as applicable.
<i>“Make-whole redemption price”</i>	The “make-whole redemption price” is equal to the outstanding principal amount of such notes plus the greater of 1) 1% of the then outstanding principal amount of such notes and 2) the present value of the notes at 103.9% and required interest payments thereon through August 1, 2017 at such redemption date.
<i>“MBbl”</i>	Thousand barrels of oil.

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<i>"Mcf"</i>	Thousand cubic feet of natural gas.
<i>"Mcfpd"</i>	Thousand cubic feet per day of natural gas.
<i>"MMBbl"</i>	Million barrels of oil.
<i>"MMBoe"</i>	Million barrels of oil equivalent.
<i>"MMcf"</i>	Million cubic feet of natural gas.
<i>"Natural gas liquid" or "NGL"</i>	Components of natural gas that are separated from the gas state in the form of liquids. These include propane, butane, and ethane, among others.
<i>"Petroleum contract"</i>	A contract in which the owner of hydrocarbons gives an E&P company temporary and limited rights, including an exclusive option to explore for, develop, and produce hydrocarbons from the lease area.
<i>"Petroleum system"</i>	A petroleum system consists of organic material that has been buried at a sufficient depth to allow adequate temperature and pressure to expel hydrocarbons and cause the movement of oil and natural gas from the area in which it was formed to a reservoir rock where it can accumulate.
<i>"Plan of development" or "PoD"</i>	A written document outlining the steps to be undertaken to develop a field.
<i>"Productive well"</i>	An exploratory or development well found to be capable of producing either oil or natural gas in sufficient quantities to justify completion as an oil or natural gas well.
<i>"Prospect(s)"</i>	A potential trap that may contain hydrocarbons and is supported by the necessary amount and quality of geologic and geophysical data to indicate a probability of oil and/or natural gas accumulation ready to be drilled. The five required elements (generation, migration, reservoir, seal and trap) must be present for a prospect to work and if any of these fail neither oil nor natural gas may be present, at least not in commercial volumes.
<i>"Proved reserves"</i>	Estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be economically recoverable in future years from known reservoirs under existing economic and operating conditions, as well as additional reserves expected to be obtained through confirmed improved recovery techniques, as defined in SEC Regulation S-X 4-10(a)(2).
<i>"Proved developed reserves"</i>	Those proved reserves that can be expected to be recovered through existing wells and facilities and by existing operating methods.
<i>"Proved undeveloped reserves"</i>	Those proved reserves that are expected to be recovered from future wells and facilities, including future improved recovery projects which are anticipated with a high degree of certainty in reservoirs which have previously shown favorable response to improved recovery projects.
<i>"Reconnaissance contract"</i>	A contract in which the owner of hydrocarbons gives an E&P company rights to perform evaluation of existing data or potentially acquire additional data but may not convey an exclusive option to explore for, develop, and/or produce hydrocarbons from the lease area.

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<i>“Resource Bridge”</i>	Borrowing Base availability attributable to probable reserves and contingent resources from Jubilee Field Future Phases, Tweneboa, Enyenra and Ntomme fields and potentially Mahogany, Teak and Akasa fields.
<i>“Shelf margin”</i>	The path created by the change in direction of the shoreline in reaction to the filling of a sedimentary basin.
<i>“Stratigraphy”</i>	The study of the composition, relative ages and distribution of layers of sedimentary rock.
<i>“Stratigraphic trap”</i>	A stratigraphic trap is formed from a change in the character of the rock rather than faulting or folding of the rock and oil is held in place by changes in the porosity and permeability of overlying rocks.
<i>“Structural trap”</i>	A topographic feature in the earth’s subsurface that forms a high point in the rock strata. This facilitates the accumulation of oil and natural gas in the strata.
<i>“Structural-stratigraphic trap”</i>	A structural-stratigraphic trap is a combination trap with structural and stratigraphic features.
<i>“Submarine fan”</i>	A fan-shaped deposit of sediments occurring in a deep water setting where sediments have been transported via mass flow, gravity induced, processes from the shallow to deep water. These systems commonly develop at the bottom of sedimentary basins or at the end of large rivers.
<i>“Three-way fault trap”</i>	A structural trap where at least one of the components of closure is formed by offset of rock layers across a fault.
<i>“Trap”</i>	A configuration of rocks suitable for containing hydrocarbons and sealed by a relatively impermeable formation through which hydrocarbons will not migrate.
<i>“Undeveloped acreage”</i>	Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of natural gas and oil regardless of whether such acreage contains discovered resources.

KOSMOS ENERGY LTD.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 2016	December 31, 2015
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 212,917	\$ 275,004
Restricted cash	28,557	28,533
Receivables:		
Joint interest billings	65,677	67,200
Oil sales	—	35,950
Other	29,193	34,882
Inventories	67,227	85,173
Prepaid expenses and other	11,092	24,766
Derivatives	155,796	182,640
Total current assets	570,459	734,148
Property and equipment:		
Oil and gas properties, net	2,528,527	2,314,226
Other property, net	7,725	8,613
Property and equipment, net	2,536,252	2,322,839
Other assets:		
Restricted cash	7,313	7,325
Long-term receivables - joint interest billings	38,513	37,687
Deferred financing costs, net of accumulated amortization of \$9,159 and \$8,475 at March 31, 2016 and December 31, 2015, respectively	7,302	7,986
Long-term deferred tax assets	30,866	33,209
Derivatives	40,675	59,856
Other	3,439	—
Total assets	\$ 3,234,819	\$ 3,203,050
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 237,188	\$ 295,689
Accrued liabilities	142,104	159,897
Derivatives	1,473	1,155
Total current liabilities	380,765	456,741
Long-term liabilities:		
Long-term debt	1,013,596	860,878
Derivatives	12,377	4,196
Asset retirement obligations	45,122	43,938
Deferred tax liabilities	497,895	502,189
Other long-term liabilities	8,942	9,595
Total long-term liabilities	1,577,932	1,420,796
Shareholders' equity:		
Preference shares, \$0.01 par value; 200,000,000 authorized shares; zero issued at March 31, 2016 and December 31, 2015	—	—
Common shares, \$0.01 par value; 2,000,000,000 authorized shares; 394,163,942 and 393,902,643 issued at March 31, 2016 and December 31, 2015, respectively	3,942	3,939
Additional paid-in capital	1,943,280	1,933,189
Accumulated deficit	(623,679)	(564,686)
Treasury stock, at cost, 9,006,216 and 8,812,054 shares at March 31, 2016 and December 31, 2015, respectively	(47,421)	(46,929)
Total shareholders' equity	1,276,122	1,325,513
Total liabilities and shareholders' equity	\$ 3,234,819	\$ 3,203,050

See accompanying notes.

KOSMOS ENERGY LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended	
	March 31,	
	2016	2015
Revenues and other income:		
Oil and gas revenue	\$ 62,125	\$ 109,164
Gain on sale of assets	—	22,751
Other income	8	642
	<u>62,133</u>	<u>132,557</u>
Total revenues and other income	62,133	132,557
Costs and expenses:		
Oil and gas production	29,392	32,100
Exploration expenses	23,858	98,941
General and administrative	17,920	38,667
Depletion and depreciation	31,266	37,007
Interest and other financing costs, net	10,324	10,751
Derivatives, net	(4,345)	(32,327)
Other expenses, net	14,733	628
	<u>123,148</u>	<u>185,767</u>
Total costs and expenses	123,148	185,767
Loss before income taxes	(61,015)	(53,210)
Income tax expense (benefit)	(2,022)	25,699
	<u>(58,993)</u>	<u>(78,909)</u>
Net loss	\$ (58,993)	\$ (78,909)
Net loss per share:		
Basic	\$ (0.15)	\$ (0.21)
Diluted	\$ (0.15)	\$ (0.21)
Weighted average number of shares used to compute net loss per share:		
Basic	384,435	380,355
Diluted	<u>384,435</u>	<u>380,355</u>

See accompanying notes.

KOSMOS ENERGY LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	<u>Three Months Ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Net loss	\$ (58,993)	\$ (78,909)
Other comprehensive loss:		
Reclassification adjustments for derivative gains included in net loss	—	(194)
Other comprehensive loss	—	(194)
Comprehensive loss	<u>\$ (58,993)</u>	<u>\$ (79,103)</u>

See accompanying notes.

KOSMOS ENERGY LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Common Shares		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
	Shares	Amount				
Balance as of December 31, 2015	393,903	\$ 3,939	\$ 1,933,189	\$ (564,686)	\$ (46,929)	\$ 1,325,513
Equity-based compensation	—	—	10,676	—	—	10,676
Restricted stock awards and units	261	3	(3)	—	—	—
Restricted stock forfeitures	—	—	1	—	(1)	—
Purchase of treasury stock	—	—	(583)	—	(491)	(1,074)
Net loss	—	—	—	(58,993)	—	(58,993)
Balance as of March 31, 2016	<u>394,164</u>	<u>\$ 3,942</u>	<u>\$ 1,943,280</u>	<u>\$ (623,679)</u>	<u>\$ (47,421)</u>	<u>\$ 1,276,122</u>

See accompanying notes.

KOSMOS ENERGY LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Operating activities		
Net loss	\$ (58,993)	\$ (78,909)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depletion, depreciation and amortization	33,817	39,617
Deferred income taxes	(1,951)	5,783
Unsuccessful well costs	2,222	83,627
Change in fair value of derivatives	(2,377)	(34,980)
Cash settlements on derivatives (including \$56.6 million and \$51.3 million on commodity hedges during 2016 and 2015)	56,901	53,932
Equity-based compensation	10,635	25,183
Gain on sale of assets	—	(22,751)
Other	14,969	1,171
Changes in assets and liabilities:		
Decrease in receivables	39,894	35,926
(Increase) decrease in inventories	2,237	(18,443)
(Increase) decrease in prepaid expenses and other	13,674	(4,399)
Decrease in accounts payable	(58,501)	(58,286)
Decrease in accrued liabilities	(36,910)	(36,451)
Net cash provided by (used in) operating activities	15,617	(8,980)
Investing activities		
Oil and gas assets	(226,571)	(184,899)
Other property	(47)	(280)
Restricted cash	(12)	(59)
Net cash used in investing activities	(226,630)	(185,238)
Financing activities		
Borrowings under long-term debt	150,000	—
Purchase of treasury stock	(1,074)	(148)
Net cash provided by (used in) financing activities	148,926	(148)
Net decrease in cash and cash equivalents	(62,087)	(194,366)
Cash and cash equivalents at beginning of period	275,004	554,831
Cash and cash equivalents at end of period	\$ 212,917	\$ 360,465
Supplemental cash flow information		
Cash paid for:		
Interest	\$ 14,611	\$ 32,179
Income taxes	\$ 2,734	\$ 10,000
Non-cash activity:		
Conversion of joint interest billings receivable to long-term note receivable	\$ 3,417	\$ —

See accompanying notes.

KOSMOS ENERGY LTD.

Notes to Consolidated Financial Statements (Unaudited)

1. Organization

Kosmos Energy Ltd. was incorporated pursuant to the laws of Bermuda in January 2011 to become a holding company for Kosmos Energy Holdings. Kosmos Energy Holdings is a privately held Cayman Islands company that was formed in March 2004. As a holding company, Kosmos Energy Ltd.'s management operations are conducted through a wholly owned subsidiary, Kosmos Energy, LLC. The terms "Kosmos," the "Company," "we," "us," "our," "ours," and similar terms refer to Kosmos Energy Ltd. and its wholly owned subsidiaries, unless the context indicates otherwise.

Kosmos is a leading independent oil and gas exploration and production company focused on frontier and emerging areas along the Atlantic Margin. Our assets include existing production and development projects offshore Ghana, large discoveries offshore Mauritania and Senegal, as well as exploration licenses with significant hydrocarbon potential offshore Portugal, Sao Tome and Principe, Suriname, Morocco and Western Sahara. Kosmos is listed on the New York Stock Exchange and is traded under the ticker symbol KOS.

We have one reportable segment, which is the exploration and production of oil and natural gas. Substantially all of our long-lived assets and product sales are currently related to production located offshore Ghana.

2. Accounting Policies

General

The interim-period financial information presented in the consolidated financial statements included in this report is unaudited and, in the opinion of management, includes all adjustments of a normal recurring nature necessary to present fairly the consolidated financial position as of March 31, 2016, the changes in the consolidated statements of shareholders' equity for the three months ended March 31, 2016, the consolidated results of operations for the three months ended March 31, 2016 and 2015, and the consolidated cash flows for the three months ended March 31, 2016 and 2015. The results of the interim periods shown in this report are not necessarily indicative of the final results to be expected for the full year. The consolidated financial statements were prepared in accordance with the requirements of the Securities and Exchange Commission ("SEC") for interim reporting. As permitted under those rules, certain notes or other financial information that are normally required by Generally Accepted Accounting Principles in the United States of America ("GAAP") have been condensed or omitted from these interim consolidated financial statements. These consolidated financial statements and the accompanying notes should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2015, included in our annual report on Form 10-K.

Restricted Cash

In accordance with our commercial debt facility (the "Facility"), we are required to maintain a restricted cash balance that is sufficient to meet the payment of interest and fees for the next six-month period on the 7.875% Senior Secured Notes due 2021 ("Senior Notes") plus the Corporate Revolver or the Facility, whichever is greater. As of March 31, 2016 and December 31, 2015, we had \$24.4 million in current restricted cash to meet this requirement.

In addition, in accordance with certain of our petroleum contracts, we have posted letters of credit related to performance guarantees for our minimum work obligations. These letters of credit are cash collateralized in accounts held by us and as such are classified as restricted cash. Upon completion of the minimum work obligations and/or entering into the next phase of the petroleum contract, the requirement to post the existing letters of credit will be satisfied and the cash collateral will be released. However, additional letters of credit may be required should we choose to move into the next phase of certain of our petroleum contracts. As of March 31, 2016 and December 31, 2015, we had \$4.2 million and \$4.1 million, respectively, of short-term restricted cash and \$7.3 million of long-term restricted cash used to collateralize performance guarantees related to our petroleum contracts.

Inventories

Inventories consisted of \$67.1 million and \$84.4 million of materials and supplies and \$0.1 million and \$0.8 million of hydrocarbons as of March 31, 2016 and December 31, 2015, respectively. The Company's materials and supplies inventory primarily consists of casing and wellheads and is stated at the lower of cost, using the weighted average cost method, or net realizable value. We recorded a write down of \$15.7 million during the first quarter of 2016 for materials and supplies inventories as other expenses, net in the consolidated statement of operations and other in the consolidated statement of cash flows.

Hydrocarbon inventory is carried at the lower of cost, using the weighted average cost method, or net realizable value. Hydrocarbon inventory costs include expenditures and other charges incurred in bringing the inventory to its existing condition. Selling expenses and general and administrative expenses are reported as period costs and excluded from inventory costs.

Recent Accounting Standards

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330) — Simplifying the Measurement of Inventory." ASU 2015-11 changes the measurement principle for entities that do not measure inventory using the last-in, first-out (LIFO) or retail inventory method from the lower of cost or market to lower of cost and net realizable value. The ASU also eliminates the requirement for these entities to consider replacement cost or net realizable value less an approximately normal profit margin when measuring inventory. The standard requires prospective application upon adoption. The Company has elected to early adopt ASU 2015-11 during the first quarter of 2016. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 was issued to increase transparency and comparability across organizations by recognizing substantially all leases on the balance sheet through the concept of right-of-use lease assets and liabilities. Under current accounting guidance, lessees do not recognize lease assets or liabilities for leases classified as operating leases. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years with early adoption permitted. The Company is in the process of evaluating the impact of this accounting standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation — Stock Compensation (Topic 816)." ASU 2016-09 simplifies several aspects of accounting for share-based compensation including the tax consequences, classification of awards as equity or liabilities, forfeitures and classification on the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years with early adoption permitted. The Company plans to early adopt this standard during the second quarter of 2016. The adoption of this standard will result in all excess tax benefits and shortfalls being recognized as tax expense or benefit in the reporting period they occur regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits will be classified along with other income tax as an operating activity and cash paid by the Company when directly withholding shares for tax withholding purposes will be classified as a financing activity. The Company is in the process of evaluating the impact of this accounting standard on its consolidated financial statements.

3. Acquisitions and Divestitures

In January and February 2016, we entered into farm-in agreements with Equator, an affiliate of Oando, for Block 5 and Block 12, respectively, offshore Sao Tome and Principe, and whereby we acquired a 65% participating interest and operatorship in each block, effective as of February and March 2016, respectively. The national petroleum agency, Agencia Nacional do Petroleo ("ANP"), has a 15% and 12.5% carried interest in Block 5 and Block 12, respectively.

In April 2016, we entered into a farm-out agreement with Hess Suriname Exploration Limited, a wholly-owned subsidiary of the Hess Corporation ("Hess"), covering the Block 42 contract area offshore Suriname. Under the terms of the agreement, Hess will acquire a one-third non-operated interest in Block 42 from both Chevron Corporation ("Chevron") and Kosmos. As part of the agreement, Hess will fund the cost of a 6,500 square kilometer 3D seismic survey, subject to an agreed maximum limit, inclusive of Hess' share, expected to commence in the third quarter of 2016. Additionally, Hess will disproportionately fund a portion of the first exploration well, if drilled, in the Block 42 contract area, subject to an agreed maximum limit, inclusive of Hess' share, contingent upon the partnership entering the

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next phase of the exploration period. The new participating interests will be one-third to each of Kosmos, Chevron and Hess, respectively. Kosmos will remain the operator. The agreement is subject to certain customary closing conditions before the new participating interests are effective.

4. Joint Interest Billings

The Company's joint interest billings consist of receivables from partners with interests in common oil and gas properties operated by the Company. Joint interest billings are classified on the face of the consolidated balance sheets as current and long-term receivables based on when collection is expected to occur.

In 2014, the Ghana National Petroleum Corporation ("GNPC") notified us and our block partners that it would exercise its right for the contractor group to pay its 5% share of the Tweneboa, Enyenra and Ntomme ("TEN") development costs. The block partners will be reimbursed for such costs plus interest out of a portion of GNPC's TEN production revenues under the terms of the Deepwater Tano ("DT") petroleum contract. As of March 31, 2016 and December 31, 2015, the joint interest billing receivables due from GNPC for the TEN development costs were \$37.3 million and \$35.3 million, respectively, which are classified as long-term on the consolidated balance sheets.

5. Property and Equipment

Property and equipment is stated at cost and consisted of the following:

	March 31, 2016	December 31, 2015
(In thousands)		
Oil and gas properties:		
Proved properties	\$ 1,364,169	\$ 1,337,215
Unproved properties	731,777	593,510
Support equipment and facilities	1,320,200	1,241,943
Total oil and gas properties	3,416,146	3,172,668
Accumulated depletion	(887,619)	(858,442)
Oil and gas properties, net	2,528,527	2,314,226
Other property	34,800	34,807
Accumulated depreciation	(27,075)	(26,194)
Other property, net	7,725	8,613
Property and equipment, net	\$ 2,536,252	\$ 2,322,839

We recorded depletion expense of \$29.2 million and \$34.7 million for the three months ended March 31, 2016 and 2015, respectively.

6. Suspended Well Costs

The following table reflects the Company's capitalized exploratory well costs on completed wells as of and during the three months ended March 31, 2016. The table excludes \$2.2 million in costs that were capitalized and subsequently expensed during the same period.

	March 31, 2016
	(In thousands)
Beginning balance	\$ 426,881
Additions to capitalized exploratory well costs pending the determination of proved reserves	198,031
Reclassification due to determination of proved reserves	—
Capitalized exploratory well costs charged to expense	—
Ending balance	<u>\$ 624,912</u>

The following table provides an aging of capitalized exploratory well costs based on the date drilling was completed and the number of projects for which exploratory well costs have been capitalized for more than one year since the completion of drilling:

	March 31, 2016	December 31, 2015
	(In thousands, except well counts)	
Exploratory well costs capitalized for a period of one year or less	\$ 397,318	\$ 199,486
Exploratory well costs capitalized for a period of one to two years	17,901	17,702
Exploratory well costs capitalized for a period of three to seven years	209,693	209,693
Ending balance	<u>\$ 624,912</u>	<u>\$ 426,881</u>
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	<u>3</u>	<u>3</u>

As of March 31, 2016, the projects with exploratory well costs capitalized for more than one year since the completion of drilling are related to the Mahogany, Teak (formerly Teak-1 and Teak-2) and Akasa discoveries in the West Cape Three Points ("WCTP") Block and the Wawa discovery in the DT Block, which are all in Ghana.

Mahogany and Teak Discoveries — In November 2015, we signed the Jubilee Field Unit Expansion Agreement with our partners to allow for the development of the Mahogany and Teak discoveries through the Jubilee FPSO and infrastructure. The expansion of the Jubilee Unit becomes effective upon approval by Ghana's Ministry of Petroleum of the Greater Jubilee Full Field Development Plan ("GJFFDP"), which was submitted to the government of Ghana in December 2015. The GJFFDP encompasses future development of the Jubilee Field, in addition to future development of the Mahogany and Teak discoveries, which were declared commercial during 2015. We are currently in discussions with the government of Ghana concerning the GJFFDP. Upon approval of the GJFFDP by the Ministry of Petroleum, the Jubilee Unit will be expanded to include the Mahogany and Teak discoveries and revenues and expenses associated with these discoveries will be at the Jubilee Unit interests. The WCTP Block partners have agreed they will take the steps necessary to transfer operatorship of the remaining portions of the WCTP Block to Tullow after approval of the GJFFDP by Ghana's Ministry of Petroleum.

Akasa Discovery — We are currently in discussions with the government of Ghana regarding additional technical studies and evaluation that we want to conduct before we are able to make a determination regarding commerciality of the discovery. If we determine the discovery to be commercial, a declaration of commerciality would be provided and a PoD would be prepared and submitted to Ghana's Ministry of Petroleum, as required under the WCTP petroleum contract. The WCTP Block partners have agreed they will take the steps necessary to transfer operatorship of the remaining portions of the WCTP Block to Tullow after approval of the GJFFDP by Ghana's Ministry of Petroleum.

Wawa Discovery — In February 2016, we requested the Ghana Ministry of Petroleum to approve the enlargement of the areal extent of the TEN development and production area to capture the resource accumulation located in the Wawa Discovery Area for a potential future integrated development with TEN. In April 2016, the Ghana Ministry of Petroleum approved our request to enlarge the TEN development and production area subject to continued subsurface and development concept evaluation, along with the requirement to integrate the Wawa Discovery into the TEN PoD.

7. Accrued Liabilities

Accrued liabilities consisted of the following:

	March 31, 2016	December 31, 2015
(In thousands)		
Accrued liabilities:		
Exploration, development and production	\$ 119,135	\$ 111,064
General and administrative expenses	9,399	24,839
Interest	6,891	17,512
Income taxes	1,176	3,418
Taxes other than income	5,503	3,064
	<u>\$ 142,104</u>	<u>\$ 159,897</u>

8. Debt

	March 31, 2016	December 31, 2015
(In thousands)		
Outstanding debt principal balances:		
Facility	\$ 550,000	\$ 400,000
Senior Notes	525,000	525,000
Total	1,075,000	925,000
Unamortized issuance costs and discounts	(61,404)	(64,122)
Long-term debt	<u>\$ 1,013,596</u>	<u>\$ 860,878</u>

Facility

In March 2014, the Company amended and restated the Facility with a total commitment of \$1.5 billion from a number of financial institutions. The Facility supports our oil and gas exploration, appraisal and development programs and corporate activities. As of March 31, 2016, we have \$35.7 million of net deferred financing costs related to the Facility, which will be amortized over the remaining term of the Facility, including certain costs related to the amendment.

In March 2016, following the lender's semi-annual redetermination, the borrowing base under our Facility was reduced by \$73.5 million to \$1.427 billion. The borrowing base calculation includes value related to the Jubilee field and TEN development project. As of March 31, 2016, borrowings under the Facility totaled \$550.0 million and the undrawn availability under the Facility was \$876.5 million.

The Facility provides a revolving-credit and letter of credit facility. The availability period for the revolving-credit facility, as amended in March 2014, expires on March 31, 2018, however, the Facility has a revolving-credit sublimit, which will be the lesser of \$500.0 million and the total available facility at that time, that will be available for drawing until the date falling one month prior to the final maturity date. The letter of credit facility expires on the final maturity date. The available facility amount is subject to borrowing base constraints and, beginning on March 31, 2018, outstanding borrowings will be constrained by an amortization schedule. The Facility has a final maturity date of March 31, 2021. As of March 31, 2016, we had no letters of credit issued under the Facility.

We were in compliance with the financial covenants contained in the Facility as of March 31, 2016 (the most recent assessment date). The Facility contains customary cross default provisions.

Corporate Revolver

In June 2015, we amended and restated the Corporate Revolver from a number of financial institutions, increasing the borrowing capacity to \$400.0 million, extending the maturity date to November 2018 and lowering the commitment fees on the undrawn portion of the total commitments to 30% per annum of the respective margin. The

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Corporate Revolver is available for all subsidiaries for general corporate purposes and for oil and gas exploration; appraisal and development programs. As of March 31, 2016, we have \$7.3 million of net deferred financing costs related to the Corporate Revolver, which will be amortized over the remaining term.

As of March 31, 2016, there were no borrowings outstanding under the Corporate Revolver and the undrawn availability under the Corporate Revolver was \$400.0 million. We were in compliance with the financial covenants contained in the Corporate Revolver as of March 31, 2016 (the most recent assessment date). The Corporate Revolver contains customary cross default provisions.

Revolving Letter of Credit Facility

In July 2013, we entered into a revolving letter of credit facility agreement (“LC Facility”). The size of the LC Facility is \$75.0 million, as amended in July 2015, with additional commitments up to \$50.0 million being available if the existing lender increases its commitment or if commitments from new financial institutions are added. As of March 31, 2016, there were nine outstanding letters of credit totaling \$15.3 million under the LC Facility. The LC Facility contains customary cross default provisions.

7.875% Senior Secured Notes due 2021

During August 2014, the Company issued \$300.0 million of Senior Notes and received net proceeds of approximately \$292.5 million after deducting discounts, commissions and deferred financing costs. The Company used the net proceeds to repay a portion of the outstanding indebtedness under the Facility and for general corporate purposes.

During April 2015, we issued an additional \$225.0 million of Senior Notes and received net proceeds of \$206.8 million after deducting discounts, commissions and other expenses. We used the net proceeds to repay a portion of the outstanding indebtedness under the Facility and for general corporate purposes. The additional \$225.0 million of Senior Notes have identical terms to the initial \$300.0 million of Senior Notes, other than the date of issue, the initial price, the first interest payment date and the first date from which interest will accrue.

The Senior Notes mature on August 1, 2021. Interest is payable semi-annually in arrears each February 1 and August 1 commencing on February 1, 2015 for the initial \$300.0 million Senior Notes and August 1, 2015 for the additional \$225.0 million Senior Notes. The Senior Notes are secured (subject to certain exceptions and permitted liens) by a first ranking fixed equitable charge on all shares held by us in our direct subsidiary, Kosmos Energy Holdings. The Senior Notes are currently guaranteed on a subordinated, unsecured basis by our existing restricted subsidiaries that guarantee the Facility and the Corporate Revolver, and, in certain circumstances, the Senior Notes will become guaranteed by certain of our other existing or future restricted subsidiaries.

At March 31, 2016, the estimated repayments of debt during the five fiscal year periods and thereafter are as follows:

	Payments Due by Year					
	2016(2)	2017	2018	2019	2020	Thereafter
	(In thousands)					
Principal debt repayments(1)	\$ —	\$ —	\$ —	\$ 32,271	\$ 348,123	\$ 694,606

(1) Includes the scheduled principal maturities for the \$525.0 million aggregate principal amount of Senior Notes issued in August 2014 and April 2015 and the Facility. The scheduled maturities of debt related to the Facility are based on the level of borrowings and the estimated future available borrowing base as of March 31, 2016. Any increases or decreases in the level of borrowings or increases or decreases in the available borrowing base would impact the scheduled maturities of debt during the next five years and thereafter. As of March 31, 2016, there were no borrowings under the Corporate Revolver.

(2) Represents payments for the period April 1, 2016 through December 31, 2016.

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Interest and other financing costs, net

Interest and other financing costs, net incurred during the period is comprised of the following:

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Interest expense	\$ 20,948	\$ 15,397
Amortization—deferred financing costs	2,551	2,610
Capitalized interest	(16,446)	(8,840)
Deferred interest	(407)	1,154
Interest income	(368)	(168)
Other, net	4,046	598
Interest and other financing costs, net	\$ 10,324	\$ 10,751

9. Derivative Financial Instruments

We use financial derivative contracts to manage exposures to commodity price and interest rate fluctuations. We do not hold or issue derivative financial instruments for trading purposes.

We manage market and counterparty credit risk in accordance with our policies and guidelines. In accordance with these policies and guidelines, our management determines the appropriate timing and extent of derivative transactions. We have included an estimate of non-performance risk in the fair value measurement of our derivative contracts as required by ASC 820 — Fair Value Measurements and Disclosures.

Oil Derivative Contracts

The following table sets forth the volumes in barrels underlying the Company's outstanding oil derivative contracts and the weighted average Dated Brent prices per Bbl for those contracts as of March 31, 2016.

Term	Type of Contract	MBbl	Weighted Average Dated Brent Price per Bbl					
			Net Deferred Premium Payable	Swap	Put	Floor	Ceiling	Call
2016:								
April — December	Purchased puts	1,501	\$ 3.41	\$ —	\$ —	\$ 85.00	\$ —	\$ —
April — December	Three-way collars	1,504	—	—	—	85.00	110.00	135.00
April — December	Swaps with puts	1,500	—	75.00	60.00	—	—	—
2017:								
January — December	Swap with puts/calls	2,000	\$ 2.13	\$ 72.50	\$ 55.00	\$ —	\$ —	\$ 90.00
January — December	Swap with puts	2,000	—	64.95	50.00	—	—	—
January — December	Sold calls(1)	2,000	—	—	—	—	85.00	—
January — December	Three-way collars	2,000	1.68	—	30.00	45.00	60.00	—
2018:								
January — December	Three-way collars	913	\$ 2.37	\$ —	\$ 45.00	\$ 60.00	\$ 75.00	\$ —
January — December	Sold calls(1)	2,000	—	—	—	—	65.00	—
2019:								
January — December	Sold calls(1)	913	\$ —	\$ —	\$ —	\$ —	\$ 80.00	\$ —

(1) Represents call option contracts sold to counterparties to enhance other derivative positions.

In April 2016, we entered into a three-way collar for 2.0 MMBbl from January 2017 through December 2017 with a floor price of \$45.00 per barrel, a ceiling price of \$55.00 per barrel and we sold a put at \$30.00 per barrel. The contracts are indexed to Dated Brent and have a weighted average deferred premium payable of \$1.75 per barrel.

Interest Rate Derivative Contracts

The following table summarizes our open interest rate swaps, whereby we pay a fixed rate of interest and the counterparty pays a variable LIBOR-based rate, and our capped interest rate swaps whereby we pay a fixed rate of interest if LIBOR is below the cap, and pay the market rate less the spread between the cap (sold call) and the fixed rate of interest if LIBOR is above the cap as of March 31, 2016:

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Term	Type of Contract	Floating Rate	Weighted Average		
			Notional (In thousands)	Swap	Sold Call
April 2016 — June 2016	Swap	6-month LIBOR	\$ 12,500	2.27 %	—
April 2016 — December 2018	Capped swap	1-month LIBOR	200,000	1.23 %	3.00 %

The following tables disclose the Company's derivative instruments as of March 31, 2016 and December 31, 2015 and gain/(loss) from derivatives during the three months ended March 31, 2016 and 2015, respectively:

Type of Contract	Balance Sheet Location	Estimated Fair Value Asset (Liability)	
		March 31, 2016	December 31, 2015
(In thousands)			
Derivatives not designated as hedging instruments:			
Derivative assets:			
Commodity(1)	Derivatives assets—current	\$ 155,796	\$ 182,640
Commodity(2)	Derivatives assets—long-term	40,675	59,197
Interest rate	Derivatives assets—long-term	—	659
Derivative liabilities:			
Commodity	Derivatives liabilities—current	(60)	—
Interest rate	Derivatives liabilities—current	(1,413)	(1,155)
	Derivatives liabilities—long-term		
Commodity	Derivatives liabilities—long-term	(11,055)	(4,196)
Interest rate	Derivatives liabilities—long-term	(1,322)	—
Total derivatives not designated as hedging instruments		<u>\$ 182,621</u>	<u>\$ 237,145</u>

- (1) Includes net deferred premiums payable of \$6.3 million and \$6.2 million related to commodity derivative contracts as of March 31, 2016 and December 31, 2015, respectively.
- (2) Includes net deferred premiums payable of \$8.5 million and \$6.9 million related to commodity derivative contracts as of March 31, 2016 and December 31, 2015, respectively.

Type of Contract	Location of Gain/(Loss)	Amount of Gain/(Loss) Three Months Ended	
		March 31, 2016	2015
(In thousands)			
Derivatives in cash flow hedging relationships:			
Interest rate(1)	Interest expense	\$ —	\$ 194
Total derivatives in cash flow hedging relationships		<u>\$ —</u>	<u>\$ 194</u>
Derivatives not designated as hedging instruments:			
Commodity(2)	Oil and gas revenue	\$ 610	\$ 2,633
Commodity	Derivatives, net	4,345	32,327
Interest rate	Interest expense	(2,578)	(174)
Total derivatives not designated as hedging instruments		<u>\$ 2,377</u>	<u>\$ 34,786</u>

- (1) Amounts were reclassified from accumulated other comprehensive income or loss ("AOCI") into earnings upon settlement during 2015.
- (2) Amounts represent the change in fair value of our provisional oil sales contracts.

Offsetting of Derivative Assets and Derivative Liabilities

Our derivative instruments which are subject to master netting arrangements with our counterparties only have the right of offset when there is an event of default. As of March 31, 2016 and December 31, 2015, there was not an event of default and, therefore, the associated gross asset or gross liability amounts related to these arrangements are

presented on the consolidated balance sheets. Additionally, if an event of default occurred the offsetting amounts would be immaterial as of March 31, 2016 and December 31, 2015.

10. Fair Value Measurements

In accordance with ASC Topic 820 — Fair Value Measurements and Disclosures, fair value measurements are based upon inputs that market participants use in pricing an asset or liability, which are classified into two categories: observable inputs and unobservable inputs. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect a company’s own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. We prioritize the inputs used in measuring fair value into the following fair value hierarchy:

- Level 1 — quoted prices for identical assets or liabilities in active markets.
- Level 2 — quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 — unobservable inputs for the asset or liability. The fair value input hierarchy level to which an asset or liability measurement in its entirety falls is determined based on the lowest level input that is significant to the measurement in its entirety.

The following tables present the Company’s assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2016 and December 31, 2015, for each fair value hierarchy level:

	Fair Value Measurements Using:			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In thousands)				
March 31, 2016				
Assets:				
Commodity derivatives	\$ —	\$ 196,471	\$ —	\$ 196,471
Interest rate derivatives	—	—	—	—
Liabilities:				
Commodity derivatives	—	(11,115)	—	(11,115)
Interest rate derivatives	—	(2,735)	—	(2,735)
Total	\$ —	\$ 182,621	\$ —	\$ 182,621
December 31, 2015				
Assets:				
Commodity derivatives	\$ —	\$ 241,837	\$ —	\$ 241,837
Interest rate derivatives	—	659	—	659
Liabilities:				
Commodity derivatives	—	(4,196)	—	(4,196)
Interest rate derivatives	—	(1,155)	—	(1,155)
Total	\$ —	\$ 237,145	\$ —	\$ 237,145

The book values of cash and cash equivalents and restricted cash approximate fair value based on Level 1 inputs. Joint interest billings, oil sales and other receivables, and accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments. Our long-term receivables, after any allowances for doubtful accounts, and other long-term assets approximate fair value. The estimates of fair value of these items are based on Level 2 inputs.

Commodity Derivatives

Our commodity derivatives represent crude oil three-way collars, put options, call options and swaps for notional barrels of oil at fixed Dated Brent oil prices. The values attributable to our oil derivatives are based on (i) the contracted notional volumes, (ii) independent active futures price quotes for Dated Brent, (iii) a credit-adjusted yield curve applicable to each counterparty by reference to the credit default swap (“CDS”) market and (iv) an independently sourced estimate of volatility for Dated Brent. The volatility estimate was provided by certain independent brokers who are active in buying and selling oil options and was corroborated by market-quoted volatility factors. The deferred premium is included in the fair market value of the commodity derivatives. See Note 9 — Derivative Financial Instruments for additional information regarding the Company’s derivative instruments.

Provisional Oil Sales

The value attributable to the provisional oil sales derivative is based on (i) the sales volumes and (ii) the difference in the independent active futures price quotes for Dated Brent over the term of the pricing period designated in the sales contract and the spot price on the lifting date.

Interest Rate Derivatives

We have interest rate swaps, whereby the Company pays a fixed rate of interest and the counterparty pays a variable LIBOR-based rate. We also have capped interest rate swaps, whereby the Company pays a fixed rate of interest if LIBOR is below the cap, and pays the market rate less the spread between the cap and the fixed rate of interest if LIBOR is above the cap. The values attributable to the Company’s interest rate derivative contracts are based on (i) the contracted notional amounts, (ii) LIBOR yield curves provided by independent third parties and corroborated with forward active market-quoted LIBOR yield curves and (iii) a credit-adjusted yield curve as applicable to each counterparty by reference to the CDS market.

Debt

The following table presents the carrying values and fair values of financial instruments that are not carried at fair value in the consolidated balance sheets:

	March 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Long-term debt	\$ 1,051,037	\$ 992,313	\$ 900,186	\$ 823,612

The carrying value of the Facility approximates fair value since it is subject to short-term floating interest rates that approximate the rates available to us for those periods. The carrying value of long-term debt represents the principal amounts outstanding and does not include any unamortized issuance costs. The fair value of our Senior Notes is based on quoted market prices, which results in a Level 1 fair value measurement.

11. Equity-based Compensation

Restricted Stock Awards and Restricted Stock Units

We record compensation expense equal to the fair value of share-based payments over the vesting periods of the Long-Term Incentive Plan (“LTIP”) awards. We recorded compensation expense from awards granted under our LTIP of \$10.6 million and \$25.2 million during the three months ended March 31, 2016 and 2015, respectively. The total tax benefit for the three months ended March 31, 2016 and 2015 was \$3.6 million and \$8.4 million, respectively. Additionally, we expensed a tax shortfall related to equity-based compensation of \$1.2 million and \$0.1 million for the three months ended March 31, 2016 and 2015 respectively. The fair value of awards vested during the three months ended March 31, 2016 and 2015 was approximately \$4.6 million and \$0.8 million, respectively. The Company has granted both restricted stock awards and restricted stock units with service vesting criteria and granted both restricted stock awards and restricted stock units with a combination of market and service criteria under the LTIP. Substantially, all these awards vest over three or four year periods. Restricted stock awards are issued and included in the number of

outstanding shares upon the date of grant and, if such awards are forfeited, they become treasury stock. Upon vesting, restricted stock units become issued and outstanding stock.

The following table reflects the outstanding restricted stock awards as of March 31, 2016:

	Service Vesting Restricted Stock Awards (In thousands)	Weighted- Average Grant-Date Fair Value	Market / Service Vesting Restricted Stock Awards (In thousands)	Weighted- Average Grant-Date Fair Value
Outstanding at December 31, 2015	810	9.20	261	9.44
Granted	—	—	—	—
Forfeited	—	—	(97)	9.46
Vested	(238)	9.03	(60)	9.37
Outstanding at March 31, 2016	<u>572</u>	<u>9.27</u>	<u>104</u>	<u>9.45</u>

The following table reflects the outstanding restricted stock units as of March 31, 2016:

	Service Vesting Restricted Stock Units (In thousands)	Weighted- Average Grant-Date Fair Value	Market / Service Vesting Restricted Stock Units (In thousands)	Weighted- Average Grant-Date Fair Value
Outstanding at December 31, 2015	3,592	9.79	6,578	14.24
Granted	1,909	3.87	1,338	4.88
Forfeited	(78)	9.79	(28)	15.18
Vested	(376)	8.93	—	—
Outstanding at March 31, 2016	<u>5,047</u>	<u>7.61</u>	<u>7,888</u>	<u>12.65</u>

As of March 31, 2016, total equity-based compensation to be recognized on unvested restricted stock awards and restricted stock units is \$53.4 million over a weighted average period of 1.77 years. At March 31, 2016, the Company had approximately 7.7 million shares that remain available for issuance under the LTIP.

For restricted stock awards and restricted stock units with a combination of market and service vesting criteria, the number of common shares to be issued is determined by comparing the Company's total shareholder return with the total shareholder return of a predetermined group of peer companies over the performance period and can vest in up to 100% of the awards granted for restricted stock awards and up to 200% of the awards granted for restricted stock units. The grant date fair value of these awards ranged from \$6.70 to \$13.57 per award for restricted stock awards and \$4.83 to \$15.81 per award for restricted stock units. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. The expected volatility utilized in the model was estimated using our historical volatility and the historical volatilities of our peer companies and ranged from 41.3% to 56.7% for the restricted stock awards and 44.0% to 54.0% for restricted stock units. The risk-free interest rate was based on the U.S. treasury rate for a term commensurate with the expected life of the grant and ranged from 0.5% to 1.1% for restricted stock awards and 0.5% to 1.2% for restricted stock units.

12. Income Taxes

Income tax expense (benefit) was \$(2.0) million and \$25.7 million for the three months ended March 31, 2016 and 2015, respectively, respectively. The income tax provision consists of United States and Ghanaian income and Texas margin taxes.

The components of income (loss) before income taxes were as follows:

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Bermuda	\$ (15,797)	\$ (13,662)
United States	2,096	4,667
Foreign—other	(47,314)	(44,215)
Loss before income taxes	\$ (61,015)	\$ (53,210)

Our effective tax rate for the three months ended March 31, 2016 and 2015 is 3% and (48%), respectively. The effective tax rate for the United States is approximately 108% and 44% for the three months ended March 31, 2016 and 2015, respectively. The effective tax rate in the United States is impacted by the effect of equity-based compensation tax shortfalls equal to the excess tax benefit recognized for financial statement purposes over the tax benefit realized for tax return purposes. The effective tax rate for Ghana is approximately 35% for the three months ended March 31, 2016 and 2015. Our other foreign jurisdictions have a 0% effective tax rate because they reside in countries with a 0% statutory rate or we have experienced losses in those countries and have a full valuation allowance reserved against the corresponding net deferred tax assets.

A subsidiary of the Company files a U.S. federal income tax return and a Texas margin tax return. In addition to the United States, the Company files income tax returns in the countries in which we operate. The Company is open to U.S. federal income tax examinations for tax years 2012 through 2015 and to Texas margin tax examinations for the tax years 2011 through 2015. In addition, the Company is open to income tax examinations for years 2011 through 2015 in its significant other foreign jurisdictions, primarily Ghana.

As of March 31, 2016, the Company had no material uncertain tax positions. The Company's policy is to recognize interest and penalties related to income tax matters in income tax expense.

13. Net Income (Loss) Per Share

The following table is a reconciliation between net income and the amounts used to compute basic and diluted net income per share and the weighted average shares outstanding used to compute basic and diluted net income (loss) per share:

	Three Months Ended March 31,	
	2016	2015
	(In thousands, except per share data)	
Numerator:		
Net loss	\$ (58,993)	\$ (78,909)
Basic income allocable to participating securities(1)	—	—
Basic net loss allocable to common shareholders	(58,993)	(78,909)
Diluted adjustments to income allocable to participating securities(1)	—	—
Diluted net loss allocable to common shareholders	\$ (58,993)	\$ (78,909)
Denominator:		
Weighted average number of shares outstanding:		
Basic	384,435	380,355
Restricted stock awards and units(1)(2)	—	—
Diluted	384,435	380,355
Net loss per share:		
Basic	\$ (0.15)	\$ (0.21)
Diluted	\$ (0.15)	\$ (0.21)

- (1) Our service vesting restricted stock awards represent participating securities because they participate in non-forfeitable dividends with common equity owners. Income allocable to participating securities represents the distributed and undistributed earnings attributable to the participating securities. Our restricted stock awards with market and service vesting criteria and all restricted stock units are not considered to be participating securities and, therefore, are excluded from the basic net income (loss) per common share calculation. Our service vesting restricted stock awards do not participate in undistributed net losses because they are not contractually obligated to do so and, therefore, are excluded from the basic net income (loss) per common share calculation in periods we are in a net loss position.

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- (2) We excluded outstanding restricted stock awards and units of 13.6 million and 18.1 million for the three months ended March 31, 2016 and 2015, respectively, from the computations of diluted net income per share because the effect would have been anti-dilutive.

14. Commitments and Contingencies

From time to time, we are involved in litigation, regulatory examinations and administrative proceedings primarily arising in the ordinary course of our business in jurisdictions in which we do business. Although the outcome of these matters cannot be predicted with certainty, management believes none of these matters, either individually or in the aggregate, would have a material effect upon the Company's financial position; however, an unfavorable outcome could have a material adverse effect on our results from operations for a specific interim period or year.

As of March 31, 2016, we had a commitment to drill one exploration well in Morocco and Senegal. In Morocco, our partner is obligated to fund our share of the cost of the exploration well, subject to a maximum spend of \$120.0 million. The Senegal commitment was met with the Teranga-1 exploration well which was completed in May 2016. Additionally, we have 2D and 3D seismic requirements in Sao Tome and Principe of 1,200 square kilometers and 4,000 square kilometers, respectively. In Mauritania, we have applied to enter into the second phase of the exploration period which requires drilling two exploration wells and acquiring 1,000 square kilometers of 3D seismic. We are currently awaiting government approval.

In June 2013, Kosmos Energy Ventures ("KEV"), a subsidiary of Kosmos Energy Ltd., signed a long-term rig agreement with a subsidiary of Atwood Oceanics, Inc. for the new build 6th generation drillship "Atwood Achiever." KEV took delivery of the Atwood Achiever in September 2014. The rig agreement originally covered an initial period of three years at a day rate of approximately \$0.6 million, with an option to extend the agreement for an additional three year term. In September 2015, KEV amended the rig agreement effective October 1, 2015 to extend the contract end date by one year and reduce the rate to approximately \$0.5 million per day. KEV has the option to revert to the original day rate of approximately \$0.6 million per day and original agreement end date of November 2017. If KEV exercises the option, KEV would be required to make a rate recovery payment equal to the difference between the original day rate and the amended day rate multiplied by the number of days from the amendment effective date to the date the option is exercised plus certain administrative costs.

In November 2015, we entered into a line of credit agreement with one of our block partners, whereby our partner may draw up to \$30 million on the line of credit to pay their portion of costs under the petroleum agreement. Interest accrues on drawn balances at 7.875%. The agreement matures on December 31, 2017, or earlier if certain conditions are met. As of March 31, 2016, there was \$3.4 million outstanding under the agreement, which is included in other long-term assets.

Future minimum rental commitments under these leases at March 31, 2016, are as follows:

	Payments Due By Year(1)						
	Total	2016(2)	2017	2018	2019	2020	Thereafter
	(In thousands)						
Operating leases(3)	\$ 12,141	\$ 2,401	\$ 3,286	\$ 3,323	\$ 3,131	\$ —	\$ —
Atwood Achiever drilling rig contract(4)	473,765	136,282	180,883	156,600	—	—	—

- (1) Does not include purchase commitments for jointly owned fields and facilities where we are not the operator and excludes commitments for exploration activities, including well commitments, in our petroleum contracts.
- (2) Represents payments for the period from April 1, 2016 through December 31, 2016.
- (3) Primarily relates to corporate office and foreign office leases.
- (4) Commitments calculated using the amended day rate of \$0.5 million effective October 1, 2015, excluding applicable taxes.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto contained herein and our annual financial statements for the year ended December 31, 2015, included in our annual report on Form 10-K along with the section Management's Discussion and Analysis of financial condition and Results of Operations contained in such annual report. Any terms used but not defined in the following discussion have the same meaning given to them in the annual report. Our discussion and analysis includes forward-looking statements that involve risks and uncertainties and should be read in conjunction with "Risk Factors" under Item 1A of this report and in the annual report, along with "Forward-Looking Information" at the end of this section for information about the risks and uncertainties that could cause our actual results to be materially different than our forward-looking statements.

Overview

We are a leading independent oil and gas exploration and production company focused on frontier and emerging areas along the Atlantic Margin. Our assets include existing production and development projects offshore Ghana, large discoveries offshore Mauritania and Senegal, as well as exploration licenses with significant hydrocarbon potential offshore Portugal, Sao Tome and Principe, Suriname, Morocco and Western Sahara.

Recent Developments

Corporate

In March 2016, following the lender's semi-annual redetermination, the borrowing base under our Facility was reduced by \$73.5 million to \$1.427 billion. The borrowing base calculation includes value related to the Jubilee field and TEN development project. As of March 31, 2016, borrowings under the Facility totaled \$550.0 million and the undrawn availability under the Facility was \$876.5 million.

Ghana

Jubilee gross production was impacted late in the first quarter of 2016 following a problem being identified with the FPSO turret bearing. Second quarter 2016 production is forecast to be below expectations due to increased downtime associated with the implementation of revised operating procedures for crude oil offloading and export. However, we do not expect this issue to have a significant long-term financial impact due to continued production from the field and appropriate insurance coverages in place.

A technical investigation of the Jubilee FPSO turret bearing has confirmed that it is no longer able to rotate as originally designed leading to new operating procedures being implemented. These include the vessel being put on "heading control" which requires the use of tugs to minimize vessel rotation and revised crude oil offtake procedures, including the use of a dynamically-positioned shuttle tanker and a storage tanker. Revised operating procedures have now been implemented at the Jubilee field. Sea water injection resumed on April 23, 2016 and crude oil offtake and production commenced on May 3, 2016. These activities and the two-week planned maintenance shutdown have impacted gross production from the Jubilee field, which averaged 80,300 bopd for the first quarter of 2016.

A project team has been established to review the root cause analysis and determine the optimum design of the permanent solution of the Jubilee FPSO turret issue. A decision on the permanent solution is expected in the next few months. Tullow, the Jubilee Field operator, has procured Hull and Machinery insurance, on behalf of the Jubilee Unit partners which covers relevant operating and capital costs associated with damage to the FPSO. Kosmos also has Loss of Production Income ("LOPI") insurance which covers consequent loss of production and revenue. Kosmos has notified our insurers of the relevant issues.

The TEN Project is making excellent progress and remains within budget and on schedule with first oil expected in the third quarter of 2016. The project is now over 90% complete and during the first quarter of 2016 a number of significant milestones have been achieved. The FPSO Prof. John Evans Atta Mills sailed from Singapore on January 23, 2016 and arrived in Ghanaian waters on March 2, 2016. The FPSO mooring operation has been completed, the vessel is now being connected to the subsea infrastructure via the risers and umbilicals and the commissioning of these systems is under way. Seven of the eleven pre-drilled wells are now completed, with the eighth completion under

way. The overall subsea installation campaign, comprising approximately 35,000 tonnes of equipment, has also reached over 90% completion.

Sao Tome

In January and February 2016, we entered into farm-in agreements with Equator, an affiliate of Oando, for Block 5 and Block 12, respectively, offshore Sao Tome and Principe, and whereby we acquired a 65% participating interest and operatorship in each block, effective as of February and March 2016, respectively. The national petroleum agency, Agencia Nacional do Petroleo (“ANP”), has a 15% and 12.5% carried interest in Block 5 and Block 12, respectively.

Senegal

In January 2016, we announced the Guembeul-1 exploration well, located in the northern part of the Saint Louis Offshore Profond license area in Senegal, made a significant gas discovery. Located approximately five kilometers south of the Tortue-1 exploration well in Mauritania in approximately 2,700 meters of water, the Guembeul-1 exploration well was drilled to a total depth of 5,245 meters. The well encountered 101 meters (331 feet) of net gas pay in two excellent quality reservoirs, including 56 meters (184 feet) in the Lower Cenomanian and 45 meters (148 feet) in the underlying Albian, with no water encountered. Importantly, the Guembeul-1 exploration well demonstrated reservoir continuity as well as static pressure communication with the Tortue-1 exploration well in the Lower Cenomanian.

In February 2016, we completed a 3D seismic survey of approximately 4,500 square kilometers in the western portions of the Cayar Offshore Profond and Saint Louis Offshore Profond license areas.

The second exploration well offshore Senegal, Teranga-1, is located in the Cayar Offshore Profond block approximately 65 kilometers northwest of Dakar in nearly 1,800 meters of water and was drilled to a total depth of 4,485 meters. The well encountered 31 meters (102 feet) of net gas pay in good quality reservoir in the Lower Cenomanian objective. Well results confirm that a prolific inboard gas fairway extends approximately 200 kilometers from the Marsouin-1 well in Mauritania through the Greater Tortue area on the maritime boundary to the Teranga-1 well in Senegal.

Mauritania

In March 2016, we announced the Ahmeyim-2 appraisal well successfully delineated the Ahmeyim and Guembeul gas discoveries offshore Mauritania and Senegal. Located in Mauritanian waters, approximately five kilometers northwest, and 200 meters downdip of the basin-opening Tortue-1 discovery well in approximately 2,800 meters of water, Ahmeyim-2 was drilled to a total depth of 5,200 meters. The well confirmed significant thickening of the gross reservoir sequences down-structure and importantly, within the Lower Cenomanian, static fluid pressure communication between the Tortue-1, Guembeul-1 and Ahmeyim-2 wells. The Ahmeyim-2 well encountered 78 meters (256 feet) of net gas pay in two excellent quality reservoirs, including 46 meters (151 feet) in the Lower Cenomanian and 32 meters (105 feet) in the underlying Albian. These results demonstrate field-wide reservoir continuity.

Morocco

The Cap Boujdour Petroleum Agreement expired in March 2016. Kosmos and Cairn Energy PLC (“Cairn”) are currently in discussions with Office National des Hydrocarbures et des Mines (“ONHYM”) and the Government of Morocco to renew the Petroleum Agreement.

During March 2016, we provided notice to ONHYM that we will not proceed into the next phase for each of the Foum Assaka and Tarhazoute petroleum agreements, offshore Morocco.

Suriname

In April 2016, we entered into a farm-out agreement with Hess Suriname Exploration Limited, a wholly-owned subsidiary of the Hess Corporation (“Hess”), covering the Block 42 contract area offshore Suriname. Under the terms of the agreement, Hess will acquire a one-third non-operated interest in Block 42 from both Chevron Corporation (“Chevron”) and Kosmos. As part of the agreement, Hess will fully fund the cost of a 6,500 square kilometer 3D seismic

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survey, subject to an agreed maximum limit, inclusive of Hess' share, expected to commence in the third quarter of 2016. Additionally, Hess will disproportionately fund a portion of the first exploration well in the Block 42 contract area, subject to an agreed maximum limit, inclusive of Hess' share, contingent upon the partnership entering the next phase of the exploration period. The new participating interests will be one-third to each of Kosmos, Chevron and Hess, respectively. Kosmos will remain the operator. The agreement is subject to certain customary closing conditions before the new participating interests are effective.

In April 2016, we received an extension of the initial exploration phase for Block 45 offshore Suriname which now expires in September 2018. We plan to acquire an additional 340 square kilometers of 3D seismic.

Results of Operations

All of our results, as presented in the table below, represent operations from the Jubilee Field in Ghana. Certain operating results and statistics for the three months ended March 31, 2016 and 2015 are included in the following table:

	Three Months Ended	
	March 31,	
	2016	2015
	(In thousands, except per barrel data)	
Sales volumes:		
MBbl	1,896	1,900
Revenues:		
Oil sales	\$ 62,125	\$ 109,164
Average sales price per Bbl	32.77	57.47
Costs:		
Oil production, excluding workovers	\$ 29,375	\$ 18,216
Oil production, workovers	17	13,884
Total oil production costs	\$ 29,392	\$ 32,100
Depletion and depreciation	\$ 31,266	\$ 37,007
Average cost per Bbl:		
Oil production, excluding workovers	\$ 15.49	\$ 9.59
Oil production, workovers	0.01	7.31
Total oil production costs	15.50	16.90
Depletion and depreciation	16.49	19.48
Oil production cost and depletion costs	\$ 31.99	\$ 36.38

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The following table shows the number of wells in the process of being drilled or in active completion stages, and the number of wells suspended or waiting on completion as of March 31, 2016:

	Actively Drilling or Completing				Wells Suspended or Waiting on Completion			
	Exploration		Development		Exploration		Development	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Ghana								
Jubilee Unit	—	—	—	—	—	—	2	0.48
West Cape Three Points	—	—	—	—	9	2.78	—	—
TEN	—	—	1	0.17	—	—	10	1.70
Deepwater Tano	—	—	—	—	1	0.18	—	—
Mauritania								
C8 (1)	—	—	—	—	3	2.70	—	—
Senegal								
Saint Louis Offshore Profond	—	—	—	—	1	0.60	—	—
Cayar Profond	1	0.60	—	—	—	—	—	—
Total	1	0.60	1	0.17	14	6.26	12	2.18

- (1) In March 2015, we closed a farm-out agreement covering our three license areas in Mauritania with Chevron. As a component of the consideration for the farm-out, Chevron was required to make an election by February 1, 2016, to either farm-in to the Tortue-1 exploration well by paying a disproportionate share of the costs incurred in drilling of the well or, alternatively elect to not farm-in to the Tortue-1 exploration well and pay a disproportionate share of the costs of a second contingent exploration or appraisal well in the contract areas, subject to maximum expenditure caps. Chevron failed to make this mandatory election by the required date. Consequently, pursuant to the terms of the farm-out agreement, Chevron has withdrawn from our Mauritania blocks. Chevron's 30% non-operated participating interest will be reassigned to us (subject to requisite government approvals), and our participating interests in the Block C8, C12 and C13 petroleum contracts will be 90%.

The discussion of the results of operations and the period-to-period comparisons presented below analyze our historical results. The following discussion may not be indicative of future results.

Three months ended March 31, 2016 compared to three months ended March 31, 2015

	Three Months Ended		Increase (Decrease)
	2016	March 31, 2015	
(In thousands)			
Revenues and other income:			
Oil and gas revenue	\$ 62,125	\$ 109,164	\$ (47,039)
Gain on sale of assets	—	22,751	(22,751)
Other income	8	642	(634)
Total revenues and other income	62,133	132,557	(70,424)
Costs and expenses:			
Oil and gas production	29,392	32,100	(2,708)
Exploration expenses	23,858	98,941	(75,083)
General and administrative	17,920	38,667	(20,747)
Depletion and depreciation	31,266	37,007	(5,741)
Interest and other financing costs, net	10,324	10,751	(427)
Derivatives, net	(4,345)	(32,327)	27,982
Other expenses, net	14,733	628	14,105
Total costs and expenses	123,148	185,767	(62,619)
Loss before income taxes	(61,015)	(53,210)	(7,805)
Income tax expense (benefit)	(2,022)	25,699	(27,721)
Net loss	\$ (58,993)	\$ (78,909)	\$ 19,916

Oil and gas revenue. Oil and gas revenue decreased by \$47.0 million during the three months ended March 31, 2016 as compared to the three months ended March 31, 2015, as a result of a lower realized price per barrel. We lifted

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and sold 1,896 MBbl at an average realized price per barrel of \$32.77 during the three months ended March 31, 2016 and 1,900 MBbl at an average realized price per barrel of \$57.47 during the three months ended March 31, 2015.

Gain on sale of assets. During the three months ended March 31, 2015, we closed a farm-out agreement with Chevron. The proceeds from the sale were in excess of our book basis, resulting in a gain of \$22.8 million.

Oil and gas production. Oil and gas production costs decreased by \$2.7 million during the three months ended March 31, 2016, as compared to the three months ended March 31, 2015 as a result of a decrease in workover expense which more than offset increased operating costs related to our overlift position and limited production as well as the costs related to tug boats, added for heading control for the turret bearing issue during March 2016. We expect the amount of costs associated with workovers to fluctuate based on the activity level during each quarter.

Exploration expenses. Exploration expenses decreased by \$75.1 million during the three months ended March 31, 2016, as compared to the three months ended March 31, 2015. The decrease is primarily a result of \$83.7 million of unsuccessful well costs for the Western Sahara CB-1 exploration well in 2015.

General and administrative. General and administrative costs decreased by \$20.7 million during the three months ended March 31, 2016, as compared with the three months ended March 31, 2015. The decrease is primarily a result of a decrease in non-cash stock-based compensation, operator costs and professional fees.

Depletion and depreciation. Depletion and depreciation decreased \$5.7 million during the three months ended March 31, 2016, as compared with the three months ended March 31, 2015. The decrease is a result of a lower depletion rate during the three months ended March 31, 2016 as a result of an increase in proved reserves associated with the Jubilee Field in the fourth quarter of 2015.

Derivatives, net. During the three months ended March 31, 2016 and 2015, we recorded gains of \$4 million and \$32.3 million, respectively, on our outstanding hedge positions. The gains recorded were a result of changes in the forward curve of oil prices during the respective periods.

Other expenses, net. Other expenses, net increased by \$14.1 million during the three months ended March 31, 2016, as compared to the three months ended March 31, 2015 primarily related an impairment of inventory.

Income tax expense (benefit). The Company's effective tax rates for the three months ended March 31, 2016 and 2015 were 3% and (48%), respectively. The effective tax rates for the periods presented were impacted by losses, primarily related to exploration expenses, incurred in jurisdictions in which we are not subject to taxes and losses incurred in jurisdictions in which we have valuation allowances against our deferred tax assets and therefore we do not realize any tax benefit on such expenses or losses. Income tax expense decreased \$27.7 million during the three months ended March 31, 2016, as compared with March 31, 2015, primarily as a result of lower revenue in Ghana.

Liquidity and Capital Resources

We are actively engaged in an ongoing process of anticipating and meeting our funding requirements related to exploring for and developing oil and natural gas resources along the Atlantic Margin. We have historically met our funding requirements through cash flows generated from our operating activities and obtained additional funding from issuances of equity and debt. In relation to cash flow generated from our operating activities, if we are unable to continuously export associated natural gas in large quantities from the Jubilee Field, and the potential production restraints caused thereby, then the Company's cash flows from operations will be adversely affected. In prior years, certain near wellbore productivity issues were identified, impacting several Phase 1 production wells. The Jubilee Unit partners identified and implemented a means of successfully mitigating such past near wellbore productivity issues. We have also experienced mechanical issues in the Jubilee Field, including failures of our water injection facilities and gas compressor on the FPSO, as well as the current Jubilee turret bearing issue. This equipment downtime negatively impacted past oil production and we are in the process of correcting the current mechanical issues experienced in the Jubilee Field.

While we are presently in a strong financial position, the decline in oil prices experienced since 2014, if prolonged or if further deterioration of pricing occurs, could negatively impact our ability to generate sufficient operating cash flows to meet our funding requirements as well as impact the borrowing base available under the Facility

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or the related debt covenants. Commodity prices are volatile and future prices cannot be accurately predicted. We maintain a hedging program to partially mitigate the price volatility. Our investment decisions are based on longer-term commodity prices based on the long-term nature of our projects and development plans. Current commodity prices, our hedging program and our current liquidity position support our capital program for 2016. As such, our 2016 capital budget is based on our development plans for Ghana and our exploration and appraisal program for 2016.

Our future financial condition and liquidity will be impacted by, among other factors, the success of our exploration and appraisal drilling program, the number of commercially viable oil and natural gas discoveries made and the quantities of oil and natural gas discovered, the speed with which we can bring such discoveries to production, the reliability of our oil and gas production facilities, our ability to continuously export oil and gas, our partners alignment with respect to capital plans, and the actual cost of exploration, appraisal and development of our oil and natural gas assets.

In March 2016, following the lender's semi-annual redetermination, the borrowing base under our Facility was reduced by \$73.5 million to \$1.427 billion. The borrowing base calculation includes value related to the Jubilee field and TEN development project. As of March 31, 2016, borrowings under the Facility totaled \$550.0 million and the undrawn availability under the Facility was \$876.5 million.

Sources and Uses of Cash

The following table presents the sources and uses of our cash and cash equivalents for the three months ended March 31, 2016 and 2015:

	Three Months Ended	
	March 31,	
	2016	2015
	(In thousands)	
Sources of cash and cash equivalents:		
Net cash provided by operating activities	\$ 15,617	\$ (8,980)
Borrowings under long-term debt	150,000	—
	<u>165,617</u>	<u>(8,980)</u>
Uses of cash and cash equivalents:		
Oil and gas assets	\$ 226,571	\$ 184,899
Other property	47	280
Purchase of treasury stock	1,074	148
Restricted cash	12	59
	<u>227,704</u>	<u>185,386</u>
Decrease in cash and cash equivalents	<u>\$ (62,087)</u>	<u>\$ (194,366)</u>

Net cash provided by operating activities. Net cash provided by operating activities for the three months ended March 31, 2016 was \$15.6 million compared with net cash used in operating activities for the three months ended March 31, 2015 of \$9.0 million. The increase in cash provided by operating activities in the three months ended March 31, 2016 when compared to the same period in 2015 is a result of a positive change in working capital items mitigated by a decrease in results from operations driven by lower realized revenue per barrel sold.

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The following table presents our net debt and liquidity as of March 31, 2016:

	<u>March 31, 2016</u>
	<u>(In thousands)</u>
Cash and cash equivalents	\$ 212,917
Restricted cash	35,870
Senior Notes at par	525,000
Drawings under the Facility	550,000
Net debt	\$ 826,213
Availability under the Facility	\$ 876,500
Availability under the Corporate Revolver	\$ 400,000
Available borrowings plus cash and cash equivalents	\$ 1,489,417

Capital Expenditures and Investments

We expect to incur substantial costs as we:

- complete the TEN development and fund asset integrity projects at Jubilee;
- execute exploration and appraisal activities in our Senegal and Mauritania license areas; and
- purchase and analyze seismic, evaluate new ventures and manage our rig activities.

We have relied on a number of assumptions in budgeting for our future activities. These include the number of wells we plan to drill, our participating interests in our prospects including disproportionate payment amounts, the costs involved in developing or participating in the development of a prospect, the timing of third-party projects, our ability to utilize our available drilling rig capacity, the availability of suitable and reliable equipment and qualified personnel and our cash flows from operations. These assumptions are inherently subject to significant business, political, economic, regulatory, environmental and competitive uncertainties, contingencies and risks, all of which are difficult to predict and many of which are beyond our control. We may need to raise additional funds more quickly if market conditions deteriorate; or one or more of our assumptions proves to be incorrect or if we choose to expand our acquisition, exploration, appraisal, development efforts or any other activity more rapidly than we presently anticipate. We may decide to raise additional funds before we need them if the conditions for raising capital are favorable. We may seek to sell equity or debt securities or obtain additional bank credit facilities. The sale of equity securities could result in dilution to our shareholders. The incurrence of additional indebtedness could result in increased fixed obligations and additional covenants that could restrict our operations.

2016 Capital Program

We estimate we will spend approximately \$650 million of capital for the year ending December 31, 2016. Through March 31, 2016, we have spent approximately \$250 million of the capital budget, which is front-end loaded in the first half of the year based on all of our drilling activity scheduled to be completed by June 2016.

This positions us to achieve our objectives and invest counter-cyclically while maintaining a strong balance sheet. The ultimate amount of capital we will spend may fluctuate materially based on market conditions and the success of our drilling results. Given the current environment and status of ongoing prospect development, we plan to suspend Kosmos operated drilling activities after the completion of the Teranga-1 exploration well offshore Senegal.

Significant Sources of Capital

Facility

In March 2014, we amended and restated the commercial debt facility (the "Facility") with a total commitment of \$1.5 billion from a number of financial institutions. The Facility supports our oil and gas exploration, appraisal and development programs and corporate activities.

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In March 2016, following the lender's semi-annual redetermination, the borrowing base under our Facility was reduced by \$73.5 million to \$1.427 billion. The borrowing base calculation includes value related to the Jubilee field and TEN development project. As of March 31, 2016, borrowings under the Facility totaled \$550.0 million and the undrawn availability under the Facility was \$876.5 million.

We were in compliance with the financial covenants contained in the Facility as of March 31, 2016 (the most recent assessment date). The Facility contains customary cross default provisions.

Corporate Revolver

In June 2015, we amended and restated the Corporate Revolver from a number of financial institutions, increasing the borrowing capacity to \$400.0 million. The Corporate Revolver is available for all subsidiaries for general corporate purposes and for oil and gas exploration; appraisal and development programs.

As of March 31, 2016, there were no borrowings outstanding under the Corporate Revolver and the undrawn availability under the Corporate Revolver was \$400.0 million.

We were in compliance with the financial covenants contained in the Corporate Revolver as of March 31, 2016 (the most recent assessment date). The Corporate Revolver contains customary cross default provisions.

Revolving Letter of Credit Facility

In July 2013, we entered into a revolving letter of credit facility agreement ("LC Facility"). The size of the LC Facility is \$75.0 million, as amended in July 2015, with additional commitments up to \$50.0 million being available if the existing lender increases its commitments or if commitments from new financial institutions are added. As of March 31, 2016, there were nine outstanding letters of credit totaling \$15.3 million under the LC Facility. The LC Facility contains customary cross default provisions.

7.875% Senior Secured Notes due 2021

During August 2014, we issued \$300.0 million of Senior Notes and received net proceeds of approximately \$292.5 million after deducting discounts, commissions and deferred financing costs. The Company used the net proceeds to repay a portion of the outstanding indebtedness under the Facility and for general corporate purposes.

During April 2015, we issued an additional \$225.0 million Senior Notes and received net proceeds of \$206.8 million after deducting discounts, commissions and other expenses. We used the net proceeds to repay a portion of the outstanding indebtedness under the Facility and for general corporate purposes. The additional \$225.0 million of Senior Notes have identical terms to the initial \$300.0 million Senior Notes, other than the date of issue, the initial price, the first interest payment date and the first date from which interest accrued.

The Senior Notes mature on August 1, 2021. Interest is payable semi-annually in arrears each February 1 and August 1 commencing on February 1, 2015 for the initial \$300.0 million Senior Notes and August 1, 2015 for the additional \$225.0 million Senior Notes. The Senior Notes are secured (subject to certain exceptions and permitted liens) by a first ranking fixed equitable charge on all shares held by us in our direct subsidiary, Kosmos Energy Holdings. The Senior Notes are currently guaranteed on a subordinated, unsecured basis by our existing restricted subsidiaries that guarantee the Facility and the Corporate Revolver, and, in certain circumstances, the Senior Notes will become guaranteed by certain of our other existing or future restricted subsidiaries. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" section of our annual report on Form 10-K for the terms of the Senior Notes.

Contractual Obligations

The following table summarizes by period the payments due for our estimated contractual obligations as of March 31, 2016:

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	Payments Due By Year(5)						
	Total	2016(6)	2017	2018	2019	2020	Thereafter
	(In thousands)						
Principal debt repayments(1)	\$ 1,075,000	\$ —	\$ —	\$ —	\$ 32,271	\$ 348,123	\$ 694,606
Interest payments on long-term debt(2)	384,175	50,994	81,606	75,981	68,380	62,541	44,673
Operating leases(3)	12,141	2,401	3,286	3,323	3,131	—	—
Atwood Achiever drilling rig contract(4)	473,765	136,282	180,883	156,600	—	—	—

- (1) Includes the scheduled principal maturities for the \$525.0 million aggregate principal amount of Senior Notes issued in August 2014 and April 2015 and the Facility. The scheduled maturities of debt related to the Facility are based on the level of borrowings and the estimated future available borrowing base as of March 31, 2016. Any increases or decreases in the level of borrowings or increases or decreases in the available borrowing base would impact the scheduled maturities of debt during the next five years and thereafter. As of March 31, 2016, there were no borrowings under the Corporate Revolver.
- (2) Based on outstanding borrowings as noted in (1) above and the LIBOR yield curves at the reporting date and commitment fees related to the Facility and Corporate Revolver and the interest on the Senior Notes.
- (3) Primarily relates to corporate office and foreign office leases.
- (4) Commitments calculated using the amended day rate of \$0.5 million effective October 1, 2015, excluding applicable taxes. KEV has the option to revert to the original day rate of approximately \$0.6 million per day and original agreement end date of November 2017. If KEV exercises the option, KEV would be required to make a rate recovery payment equal to the difference between the original day rate and the amended day rate multiplied by the number of days from the amendment effective date to the date the option is exercised plus certain administrative costs.
- (5) Does not include purchase commitments for jointly owned fields and facilities where we are not the operator and excludes commitments for exploration activities, including well commitments, in our petroleum contracts.
- (6) Represents payments for the period from April 1, 2016 through December 31, 2016.

We currently have a commitment to drill one exploration well in Morocco and Senegal. In Morocco, our partner is obligated to fund our share of the cost of the exploration well, subject to a maximum spend of \$120.0 million. The Senegal commitment was met with the Teranga-1 exploration well which was completed in May 2016. Additionally, we have 2D and 3D seismic requirements in Sao Tome and Principe of 1,200 square kilometers and 4,000 square kilometers, respectively. In Mauritania, we have applied to enter into the second phase of the exploration period which requires drilling two exploration wells and acquiring 1,000 square kilometers of 3D seismic. We are currently awaiting government approval.

The following table presents maturities by expected debt maturity dates, the weighted average interest rates expected to be paid on the Facility given current contractual terms and market conditions, and the debt's estimated fair

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value. Weighted-average interest rates are based on implied forward rates in the yield curve at the reporting date. This table does not take into account amortization of deferred financing costs.

	April 1 Through December 31, 2016	Years Ending December 31,					Liability Fair Value at March 31, 2016
		2017	2018	2019	2020	Thereafter	
(In thousands, except percentages)							
Fixed rate debt:							
Senior Notes	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 525,000	\$ (442,313)
Fixed interest rate	7.88 %	7.88 %	7.88 %	7.88 %	7.88 %	7.88 %	
Variable rate debt:							
Facility(1)	\$ —	\$ —	\$ —	\$ 32,271	\$ 348,123	\$ 169,606	\$ (550,000)
Weighted average interest rate(2)	3.84 %	4.06 %	4.67 %	4.99 %	5.70 %	6.10 %	
Interest rate swaps:							
Notional debt amount(3)	\$ 12,500	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (89)
Average fixed rate payable	2.27 %	— %	—	—	—	—	
Variable rate receivable(4)	0.83 %	— %	—	—	—	—	
Capped interest rate swaps:							
Notional debt amount	\$ 200,000	\$ 200,000	\$ 200,000	\$ —	\$ —	\$ —	\$ (2,646)
Cap	3.00 %	3.00 %	3.00 %	—	—	—	
Average fixed rate payable(5)	1.23 %	1.23 %	1.23 %	—	—	—	
Variable rate receivable(4)	0.52 %	0.74 %	0.97 %	—	—	—	

- (1) The amounts included in the table represent principal maturities only. The scheduled maturities of debt are based on the level of borrowings and the available borrowing base as of March 31, 2016. Any increases or decreases in the level of borrowings or increases or decreases in the available borrowing base would impact the scheduled maturities of debt during the next five years and thereafter. As of March 31, 2016, there were no borrowings under the Corporate Revolver.
- (2) Based on outstanding borrowings as noted in (1) above and the LIBOR yield curves plus applicable margin at the reporting date. Excludes commitment fees related to the Facility and Corporate Revolver.
- (3) Represents weighted average notional contract amounts of interest rate derivatives. In the final year of maturity, represents notional amount from January — June.
- (4) Based on implied forward rates in the yield curve at the reporting date.
- (5) We expect to pay the fixed rate if 1-month LIBOR is below the cap, and pay the market rate less the spread between the cap and the fixed rate if LIBOR is above the cap, net of the capped interest rate swaps.

Off-Balance Sheet Arrangements

As of March 31, 2016, our material off-balance sheet arrangements and transactions include operating leases and undrawn letters of credit. There are no other transactions, arrangements, or other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect Kosmos' liquidity or availability of or requirements for capital resources.

Critical Accounting Policies

We consider accounting policies related to our revenue recognition, exploration and development costs, receivables, income taxes, derivative instruments and hedging activities, estimates of proved oil and natural gas reserves, asset retirement obligations and impairment of long-lived assets as critical accounting policies. The policies include significant estimates made by management using information available at the time the estimates are made. However, these estimates could change materially if different information or assumptions were used. These policies are summarized in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations section in our annual report on Form 10-K, for the year ended December 31, 2015.

Cautionary Note Regarding Forward-looking Statements

This quarterly report on Form 10-Q contains estimates and forward-looking statements, principally in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to several risks and uncertainties and are made in light of information currently available to us. Many important factors, in addition to the factors described in our quarterly report on Form 10-Q and our annual report on Form 10-K, may adversely affect our results as indicated in forward-looking statements. You should read this quarterly report on Form 10-Q, the annual report on Form 10-K and the documents that we have filed with the Securities and Exchange Commission completely and with the understanding that our actual future results may be materially different from what we expect. Our estimates and forward-looking statements may be influenced by the following factors, among others:

- our ability to find, acquire or gain access to other discoveries and prospects and to successfully develop and produce from our current discoveries and prospects;
- uncertainties inherent in making estimates of our oil and natural gas data;
- the successful implementation of our and our block partners’ prospect discovery and development and drilling plans;
- projected and targeted capital expenditures and other costs, commitments and revenues;
- termination of or intervention in concessions, rights or authorizations granted by the governments of Ghana, Mauritania, Morocco (including Western Sahara), Portugal, Sao Tome and Principe, Senegal or Suriname (or their respective national oil companies) or any other federal, state or local governments or authorities, to us;
- our dependence on our key management personnel and our ability to attract and retain qualified technical personnel;
- the ability to obtain financing and to comply with the terms under which such financing may be available;
- the volatility of oil and natural gas prices;
- the availability, cost, function and reliability of developing appropriate infrastructure around and transportation to our discoveries and prospects;
- the availability and cost of drilling rigs, production equipment, supplies, personnel and oilfield services;
- other competitive pressures;
- potential liabilities inherent in oil and natural gas operations, including drilling and production risks and other operational and environmental risks and hazards;
- current and future government regulation of the oil and gas industry or regulation of the investment in or ability to do business with certain countries or regimes;
- cost of compliance with laws and regulations;
- changes in environmental, health and safety or climate change or greenhouse gas (“GHG”) laws and regulations or the implementation, or interpretation, of those laws and regulations;
- adverse effects of sovereign boundary disputes in the jurisdictions in which we operate, including an ongoing maritime boundary demarcation dispute between Cote d’Ivoire and Ghana impacting our operations in the Deepwater Tano Block offshore Ghana;
- environmental liabilities;
- geological, technical, drilling, production and processing problems;
- the failure of machinery and equipment necessary for the reliable production of oil and natural gas;
- military operations, civil unrest, outbreaks of disease, terrorist acts, wars or embargoes;
- the cost and availability of adequate insurance coverage and whether such coverage is enough to sufficiently mitigate potential losses;
- our vulnerability to severe weather events;
- our ability to meet our obligations under the agreements governing our indebtedness;
- the availability and cost of financing and refinancing our indebtedness;
- the amount of collateral required to be posted from time to time in our hedging transactions;
- the result of any legal proceedings or investigations we may be subject to;
- our success in risk management activities, including the use of derivative financial instruments to hedge commodity and interest rate risks; and

- other risk factors discussed in the “Item 1A. Risk Factors” section of this quarterly report on Form 10-Q and our annual report on Form 10-K.

The words “believe,” “may,” “will,” “aim,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “plan” and similar words are intended to identify estimates and forward-looking statements. Estimates and forward-looking statements speak only as of the date they were made, and, except to the extent required by law, we undertake no obligation to update or to review any estimate and/or forward-looking statement because of new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. As a result of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this quarterly report on Form 10-Q might not occur, and our future results and our performance may differ materially from those expressed in these forward-looking statements due to, including, but not limited to, the factors mentioned above. Because of these uncertainties, you should not place undue reliance on these forward-looking statements.

Item 3. Qualitative and Quantitative Disclosures About Market Risk

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risks. The term “market risks” as it relates to our currently anticipated transactions refers to the risk of loss arising from changes in commodity prices and interest rates. These disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses. This forward-looking information provides indicators of how we view and manage ongoing market risk exposures. We enter into market-risk sensitive instruments for purposes other than to speculate.

We manage market and counterparty credit risk in accordance with our policies. In accordance with these policies and guidelines, our management determines the appropriate timing and extent of derivative transactions. See “Item 8. Financial Statements and Supplementary Data — Note 2 — Accounting Policies, Note 9 — Derivative Financial Instruments and Note 10 — Fair Value Measurements” section of our annual report on Form 10-K for a description of the accounting procedures we follow relative to our derivative financial instruments.

The following table reconciles the changes that occurred in fair values of our open derivative contracts during the three months ended March 31, 2016:

	Derivative Contracts Assets (Liabilities)		
	Commodities	Interest Rates	Total
	(In thousands)		
Fair value of contracts outstanding as of December 31, 2015	\$ 237,641	\$ (496)	\$ 237,145
Changes in contract fair value	4,955	(2,578)	2,377
Contract maturities	(57,240)	339	(56,901)
Fair value of contracts outstanding as of March 31, 2016	<u>\$ 185,356</u>	<u>\$ (2,735)</u>	<u>\$ 182,621</u>

Commodity Price Risk

The Company’s revenues, earnings, cash flows, capital investments and, ultimately, future rate of growth are highly dependent on the prices we receive for our crude oil, which have historically been very volatile. Our oil sales are indexed against Dated Brent crude. Oil prices in 2015 ranged between \$35.64 and \$66.65. In June 2014, Dated Brent crude peaked above \$115 per barrel and as recently as January 2016, had fallen below \$30 per barrel.

Commodity Derivative Instruments

We enter into various oil derivative contracts to mitigate our exposure to commodity price risk associated with anticipated future oil production. These contracts currently consist of three-way collars, put options, call options and swaps. In regards to our obligations under our various commodity derivative instruments, if our production does not exceed our existing hedged positions, our exposure to our commodity derivative instruments would increase.

Commodity Price Sensitivity

The following table provides information about our oil derivative financial instruments that were sensitive to changes in oil prices as of March 31, 2016:

Term	Type of Contract	MBbl	Weighted Average Dated Brent Price per Bbl						Asset (Liability) Fair Value at March 31, 2016(2)
			Deferred Premium Payable	Swap	Put	Floor	Ceiling	Call	
2016:									
April — December	Purchased puts	1,501	\$ 3.41	\$ —	\$ —	\$ 85.00	\$ —	\$ —	\$ 60,398
April — December	Three-way collars	1,504	—	—	—	85.00	110.00	135.00	65,620
April — December	Swaps with puts	1,500	—	75.00	60.00	—	—	—	21,787
2017:									
January — December	Swap with puts/calls	2,000	\$ 2.13	\$ 72.50	\$ 55.00	\$ —	\$ —	\$ 90.00	\$ 23,882
January — December	Swap with puts	2,000	—	64.95	50.00	—	—	—	19,135
January — December	Sold calls(1)	2,000	—	—	—	—	85.00	—	(894)
January — December	Three-way collars	2,000	1.68	—	30.00	45.00	60.00	—	1,935
2018:									
January — December	Three-way collars	913	\$ 2.37	\$ —	\$ 45.00	\$ 60.00	\$ 75.00	\$ —	\$ 3,714
January — December	Sold calls(1)	2,000	—	—	—	—	65.00	—	(7,071)
2019:									
January — December	Sold calls(1)	913	\$ —	\$ —	\$ —	\$ —	\$ 80.00	\$ —	\$ (3,150)

(1) Represents call option contracts sold to counterparties to enhance other derivative positions.

(2) Fair values are based on the average forward Dated Brent oil prices on March 31, 2016 which by year are: 2016 — \$41.26, 2017 — \$45.48 2018 — \$48.63 and 2019 — \$50.33. These fair values are subject to changes in the underlying commodity price. The average forward Dated Brent oil prices based on April 25, 2016 market quotes by year are: 2016 — \$44.24, 2017 — \$47.77, 2018 — \$50.26 and 2019 — \$51.60.

In April 2016, we entered into a three-way collar for 2.0 MMBbl from January 2017 through December 2017 with a floor price of \$45.00 per barrel, a ceiling price of \$55.00 per barrel and we sold a put at \$30.00 per barrel. The contracts are indexed to Dated Brent and have a weighted average deferred premium payable of \$1.75 per barrel.

At March 31, 2016, our open commodity derivative instruments were in a net asset position of \$185.4 million. As of March 31, 2016, a hypothetical 10% price increase in the commodity futures price curves would decrease future pre-tax earnings by approximately \$35.3 million. Similarly, a hypothetical 10% price decrease would increase future pre-tax earnings by approximately \$29.6 million.

Interest Rate Derivative Instruments

See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Contractual Obligations” section of our annual report on Form 10-K for specific information regarding the terms of our interest rate derivative instruments that are sensitive to changes in interest rates.

Interest Rate Sensitivity

At March 31, 2016, we had indebtedness outstanding under the Facility of \$550.0 million, of which \$337.5 million bore interest at floating rates after consideration of our fixed rate interest rate hedges. The interest rate on this indebtedness as of March 31, 2016 was approximately 3.7%. If LIBOR increased by 10% at this level of floating rate debt, we would pay an additional \$0.1 million in interest expense per year on the Facility. We pay commitment fees on the \$876.5 million of undrawn availability and \$73.5 million of unavailable commitments under the Facility and on the \$400.0 million of undrawn availability under the Corporate Revolver, which are not subject to changes in interest rates.

As of March 31, 2016, the fair market value of our interest rate swaps was a net liability of approximately \$2.7 million. If LIBOR changed by 10%, it would have a negligible impact on the fair market value of our interest rate swaps.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) was performed under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer. This evaluation considered the various processes carried out under the direction of our disclosure committee in an effort to ensure that information required to be disclosed in the SEC reports we file or submit under the Exchange Act is accurate, complete and timely. However, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system must reflect the fact that there are resource constraints, and the benefit of controls must be considered relative to their costs. Consequently, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2016, in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including that such information is accumulated and communicated to the Company's management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

Evaluation of Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes from the information concerning legal proceedings discussed in the “Item 3. Legal Proceedings” section of our annual report on Form 10-K.

Item 1A. Risk Factors

There have been no material changes from the risks discussed in the “Item 1A. Risk Factors” section of our annual report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Under the terms of our Long Term Incentive Plan (“LTIP”), we have issued shares of restricted shares and restricted share units to our employees. On the date that these restricted shares and restricted share units vest, we provide such employees the option to withhold, via a net exercise provision pursuant to our applicable restricted share award agreements and the LTIP, the number of vested shares (based on the closing price of our common shares on such vesting date) equal to the minimum statutorily tax liability owed by such grantee. The shares withheld from the grantees to settle their tax liability are reallocated to the number of shares available for issuance under the LTIP. The following table outlines the total number of shares withheld during the three months ended, March 31, 2016 and the average price paid per share.

	Total Number of Shares Withheld/Purchased (In thousands)	Average Price Paid per Share
January 1, 2016—January 31, 2016	79	\$ 5.20
February 1, 2016—February 29, 2016	14	4.32
March 1, 2016—March 31, 2016	4	4.92
Total	<u>97</u>	5.06

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

There have been no material changes required to be reported under this Item that have not previously been disclosed in the annual report on Form 10-K, other than as follows:

Disclosures Required Pursuant to Section 13(r) of the Securities Exchange Act of 1934

Under the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the Exchange Act, we are required to include certain disclosures in our periodic reports if we or any of our “affiliates” (as defined in Rule 12b-2 under the Exchange Act) knowingly engaged in certain specified activities during the period covered by the report. Because the Securities and Exchange Commission (“SEC”) defines the term “affiliate” broadly, it includes any entity controlled by us as well as any person or entity that controls us or is under common control with us (“control” is also construed broadly by the SEC).

We are not presently aware that we and our consolidated subsidiaries have knowingly engaged in any transaction or dealing reportable under Section 13(r) of the Exchange Act during the fiscal quarter ended March 31, 2016. In addition, except as described below, at the time of filing this quarterly report on Form 10-Q, we are not aware of any such reportable transactions or dealings by companies that may be considered our affiliates as to whether they have knowingly engaged in any such reportable transactions or dealings during such period. Upon the filing of periodic

reports by such other companies for the fiscal quarter or fiscal year ended March 31, 2016, as the case may be, additional reportable transactions may be disclosed by such companies.

As of March 31, 2016, funds affiliated with The Blackstone Group (“Blackstone”) held approximately 25% of our outstanding common shares, and funds affiliated with Warburg Pincus (“Warburg Pincus”) held approximately 31% of our outstanding common shares. We are also a party to a shareholders agreement with Blackstone and Warburg Pincus pursuant to which, among other things, Blackstone and Warburg Pincus each currently has the right to designate three members of our board of directors. Accordingly, each of Blackstone and Warburg Pincus may be deemed an “affiliate” of us, both currently and during the fiscal quarter ended March 31, 2016.

Disclosure relating to Blackstone and its affiliates

Blackstone informed us of (i) the information reproduced below (the “Travelport Disclosure”) regarding Travelport Limited (“Travelport”), and (ii) the information produced below (the “NCR Disclosure”) regarding NCR Corporation (“NCR”). Each of Travelport and NCR are companies that may be considered affiliates of Blackstone. Because both we, Travelport and NCR may be deemed to be controlled by Blackstone, we may be considered an “affiliate” of each of Travelport and NCR, respectively, for the purposes of Section 13(r) of the Exchange Act.

Travelport Disclosure:

Quarter ended December 31, 2015

“As part of our global business in the travel industry, we provide certain passenger travel related Travel Commerce Platform and Technology Services to Iran Air. We also provide certain Technology Services to Iran Air Tours. All of these services are either exempt from applicable sanctions prohibitions pursuant to a statutory exemption permitting transactions ordinarily incident to travel or, to the extent not otherwise exempt, specifically licensed by the U.S. Office of Foreign Assets Control. Subject to any changes in the exempt/licensed status of such activities, we intend to continue these business activities, which are directly related to and promote the arrangement of travel for individuals.

The gross revenue and net profit attributable to these activities for the year ended December 31, 2015 were approximately \$551,000 and \$389,000, respectively, and \$660,000 and \$470,000 for the year ended December 31, 2014, respectively.”

Quarter ended March 31, 2016

“As part of our global business in the travel industry, we provide certain passenger travel related Travel Commerce Platform and Technology Services to Iran Air. We also provide certain Technology Services to Iran Air Tours. All of these services are either exempt from applicable sanctions prohibitions pursuant to a statutory exemption permitting transactions ordinarily incident to travel or, to the extent not otherwise exempt, specifically licensed by the U.S. Office of Foreign Assets Control. Subject to any changes in the exempt/licensed status of such activities, we intend to continue these business activities, which are directly related to and promote the arrangement of travel for individuals.”

The Travelport Disclosure relates solely to activities conducted by Travelport and do not relate to any activities conducted by us. We have no involvement in or control over the activities of Travelport, any of its predecessor companies or any of its subsidiaries. Other than as described above, we have no knowledge of the activities of Travelport with respect to transactions with Iran, and we have not participated in the preparation of the Travelport Disclosure. We have not independently verified the Travelport Disclosure, are not representing to the accuracy or completeness of the Travelport Disclosure and undertake no obligation to correct or update the Travelport Disclosure.

NCR Disclosure:

Quarter ended March 31, 2016

“Pursuant to Section 13(r)(1)(D)(iii) of the Securities Exchange Act of 1934, as amended, we note that, during the period from January 1, 2016 through March 31, 2016, we maintained a bank account and guarantees at the Commercial Bank of Syria (“CBS”), which was designated as a Specially Designated National pursuant to Executive Order 13382 (“EO 13382”) on August 10, 2011. This bank account and the guarantees at CBS were maintained in the normal course of business prior to the listing of CBS pursuant to EO 13382. We note that the last known account balance as of March 31, 2016, was approximately \$3,468. The bank account did not generate interest from January 1, 2016 through March 31, 2016, and the guarantees did not generate any revenue or profits for the Company. Pursuant to a license granted to the Company by OFAC on January 3, 2013, and subsequent licenses granted on April 29, 2013, July 12, 2013, February 28, 2014, November 12, 2014, and October 24, 2015, the Company has been winding down its past operations in Syria. The Company’s current license expires on April 30, 2016. The Company has also received licenses from OFAC to close the CBS account and terminate any guarantees. The Company’s application to renew the license to transact business with CBS, which was submitted to OFAC on May 18, 2015, remains pending. Following the termination of guarantees and the closure of the account, the Company does not intend to engage in any further business activities with CBS.”

The NCR Disclosure relates solely to activities conducted by NCR and do not relate to any activities conducted by us. We have no involvement in or control over the activities of NCR, any of its predecessor companies or any of its subsidiaries. Other than as described above, we have no knowledge of the activities of NCR with respect to transactions with Iran, and we have not participated in the preparation of the NCR Disclosure. We have not independently verified the NCR Disclosure, are not representing to the accuracy or completeness of the NCR Disclosure and undertake no obligation to correct or update the NCR Disclosure.

Disclosure relating to Warburg Pincus and its affiliates

Warburg Pincus informed us of the information reproduced below (the “SAMIH Disclosure”) regarding Santander Asset Management Investment Holdings Limited (“SAMIH”). SAMIH is a company that may be considered an affiliate of Warburg Pincus. Because we and SAMIH may be deemed to be controlled by Warburg Pincus, we may be considered an “affiliate” of SAMIH for the purposes of Section 13(r) of the Exchange Act.

SAMIH Disclosure:

Quarter ended March 31, 2016

“Santander UK plc (“Santander UK”) holds two frozen savings accounts and two frozen current accounts for three customers resident in the United Kingdom (“UK”) who are currently designated by the United States (“US”) under the Specially Designated Global Terrorist (“SDGT”) sanctions program. The accounts held by each customer were blocked after the customer’s designation and have remained blocked and dormant through the first quarter of 2016. Revenue generated by Santander UK on these accounts in the first quarter of 2016 was £3.67 whilst net profits in the first quarter of 2016 were negligible relative to the overall profits of Banco Santander, S.A.

An Iranian national, resident in the UK, who is currently designated by the US under the Iranian Financial Sanctions Regulations (“IFSR”) and the Weapons of Mass Destruction Proliferators Sanctions Regulations, holds a mortgage with Santander UK that was issued prior to any such designation. No further drawdown has been made (or would be allowed) under this mortgage although Santander UK continues to receive repayment instalments. In the first quarter of 2016, total revenue generated by Santander UK in connection with the mortgage was £201.22 whilst net profits were negligible relative to the overall profits of Banco Santander, S.A. Santander UK does not intend to enter into any new relationships with this customer, and any disbursements will only be made in accordance with applicable sanctions. The same Iranian national also holds two investment accounts with Santander ISA Managers Limited. The funds within both accounts are invested in the same portfolio fund. The accounts have remained frozen during the first quarter of 2016. The investment returns are being automatically reinvested, and no disbursements have been made to the customer. Total revenue in the first quarter of 2016 generated by Santander UK in connection with the investment accounts was £4.89 whilst net profits in the first quarter of 2016 were negligible relative to the overall profits of Banco Santander, S.A.

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A UK national designated by the US under the SDGT sanctions program holds a Santander UK current account. The account remained in arrears through the first quarter of 2016 (£1,344.01 in debit) and is currently being managed by Santander UK Collections & Recoveries department.

In addition, during the first quarter of 2016, Santander UK has identified an OFAC match on a power of attorney account. A party listed on the account is currently designated by the US under the SDGT and IFSR sanctions programs. During the first quarter of 2016, related revenue generated by Santander UK was £73.81 whilst net profits in the first quarter of 2016 were negligible relative to the overall profits of Banco Santander, S.A.”

The SAMIH Disclosure relates solely to activities conducted by SAMIH and do not relate to any activities conducted by us. We have no involvement in or control over the activities of SAMIH, any of its predecessor companies or any of its subsidiaries. Other than as described above, we have no knowledge of the activities of SAMIH with respect to transactions with Iran, and we have not participated in the preparation of the SAMIH Disclosure. We have not independently verified the SAMIH Disclosure, are not representing to the accuracy or completeness of the SAMIH Disclosure and undertake no obligation to correct or update the SAMIH Disclosure.

Item 6. Exhibits

The information required by this Item 6 is set forth in the Index to Exhibits accompanying this quarterly report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kosmos Energy Ltd.
(Registrant)

Date May 9, 2016

/s/ THOMAS P. CHAMBERS

Thomas P. Chambers
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

INDEX OF EXHIBITS

Exhibit Number	Description of Document
10.1*	Production Sharing Contract relating to Block 5 Offshore Sao Tome between the Democratic Republic of Sao Tome and Principe and Equator Exploration STP Block 5 Limited dated April 18, 2012
10.2*	Amendment No. 1, dated November 24, 2014, to the Production Sharing Contract relating to Block 5 Offshore Sao Tome between the Democratic Republic of Sao Tome and Principe and Equator Exploration STP Block 5 Limited dated April 18, 2012
10.3*	Amendment No. 2, dated September 15, 2015, to the Production Sharing Contract relating to Block 5 Offshore Sao Tome between the Democratic Republic of Sao Tome and Principe and Equator Exploration STP Block 5 Limited dated April 18, 2012
10.4*	Deed of Assignment relating to Block 5 Offshore Sao Tome between the Democratic Republic of Sao Tome and Principe, Equator Exploration STP Block 5 Limited and Kosmos Energy Sao Tome and Principe dated February 19, 2016
10.5*	Amendment No. 3, dated February 19, 2016, to the Production Sharing Contract relating to Block 5 Offshore Sao Tome between the Democratic Republic of Sao Tome and Principe, Equator Exploration STP Block 5 Limited and Kosmos Energy Sao Tome and Principe dated April 18, 2012
10.6*	Production Sharing Contract relating to Block 6 Offshore Sao Tome between the Democratic Republic of Sao Tome and Principe and Galp Energia São Tomé e Príncipe, Unipessoal, LDA dated October 26, 2015
10.7*	Addendum, dated November 9, 2015, to the Production Sharing Contract relating to Block 6 Offshore Sao Tome between the Democratic Republic of Sao Tome and Principe and Galp Energia São Tomé e Príncipe, Unipessoal, LDA dated October 26, 2015
10.8*	Deed of Assignment relating to Block 6 Offshore Sao Tome between the Democratic Republic of Sao Tome and Principe, Galp Energia São Tomé e Príncipe, Unipessoal, LDA and Kosmos Energy Sao Tome and Principe dated November 9, 2015
10.9*	Production Sharing Contract relating to Block 11 Offshore Sao Tome between the Democratic Republic of Sao Tome and Principe and ERHC Energy EEZ, LDA dated July 23, 2014
10.10*	Deed of Assignment relating to Block 11 Offshore Sao Tome between EHRC Energy EEZ, LDA and Kosmos Energy Sao Tome and Principe dated October 16, 2015
10.11*	First Addendum, dated December 17, 2015, to the Production Sharing Contract relating to Block 11 Offshore Sao Tome between the Democratic Republic of Sao Tome and Kosmos Energy Sao Tome and Principe dated July 23, 2014
10.12*	Production Sharing Contract relating to Block 12 Offshore Sao Tome between the Democratic Republic of Sao Tome and Principe and Equator Exploration STP Block 12 Limited dated February 19, 2016

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10.13*	Deed of Assignment relating to Block 12 Offshore Sao Tome between the Democratic Republic of Sao Tome and Principe, Equator Exploration STP Block 12 Limited and Kosmos Energy Sao Tome and Principe dated March 31, 2016
10.14*	First Amendment, dated March 31, 2016, to the Production Sharing Contract between the Democratic Republic of Sao Tome and Principe, Equator Exploration STP Block 12 Limited and Kosmos Energy Sao Tome and Principe dated February 19, 2016
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.

** Furnished herewith.

PRODUCTION SHARING CONTRACT

BETWEEN

THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE

REPRESENTED BY THE

AGENCIA NACIONAL DO PETROLEO DE SAO TOME E PRINCIPE

AND

EQUATOR EXPLORATION STP BLOCK 5 LIMITED

FOR

BLOCK "5"

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THIS PRODUCTION SHARING CONTRACT, is made and entered into on this 18th day of April 2012 by and between:

- (1) **THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE** represented by the **Agencia Nacional do Petroleo de Sao Tome e Principe**; and
- (2) **EQUATOR EXPLORATION STP BLOCK S LIMITED**, a company organized and existing under the laws of the British Virgin Islands with registration number 1000133 whose registered office is at Craigmuir Chambers, Road Town, Tortola British Virgin Islands with a branch registered in Sao Tome & Principe with the *Guiche Unico* under no. 343/012 and is located at Avenida da Independencia, no. 392, Sao Tome (the "**Contractor**").

BACKGROUND:

- (A) All Petroleum existing within the Territory of Sao Tome and Principe, as set forth in the Petroleum Law, is natural resources exclusively owned by the State.
- (B) The Agencia Nacional do Petr6leo de Sao Tome e Principe, with the approval of the Government of Sao Tome and Principe, has the authority to enter into contracts for the conduct of Petroleum Operations in and throughout the area, the co-ordinates of which are described and outlined on the map in Schedule 1 of this Contract, which area is hereinafter referred to as the Contract Area.
- (C) The State wishes to promote Petroleum Operations in the Contract Area and the Contractor desires to join and assist the State in accelerating the exploration and exploitation of potential petroleum resources within the Contract Area.
- (D) The Contractor has the necessary financial capability, technical knowledge and ability to carry out the Petroleum Operations hereinafter described in accordance with this Contract, the Petroleum Law and Good Oil Field Practice.
- (E) Pursuant to and in accordance with the Petroleum Law, this Contract has been entered into by and between the State and the Contractor for the purpose of Petroleum Operations in the Contract Area.
- (F) Equator Exploration STP Block 5 Limited is hereby designated as the Operator under Clause 28 of this Contract.

IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

- 1.1 Except where the context otherwise requires or as defined in the Petroleum Law or the Petroleum Taxation Law, the following words and expressions shall have the following meanings:

"Accounting Procedure" means the rules and procedures set forth in Schedule 2;

"Affiliate" means, in respect of a Party, a Person that Controls, is Controlled by, or is under the common Control with the Party or any such Person, as the case may be;

"Allocation and Lifting Procedures" means the allocation and lifting procedures set forth in Schedule 3;

"Appraisal Well" means any well whose purpose at the time of commencement of drilling such well is the determination of the extent or volume of Petroleum contained in a Discovery;

"Associate" means any Affiliate, subcontractor or other person associated with an authorized person in the conduct of Petroleum Operations.

"Associated Natural Gas" means all Natural Gas produced from a Reservoir, the predominant content of which is Crude Oil, and which is separated from Crude Oil in accordance with generally accepted international petroleum industry practice, including free gas cap, but excluding any liquid Petroleum extracted from such gas either by normal field separation, dehydration or in a gas plant;

"Available Crude Oil" means the Crude Oil recovered from the Contract Area, less quantities used for Petroleum Operations;

"Barrel" means a quantity or unit of Crude Oil, equal to 158.9874 liters (forty-two (42) United States gallons) at a temperature of fifteen point five six degrees (15.56°) Centigrade (sixty degrees (60°) Fahrenheit) and at one (1) atmosphere of pressure;

"Biddable terms" are those terms that are biddable in the first licensing round including but not limited to: the signature bonuses, Minimum Work Obligations, Minimum Financial Commitment, production bonuses, social projects, employment and training of nationals of the State and State participation.

"Budget" means the cost estimate of items included in an approved Work Program;

"Calendar Year" or **"Year"** means a period of twelve (12) months commencing from January 1 and ending the following December 31, according to the Gregorian calendar;

"Commercial Discovery" means any Discovery, which has been declared to be commercial by the Contractor;

"Contract" means this production sharing contract, including its Recitals and Schedules, as amended from time to time through mutual agreement in writing between the Parties hereto;

"Contract Area" means the geographic area within the Territory of Sao Tome and Principe which is the subject of this Contract and as described in Schedule 1, as such area may be amended in accordance with the terms herein;

"Cost Oil" means the quantum of Available Crude Oil allocated to the Contractor for recovery of Operating Costs after the allocation of Royalty Oil to the State;

"Control" means, in relation to a Person, the power of another Person to secure:

- (a) by means of the holding of shares or the possession of voting power, directly or indirectly, in or in relation to the first Person; or
- (b) by virtue of any power conferred by the articles of association of, or any other document regulating, the first Person or any other Person,

so that the affairs of the first Person are conducted in accordance with the decisions or directions of that other Person;

"Crude Oil" means crude mineral oil and liquid hydrocarbons in their natural state or obtained from Natural Gas by condensation or extraction;

"Decommissioning" means to abandon, decommission, transfer, remove and/or dispose of structures, facilities, installations, equipment and other property and other works used in Petroleum Operations in the Contract Area, to clean the Contract Area and make it good and safe, and to protect the environment, as further set out herein, and in the Petroleum Law and other applicable laws and regulations;

"Delivery Point" means the point located within the jurisdiction of the State at which Petroleum reaches (i) the inlet flange at the FOB export vessel, (ii) the loading facility metering station of a pipeline or (iii) such other point within the jurisdiction of the State as may be agreed between the Parties;

"Development Area" means the extent of an area within the Contract Area capable of Production of Petroleum identified in a Commercial Discovery and agreed upon by the National Petroleum Agency following such Commercial Discovery;

"Discovery" means any geological structure(s), in which after testing, sampling and/or logging an Exploration Well, existence of mobile hydrocarbons has been made probable and which structure(s), the Contractor deems worthy of evaluating further by conducting Appraisal operations;

"Effective Date" has the meaning ascribed to it in Clause 26.1;

"Exploration Period" has the meaning ascribed to in Clause 4.1;

"Exploration Well" means a well on any geological structure(s), whose purpose at the time of commencement of such well is to explore for an accumulation of Petroleum whose existence at the time was unproven by drilling;

"Field Development Program" means the program of activities presented by the Contractor to the National Petroleum Agency for approval outlining the plans for the Development of a Commercial Discovery. Such activities include:

- (a) Reservoir, geological and geophysical studies and surveys;
- (b) Drilling of production and injection wells; and
- (c) Design, construction, installation, connection and initial testing of equipment, pipelines, systems, facilities, plants and related activities necessary to produce and operate said wells, to take, save, treat, handle, store, transport and deliver Petroleum, and to undertake re-pressurizing, recycling and other secondary or tertiary recovery projects;

"Force Majeure" has the meaning ascribed to it in Clause 21;

"Government" means the government of Sao Tome and Principe, as provided for in article 109 of the Constitution;

"LIBOR" means the interest rate at which United States dollar deposits of six (6) months duration are offered in the London Inter Bank Offered Rate, as published in the Financial Times of London. The applicable LIBOR rate for each month or part thereof within an applicable interest period shall be the interest rate published in the Financial Times of London on the last business day of the immediately preceding calendar month. If no such rate is quoted in the Financial Times of London during a

period of five (5) consecutive business days, another rate (for example, the rate quoted in the Wall Street Journal) chosen by mutual agreement between the National Petroleum Agency and the Contractor shall apply;

"Minimum Financial Commitment" has the meaning ascribed to it in Clause 7.3(a);

"Minimum Work Obligations" has the meaning ascribed to it in Clause 7.2;

"National Petroleum Account" means the account established in accordance with the Oil Revenue Law;

"National Petroleum Agency" or "Agencia Nacional do Petroleo" means the national regulatory agency established by the Government Decree-Law 5/2004 of the 30th of June, which is responsible for the regulation and supervision of Petroleum Operations or any agency which succeeds the National Petroleum Agency with respect to some or all of its powers;

"Natural Gas" means all gaseous hydrocarbons and inerts, including wet mineral gas, dry mineral gas, gas produced in association with Crude Oil and residue gas remaining after the extraction of liquid hydrocarbons from wet gas, but not including Crude Oil;

"Oil Revenue Law" means the oil revenue law of the State, Law No. 8/2004 of the 30th of December, as amended, supplemented or replaced from time to time;

"Operating Costs" means expenditures incurred and obligations made as determined in accordance with Article 2 of the Accounting Procedure;

"Parties" or "Party" means the parties or a party to this Contract;

"Petroleum" means:

- (a) any naturally occurring hydrocarbon, whether in a gaseous, liquid or solid state;
- (b) any mixture of naturally occurring hydrocarbons, whether in a gaseous, liquid or solid state; or
- (c) any Petroleum (as defined above) that has been returned to a Reservoir;

"Petroleum Law" means the Fundamental Law on Petroleum Operations, Law no. 16/2009, as amended or supplemented from time to time, and regulations made and directions provided under such law;

"Petroleum Operations" means activities undertaken in relation to the Contract Area for the purposes of:

- the Exploration, Appraisal, Development, Production, transportation, sale or export of Petroleum;
- the construction, installation or operation of any structures, facilities or installations for the Development, Production and export of Petroleum, or Decommissioning or removal of any such structure, facility or installation;

"Petroleum Taxation Law" means the Petroleum Taxation Law, Law no. 15/2009, as amended, supplemented or replaced from time to time;

"Proceeds" means the amount in United States dollars determined by multiplying the Realizable Price by the number of Barrels of Available Crude Oil lifted by a Party;

"Production Period" has the meaning ascribed to it in Clause 4.1;

"Profit Oil" means the balance of Available Crude Oil after the allocation of Royalty Oil and Cost Oil;

"Quarter" means a period of three (3) consecutive Months starting with the first day of January, April, July or October of each Year;

"Realizable Price" means the price in United States dollars per Barrel determined in accordance with Clause 11;

"Relinquished Area" means that portion of the Contract Area that is relinquished pursuant to and in accordance with Clauses 5.1(d) and/or 6;

"Reservoir" means a porous and permeable underground formation containing an individual and separate natural accumulation of producible Petroleum that is confined by impermeable rock and/or water barriers and is characterized by a single natural pressure system;

"Retained Area" means that portion of the Contract Area that is retained after a relinquishment under Clauses 5.1(d) and/or 6;

"Royalty" or **"Royalty Oil"** means the quantum of Available Crude Oil allocated to the State, based on a percentage calculated as a function of daily production rates as set forth in Clause 10.1(a);

"State" means the Democratic Republic of Sao Tome and Principe;

"Tax" means the tax payable pursuant to the Petroleum Taxation Law;

"Unassociated Natural Gas" means all gaseous Petroleum produced from Natural Gas Reservoirs, and includes wet gas, dry gas and residual gas remaining after the extraction of liquid Petroleum from wet gas; and

"Work Program" means the work commitments itemizing the Petroleum Operations to be carried out in relation to the Contract Area for the required period as defined in Clause 7.

- 1.2 Unless the context otherwise requires, reference to the singular shall include the plural and vice versa and reference to any gender shall include all genders.
- 1.3 The Schedules form an integral part of this Contract.
- 1.4 The table of contents and headings in this Contract are inserted for convenience only and shall not affect the meaning or construction of this Contract.
- 1.5 References in this Contract to the words "include", "including" and "other" shall be construed without limitation.
- 1.6 In the event of any inconsistency between the main body of this Contract and any Schedule, the provisions of the former shall prevail.

2. BONUSES AND SOCIAL PROJECTS

2.1 Signature Bonuses

a) Signature Bonus

The Contractor shall pay to the State by deposit into the National Petroleum Account a signature bonus in the amount of Two Million United States dollars (U.S \$2,000,000) in immediately available funds within ten (10) days after the execution of this Contract and delivery to the Contractor of an instrument of ratification of the Contract executed by the Prime-Minister on behalf of the Government according to Clause 26.1.

b) Commercial Discovery Bonus

Upon Commercial Discovery the Contractor shall pay to the State by deposit into the National Petroleum Account Six Million United States dollars (U.S \$6,000,000).

c) Additional Signature Bonus

An additional signature bonus based on cumulative production obtained in this block shall be payable to the State by deposit into the National Petroleum Account within thirty (30) days of achieving the relevant production level as follows:

Cumulative Production (MBO)	Bonus (US\$ million)
50	3
100	3
150	3
250	5
350	5
450	10
500	10
750	15
1000	15

2.2 Production Bonuses

The Contractor shall pay to the State by deposit into the National Petroleum Account production bonuses based on attainment of cumulative Production of Petroleum from each Development Area as follows:

Cumulative Production (millions of Barrels or Barrels equivalent)	Bonus (US\$ million)
200	10
350	10
450	15
600	15
800	15

2 . 3 The production bonuses provided for in Clause 2.2 shall be payable to the State by deposit into the National Petroleum Account within thirty (30) days of such Production level being first attained in immediately available funds.

2 . 4 The signature and production bonuses provided for in this Clause 2 shall not be recoverable as Cost Oil or deductible for Tax purposes.

2.5 Social Projects

The Contractor commits to undertake social projects during each phase of the Exploration Period valued at a minimum of the amounts below:

- Phase I: Four Hundred Thousand United States dollars per year (U.S \$400,000) for a total of One Million Six Hundred Thousand United States dollars (U.S \$1,600,000);
- Phase II: Three Hundred and Fifty Thousand United States dollars per year (U.S \$350,000) for a total of Seven Hundred Thousand United States dollars (U.S \$700,000);
- Phase III: Three Hundred and Fifty Thousand United States dollars per year (U.S \$350,000) for a total of Seven Hundred Thousand United States dollars (U.S \$700,000).

If Petroleum is produced from the Contract Area, the Contractor shall undertake additional social projects according to the following schedule:

Cumulative Production (millions of Barrels or Barrels equivalent)	Value (US \$ million) of Project
40	2
70	3
100	5

2 . 6 The details of the social projects to be undertaken by the Contractor in accordance with Clause 2.5 shall be determined by agreement between the Contractor and the National Petroleum Agency. Failing such agreement, the Contractor and the National Petroleum Agency shall each submit a proposal to an expert appointed by the World Bank and such expert shall determine which of the two (2) proposals shall be implemented. The Contractor shall be solely responsible for any and all costs and expenses associated with the foregoing expert determination. The value of the projects

provided for in Clause 2.5 above shall not be recoverable as Cost Oil or deductible for Tax purposes.

- 2.7 The Contractor shall be responsible for the implementation of all agreed or chosen social projects, which shall be undertaken using all reasonable skill and care.

3. SCOPE

- 3.1 This Contract is a production sharing contract awarded pursuant to the Petroleum Law and governed in accordance with the terms and provisions hereof. The conduct of Petroleum Operations and provision of financial and technical requirements by the Contractor under this Contract shall be with the prior approval of or in prior consultation with the National Petroleum Agency as required under this Contract or the Petroleum Law. The State hereby appoints and constitutes the Contractor as the exclusive company (ies) to conduct Petroleum Operations in the Contract Area.
- 3.2 During the term of this Contract, the total Available Crude Oil shall be allocated to the Parties in accordance with the provisions of Clause 10, the Accounting Procedure and the Allocation and Lifting Procedures.
- 3.3 The Contractor, together with its Affiliates, shall provide all funds and bear all risk of Operating Costs and the sole risk in carrying out Petroleum Operations.
- 3.4 The Contractor shall engage in Petroleum Operations solely in accordance with the Petroleum Law, the Petroleum Taxation Law, Good Oil Field Practice and all other applicable laws and regulations.

4. TERM

- 4.1 Subject to Clause 20, the term of this Contract shall be for a period of twenty-eight (28) years from the Effective Date, with an eight (8) year Exploration and Appraisal period, as extended pursuant to Clauses 5.1(b) and/or (c) (the "**Exploration Period**") and a twenty (20) year Production period (the "**Production Period**").
- 4.2 The Exploration Period shall be divided as follows:
- Phase I: four (4) years from the Effective Date;
- Phase II: from the end of Phase I until two (2) years after the end of Phase I; and
- Phase III: from the end of Phase II until two (2) years after the end of Phase II, as extended pursuant to Clauses 5.1 (b) and/or (c).
- 4.3 The Contractor shall commence Petroleum Operations no later than thirty (30) days after the National Petroleum Agency has approved the first Work Program.
- 4.4 Provided the Contractor has fulfilled all of its obligations relative to the current phase of the Exploration Period as described in Clause 7.2, the Contractor may enter the next phase. The Contractor shall provide the National Petroleum Agency with written notice of its intention to enter the next phase of the Exploration Period at least sixty

(60) days prior to the end of the relevant phase. The report shall document that the work commitments for the phase are fulfilled. The Ministry may upon application, grant an exemption from the work obligation.

- 4.5 Provided the Contractor has fulfilled all of its obligations relative to the current phase of the Exploration Period as described in Clause 7.2, the Contractor may terminate this Contract at the end of any phase during the Exploration Period in accordance with Clause 20.7.
- 4.6 The Contractor shall have the right to produce Petroleum from each Development Area for a period of twenty (20) years from the date the Contractor declares a Commercial Discovery in the relevant area in accordance with Clause 5.1(b). This Contract will terminate with respect to the relevant Development Area at the end of such twenty (20) year period unless the National Petroleum Agency grants an extension on application of the Contractor. The Contractor may, for any Development Area, be granted one (1) or more five (5) year extension periods for a Development Area until all Petroleum has been economically depleted. In connection with any such extensions, the Parties agree to engage in good faith to re-negotiate the commercial terms of this Contract governing the applicable Development Area at least five (5) years prior to the expiration of the initial twenty (20) year period and at least two (2) years prior to the expiration of any subsequent extension period.

5. COMMERCIAL DISCOVERY AND DECLARATION OF COMMERCIALITY

- 5.1 The sequence of Petroleum Operations to establish a Commercial Discovery of Petroleum (other than Unassociated Natural Gas) shall be as follows:
- (a) the Contractor shall have a period of up to forty-five (45) days from the date on which the drilling of the applicable Exploration Well terminates to declare whether the Exploration Well has proven a Discovery;
 - (b) the Contractor shall then have a period of two (2) years (unless otherwise agreed by the National Petroleum Agency) from declaration of a Discovery to declare the Discovery either on its own or in aggregation with other Discoveries a Commercial Discovery;
 - (c) if the Contractor declares a Commercial Discovery it shall have a period of two (2) years (unless otherwise agreed by the National Petroleum Agency) from the time the Contractor declares a Discovery or aggregation of Discoveries to be a Commercial Discovery to submit a Field Development Program to the National Petroleum Agency for approval;
 - (d) in the event a Discovery is not determined to be a Commercial Discovery, upon expiration of the period set out in Clause 5.1 (b), the State may, provided it gives at least eighteen (18) months' notice, require the Contractor to promptly relinquish, without any compensation or indemnification whatsoever, the area encompassing the Discovery, including all of its rights to Petroleum which may be produced from such Discovery.

- (e) If a Field Development Program is approved by the National Petroleum Agency, the Contractor shall initiate field development and production according to the time schedule outlined in the Program.

5.2 Unassociated Natural Gas shall be developed in accordance with Clause 23.4.

6. RELINQUISHMENT OF AREAS

6.1 The Contractor must relinquish the Contract Area, or part thereof, in accordance with the following:

- (a) twenty-five percent (25%) of the initial surface area of the Contract Area shall be relinquished at the end of phase 1 of the Exploration Period;
- (b) a further twenty-five percent (25%) of the initial surface area of the Contract Area shall be relinquished at the end of phase 2 of the Exploration Period; and
- (c) the remainder of the Contract Area shall be relinquished at the end of phase 3 of the Exploration Period less:
 - (i) any Development Area;
 - (ii) areas for which the approval of a Field Development Program is pending, until finally decided; and
 - (iii) any area reserved for a possible Unassociated Natural Gas Appraisal in relation to which the Contractor is engaged in discussions with the State in accordance with Clause 23.4.

6.2 Any Retained Area and Relinquished Area shall be single continuous units and delimited by meridians and parallels of latitude expressed in whole minutes of a degree to be approved by the National Petroleum Agency.

6.3 Any Relinquished Area shall revert to the State.

6.4 Subject to the Contractor's obligations under Clause 7 and its Decommissioning obligations, the Contractor may, at any time, notify the National Petroleum Agency upon three (3) months prior written notice that it relinquishes its rights over all or part of the Contract Area. In no event shall any voluntary relinquishment by the Contractor over all of any part of the Contract Area reduce the Minimum Work Obligations or Minimum Financial Commitment set out in Clause 7.

7. MINIMUM WORK PROGRAM AND BUDGET

7.1 Within two (2) months after the Effective Date and thereafter at least three (3) months prior to the beginning of each Calendar Year, the Contractor shall prepare and submit for the approval of the National Petroleum Agency, a Work Program and Budget for the Contract Area setting forth the Petroleum Operations which the Contractor proposes to carry out during the ensuing Year, or in case of the first Work Program and Budget, during the remainder of the current Year.

7 . 2 The minimum Work Program for each phase of the Exploration Period is as follows (the "**Minimum Work Obligations**"):

Phase I: The Contractor shall:

- reprocess all existing two dimensional seismic data (20) within the block;
- carry out Geological & Geophysical studies (AVO, Geochemical studies, sequence stratigraphy);
- carry out environmental studies;
- acquire, process and interpret a minimum of two thousand five hundred line kilometres of two dimensional seismic data (2500 km of 20) within two (2) years after the Effective Date;
- acquire magnetic and gravity surveys covering the full block;
- acquire, process and interpret a minimum of one thousand square kilometres of three dimensional seismic data (1000 km² of 30) within three (3) years after the Effective Date;
- hand over full documentation of the interpretation and an extensive evaluation report covering all relevant stratigraphic levels in the full block, based on all existing two dimensional seismic data (20) and newly acquired two dimensional seismic data (20) and three dimensional seismic data (30) to the National Petroleum Agency no later than six (6) months before the expiry of phase I;

Phase II: If the Contractor elects to enter phase II, then during such phase II of the Exploration period the Contractor shall:

- carry out environmental studies;
- drill one (1) Exploration Well to a minimum T/D of 5500 meters TVD subsea on the Contract area; and
- carry out technical and economical evaluation studies of discoveries and remaining prospectivity;

Phase III: If the Contractor elects to enter phase III of the Exploration Period, then during such phase III the Contractor shall:

- carry out environmental studies;
- drill one (1) Exploration Well or Appraisal Well;
- drill one (1) optional Exploration Well or Appraisal Well;
- carry out technical and economical evaluation studies of discoveries and remaining prospectivity. In case of a Commercial Discovery, submit a declaration of a Commercial Discovery and submit a Field Development Program.

7.3 **Minimum Financial Commitments**

- (a) The Contractor shall be obligated to incur the following minimum financial commitment (the "**Minimum Financial Commitment**"):

Phase I: Five Million Two Hundred Thousand United States Dollars (U.S \$5,200,000)

Phase II: Twenty Four Million Five Hundred Thousand United States Dollars (U.S \$24,500,000)

Phase III: Twenty Four Million Five Hundred Thousand United States Dollars (U.S \$24,500,000)

(b) If the Contractor fulfills the Minimum Work Obligations set forth in Clause 7.2 for each phase of the Exploration Period, then the Contractor shall be deemed to have satisfied the Minimum Financial Commitments for each such phase.

(c) If the Contractor fails to complete the Minimum Work Obligations for any phase of the Exploration Period and such commitment has not been moved to the next phase, if any, with the consent of the National Petroleum Agency, then the Contractor shall pay to the State by deposit into the National Petroleum Account (i) the difference between the Minimum Financial Commitment for the then current phase and the amount actually expended in Petroleum Operations for such phase and (ii) eight percent (8%) of the Minimum Financial Commitment for the subsequent phase that is not initiated, as liquidated damages in full and final settlement of all potential claims for breach of this Contract and, subject to Clause 20, this Contract shall automatically terminate.

7.4 The Contractor shall be excused from any delay or failure to comply with the terms and conditions of Clauses 7.2 and/or 7.3:

(a) during any period of Force Majeure; or

(b) if the National Petroleum Agency has denied the Contractor permission to drill.

7.5 The time for performing any incomplete Minimum Work Obligations for any phase of the Exploration Period and the term of this Contract shall be extended by the following periods in the circumstances set out in Clause 7.4:

(a) with respect to Clause 7.4(a), for the period during which Force Majeure is in existence; and

(b) with respect to Clause 7.4(b), for six (6) months to permit the Contractor time to make a revised drilling plan which is satisfactory to the National Petroleum Agency.

7.6 If any circumstance described in Clauses 7.4 and 7.5 is not resolved within the time periods specified above, then after consultation with National Petroleum Agency, the Contractor shall be liable to pay into the National Petroleum Account an amount corresponding to the unfulfilled work for that phase and, subject to Clause 20, this Contract shall automatically terminate.

- 7.7 Any unfulfilled Minimum Work Obligation in any phase of the Exploration Period may, with the written consent of the National Petroleum Agency, be added to the Minimum Work Obligation for the next succeeding phase.
- 7.8 Work by the Contractor over and above the Minimum Work Obligations for any phase shall be credited against and reduce the Minimum Work Obligation for the next succeeding phase.
- 7.9 For the purposes of determining whether an Exploration Well or an Appraisal Well has been drilled in accordance with the Minimum Work Obligation, such a well shall be deemed drilled if the minimum total depth has been reached or if any one of the following events occurs prior to reaching the minimum total depth:
- (a) a Discovery is made and further drilling may cause irreparable damage to such Discovery;
 - (b) basement is encountered;
 - (c) the National Petroleum Agency and the Contractor agree the well is drilled for the purpose of fulfilling the obligation to complete the Minimum Work Obligation; or
 - (d) technical difficulties are encountered which, in the judgment of the Contractor and in accordance with reasonable and prudent international oilfield practice, makes further drilling impracticable, uneconomic, unsafe or a danger to the environment.
- 7.10 The Exploration Period provided in Clause 7.2, may be extended for an additional six (6) months to conclude the drilling and testing of any well for which operations have been commenced by the end of phase III of such period (as extended); provided that if no Commercial Discovery has been declared by the Contractor during the Exploration Period, as may be extended, this Contract shall automatically terminate.
- 7.11 **Performance Bond**
- (a) Within thirty (30) days from the Effective Date, the Contractor shall submit a performance bond in a form approved by the National Petroleum Agency and from a reputable international financial institution approved by the National Petroleum Agency to cover the Minimum Financial Commitment for phase I of the Exploration Period.
 - (b) Should the Contractor satisfy in full the conditions for continuing Petroleum Operations at the end of phase I of the Exploration Period pursuant to Clause 7.2, a replacement performance bond in the same form and from the same international financial institution, unless otherwise agreed by the National Petroleum Agency, shall be submitted within thirty (30) days from the date of the extension to cover the Minimum Financial Commitment for phase II of the Exploration Period.

- (c) Should the Contractor satisfy in full the conditions for continuing Petroleum Operations at the end of phase II of the Exploration Period, pursuant to Clause 7.2, a replacement performance bond in the same form and from the same international financial institution, unless otherwise agreed by the National Petroleum Agency, shall be submitted within thirty (30) days from the date of the extension to cover the Minimum Financial Commitment for phase III of the Exploration Period.

7.12 The amount of the performance bond shall be reduced annually by deducting the verified expenditures the Contractor has incurred in the previous year of each phase and shall terminate at the end of each phase if the Minimum Work Obligations or Minimum Financial Commitment for that phase has been satisfied in full.

7.13 **Guarantee**

Within thirty (30) days from date of execution of this Contract, the Contractor shall submit a guarantee from a parent company approved by the National Petroleum Agency in the form of Schedule 6 which shall be valid for up to four (4) years after the termination of this Contract.

8. STATE PARTICIPATION

8.1 The State, either through the National Petroleum Agency or any other state entity designated by the State, shall have, as of the Effective Date, a carried fifteen percent (15%) of the Contractor's rights and interest under this Contract. The Contractor shall fund, bear and pay all costs, expenses and amounts due in respect of Petroleum Operations conducted pursuant to this Contract.

8.2 The entity designated by the State shall become a party to the Joint Operating Agreement in respect of its carried interest referred to in Clause 8.1.

8.3 Upon the commencement of commercial Production, the Contractor shall be entitled to receive one hundred percent (100%) of Cost Oil in order to recover all costs, expenses and amounts paid in respect of Petroleum Operations pursuant to Clause 8.1 and incurred on behalf of the National Petroleum Agency or other entity designed by the State.

8.4 For the avoidance of doubt, as regarding the rights referred to in clause 8.1, the National Petroleum Agency, or other entity designated by the State, shall be entitled to receive fifteen percent (15%) of the Contractor's entitlement to Profit Oil as provided for in Clause 10.1(d).

8.5 The National Petroleum Agency, or other state entity designated by the State, shall be entitled at any time, upon advance written notice to the Contractor, to convert its carried interest into a full working participating interest, whereupon the National Petroleum Agency, or other entity designated by the State, shall be entitled to fifteen percent (15%) of all Available Crude Oil to which the Contractor is entitled under the terms of this Contract. Upon such conversion of the carried interest, the State and the Contractor shall agree a schedule for the State to reimburse any costs, expenses and

any amount incurred by the Contractor on behalf of the National Petroleum Agency or any other entity designated by the State.

9. RIGHTS AND OBLIGATIONS OF THE PARTIES

9.1 In accordance with this Contract, the National Petroleum Agency shall:

- (a) pursuant to Clause 14, jointly work with the Contractor's professional staff in the fulfillment of Petroleum Operations under this Contract;
- (b) assist and expedite the Contractor's execution of Petroleum Operations and Work Programs including assistance in supplying or otherwise making available all necessary visas, work permits, rights of way and easements as may be reasonably requested by the Contractor. All expenses incurred by the National Petroleum Agency, at the Contractor's request in providing such assistance, shall be reimbursed to the National Petroleum Agency by the Contractor in accordance with Clause 12. Such reimbursement shall be made against presentation of invoices and shall be in United States dollars. The Contractor shall include such reimbursements in the Operating Costs;
- (c) have the right to recover from the Contractor all costs which are reasonably incurred for purposes of Petroleum Operations and have been previously agreed with the Contractor;
- (d) have legal title to and shall keep the originals of all data and information resulting from Petroleum Operations including geological, geophysical, engineering, well logs, completion, production, operations, status reports and any other data and information that the Contractor may compile during the term of this Contract; provided, however, that the Contractor shall be entitled to keep copies and use such data and information during the term of this Contract; and
- (e) not exercise all or any of its rights or authority over the Contract Area in derogation of the rights of the Contractor otherwise than in accordance with the Petroleum Law.

9.2 In accordance with this Contract, the Contractor shall:

- (a) promptly pay to the State by deposit into the National Petroleum Account all fees, bonuses, and other amounts due to the State under the terms of this Contract;
- (b) provide all necessary funds for the payment of Operating Costs including funds required to provide all materials, equipment, facilities, supplies and technical requirements (including personnel) whether purchased or leased;
- (c) provide such other funds for the performance of Work Programs including payments to third parties who perform services to the Contractor in the conduct of Petroleum Operations;

- (d) prepare Work Programs and Budgets and carry out approved Work Programs in accordance with Good Oil Field Practice with the objective of avoiding waste and obtaining maximum ultimate recovery of Petroleum at a minimum cost;
- (e) exercise all the rights, comply with all the obligations under the Petroleum Law and any other applicable laws and pay the following fees to the State by deposit into the National Petroleum Account (all expressed in United States dollars):

On application for the Production Period:	\$500,000
To assign or otherwise transfer any interest during Exploration Period:	\$100,000
To assign or otherwise transfer any interest during Production Period:	\$300,000
On application to terminate this Contract:	\$100,000
On application for the Contractor to commence drilling:	\$25,000

- (f) ensure that all leased equipment brought into the Territory of Sao Tome and Principe for the conduct of Petroleum Operations is treated in accordance with the terms of the applicable leases;
- (g) with its Associates have the right of ingress to and egress from the Contract Area and to and from facilities therein located at all times during the term of this Contract;
- (h) promptly submit to the National Petroleum Agency for permanent custody the originals of all geological, geophysical, drilling, well production, operating and other data, information and reports as it or its Associates may compile during the term of this Contract;
- (i) prepare estimated and final tax returns and submit the same to the relevant tax authority on a timely basis in accordance with the Petroleum Taxation Law;
- (j) have the right to lift in accordance with lifting and allocation procedures to be agreed by the Parties within six (6) months prior to the commencement of Production, in accordance with the principles set forth in Schedule 3, and to freely export and retain abroad the receipts from the sale of Available Crude Oil allocated to it under this Contract;
- (k) prepare and carry out plans and programs of the State for industry training and education of nationals of Sao Tome and Principe for all job classifications with respect to Petroleum Operations pursuant to and in accordance with the Petroleum Law;
- (l) employ only such qualified personnel as is required to conduct Petroleum Operations, in accordance with Good Oil Field Practice and in a prudent and

cost effective manner, giving preference to qualified nationals of Sao Tome and Principe;

- (m) give preference to such goods, material and equipment which are available in Sao Tome and Principe or services that can be rendered by nationals of Sao Tome and Principe in accordance with the Petroleum Law and this Contract;
- (n) with its Associates shall, as the case may be, pay all charges and fees as are imposed by law in Sao Tome and Principe. The Contractor and its Associates shall not be treated differently from any other Persons engaged in similar petroleum operations in the Territory of Sao Tome and Principe;
- (o) indemnify and hold the State, including the National Petroleum Agency, harmless against all losses, damages, injuries, expenses, actions of whatever kind and nature including all legal fees and expenses suffered by the State or the National Petroleum Agency where such loss, damage, injury, expense or action is caused by the negligence or willful misconduct of the Contractor, its Affiliates, its sub-contractors or any other Person acting on its or their behalf or any of their respective directors, officers, employees, agents or consultants;
- (p) not exercise all or any rights or authority over the Contract Area in derogation of the rights of the State or in breach of the Petroleum Law; and
- (q) in the event of any emergency requiring immediate operational action, take all actions it deems proper or advisable to protect the interests of the Parties and any other affected Persons and any costs so incurred shall be included in the Operating Costs. Prompt notification of any such action taken by the Contractor and the estimated cost shall be given to the National Petroleum Agency within forty-eight (48) hours of becoming aware of the event.

10. RECOVERY OF OPERATING COSTS AND SHARING OF PETROLEUM PRODUCTION

10.1 The allocation of Available Crude Oil shall be calculated on a Contract Area basis for Royalty Oil, Cost Oil and Profit Oil. This allocation of Available Crude Oil shall be in accordance with the Accounting Procedure, the Allocation and Lifting Procedure and this Clause 10 as follows:

- (a) Royalty Oil shall be allocated to the State from the first day of Production, based on the daily total of Available Crude Oil from a Contract Area, set at a rate of two percent (2%);
- (b) Cost Oil shall be allocated to the Contractor in such quantum as will generate an amount of Proceeds sufficient for recovery of Operating Costs in each Contract Area. All costs will be recovered in United States dollars through Cost Oil allocation;
- (c) Cost Oil shall be not more than eighty percent (80%) of Available Crude Oil in each Contract Area less deduction of Royalty Oil in any accounting period;

- (d) Profit Oil, being the balance of Available Crude Oil after deducting Royalty Oil and Cost Oil, shall be allocated to each Party based on the pre-tax, nominal rate of return calculated on a quarterly basis for the Contract Area in accordance with the following sliding scale:

Contractor's Rate of Return for Contract Area (%per annum)	Government Share of Profit Oil	Contractor Share of Profit Oil
<16%	0%	100%
>=16 %< 19%	10%	90%
>=19 %< 23%	20%	80%
>=23 %< 26%	40%	60%
>=26%	50%	50%

10.2 Beginning at the date of Commercial Discovery, Contractor's rate of return shall be determined at the end of each Quarter on the basis of the accumulated compounded net cash flow for each Contract Area, using the following procedure:

- (a) The Contractor's net cash flow for a Contract Area for each Quarter is:
- (i) The sum of the Contractor's Cost Oil and share of Contract Area Profit Oil regarding the Petroleum actually lifted in that Quarter at the Realizable Price;
 - (ii) Minus Operating Costs;
- (b) For this computation, neither any expenditure incurred prior to the date of Commercial Discovery for a Contract Area nor any Exploration Expenditure shall be included in the computation of the Contractor's net cash flow.
- (c) The Contractor's net cash flows for each Quarter are compounded and accumulated for a Contract Area from the date of the Commercial Discovery according to the following formula:

$$\text{ACNCF (Current Quarter)} = (100\% + \text{DQ}) \times \text{ACNCF (Previous Quarter)} + \text{NCF (Current Quarter)} 100\%$$

where:

ACNCF = accumulated compounded net cash flow
 NCF = net cash flow
 DQ = quarterly compound rate (in percent)

The formula will be calculated using quarterly compound rates (in percent) of 3.78%, 4.45%, 5.31%, and 5.95%, which correspond to annual compound rates ("DA") of 16%, 19%, 23%, and 26%, respectively.

- (d) The Contractor's rate of return in any given Quarter for a Contract Area shall be deemed to be between the largest DA which yields a positive or zero ACNCF and the smallest DA which causes the ACNCF to be negative.

- (e) The sharing of Profit Oil from a Contract Area between the State and the Contractor in a given Quarter shall be in accordance with the scale in paragraph (a) above using the Contractor's deemed rate of return as per paragraph (c) in the immediately preceding Quarter.
 - (f) In a given Contract Area, it is possible for the Contractor's deemed rate of return to decline as a result of negative cash flow in a Quarter with the consequence that Contractor's share of Profit Oil from that Contract Area would increase in the subsequent Quarter.
 - (g) Pending finalization of accounts, Profit Oil from the Contract Area shall be shared on the basis of provisional estimates, if necessary, of a deemed rate of return as approved by the National Petroleum Agency. Adjustments shall be effected with the procedure subsequently to be adopted by the National Petroleum Agency.
- 10.3 The quantum of Available Crude Oil to be allocated to each Party under this Contract shall be determined at the Delivery Point.
- 10.4 Each Party shall lift and dispose of its allocation of Available Crude Oil in accordance with the Allocation and Lifting Procedures as provided in Schedule 3. In the event of any reconciliation, the records of the National Petroleum Agency shall be the official, final and binding records.
- 10.5 Allocation of Royalty Oil and Profit Oil shall be in the form of delivery of Production of Petroleum to the National Petroleum Agency and the National Petroleum Agency or other appropriate authority shall issue receipts for such delivery within thirty (30) days of lifting such Royalty Oil and Profit Oil. These receipts are issued by the National Petroleum Agency or other appropriate authority on behalf of the Government of Sao Tome and Principe.
- 10.6 Any Party may, at the request of any other Party, lift such other Party's Available Crude Oil, pursuant to Clause 10.3, and the lifting Party, within thirty (30) days, shall transfer to the account of the non-lifting Party the Proceeds of the sale to which the non-lifting Party is entitled. Overdue payments shall bear interest at the rate of LIBOR plus two percent (2%).
- 10.7 The State may sell to the Contractor all or any portion of its allocation of Available Crude Oil from the Contract Area under mutually agreed terms and conditions at the Realizable Price.
- 10.8 The Parties shall meet as and when agreed in the Allocation and Lifting Procedures to reconcile all Petroleum produced, allocated and lifted during the period in accordance with the Allocation and Lifting Procedures set forth in Schedule 3.
- 10.9 Notwithstanding the above, in lieu of lifting the State's Profit Oil and/or Royalty Oil, the State, upon one hundred eighty (180) days advance notice to the Operator, issued by the National Petroleum Agency, may elect to receive the State's allocation of Profit Oil and/or Royalty Oil in cash based on the Realizable Price rather than through lifting, regardless of whether or not the Contractor sells the State's Profit Oil and/or

Royalty Oil to a third party. If the State elects to receive cash in lieu of lifting, the Operator shall lift the State's allocation of Profit Oil and/or Royalty Oil and pay into the National Petroleum Account cash in respect of such lifting within thirty (30) days from the end of the month in which the lifting occurred. Every six (6) months, the State may elect to have an entity designated by the State to resume lifting the State's allocation of Profit Oil and/or Royalty Oil, upon one hundred eighty (180) days notice to the Operator, prior to the date the State elects to have an entity, designated by the State, to resume lifting. In the event the State elects to receive its allocation of Profit Oil and or/Royalty Oil in cash, then the Contractor may charge a marketing fee to be mutually agreed.

11. VALUATION OF CRUDE OIL

- 11.1 The valuation of Crude Oil shall reflect the true market value based on arm's length transactions for the sale of the Crude Oil.
- 11.2 Save as otherwise provided in this Contract, Crude Oil Production shall be valued in accordance with the following procedures:
- (a) On the attainment of commercial production of Crude Oil, each Party shall engage the services of an independent laboratory of good repute to undertake a qualitative and quantitative analysis of such Crude Oil.
 - (b) When a new Crude Oil stream is produced, a trial marketing period shall be designated which shall extend for the first six (6) month period during which such new stream is lifted or for the period of time required for the first ten (10) liftings, whichever is longer. During the trial marketing period the Parties shall:
 - (i) collect samples of the new Crude Oil upon which the qualitative and quantitative analysis shall be performed as provided in Clause 11.2(a);
 - (ii) determine the approximate quality of the new Crude Oil by estimating the yield values from refinery modeling;
 - (iii) market, in accordance with their entitlement to the new Crude Oil and to the extent that one Party lifts the other Party's allocation of Available Crude Oil, and payments therefore, shall be made by the buyers to the Operator who will be responsible for distributing to the other Parties in accordance with their entitlement, Cost Oil and Profit Oil and the Contractor's accounting shall reflect such revenues, in accordance with Clause 10;
 - (iv) provide information to a third party who shall compile the information and maintain all individual Party information confidential, with regard to the marketing of the new Crude Oil, including documents which verify the sales price and terms of each lifting; and
 - (v) apply the actual F.O.B. sales price to determine the value for each lifting which F.O.B. sales price for each lifting shall continue, as the

Realizable Price, after the trial marketing period until the Parties agree to a valuation of the new Crude Oil but in no event longer than ninety (90) days after conclusion of the trial marketing period.

- (c) As soon as practicable but in any event not later than sixty (60) days after the end of the trial marketing period, the Parties shall meet to review the qualitative and quantitative analysis, yield and actual sales data. Each Party may present a proposal for the valuation of the new Crude Oil. A valuation formula for the Realizable Price shall be agreed to by the Parties not later than nine (9) months after the first lifting. It is the intent of the Parties that such prices shall reflect the true market value based on arm's length transactions for the sale of the new Crude Oil. The valuation formula, as determined hereinbefore (including the product yield values), shall be mutually agreed within thirty (30) days of the aforementioned meeting, failing which, it shall be referred to a mutually agreed independent expert who shall have the appropriate international oil and gas experience and who will resolve and settle the matter in a manner as he shall in his absolute discretion think fit and the decision of the expert shall be final and binding on the Parties. If, after a period of thirty (30) days, the Parties are unable to agree on the identity of the expert, such expert shall be appointed by the International Centre for Expertise in accordance with the provisions for the appointment of experts under the Rules for Expertise of the International Chamber of Commerce.
- (d) Upon the conclusion of the trial marketing period, the Parties shall be entitled to lift their allocation of Available Crude Oil pursuant to Clause 10.3 and the Allocation and Lifting Procedures set forth in Schedule 3.
- (e) When a new Crude Oil stream is produced from the Contract Area and is commingled with an existing Crude Oil produced, which has an established Realizable Price basis, then such basis shall be applied to the extent practicable for determining the Realizable Price of the new Crude Oil. The Parties shall meet and mutually agree on any appropriate modifications to such established valuation basis, which may be required to reflect any change in the market value of the Crude Oils as a result of commingling.

- 11.3 If, in the opinion of either the National Petroleum Agency or the Contractor, an agreed price valuation method fails to reflect the market value of Crude Oil produced in the Contract Area, then such Party may propose to the other Party modifications to such valuation method once in every six (6) months but in no event more than twice in any Calendar Year. The Parties shall then meet within thirty (30) days of such proposal and mutually agree on any modifications to such valuation within thirty (30) days from such meeting, failing which, the issue shall be referred to a mutually agreed independent expert who shall have the appropriate international oil and gas experience and who will resolve and settle the matter in a manner as he shall in his absolute discretion think fit and the decision of the expert shall be final and binding on the Parties. If after a period of thirty (30) days, the Parties are unable to agree on the identity of the expert, such expert shall be appointment by the International Centre for Expertise in accordance with the provisions for the appointment of experts under the Rules for Expertise of the International Chamber of Commerce.

11.4 Segregation of Crude Oils of different quality and/or grade shall, by agreement of the Parties, take into consideration, among other things, the operational practicality of segregation and the cost benefit analysis thereof. If the Parties agree on such segregation the following provisions shall apply:

- (a) any and all provisions of this Contract concerning valuation of Crude Oil shall separately apply to each segregated Crude Oil produced; and
- (b) each grade or quality of Crude Oil produced and segregated in a given year shall contribute its proportionate share to the total quantity designated in such year as Royalty Oil, Cost Oil and Profit Oil.

12. PAYMENTS

12.1 The Contractor shall make all payments to the State, for which it is liable under this Contract, in United States dollars or such other currency agreed between the Contractor and the National Petroleum Agency. Payments shall be made into the National Petroleum Account in accordance with the Oil Revenue Law. Where a payment is made in currency other than United States dollars, the exchange rate used to convert the United States dollars liability into that currency shall be the exchange rate published on the date of payment by the Central Bank of Sao Tome and Principe for Dobras and the Financial Times of London for other currencies. Overdue payments shall bear interest at the annual rate of LIBOR plus two percent (2%) from the due date until the date of actual payment.

12.2 The State shall make all payments to the Contractor for which it is liable under this Contract in United States dollars or such other currency agreed between the Contractor and the National Petroleum Agency. Where a payment is made in a currency other than United States dollars, the exchange rate used to convert the United States dollar liability into that currency shall be the exchange rate published on the date of payment by the Central Bank of Sao Tome and Principe for Dobras, and the Financial Times of London for other currencies. Overdue payments shall bear interest at the annual rate of LIBOR plus two percent (2%) from the due date until the date of actual payment.

12.3 Any payments required to be made pursuant to this Contract shall be made within ten (10) days following the end of the month in which the obligation to make such payments is incurred.

13. TITLE TO EQUIPMENT / DECOMMISSIONING

13.1 The Contractor shall finance the cost of purchasing or leasing all materials, equipment and facilities to be used in Petroleum Operations in the Contract Area pursuant to approved Work Programs and Budgets and such materials, equipment and facilities, if purchased, shall become the sole property of the State when the Contractor has recovered the cost of such materials, equipment and facilities (as the case may be) in accordance with this Contract or upon its termination, whichever occurs first, free of all liens and other encumbrances. Except as otherwise provided for in the Petroleum Law, the Contractor and the State, including the National Petroleum Agency, shall have the right to use all materials, equipment and facilities exclusively for Petroleum Operations in the Contract Area during the term of this Contract and any extensions

thereof. Should the State or the National Petroleum Agency desire to use such materials, equipment and facilities outside the Contract Area, such use shall be subject to terms and conditions agreed by the Parties, provided that it is understood that Petroleum Operations in the Contract Area hereunder shall take precedence over such use by the State or the National Petroleum Agency. The Contractor shall only lease materials, equipment and facilities with the approval of the National Petroleum Agency, such approval not to be unreasonably withheld if such lease is in the best interest of the Petroleum Operations.

- 13.2 The Contractor's right to use such purchased materials, equipment and facilities shall cease with the termination or expiration (whichever is earlier) of this Contract, including any extensions hereof.
- 13.3 The provisions of Clause 13.1, with respect to the title of property passing to the State, shall not apply to leased equipment belonging to local or foreign third parties, and such equipment may be freely exported from the Territory of Sao Tome and Principe, in accordance with the terms of the applicable lease.
- 13.4 Subject to Clause 13.2, all fixed assets purchased or otherwise acquired by the Contractor for the purposes of Petroleum Operations hereunder, shall become the property of the State when the Contractor has recovered the cost of such materials, equipment and facilities (as the case may be) in accordance with this Contract or upon its termination, whichever occurs first. Upon termination of this Contract, the Contractor shall hand over possession of such fixed assets to the State in good working order and free of all liens and other encumbrances.
- 13.5 During the term of this Contract, any agreed sales of equipment, land, fixed assets, materials and machinery acquired for the purpose of Petroleum Operations shall be conducted by the Contractor on the basis of the procedure for sale of assets as set forth in Schedule 5, subject to the consent of the National Petroleum Agency.

13.6 **Decommissioning**

The expenditure for Decommissioning will be estimated on the basis of technical studies undertaken by the Contractor, to be agreed by the National Petroleum Agency, as part of each Field Development Program and revised as necessary.

- 13.7 Unless otherwise agreed by the National Petroleum Agency, the procedure for the Contractor providing funds to meet its Decommissioning obligations shall be as follows:
- (a) an amount shall be established on a Contract Area basis, commencing two years after the start of Production Period, on a unit of production basis as follows:

DP = (PVDC - DF) * (P / RP), where:

DP = Decommissioning provision for the period (millions of US dollars)

PVDC = Present Value of Decommissioning costs (millions of US dollars)
DF = Balance of Decommissioning fund at the start of the period (millions of US dollars)
P = Crude Oil production in the period (millions of Barrels)
RP = Estimated remaining Crude Oil (millions of Barrels)

- (b) All Decommissioning provisions shall be held in a Decommissioning reserve fund which shall be an interest bearing escrow account jointly established by the Parties at a first class commercial bank or other financial institution in accordance with the Petroleum Law. The bank or financial institution shall have a long term rating of not less than "AA" by Standard and Poor's Corporation or an "Aa2" rating by Moody's Investor Service or a comparable rating by another mutually agreed rating service.
- (c) For the purposes of calculating the present value of Decommissioning costs, the following formula shall be used:

PVDC = $EDC / (1 + i)^n$, where:
PVDC = present value of Decommissioning costs
EDC = estimated value of Decommissioning costs in nominal terms at the expected date of Decommissioning
i = interest rate applicable to the escrow account in the current period
n = number of Years between current period and expected date of Decommissioning

- 13.8 The Decommissioning reserve fund shall be used solely for the purposes of paying for Decommissioning activities. No Party may mortgage, pledge, encumber or otherwise use such Decommissioning reserve fund for any purpose whatsoever, except as expressly provided herein or in the Petroleum Law. The Decommissioning reserve fund may be invested in investments approved in advance by the Contractor and the National Petroleum Agency.
- 13.9 The Contractor shall annually meet any shortfall between the actual Decommissioning costs and the Decommissioning reserve fund for any Contract Area, with such amount to be deposited into the escrow account within thirty (30) days after the end of each Calendar Year.
- 13.10 Any balance remaining in any Decommissioning fund after all Decommissioning costs in the Contract Area have been met shall be distributed between the National Petroleum Agency and the Contractor in the same proportion as the allocation of Available Crude Oil at the time of Decommissioning operations.
- 13.11 Decommissioning expenditures incurred under these Decommissioning provisions are both cost recoverable as Contract Area non-capital costs under the Accounting Procedure and deductible for Tax purposes under the Petroleum Taxation Law.

14. EMPLOYMENT AND TRAINING OF NATIONALS OF THE STATE

- 14.1 Each Calendar Year the Contractor shall submit a detailed program for recruitment and training for the following Calendar Year in respect of its personnel from Sao Tome and Principe in accordance with the Petroleum Law.
- 14.2 Qualified nationals from Sao Tome and Principe shall be employed in all non specialized positions.
- 14.3 Qualified nationals from Sao Tome and Principe shall also be employed in specialized positions such as those in exploration, drilling, engineering, production, environmental safety, legal and finance. The Contractor shall have the right, subject to applicable laws, rules and regulations, to employ non-nationals of Sao Tome and Principe in such specialized positions where qualified individuals from Sao Tome and Principe are not available, provided that the Contractor shall recruit and train nationals from Sao Tome and Principe for such specialized positions such that the number of expatriate staff shall be kept to a minimum.
- 14.4 Pursuant to Clause 9(k), qualified competent professionals of the National Petroleum Agency shall be assigned to work with the Contractor and such personnel and the Contractor's national personnel from Sao Tome and Principe shall not be treated differently with regard to salaries and other benefits. The Contractor and the National Petroleum Agency shall mutually agree on the numbers of the National Petroleum Agency's staff to be assigned to Petroleum Operations. The costs and expenses of such National Petroleum Agency personnel shall be included in Operating Costs. The Contractor shall not be liable for any damages resulting from the negligence or willful misconduct of any National Petroleum Agency employees or agents assigned to work for the Contractor.
- 14.5 The Parties shall mutually agree on the organizational chart of the Contractor which shall include nationals of Sao Tome and Principe in key positions.
- 14.6 No Sao-Tomean employed shall be disengaged without the prior written approval of the National Petroleum Agency, except in the case of gross misconduct by such employee, in which case only prior notice to the National Petroleum Agency will be required. Gross misconduct for the purposes of this Clause shall mean a specific act of very serious wrongdoing and improper behavior which has been investigated and proved by documentary evidence.
- 14.7 The Contractor shall spend point twenty-five percent (0.25%) of the Operating Costs in each Year of the Exploration Period (subject to a minimum of One Hundred Thousand United States Dollars (U.S \$100,000) and a maximum of Two Hundred and Fifty Thousand United States Dollars (U.S \$250,000) in any Calendar Year on scholarships for the training of nationals of Sao Tome and Principe at institutions to be selected by the National Petroleum Agency. In connection with the review of the annual Work Program and Budgets, the National Petroleum Agency may propose additional budgets for training and the National Petroleum Agency and the Contractor may mutually agree to such proposal.

14.8 The Contractor shall spend Three Hundred and Fifty Thousand United States Dollars (U.S \$350,000) in each Calendar Year during the Production Period on scholarships for the training of nationals of Sao Tome and Principe at institutions to be selected by the National Petroleum Agency. In connection with the review of the annual Work Program and Budgets, the National Petroleum Agency may propose additional budgets for training and the Parties may mutually agree to such proposal.

14.9 Amounts payable under Clauses 14.7 and 14.8 shall be recoverable as Contract Area non-drilling exploration costs under the terms of the Accounting Procedure.

15. BOOKS AND ACCOUNTS, AUDIT AND OVERHEAD CHARGES

15.1 Books and Accounts

- (a) The Contractor shall be responsible for keeping complete books of accounts consistent with Good Oil Field Practice and modern petroleum industry and accounting practices and procedures. The books and accounts maintained under and in accordance with this Contract shall be kept in United States dollars. All other books of accounts, as the Operator may consider necessary, shall also be kept in United States dollars. Officials of the National Petroleum Agency and the Contractor shall have access to such books and accounts at all times upon reasonable notice. The accountants of the National Petroleum Agency shall participate in the preparation of all books and accounts maintained under and in accordance with this Contract.
- (b) All original books of account shall be kept at the registered address or principal place of business of the Contractor in Sao Tome and Principe.

15.2 Audits

- (a) The National Petroleum Agency shall have the right to inspect and audit the accounting records relating to this Contract or Petroleum Operations for any Calendar Year by giving thirty (30) days advance written notice to the Operator. The Operator shall facilitate the work of such inspection and auditing; provided, however, that such inspection and auditing shall be carried out within three (3) Calendar Years following the end of the Calendar Year in question. If not, the books and accounts relating to such Calendar Year shall be deemed to be accepted by the Parties. Any exception must be made in writing within ninety (90) days following the end of such audit and failure to give such written notice within such time shall establish the correctness of the books and accounts by the Parties.
- (b) The National Petroleum Agency may undertake the inspection and audit in Clause 15.2(a) either through its own personnel or through a qualified firm of chartered accountants appointed for such purpose by the National Petroleum Agency; provided, however, that the transportation and per diem costs of the National Petroleum Agency's own personnel shall be borne by the Contractor as a general administrative cost and shall be cost recoverable. Costs for the qualified firm of chartered accountants shall be borne by the National Petroleum Agency.

- (c) Notwithstanding that the said period of three (3) Calendar Years may have expired, if the Contractor or any of its employees or any Person acting on its behalf has acted with negligence or engaged in willful misconduct, the National Petroleum Agency shall have the right to conduct a further audit to the extent required to investigate such negligence or willful misconduct in respect of any earlier periods and all costs of such investigation shall be for the account of the Contractor and shall not be cost recoverable.

15.3 Materials

The Contractor shall maintain physical and accounting controls of all materials and equipment in stock in accordance with Good Oil Field Practice. The Contractor shall make a total inventory at least once in a Calendar Year and shall give the National Petroleum Agency four (4) weeks advance written notice prior to the taking of such inventory. The National Petroleum Agency and/or its external auditors shall be entitled to observe such inventory taking. The National Petroleum Agency may also carry out a partial or total check of such inventories at its own expense, whenever it considers it necessary, provided such exercise does not unreasonably disrupt Petroleum Operations.

15.4 Home Office Overhead Charges

The Contractor shall include the following percentages of total annual recoverable expenditures as overhead charges in calculating total Operating Costs. From time to time the Parties agree to review these expenditures tranches to account for inflation.

Expenditure Tranche (USD million)	% of Recoverable expenditures
< 200	1.00%
the next 200 OR >200 and<400	0.75%
the next 100 OR >400 and<500	0.50%
≥500	0.00%

16. TAXES AND CUSTOMS

16.1 Tax

The Contractor shall be subject to Tax on income derived from Petroleum Operations in accordance with the Petroleum Taxation Law. Such Tax shall be payable by the Contractor in accordance with the Petroleum Taxation Law, except as otherwise provided in this Contract.

- 16.2 The Realizable Price established in accordance with Clause 11 shall be used in determining the amount of profits of the Contractor and its resulting Tax liability under the Petroleum Taxation Law.

16.3 Customs

In accordance with the Petroleum Law, the Contractor, in its own name or in the name of its sub-contractors or other Persons acting on its or their behalf, are entitled to import and export all goods, materials and equipment destined exclusively and directly for the execution of Petroleum Operations. Such goods, materials and equipment shall be exempt from all and any customs duties, subject to the terms and conditions set out in the Petroleum Law or other applicable laws and regulations.

17. INSURANCE

17.1 The Contractor shall obtain and maintain such insurance as it customarily obtains in accordance with Good Oil Field Practice with respect to Petroleum Operations with an insurance company of good repute approved by the National Petroleum Agency, in the names of the Parties and with limits of liability not less than those required in accordance with Good Oil Field Practice. The premium for such policies shall be included in Operating Costs. All policies shall name the National Petroleum Agency as a co-insured with a waiver of subrogation rights in favor of the Contractor. Without prejudice to the generality of the foregoing, such insurance shall cover:

- (a) any loss or damage to all assets used in Petroleum Operations;
- (b) pollution caused in the course of Petroleum Operations for which the Contractor or the Operator may be held responsible;
- (c) property loss or damage or bodily injury suffered by any third party in the course of Petroleum Operations for which the Contractor, the Operator, the State or the National Petroleum Agency may be held liable;
- (d) the cost of removing wrecks and cleaning up operations following an accident in course of Petroleum Operations; and
- (e) the Contractor's and/or the Operator's liability to its employees and other persons engaged in Petroleum Operations.

17.2 In case of any loss or damage to property, all amounts paid by an insurance company shall be received by the Contractor for the conduct of Petroleum Operations. The Contractor shall determine whether the lost or damaged property should be repaired, replaced or abandoned. If the decision is to repair or replace the property in question, the Contractor shall immediately take steps to replace or repair such lost or damaged property. Any excess cost of repair or replacement above the amount reimbursed by the insurance company shall be regarded as an Operating Cost. If the cost of repair is less than the amount reimbursed by the insurance company, the difference shall be deducted from Operating Costs. If the decision is to neither repair nor replace then the proceeds of any coverage shall be credited to Operating Costs. In the event that the loss or damage is attributable to the Contractor's negligence or willful misconduct, the excess cost of replacement or repair shall not be reimbursed as an Operating Cost.

- 17.3 The Contractor shall obtain and maintain an insurance policy covering any and all damages caused to third parties as a direct or indirect result of Petroleum Operations under this Contract.
- 17.4 All insurance policies obtained and maintained pursuant to this Clause 17 shall be based upon Good Oil Field Practice and shall be taken out in Sao Tome and Principe except for those concerning risks for which the Contractor cannot obtain coverage, in which case it shall be taken out outside of the Territory of Sao Tome and Principe.
- 17.5 In entering into contracts with any sub-contractor or other Person for the performance of Petroleum Operations, the Contractor shall require such sub-contractor or other Person to take out adequate insurance in accordance with this Clause 17 and to properly indemnify the State and its organs and agencies and the Contractor for any damage done and to fully indemnify and hold the State and its organs and agencies and the Contractor harmless against claims from any third parties.
- 17.6 The Contractor shall also maintain all other insurance policies required under the laws of Sao Tome and Principe.

18. CONFIDENTIALITY AND PUBLIC ANNOUNCEMENTS

- 18.1 Subject to Clauses 18.4 and 18.5, the Contractor and the National Petroleum Agency shall keep information furnished to each other in connection with Petroleum Operations and all plans, maps, drawings, designs, data, scientific, technical and financial reports and other data and information of any kind or nature relating to Petroleum Operations, including any discovery of Petroleum, as strictly confidential and shall ensure that their entire or partial contents shall under no circumstances be disclosed in any announcement to the public or to any third party without the prior written consent of the other. With regard to data about aspects of geology, reservoir engineering or production engineering from reports or other material submitted to public authorities, the duty of secrecy shall have the following duration calculated from the time when the data became available to the Contractor:
- 2 years for data which are not commercially available, which are owned by the Contractor and which originate from the Contract Area in question,
 - 10 years for data, which have been commercially available, from the time when they became available to the Contractor,
 - 5 years for other data.

The provisions of this Clause 18 shall not apply to disclosure to:

- (a) Affiliates;
- (b) sub-contractors, auditors, financial consultants or legal advisers, provided that such disclosures are required for the effective performances of the aforementioned recipients' duties related to Petroleum Operations and provided further that they are under a similar undertaking of confidentiality as that contained in this Clause 18;

- (c) comply with statutory obligation or the requirements of any governmental agency or the rules of a stock exchange on which a Party's stock is publicly traded in which case the disclosing Party will notify the other Party of any information so disclosed prior to such disclosure;
- (d) financial institutions involved in the provision of finance for the Petroleum Operations hereunder provided, in all such cases, that the recipients of such data and information agree in writing to keep such data and information strictly confidential;
- (e) a third party purchaser, provided that the party receiving such information executes an undertaking similar to the undertaking contained in this Clause 18 to keep the information disclosed to it strictly confidential; and
- (f) in accordance with and as required by the Oil Revenue Law.

18.2 The Parties shall take necessary measures in order to make their Affiliate and advisers, directors, officers, employees, agents and representatives comply with the same obligation of confidentiality provided for in this Clause 18.

18.3 The provisions of this Clause 18 shall terminate five (5) years after the termination or expiration of this Contract.

18.4 The Contractor shall use best endeavors to ensure that it, its Affiliates and Associates and each of their respective directors, officers, servants, employees and agents shall not make any reference in public or publish any notes in newspapers, periodicals or books nor divulge, by any other means whatsoever, any information on the activities under the Petroleum Operations, or any reports, data or any facts and documents that may come to their knowledge by virtue of this Contract, without the prior written consent of the National Petroleum Agency.

18.5 No announcement of a Discovery or Commercial Discovery may be made by the Contractor otherwise than in accordance with this Clause 18 and unless and until the Government has made a prior announcement of such Discovery or Commercial Discovery in the national and international media.

19. ASSIGNMENT

19.1 Subject to Clause 19.5, the Contractor may not sell, assign, transfer, encumber, convey or otherwise dispose of part or all of its rights, interest and/or obligations under this Contract to any third party without the prior written consent of the National Petroleum Agency which consent shall not be unreasonably withheld or delayed.

19.2 All changes in Control of a Contractor Party shall be subject to the prior approval of the Government. Where a change in Control occurs without the prior approval of the Government, the Government may terminate this Contract in respect of such Contractor Party. This Clause 19.2 does not apply if the change of Control is the direct result of an acquisition of shares or other securities of a publicly traded company on a recognized stock exchange. Change of Control includes a Person

ceasing to be Controlled (whether or not another Person becomes in Control), and a Person obtaining Control (whether or not another Person was in Control).

- 19.3 When an assignment, transfer or other disposition of any rights under this Contract, other than a transfer pursuant to Clause 19.5 is anticipated, the assigning Contractor Party must notify in writing the National Petroleum Agency as soon as practicable. The Government, acting through the National Petroleum Agency or other nominee, shall then have the right, within sixty (60) days, to purchase the assigning Contractor Party's interest under this Contract proposed to be assigned, transferred or otherwise disposed of on the same terms and conditions as those offered to a bone fide transferee.
- 19.4 If the written consent by the National Petroleum Agency is granted, the assigning Contractor Party shall be relieved of its obligation and liabilities under this Contract to the extent that the assignee or transferee accepts the assumption of such obligations and liabilities under this Contract.
- 19.5 The Contractor may sell, assign, transfer, convey or otherwise dispose of part or all of its rights and interest under this Contract to an Affiliate with a prior written notice to the National Petroleum Agency, provided that the relevant Contractor Party and the Affiliate shall remain jointly and severally liable for all obligations and liabilities under this Contract, notwithstanding such assignment, transfer, conveyance or other disposal. If the Affiliate shall cease at any time to be an Affiliate of the transferring Contractor Party, the Affiliate shall immediately re-assign or re-transfer to the original Contractor Party all rights and obligations transferred to it under this Contract. Transfers of interests to an Affiliate of a Contractor Party shall not change the nationality of the Contractor Party for the purpose of determining jurisdiction of any arbitration tribunal.
- 19.6 Any request for consent pursuant to Clause 19.1 made by the Contractor to the National Petroleum Agency shall include the deed of assignment and other relevant information relating to financial and corporate standing of the assignee, and its capability to contribute to the Petroleum Operations under this Contract as required under the Petroleum Law.

20. TERMINATION

- 20.1 The State, by decision of the Government, shall be entitled to terminate this Contract with the Contractor (or in respect of any Party making up the Contractor) if any of the following events occur:
- (a) the Contractor defaults in the performance of any of its obligations set forth in Clause 9;
 - (b) the Contractor fails to execute the Minimum Work Obligations;
 - (c) the Contractor assigns, transfers, conveys, encumbers or disposes of its rights, interests and/or obligations under this Contract, otherwise than in accordance with Clause 19 and/or the Petroleum Law;

- (d) the Contractor is adjudged insolvent or bankrupt by a court of competent jurisdiction or acknowledges or claims that it is unable to pay its debts or makes an application for bankruptcy protection that is not discharged within thirty (30) days;
- (e) the Contractor ceases to carry on its business as carried on at the date of this Contract or liquidates or terminates its corporate existence;
- (f) the warranties made by the Contractor under Clause 24 are found to have been untrue when made;
- (g) the Contractor fails to make any payment to the State when due;
- (h) the Contractor fails to submit the performance bond or guarantee when due;
- (i) the Contractor fails to:
 - (i) initiate field development and production in accordance to the time schedule outlined in the approved Field Development Program (Clause 5.1 (e)); or
 - (ii) if after production of Petroleum is initiated in the Contract Area, production of Petroleum ceases for a period of more than four (4) months;

in both (i) and (ii) for causes not attributable to Force Majeure or without the consent of the National Petroleum Agency always provided that such consent will not be unreasonably withheld if justified on technical or other ground;

and

- (j) the events provided for in the articles 34, 35 or 36 of the Petroleum Law.

20.2 If the cause for termination is an event specified in Clause 20.1 (a), (b), (c), (d), (e), (f), (g), (h), (i) and/or (j) above, the National Petroleum Agency shall give written notice thereof to the Contractor requiring it to remedy such default within a period not more than thirty (30) days of receipt of the National Petroleum Agency's notice or such additional days as the National Petroleum Agency deems appropriate in the circumstances in its sole discretion. If upon the expiration of the said period, such default has not been remedied or removed, the Government may, by written notice issued by the National Petroleum Agency to the Contractor, declare this Contract terminated.

20.3 Termination for any of the events specified in Clause 20.1 (c), (d) and/or (e) above, shall be with immediate effect and the Government may, by written notice to the Contractor issued by the National Petroleum Agency, declare this Contract terminated. Termination as to one Contractor Party shall not constitute termination as to the other Contractor Party(ies).

20.4 Where this Contract is terminated with respect to only one Contractor Party, the State shall have the option to assume the interests, rights and obligations of such defaulting Contractor Party under this Contract. If the State elects not to exercise this option, the

interests, rights and obligations shall be assigned to the remaining Contractor Parties who shall be liable jointly and severally.

- 20.5 In the event that the other Contractor Party(ies) fail to meet any and all liabilities of the terminated Contractor Party as provided in Clause 20.4, the State reserves the right to terminate this Contract in respect of all other Contractor Parties upon written notice.
- 20.6 Without prejudice to all other rights of the State, the Contractor shall upon the termination of this Contract permit inspection, copying and auditing of its accounts and records for the Petroleum Operations by the National Petroleum Agency and/or its agents.
- 20.7 The Contractor shall have the right, at its sole discretion, to relinquish its rights and to terminate this Contract without further obligations or liabilities, upon completion of the stipulated Minimum Work Obligations and Minimum Financial Commitment at the end of any phase of the Exploration Period, upon giving a thirty (30) day advance notice to the National Petroleum Agency. This Clause 20.7 shall not release the Contractor from any unfulfilled obligations incurred prior to the termination of this Contract, nor from any liabilities arising from acts or omissions taking place prior to the termination of this Contract.
- 20.8 This Contract shall automatically terminate if no Commercial Discovery is made in the Contract Area at the end of Exploration Period, as extended.

21. FORCE MAJEURE

- 21.1 Any failure or delay on the part of any Party in the performance of its obligations or duties (other than the obligation to pay money) under this Contract shall be excused to the extent attributable to Force Majeure. A Force Majeure situation includes delays, defaults or inability to perform under this Contract due to any event beyond the reasonable control of the Party claiming Force Majeure. Such event may be, but is not limited to, any act, event, happening or occurrence due to natural causes and acts or perils of navigation, fire, hostilities, war (whether declared or undeclared), blockade, labor disturbances, strikes riots, insurrection, civil commotion, quarantine restrictions, epidemics, storms, floods, earthquakes, accidents, blowouts and lightning.
- 21.2 Unlawful acts of Government are also considered to constitute Force Majeure.
- 21.3 If Petroleum Operations are delayed, curtailed or prevented by an event of Force Majeure, then the time for carrying out the obligation and duties thereby affected, and rights and obligations hereunder, shall be extended for a period equal to the period of such delay.
- 21.4 The Party who is unable to perform its obligations as a result of the Force Majeure shall promptly notify the other Parties not later than forty-eight (48) hours after the establishment of the commencement of the event of Force Majeure, stating the cause, and the Parties shall do all that is reasonably within their powers to remove such cause.

21.5 The Contractor's failure or inability to find Petroleum in commercial quantities for reasons other than as specified in Clause 21.1 shall not be deemed an event of Force Majeure.

22. LAWS AND REGULATIONS

22.1 This Contract shall be governed by and construed in accordance with the laws of the Democratic Republic of Sao Tome and Principe.

22.2 Subject to principles of public international law, no term of this Contract, including the agreement of the Parties to submit to arbitration hereunder, shall prevent or limit the State from exercising its sovereign rights.

23. NATURAL GAS

23.1 If the Contractor discovers a commercially viable quantity of Natural Gas, the Contractor shall have the right to develop, commercialize, recover the costs and share in the profits of a development of such Natural Gas under this Contract on terms to be mutually agreed. Such terms when agreed shall become an integral part of this Contract.

23.2 Notwithstanding Clause 23.1, the Contractor may utilize, at no cost, Natural Gas required as fuel for Petroleum Operations such as gas recycling, gas injection, gas lift or any other Crude Oil enhancing recovery schemes, stimulation of wells necessary for maximum Crude Oil recovery in the field discovered and developed by the Contractor and such usage shall be with prior written consent of the National Petroleum Agency, which consent shall not be unreasonably withheld. This shall be included in a Field Development Program.

23.3 The attainment of recovery of Crude Oil through an efficient, economic and technically acceptable method shall always be paramount in all decisions regarding Associated Natural Gas. However, prior to the commencement of Production of Crude Oil from the Contract Area, the Contractor shall submit to the National Petroleum Agency, a program for the utilization of any Associated Natural Gas that has been discovered in the Contract Area, which shall be subject to the approval of the National Petroleum Agency.

23.4 If the Contractor discovers sufficient volumes of Unassociated Natural Gas that could justify commercial development, the Contractor shall immediately report the volume of potentially recoverable Natural Gas to the National Petroleum Agency and shall promptly investigate and submit proposals to the National Petroleum Agency for the commercial development of such Natural Gas taking in consideration local strategic needs as may be identified by the National Petroleum Agency within two (2) years of the date of the relevant discovery. Any cost in respect of such proposals or investigation presented by the Contractor to the National Petroleum Agency shall be included in Operating Costs. The Contractor and the National Petroleum Agency will determine the plan and time needed, which shall be no more than five (5) years, unless otherwise agreed by the National Petroleum Agency, to progress a commercial development project, which shall include the terms for recovery of Operating Costs

and sharing of Natural Gas production, which terms when agreed shall form an integral part of this Contract. If the Contractor fails to justify a commercial development within the agreed timeframe and if the National Petroleum Agency determines that a sufficient volume of Unassociated Natural Gas exists, the National Petroleum Agency shall have the right to propose to the Contractor a commercial development of such Natural Gas. The Contractor shall have the right to participate in the commercial development under terms pursuant to Clause 23.1. If the Contractor declines to participate in the commercial development of such Natural Gas as presented by the National Petroleum Agency and if the Field Development Program does not hinder or jeopardize current Petroleum Operations, the National Petroleum Agency may develop the Natural Gas in the manner presented to the Contractor.

24. REPRESENTATIONS AND WARRANTIES

24.1 In consideration of the State entering into this Contract, the Contractor hereby represents and warrants to the State as follows:

- (a) The Contractor has the power to enter into and perform this Contract and has taken all necessary action to execute, deliver and perform this Contract in accordance with the terms herein contained and has been granted all necessary concessions, licenses, permits and authorizations to initiate Petroleum Operations.
- (b) The execution, delivery and performance of this Contract by the Contractor will not contravene in any respect, any of the provisions of:
 - (i) any law or regulations or order of any governmental authority, agency or court applicable to or by which the Contractor may be bound; and
 - (ii) any mortgage, contract or other undertaking or instrument to which the Contractor is a party or which is binding upon it or any of its respective revenues or assets.
- (c) Full disclosure of all legal, technical and financial information as are materially necessary has been made to the National Petroleum Agency.
- (d) As of the Effective Date, all facts in relation to the Contractor and its financial condition and affairs are material and ought properly to be made known to the National Petroleum Agency and have been made so known in full.
- (e) The Contractor, together with its Affiliates, has sufficient funds both in foreign and local currencies to carry out Petroleum Operations under this Contract.
- (f) The representations and warranties set out in this Clause 24 shall remain in full force and effect for the duration of this Contract.

25. CONCILIATION AND ARBITRATION

25.1 Should there be a difference or dispute between the Parties concerning the interpretation or performance of this Contract (a "**Dispute**") such that the dispute

cannot be resolved by mutual agreement, the Parties may refer the matter to an independent expert for an opinion to assist the Parties in reaching a mutual agreement.

- 25.2 Where an independent expert is used, the National Petroleum Agency and the Contractor shall furnish the expert with all written information which he may reasonably require. The cost of the services of the expert, if appointed, shall be shared equally between the National Petroleum Agency and each Contractor Party.
- 25.3 If the Dispute cannot be settled by amicable agreement or through an independent expert or if a Party does not agree to the use of an independent expert, then either the National Petroleum Agency or the Contractor may serve on the other a demand for arbitration in accordance with this Clause 25. The procedures set forth in this Clause 25 shall be the exclusive procedures for arbitration of any and all Disputes arising under or involving the interpretation of this Contract. No other arbitration tribunal under any other procedure, agreement or international treaty shall have jurisdiction over such Disputes between the Parties.
- 25.4 If the relevant Parties have not reached a mutual agreement after three (3) months of the date of a notice of a Dispute by one Party to another, unless the Parties to the Dispute mutually agree to an extension, any Party to the Dispute may refer the Dispute for resolution by final and binding arbitration to the International Centre for the Settlement of Investment Disputes (the "**Centre**") established by the Convention on the Settlement of Investment Disputes between States and Nationals of other States, done at Washington, March 18, 1965 (the "**ICSID Convention**"); or to the Additional Facility of the Centre, if the Centre is not available;

In the case that the arbitration is to be conducted under the Additional Facility of the Centre, the Parties hereby give their consent to jurisdiction of ICSID according to this Clause 25 and in Article 25 of the ICSID Convention. The Parties agree to submit an application to the Secretary General of the Centre for approval of access to the Additional Facility of the Centre.

25.5 **Seat and Language of Arbitration**

The seat of the arbitration shall be mutually agreed in good faith by the Parties, the law of the merits of the arbitration shall be the Sao-tomean law and the law governing the arbitration agreement shall be Sao-tomean law. The languages of the arbitration proceedings, and of all orders, decisions, and the award, shall be Portuguese and English. Notwithstanding Clause 32.4 the Portuguese version of this Contract signed by the Parties shall be used as the official version in arbitral proceedings.

25.6 **Number and Identity of Arbitrators**

The arbitral tribunal shall be constituted by three (3) arbitrators selected according to the following procedure:

- (i) The claimant and the respondent shall, within thirty (30) days from the day on which a request for arbitration has been submitted, appoint an arbitrator each (and if there is more than one claimant or more than one (1) respondent, then the claimants and/or the respondents collectively shall each appoint a single

arbitrator), by giving notice in writing of such appointment to the Secretary General of the Centre and the other Party or Parties to the Dispute.

- (ii) If either the claimant or the respondent fails to comply with the time limit in the preceding paragraph, the Chairman of the Administrative Council of the Centre shall appoint the arbitrator or arbitrators that have not yet been appointed, at the request of either the claimant or the respondent and after consulting with the claimant and the respondent as far as possible. The Chairman of the Administrative Council of the Centre shall give notice in writing of such appointment or appointments to the Secretary-General of the Centre and the claimant and the respondent.
- (iii) The two (2) arbitrators so appointed shall, within thirty (30) days of their appointment, agree upon the person to be appointed as the President of the tribunal, and give notice of such appointment to the Secretary-General of the Centre and the claimant and the respondent.
- (iv) If the two (2) arbitrators fail to agree upon the person to be the President of the tribunal, the Chairman of the Administrative Council of the Centre shall appoint the President, at the request of either the claimant or the respondent, and after consulting with the claimant and the respondent as far as possible. The Chairman of the Administrative Council of the Centre shall give notice in writing of such appointment to the Secretary-General of Centre and the claimant and the respondent.
- (v) None of the arbitrators shall be a citizen of the countries of any of the Parties to the Dispute (or in the case where the Party is a company or another entity, any country or countries of nationality of such Party, including the country of its ultimate parent).

25.7 **Rules of Arbitration**

The arbitration procedures initiated under this Contract shall operate under the arbitration rules in effect for ICSID or the Additional Facility of the Centre, as the case may be, at the time of the filing of the request for arbitration, which rules are deemed to be incorporated herein by reference in this Clause 25.

25.8 **Binding Nature of Arbitration**

The arbitration award shall be final and binding on the Parties and shall be immediately enforceable, subject to the remedies provided for in the ICSID Convention and Arbitration Rules or in the Arbitration Rules of the Additional Facility of the Centre as appropriate. The Parties waive any right to refer any question of law, and any right of appeal on the law and/or merits to any court. It is expressly agreed that the arbitrators shall have no authority to award aggravated, exemplary or punitive damages.

25.9 **Costs of Arbitration**

The costs of arbitration shall be charged in accordance with the directions of the arbitration tribunal, failing which shall be borne proportionally by the Parties to the Dispute on a per capita basis. The costs of the Parties comprising the Contactor shall not be recoverable.

25.10 **Payment of Awards**

Any monetary award issued shall be expressed and payable in United States dollars.

26. **EFFECTIVE DATE**

26.1 This Contract shall come into force on the date of receipt by the State of the Contractor deposit into the National Petroleum Account of the signature bonus specified in Clause 2.1 (the "**Effective Date**"), payable after the execution and delivery to the Contractor of an instrument of ratification of the Contract executed by the Prime-Minister on behalf of the Government. Record of such receipt shall be annexed to this Contract as proof of the Effective Date.

26.2 Failure by the Contractor to meet its obligation to pay the signature bonus in accordance with the terms of Clause 2.1 shall mean that this Contract shall be null and void.

27. **REVIEW / RE-NEGOTIATION OF CONTRACT AND FISCAL TERMS**

27.1 The Parties agree that the commercial terms and conditions of this Contract have been negotiated and agreed having due regard to the existing fiscal terms in accordance with the provisions of the Petroleum Law and the Petroleum Taxation Law in force at the time of the Effective Date. If such fiscal terms are materially changed to the detriment of the Contractor, the Parties agree, subject to Clause 27.2, to review the terms and conditions of this Contract affected by such changes and to align such terms and conditions with the fiscal terms as at the Effective Date.

27.2 If at any time or from time to time, there is a change in legislation or regulations which materially affect the commercial benefit afforded to the Contractor under this Contract, the Parties will consult each other and shall agree to such amendments to this Contract as are necessary to restore as near as practicable such commercial benefits which existed under this Contract as of the Effective Date.

27.3 The terms, other than the terms that comprise the Biddable terms of this Contract, shall not be materially more burdensome to the Contractor than the terms of other current Production Sharing Contracts negotiated with other contractors for other blocks in the Exclusive Economic Zone of Sao Tome and Principe offered in the first licensing round after the Effective Date of this Contract. If another contractor agrees such materially less burdensome terms with the State, then this Contract shall be amended to reflect the less burdensome terms agreed with the other contractor.

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

28. OPERATOR

- 28.1 Equator Exploration STP Block 5 Limited is hereby designated as the Operator under this Contract to execute, for and on behalf of the Contractor, all Petroleum Operations in the Contract Area pursuant to and in accordance with this Contract and the Petroleum Law.
- 28.2 The Operator, for and on behalf of the Contractor, shall have the exclusive control and administration of Petroleum Operations under this Contract. The Operator, for and on behalf of the Contractor, and within the limits defined by the National Petroleum Agency, this Contract and the Petroleum Law, shall have the authority to execute all contracts, incur expenses, make commitments, and implement other actions in connection with the Petroleum Operations.

29. CONFLICT OF INTERESTS

- 29.1 Each Party represents and warrants that it did not engage any person, firm or company as a commission agent for purposes of this Contract and that it has not given or offered to give (directly or indirectly) to any person any bribe, gift, gratuity, commission or other thing of significant value, as an inducement or reward for doing or forbearing to do any action or take any decision in relation to this Contract, or for showing or forbearing to show favor or disfavor to any person in relation thereto.
- 29.2 The Contractor further represents and warrants that no loan, reward, offer, advantage or benefit of any kind has been given to any Official or any person for the benefit of such Official or person or third parties, as consideration for an act or omission by such Official in connection with the performance of such person's duties or functions or to induce such Official to use his or her position to influence any act or decisions of the administration with respect to this Contract. Any breach of this representation shall cause this Contract to be invalid and voidable by the State administration.

30. NOTICES

- 30.1 Any notice or other communication required to be given by a Party to another shall be in writing (in Portuguese and English) and shall be duly given by hand delivery in person, by courier, by facsimile or by electronic means of transmitting written communication, which provides written communication of receipt at the following addresses:

Agencia Nacional do Petr6leo de Sao Tome e Principe (ANP-STP)
Avenida das Nacoes Unidas, 225
C.P.1048
Sao Tome, Sao Tome and Principe
Attention: Executive Director

Fax: +239-2226937

Tel: +239-2226940

Email: anp_geral@cstome.net

THE CONTRACTOR

Equator Exploration STP Block 5 Limited
1st Floor, 50 Curzon Street
London WU 7UW United Kingdom
Attention: Chief Executive Officer

Tel: +44 207 297 4280
Fax: +44 207 499 5375
Email: info@oandoequator.com

- 30.2 All notices and other communications shall be deemed to have been duly delivered upon actual receipt by the intended recipient.
- 30.3 Each Party shall notify the other promptly of any change in the above address.

31. LIABILITY

Where the Contractor is comprised of more than one Party, the liabilities and obligations of such Parties under this Contract shall be joint and several.

32. MISCELLANEOUS

- 32.1 No supplement or modification of any provision of this Contract shall be binding unless executed in writing by all Parties.
- 32.2 No waiver by any Party of any breach of a provision of this Contract shall be binding unless made expressly in writing. Any such waiver shall relate only to the breach to which it expressly relates and shall not apply to any subsequent or other breach.
- 32.3 The validity and effectiveness of this Contract shall be subject to the full compliance with all applicable administrative procurement rules relating to State contracting.
- 32.4 This Contract is elaborated and filed in the Portuguese and English languages, in case of non-conformity, the Portuguese language version shall prevail.
- 32.5 This Contract shall be made public and a copy hereof shall be provided to the Public Registration and Information Office within ten (10) days from its execution.

IN WITNESS WHEREOF the Parties have caused this Contract to be executed the day and year first above written.

SIGNED AND DELIVERED for and on behalf of:

THE STATE represented by the **Agenda Nacional do Petroleo de Sao Tome e Principe**

By: /s/ Luiz Alberto C. Prazeres

Name: LUIZ ALBERTO C. PRAZERES

Designation: Director Executivo

In the presence of:

Name: /s/ CARLOS AGOSTINHO NEVES

Signature: Carlos Agostinho Neves

Designation: DIRECTOR ADMINISTRATIVO

SIGNED AND DELIVERED for and on behalf of:

EQUATOR EXPLORATION STP BLOCK 5 LIMITED

By: /s/ P. A. Dimmock

Name: PHILIP DIMMOCK

Designation: CHIEF EXECUTIVE OFFICER

In the presence of:

Name: STACEY KIVEL

Signature: /s/ Stacey Kivel

Designation: General Counsel & Vice President, Equator Exploration

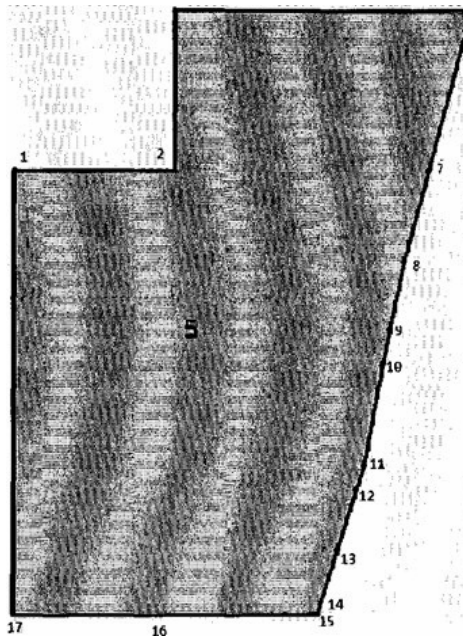
SCHEDULE 1

CONTRACT AREA

Coordinates (DATUM: WGS84)

BLOCK	POINTS	ZONE	UTM X	UTM Y	DD Long	DD Lat
5	1	A	388757.25	165820.87	8.000000	1.500000
5	2	A	407299.15	165813.11	8.166667	1.500000
5	3	A	407306.56	184236.88	8.166667	1.666667
5	4	A	425846.19	184229.82	8.333333	1.666667
5	5	A	441123.62	184225.18	8.470678	1.666667
5	6	A	440615.05	181922.48	8.466112	1.645833
5	7	A	436326.99	165803.78	8.427602	1.500000
5	8	A	433500.95	155180.76	8.402223	1.403889
5	9	A	431872.13	147382.14	8.387599	1.333333
5	10	A	431025.66	143329.28	8.380000	1.296666
5	11	A	428882.79	131804.73	8.360764	1.192402
5	12	A	428000.10	128960.18	8.352836	1.166667
5	13	A	425828.68	121962.66	8.333333	1.103358
5	14	A	422426.50	110998.93	8.302778	1.004166
5	15	A	422295.12	110538.43	8.301598	1.000000
5	16	A	407281.62	110541.93	8.166667	1.000000
5	17	A	388736.20	110547.11	8.000000	1.000000

Map



SCHEDULE 2

ACCOUNTING PROCEDURE

1. GENERAL PROVISIONS

1.1 Definitions

This Accounting Procedure attached to and forming a part of the Contract is to be followed and observed in the performance of the Parties' obligations hereunder. The defined terms appearing herein shall have the same meaning as is ascribed to them in the Contract.

1.2 Accounts and Statements

The Contractor's accounting records and books shall be kept as provided under Clause 15 of the Contract in accordance with generally accepted and internationally recognized accounting standards, consistent with modern petroleum industry practices and procedures and in accordance with Good Oil Field Practice. All original books of accounts together with original supporting documentation shall be kept and maintained at the office of the Contractor in Sao Tome and Principe.

1.3 In the event of a conflict between the terms of this Accounting Procedure and the Contract, the terms of the Contract shall apply.

1.4 This Accounting Procedure may be amended from time to time by the mutual agreement of the Parties.

2. Operating Costs

2.1 Operating Costs shall be defined as all costs, expenses paid and obligations incurred in carrying out Petroleum Operations and shall consist of:

- (a) Contract Area Non-capital Costs;
- (b) Contract Area Capital Costs;
- (c) Contract Area Non-Drilling Exploration Costs; and
- (d) Contract Area Unsuccessful Exploration and Appraisal Costs.

Operating Costs shall be recorded separately for each Development Area and calculated on the basis of a Contract Area.

2.2 Contract Area Non-capital Costs

Contract Area Non-capital Costs means those Operating Costs incurred that are chargeable to the current year's operations. Contract Area Non-capital Costs includes the following:

- (a) General office expenses - office, services and general administration services pertaining to Petroleum Operations including services of legal, financial,

purchasing, insurance, accounting, computer and the personnel department; communications, transportation, rental of specialized equipment, scholarships, charitable contributions and educational awards.

- (b) Labor and related costs - salaries and wages, including bonuses of employees of the Contractor who are directly engaged in the conduct of Petroleum Operations, whether temporarily or permanently assigned, irrespective of the location of such employee including the costs of employee benefits, customary allowance and personal expenses incurred under the Contractor's practice and policy, and amounts imposed by applicable governmental authorities which are applicable to such employees.

These costs and expenses shall include:

- (i) cost of established plans for employee group life insurance, hospitalization, pension, retirement, savings and other benefit plans;
 - (ii) cost of holidays, vacations, sickness and disability benefits;
 - (iii) cost of living, housing and other customary allowances;
 - (i v) reasonable personal expenses, which are reimbursable under the Contractor's standard personnel policies;
 - (v) obligations imposed by governmental authorities;
 - (vi) cost of transportation of employees, other than as provided in paragraph (c) below, as required in the conduct of Petroleum Operations; and
 - (v i i) charges in respect of employees temporarily engaged in Petroleum Operations, which shall be calculated to reflect the actual costs thereto during the period or periods of such engagement.
- (c) Employee relocation costs - costs for relocation, transportation and transfer of employees of the Contractor engaged in Petroleum Operations, including the cost of freight and passenger service of such employees' families and their personal and household effects together with meals, hotel and other expenditures related to such transfer incurred with respect to:
- (i) employees of the Contractor within Sao Tome and Principe including expatriate employees engaged in Petroleum Operations;
 - (ii) transfer to Sao Tome and Principe for engagement in Petroleum Operations;
 - (iii) relocation costs and other expenses incurred in the final repatriation or transfer of the Contractor's expatriate employees and families, in the case of such employees' retirement, or separation from the Contractor, or in case of such employees' relocation to the Contractor's point of

origin, provided that relocation costs incurred in moving an expatriate employee and his family beyond point of origin, established at the time of his transfer to Sao Tome and Principe, will not be recoverable as Operating Costs; and

- (iv) Sao-Tomean employees on training assignments outside the Contract Area.
- (d) Services provided by third parties - cost of professional, technical, consultation, utilities and other services procured from third party sources pursuant to any contract or other arrangements between such third parties and the Contractor for the purpose of Petroleum Operations.
- (e) Legal expenses - all costs or expenses of handling, investigating, asserting, defending, and settling litigation or claims arising out of or relating to Petroleum Operations or necessary to protect or recover property used in Petroleum Operations including, but not limited to, legal fees, court costs, arbitration costs, cost of investigation or procuring evidence and amount paid in settlement or satisfaction of any such litigation, arbitration or claims in accordance with the provisions hereof.
- (f) Head office overhead charge - parent company overhead in the amount specified in Clause 15.4 of the Contract.
- (g) Insurance premiums and settlements - premiums paid for insurance normally required to be carried for the Petroleum Operations together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including fees and deductibles relating to the Contractor's performance under the Contract.
- (h) Duties and taxes - all duties and taxes, fees and any Government assessments, including gas flare charges, license fees, custom duties, and any other than Royalty and Tax.
- (i) Operating expenses - labor, materials and services used in day to day oil well operations, oil field production facilities operations, secondary recovery operations, storage, transportation, delivering and marketing operations; and other operating activities, including repairs, well walkovers, maintenance and related leasing or rental of all materials, equipment and supplies.
- (j) Successful Exploration drilling - all expenditures incurred in connection with the drilling of any Exploration Well which results in a Commercial Discovery.
- (k) Successful Appraisal drilling - all expenditures incurred in connection with the drilling of Appraisal Wells on a Commercial Discovery.
- (l) Unsuccessful Development drilling - all expenditures incurred in connection with drilling of development wells which are dry, including costs incurred in respect of casing, well cement and well fixtures.

- (m) Successful Development drilling - all intangible expenditures incurred in connection with labor, fuel, repairs, maintenance, hauling, and supplies and materials (not including, casing and other well fixtures) which are for or incidental to drilling, cleaning, deepening or completion wells or the preparation thereof incurred in respect of:
 - (i) determination of well locations, geological, geophysical, topographical and geographical surveys for site evaluation preparatory to drilling including the determination of near surface and near sea bed hazards;
 - (ii) cleaning, draining and leveling land, road-building and the laying of foundations;
 - (iii) drilling, shooting, testing and cleaning wells; and
 - (iv) erection of rigs and tankage assembly and installation of pipelines and other plan and equipment required in the preparation or drilling of wells producing Crude Oil.
- (n) Decommissioning provisions - any deposits in a Decommissioning reserve fund set aside for the purposes of Decommissioning pursuant to Clause 13 of the Contract.
- (o) Affiliate services - professional, administrative, scientific and technical services provided by Affiliates of the Contractor for the direct benefit of Petroleum Operations including services provided by the Exploration, Production, legal, financial, purchasing, insurance, accounting and computer services departments of such Affiliates. Charges for providing these services shall reflect costs only, and must be consistent with international market practices and shall not include any element of profit.
- (p) Pre-production Contract Area Non-capital Costs - all recoverable Contract Area Non-capital Costs incurred before first production from the Contract Area are accumulated and treated as if they had been incurred on the first day of production from the Contract Area.

2.3. **Contract Area Capital Costs**

Contract Area Capital Costs mean those Operating Costs incurred that are subject to depreciation. Contract Area Capital costs include the following:

- a) Plant expenditures - expenditures in connection with the design, construction, and installation of plant facilities (including machinery, fixtures, and appurtenances) associated with the production, treating, and processing of Crude Oil (except such costs properly allocable to intangible drilling costs) including offshore platforms, secondary or enhanced recovery systems, gas injection, water disposal, expenditures for equipment, machinery and fixtures purchased to conduct Petroleum Operations such as office furniture and fixtures, office equipment, barges, floating crafts, automotive equipment,

petroleum operational aircraft, construction equipment, miscellaneous equipment.

- b) Pipeline and storage expenditure - expenditures in connection with the design, installation, and construction of pipeline, transportation, storage, and terminal facilities associated with Petroleum Operations including tanks, metering, and export lines.
- c) Building expenditure - expenditures incurred in connection with the construction of building, structures or works of a permanent nature including workshops, warehouses, offices, roads, wharves, furniture and fixtures related to employee housing and recreational facilities and other tangible property incidental to construction.
- d) Successful Development drilling - all tangible expenditures incurred in connection with drilling development wells such as casing, tubing, surface and sub-surface production equipment, flow lines and instruments.
- e) Material inventory - cost of materials purchased and maintained as inventory items solely for Petroleum Operations subject to the following provisions:
 - (i) the Contractor shall supply or purchase any materials required for Petroleum Operations, including those required in the foreseeable future. Inventory stock levels shall take account of the time necessary to provide the replacement, emergency needs and similar considerations;
 - (ii) materials purchased by the Contractor for use in Petroleum Operations shall be valued so as to include invoice price (less prepayment discounts, cash discounts, and other discounts if any) plus freight and forwarding charges between point of supply and point of destination but not included in the invoice price, inspection costs, insurance, custom fees and taxes, on imported materials required for the Contract;
 - (iii) materials not available in Sao Tome and Principe supplied by the Contractor or from its Affiliates stocks shall be valued at the current competitive cost in the international market; and
 - (iv) the Contractor shall maintain physical and accounting controls of materials in stock in accordance with Good Oil Field Practice. The Contractor shall make a total inventory at least once a year to be observed by the National Petroleum Agency and its external auditors. The National Petroleum Agency may however carry out partial or total inventories at its own expenses, whenever it considers necessary, provided such exercise does not unreasonably disrupt Petroleum Operations.
- f) Pre-production Contract Area Capital Costs - all recoverable Contract Area Capital Costs incurred before first production from the Contract Area are

accumulated and treated as if they had been incurred on the first day of production from the Contract Area.

2.4 **Contract Area Non-Drilling Exploration Costs**

Contract Area Non-Drilling Exploration Costs mean those Operating Costs incurred anywhere in the Contract Area in the Exploration Period or a related activity, not directly connected with the drilling of an Exploration Well. Contract Area Non Drilling Exploration Costs are chargeable to the current year's operations and may be added to the Operating Costs of any Contract Area. Contract Area Non-Drilling Exploration Costs include the following:

- (a) Geological and geophysical surveys - labor, materials and services used in aerial, geological, topographical, geophysical and seismic surveys incurred in connection with exploration excluding the purchase of data from the National Petroleum Agency.
- (b) Pre-Contract seismic costs -reasonable costs associated with the acquisition of seismic data covering the Contract Area, including third party processing, but not interpretation of the data by the Contractor or its Affiliates, which were incurred prior to the Effective Date.
- (c) Annual scholarship payments as described under Clause 14 of the Contract.

2.5 **Contract Area Unsuccessful Exploration and Appraisal Costs**

Contract Area Unsuccessful Exploration and Appraisal Costs mean those Operating Costs incurred anywhere in the Contract Area in connection with the drilling of any Exploration Well or Appraisal Well in the Contract Area which does not result in a Commercial Discovery. Contract Area Unsuccessful Exploration and Appraisal Costs are subject to depreciation over a five (5) year period in equal installments of twenty percent (20%) per annum or the remaining life of the Contract Area(s) whichever is less, commencing with Production. Unsuccessful Exploration and Appraisal Costs in any period shall be allocated to the Operating Costs of a Contract Area, subject to the following restrictions:

- (a) to the extent that the Contract Area has Available Cost Oil after recovering the Operating Costs (other than Unsuccessful Exploration and Appraisal Costs) related to that Contract Area; and
- (b) if there is insufficient Available Cost Oil in a Contract Area in any period to fully recover Unsuccessful Exploration and Appraisal Costs, the unrecovered amount may be carried forward and included in the next period's Unsuccessful Exploration and Appraisal Costs account.

2.6 **Non-Recoverable Costs**

The following costs are explicitly not recoverable as Operating Costs:

- (a) bonuses and expenditure incurred by the Contractor in carrying out any obligation to fund social projects as defined in Clause 2 of the Contract;
- (b) interest incurred under loans taken to finance Petroleum Operations from either inter-Affiliate loans or loans from third parties; and
- (c) costs incurred in excess of five percent (5%) above costs budgeted for in a Work Program and Budget, unless such costs are approved in advance by the National Petroleum Agency.

3. **Computation of Royalty and Tax**

- 3.1 The Contractor shall compute the amount of Royalty and Tax payable to the State pursuant to and in accordance with the Contract. Such amounts shall be computed in the manner set forth in the Petroleum Law, the Petroleum Taxation Law and the provisions hereof as stated in Article 4 of this Schedule 2.
- 3.2 The Contractor shall compute the Royalty to be paid in cash or delivered in kind to the State in a given month based on the Realizable Price. Tax payments shall be calculated and remitted in accordance with the Petroleum Taxation Law.

4. **Accounting Analyses**

- 4.1 The Contractor and the National Petroleum Agency shall agree within three (3) months on a format for monthly accounting analysis reflecting the volumes lifted in terms of Royalty Oil, Cost Oil, and Profit Oil, and Proceeds received by each Party.
- 4.2 The Realizable Price and the quantities actually lifted by the Parties shall be used to compute the proceeds as reflected in the agreed monthly accounting analysis format in Article 4.1 above and the allocation of such Proceeds in the categories described under Clause 10 of the Contract shall be reflected.
- 4.3 The allocation of the quantity of Available Crude Oil to each Party pursuant to Clause 10 of the Contract shall be according to and governed by provisions of the Allocation and Lifting Procedure Principles.
- 4.4 The priority of allocation of the total proceeds for each period shall be as follows:
 - (a) Royalty Oil;
 - (b) Cost Oil; and
 - (c) Profit Oil.
- 4.5 The amount chargeable to and recoverable from Royalty Oil, and Cost Oil shall be determined as follows:

- (a) Royalty Oil - The sum of royalties payable during such month.
 - (b) Cost Oil - The Operating Costs applicable to such month for the purposes of Cost Oil are as follows:
 - (i) Contract Area Non-Capital Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedure and shall be recoverable in full in the period incurred.
 - (ii) Contract Area Capital Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedure and shall be recoverable over the depreciation period or the remaining life of the Contract, whichever is less.
 - (iii) Contract Area Non-Drilling Exploration Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedure and shall be recoverable in full in the period incurred.
 - (iv) Contract Area Unsuccessful Exploration and Appraisal Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedure and shall be recoverable over the depreciation period of five (5) years in equal installments of twenty percent (20%) per annum or the remaining life of the Contract Area, whichever is less, commencing with Production from the Contract Area which costs are allocated to a Development Area in accordance with Article 2.5 of this Schedule 2.
 - (c) Any carryover from previous months as provided under Article 4.6 of this Schedule 2.
- 4.6 Any amounts chargeable and recoverable in excess of the allocation of Proceeds for the month to Royalty Oil and Cost Oil shall be carried forward to subsequent months. Carryovers shall be determined as follows:
- (a) A Royalty Oil carryover results when the Proceeds for such month are insufficient for allocation of the Royalty Oil due for the month, as described in Clause 10 of the Contract.
 - (b) A Cost Oil carryover results when the Proceeds remaining, after allocating a portion of the proceeds to Royalty Oil, are insufficient for allocation of Cost Oil due for the month, as described in Clause 10 of the Contract.
- 4.7 Profit Oil is available where Proceeds remain after allocations to Royalty Oil and Cost Oil pursuant to Articles 4.5 and 4.6 above. Profit Oil shall be allocated as described in Clause 10 of the Contract.

5. Other Provisions

- 5.1 The Contractor shall open and keep bank accounts in United States dollars where all funds remitted from abroad shall be deposited for the purpose of meeting local expenditures. For purposes of keeping the books of accounts, any foreign currency remitted by the Contractor shall be converted at the monthly exchange rates published on the date of payment by the Central Bank of Sao Tome and Principe for Dobra, and the Financial Times of London for other currencies.
- 5.2 The Contractor shall prepare financial accounting and budget statements in accordance with the National Petroleum Agency's prescribed reporting format.
- 5.3 With respect to any agreed sum arising out of this Contract owing between the Parties that is past due, any set-off pursuant to Clause 12 of the Contract shall be exercised by giving the other Party written notice thereof accompanied by sufficient description of the offsetting sums to allow the Parties to properly account thereof.

The Contractor shall report on the cumulative production in the Contract Area in a format to be agreed with the National Petroleum Agency.

6. Depreciation Schedule

- 6.1 Any Operating Costs, which are to be depreciated, shall be depreciated according to the following schedule:

Year	Depreciation Rate (%)
1	20%
2	20%
3	20%
4	20%
5	20%

SCHEDULE 3

ALLOCATION AND LIFTING PROCEDURE PRINCIPLES

1. Application

- 1.1 This Allocation and Lifting Procedure attached to and forming part of the Contract sets out the methods for the allocation of available Crude Oil from the Contract Area and the Parties shall allocate all lifting of available Crude Oil in accordance with this Allocation and Lifting Procedure and the Contract.
- 1.2 In the event that the production of Available Crude Oil is segregated into two (2) or more types or grades, the provisions of this Allocation and Lifting Procedure shall apply separately to each such type or grade. To the extent that distribution on such a basis is impracticable, a separate method for the allocation of such Available Crude Oil shall be agreed upon by the Parties.
- 1.3 In the event of a conflict between the terms of this Allocation and Lifting Procedure and the Contract, the terms of the Contract shall apply.
- 1.4 This Allocation and Lifting Procedure may be amended from time to time by mutual agreement of the Parties.

2. Definitions

- 2.1 The words and expressions defined in the Contract when used herein shall have the meaning ascribed to them in the Contract. In addition, the following words shall have the meaning set forth below:
 - (a) "**Current Quarter**" means the calendar quarter within which the relevant schedules are prepared and submitted;
 - (b) "**Forecast Quarter**" means the first calendar quarter succeeding the Current Quarter;
 - (c) "**Lifting Allocation**" means the quantity of Available Crude Oil, which each Party has the right to take in kind, lift and dispose of in accordance with Clause 10 of the Contract;
 - (d) "**Primary Nominations**" means a written statement issued by each Party to the other at least twenty-five (25) days prior to the commencement of each quarter declaring the volume by grade of its estimated Lifting Allocation which the Party desires to lift during the Forecast Quarter;
 - (e) "**Proceeds**" means the amount in United States dollars determined by multiplying the Realizable Price by the number of Barrels of Available Crude Oil lifted by a Party; and

- (f) **"Proceeds Imbalance"** means the difference between each Party's Proceeds to which it is entitled and the Proceeds that each Party has received.

3. Lifting Allocation

- 3.1 On or before September 30 of every Calendar Year, the Operator shall advise the Parties of its forecast of the Available Crude Oil to be produced by grades during each month of the first six (6) months of the next ensuing Calendar Year.
- 3.2 On or before March 31 of every Calendar Year, the Contractor shall advise the National Petroleum Agency of its forecast of Available Crude Oil to be produced by grades during each month of the six (6) months commencing July 1 of the Calendar Year.
- 3.3 Thirty-five (35) days before the commencement of Production from the Contract Area and thereafter thirty-five (35) days prior to the beginning of the Forecast Quarter, the Contractor, through the Operator, shall notify the National Petroleum Agency of the estimated Lifting Allocation which can be produced and made available for disposal during the Forecast Quarter. Such estimated Lifting Allocation shall take into account any Proceeds Imbalance for the quarter first preceding the Current Quarter and any estimated Proceeds Imbalance for the Current Quarter computed in accordance with Article 4 of this Schedule 3. Such notice shall indicate the estimated quantities of Royalty Oil, Cost Oil and Profit Oil, each Party's estimated Lifting Allocation and the estimated Realizable Price used to prepare such estimated Lifting Allocations.
- 3.4 Twenty-five (25) days before the commencement of production from the Contract Area and thereafter not later than twenty-five (25) days before the beginning of the Forecast Quarter, each Party shall notify the other of its Primary Nomination of Available Crude Oil which it intends to lift during the Forecast Quarter which shall not exceed its estimated Lifting Allocation.
- 3.5 The estimated Realizable Price to be used by the Contractor to prepare the Estimated Quarterly Lifting Allocation shall be the Realizable Price of the first month of the Current Quarter.
- 3.6 Each Party shall be obliged to lift its own Lifting Allocation. In the event that one Party lifts the other Party's Lifting Allocation, pursuant to Clause 10 of the Contract, the lifting Party shall pay to the non-lifting Party the applicable Proceeds pursuant to Clause 10 of the Contract. In such case, the non-lifting Party shall be treated, for all other purpose under the Contract, as though it had made such lifting itself.

4. Adjustments of Lifting Allocations

- 4.1 On or before thirty-five (35) days prior to the last day of the Current Quarter, the Lifting Allocation for the first preceding quarter thereto shall be computed and the Proceeds Imbalance determined and agreed to by the National Petroleum Agency.
- 4.2 On or before thirty-five (35) days prior to the last day of the Current Quarter, the Proceeds Imbalance for the Current Quarter shall be estimated, taking into account the actual Proceeds Imbalance computed for the first preceding quarter under Article 4.1

above.

- 4 . 3 The Proceeds Imbalance for the first preceding quarter computed under Article 4.1 above and the estimated Proceed Imbalance for the Current Quarter computed under Article 4.2 above shall be taken into account by the Parties by debiting or crediting such Proceeds Imbalances to each Party's share of the estimated Lifting Allocation for the Forecast Quarter filed by dividing the respective Proceeds Imbalance by the Realizable Price applicable for the period in question.
- 4 . 4 The Contractor shall keep complete records of all liftings. At the end of each quarter, the Parties will meet to reconcile the Lifting Allocations and the actual lifting with a view to making adjustments as appropriate. If any disagreement arises with respect to such reconciliation, the area of disagreement shall be mutually resolved by the Parties, in accordance with the official records of the National Petroleum Agency.
- 4.5 All Lifting Allocations and actual lifting shall be audited at the end of each Calendar Year by a mutually acceptable independent auditor.

5. Scheduling Details

5.1 Scheduling Notification

At least twenty-five (25) days prior to the beginning of a calendar month, the National Petroleum Agency shall notify the Contractor of its proposed tanker schedule for that calendar month specifying the following:

- (a) a loading date range of ten (10) days for each tanker lifting;
- (b) the desired parcel size for each lifting in Barrels, subject always to change within a range of plus or minus five percent (5%) by the Party so nominating;
- (c) the tanker's name or To Be Named (TBN) for each tanker lifting. Tanker nomination made as TBN shall be replaced at least five (5) working days prior to the accepted date range, unless a shorter time is acceptable to the Contractor; and
- (d) documentation instructions shall be given for each lifting not later than four (4) days prior to the first day of the accepted date range for the tanker in question.

5.2 Tanker Substitution

A Party may substitute another tanker to lift its nominated volume of Crude Oil, provided such substituted tanker has the same arrival date range as the originally scheduled tanker and all other provisions of this Allocation and Lifting Procedure are complied with.

5.3 Overlapping Date Ranges

In the event the combined lifting schedule contains overlapping accepted date ranges, the tanker which gives its Notice of Readiness (NOR), has provided all documentation

and obtained clearances first within such accepted date ranges shall be loaded first, unless urgent operational requirements dictate otherwise in which case, demurrage shall be borne by Petroleum Operations and charged to Operating Costs.

5.4 Confirmation of Lifting Schedules

At least fifteen (15) days prior to the beginning of a calendar month, the Contractor shall either confirm the feasibility of the proposed monthly lifting schedules or, alternatively, advise necessary modifications to such schedules. Such confirmation which shall be in the form of a combined lifting schedule should include a loading date range of three (3) days for each lifting, the first day being the earliest date of arrival and the third day being the latest date of arrival.

5.5 Operational Delays

The Parties recognize that occasionally environmental and technical problems in the Contract Area may cause delays and/or disruptions in the combined lifting schedule. The Contractor shall promptly notify the National Petroleum Agency of such delays and/or disruptions, the projected termination of each of such delays and/or disruptions and advise the National Petroleum Agency of the revised combined lifting schedule. In the event such notification does not allow for a revised combined lifting schedule on the part of the National Petroleum Agency, then any resultant costs will be charged to Operating Costs.

5.6 Estimated Delayed Arrival of a Tanker

Whenever it becomes apparent that a tanker will not be available as scheduled or will be delayed, the Party utilizing such tanker shall notify the other Party(ies) of the circumstances and expected duration of the delay. Upon assessing the impact that the Delay will have upon the combined lifting schedule and production during the current and/or next month, the Contractor shall make appropriate revision(s) to the combined lifting schedule to avoid disruption in production. In the event that any Party fails to lift its nominated share of production in any month/quarter due to circumstances beyond the Party's control or difficulties in maintaining the lifting schedule, that Party shall have the right during the following quarter/month to lift the unlifted quantities.

5.7 Tanker Standards

All tankers nominated for lifting by any Party shall conform to the international regulations and standards concerning size, equipment, safety, maintenance and the like adopted by the Contractor for the terminal in question and by the appropriate authority. Failure of a tanker to meet such standards shall not excuse the nominating Party from the applicable consequences provided in the Contract.

5.8 Destination of Crude Oil

The Contractor shall at all times disclose the destination of the Crude Oil lifted under the Contract.

SCHEDULE 4

PROCUREMENT AND PROJECT IMPLEMENTATION PROCEDURES

1. Application

- 1.1 These Procurement Procedures form part of the Contract and shall be followed and observed in the performance of a Party's obligations under the Contract.
- 1.2 These Procurement Procedures shall be applicable to all contracts and purchase orders whose values exceed the respective limits set forth in Article 1.5 below and which, pursuant thereto, require the prior approval of the National Petroleum Agency.
- 1.3 In the event of a conflict between the terms of these Procurement Procedures and the Contract, the terms of the Contract shall prevail.
- 1.4 These Procurement Procedures may be amended from time to time by the mutual agreement of the Parties.
- 1.5 The Contractor shall have the authority to enter into any contract or place any purchase order in its own name for the performance of services or the procurement of facilities, equipment, materials or supplies, provided that:
 - (a) prior approval of the National Petroleum Agency shall be obtained for all foreign contracts and foreign purchase orders awarded to third parties where the cost exceeds Five Hundred Thousand United States Dollars (U.S \$500,000) or in another currency equivalent during the Exploration Period and One Million United States Dollars (U.S \$1,000,000) or in another currency equivalent during the Production Period;
 - (b) prior approval of the National Petroleum Agency shall be obtained for all local contracts and purchase orders where the cost exceeds Two Hundred Thousand United States Dollars (U.S\$200,000) or in other currency equivalent in utilization at the location of the contract or purchase;
 - (c) the amount set forth in paragraphs (a), (b) and (h) of this Article 1.5 will be reviewed by the National Petroleum Agency whenever it becomes apparent to a Party that such limits create unreasonable constraints on Petroleum Operations or are no longer appropriate. In the event of a significant change in the exchange rate of local currencies to United States dollars compared to that which existed on the Effective Date, the National Petroleum Agency shall review the limits set forth in paragraphs (a), (b) and (h) of this Article 1.5;
 - (d) such contracts shall be entered into and such purchase orders shall be placed with third parties which in the Contractor's opinion are technically and financially able to properly perform their obligations;
 - (e) procedures customary in the oil industry for securing competitive prices shall be utilized at all times;

- (f) the Contractor shall give preferences to sub-contractors that are companies organized under the laws of Sao Tome and Principe to the maximum extent possible and in accordance with the Petroleum Law;
- (g) the Contractor shall give preference to such goods which are manufactured or produced in Sao Tome and Principe or services rendered by nationals of Sao Tome and Principe in accordance with the Petroleum Law; and
- (h) the above limits and these procedures shall not apply to purchases made for warehouse replenishment stock not exceeding One Hundred Thousand United States Dollars (U.S\$100,000) or in another currency equivalent nor shall they apply to the purchase of tubulars of less than One Hundred Thousand United States Dollars (U.S\$100,000) or in another currency equivalent made in furtherance of planned drilling programs. Where there are multiple currencies used to make such purchases the total shall not exceed the equivalent of One Hundred Thousand United States Dollars (U.S\$100,000).

2. Project Implementation Procedure

- 2.1 The Contractor, realizing the need for a project or contract to which these Procurement Procedures apply pursuant to Article 1.5, shall introduce it as part of the proposed Work Program and Budgets to be developed and submitted by the Contractor to the National Petroleum Agency pursuant to Clause 7 of the Contract.
 - (a) The Contractor shall provide full information with respect to a project including the following:
 - (i) a clear definition of the necessity and objectives of the project;
 - (ii) the scope of the project; and
 - (iii) the cost estimate thereof.
 - (b) The Contractor shall transmit the project proposal along with all related documentation to the National Petroleum Agency for consideration.
 - (c) The National Petroleum Agency shall consider the proposal and the recommendation of the Contractor and shall finally determine the matter. If the National Petroleum Agency does not object to the project or any part thereof within thirty (30) days of the submission of the project, the project as proposed by the Contractor, shall be deemed to have been approved.
- 2.2 The project, as approved pursuant to Article 2.1, shall form part of the Work Program and Budget for Petroleum Operations. Such approval shall also constitute all authorizations by the National Petroleum Agency to the Contractor to initiate contracts and purchase orders relevant to the project proposal, subject to the provisions of Articles 1.5 and 3 of this Schedule 4.
- 2 . 3 The resources for the project design, supervision, and management shall first be drawn from the Contractor's available in-house expertise. If the National Petroleum Agency

approves the foregoing, it may be performed by the Contractor under the approved budget for the project. Competent Sao-Tomean engineering and design companies shall be given priority over other third parties by the Contractor for such projects in accordance with the Petroleum Law. Staff of the National Petroleum Agency who shall be seconded pursuant to Clause 14 of the Contract shall be fully involved in the project design, supervision and management.

- 2.4 After approval of the project and its budget, the Contractor shall prepare and transmit to the National Petroleum Agency complete details of the project including the following:
- (a) project definition;
 - (b) project specification;
 - (c) flow diagrams;
 - (d) project implementation schedule showing all phases of the project including engineering design, material and equipment procurement, inspection, transportation, fabrication, construction, installation, testing and commissioning;
 - (e) major equipment specifications;
 - (f) cost estimate of the project;
 - (g) an activity status report; and
 - (h) copies of all approved authorization for expenditure (AFEs).

3. Contract Tender Procedure

- 3.1 The following tender procedure shall apply to works contracts and contracts for the supply of services and supply contracts not directly undertaken by the Contractor or an Affiliate:
- (a) The Contractor shall maintain a list of approved sub-contractors for the purpose of contracts for Petroleum Operations, (the "**Approved Contractors' List**"). The National Petroleum Agency shall have the right to nominate sub contractors to be included in or deleted from the list. The National Petroleum Agency and the Contractor shall be responsible for pre-qualifying any sub contractor to be included in the Approved Contractors' List.
 - (b) Sub-contractors included in the Approved Contractors' List shall be both local and/or overseas sub-contractors and entities. Where required by law, they shall be registered with the National Petroleum Agency.
 - (c) When a contract is to be bid, the Contractor shall present a list of proposed bidders to the National Petroleum Agency for concurrence not less than fifteen (15) working days before the issuance of invitations to bid to prospective sub-

contractors. The National Petroleum Agency may propose additional names to be included in the list of proposed bidders or the deletion of anyone thereof. Contract specifications shall be in Portuguese or English and in a recognized format used in the international petroleum industry.

- (d) If the National Petroleum Agency has not responded within fifteen (15) working days from the date of the official receipt following the presentation of the list of proposed bidders as aforesaid, the list shall be deemed to have been approved.
- 3.2 The Contractor shall, within its limits set forth in Article 1.5, establish a Tender Committee who shall be responsible for pre-qualifying bidders, sending out bid invitations, receiving and evaluating bids and determining successful bidders to whom contracts shall be awarded.
- 3.3 The Contractor shall send analysis and recommendations of bids received and opened by the Tender Committee to the National Petroleum Agency for approval before a contract is signed within thirty (30) working days from the date of the official receipt by the National Petroleum Agency. Approval of the Contractor's recommendations shall be deemed to have been given if the National Petroleum Agency has not responded within such period.
- 3.4 Prospective vendors and/or sub-contractors for work estimated in excess of One Hundred Thousand United States Dollars (U.S.\$100,000) for the Exploration Period and Two Hundred Thousand United States Dollars (U.S.\$200,000) for the Production Period or their equivalent shall submit the commercial summary of their bids to the Contractor in two (2) properly sealed envelopes, one addressed to the Contractor and one addressed to the National Petroleum Agency. The Contractor shall retain one and send one to the National Petroleum Agency properly enveloped, sealed and addressed to the National Petroleum Agency.
- 3.5 In all cases, the Contractor shall make full disclosure to the National Petroleum Agency of its relationship, if any, with any sub-contractors.
- 3.6 These Procurement Procedures may be waived and the Contractor may negotiate directly with a sub-contractor:
 - (a) in emergency situations provided that it promptly informs the National Petroleum Agency of the outcome of such negotiations; and
 - (b) in work requiring unusually specialized skills or when special circumstances warrant, upon the approval of the National Petroleum Agency, which approval shall not be unreasonably withheld.

4. General Conditions of Contracts

- 4.1 The payment terms shall provide that:
 - (a) unless the Parties agree otherwise a minimum of ten percent (10%) of the contract price shall be held as a retention fee until after the end of a guarantee

period agreed with the sub-contractor which shall vary between six (6) months and twelve (12) months, depending upon the contract, with the exception of drilling and seismic data acquisition, well surveys and other such services, provided that a sub-contractor may be given the option to provide another guarantee equivalent to the ten percent (10%) retention such as an irrevocable stand-by letter of credit or performance bond; and

(b) a provision shall be made for appropriate withholding tax as may be applicable.

4.2 The governing law of all agreements signed with sub-contractors shall be, to the extent feasible, Sao-tomean Law and if not the laws of England and Wales.

4.3 Sao-Tomean law shall apply to all sub-contractors performing work in the Territory of Sao Tome and Principe. In as far as practicable, they shall use Sao-Tomean resources, both human and material, in accordance with the Petroleum Law.

4.4 Each contract shall provide for early termination, where necessary, and the Contractor shall use all reasonable endeavors to obtain a termination provision with minimal penalty.

4.5 Sub-contractors shall provide, in the case of a foreign sub-contractor, that the local part of the work, in all cases, shall be performed by the sub-contractor's local subsidiary whenever possible.

5. Materials and Equipment Procurement

5.1 The Contractor may, through itself or its Affiliates, procure materials and equipment subject to conditions set forth in this Article 5 and these Procurement Procedures.

5.2 The provisions of this Article 5 shall not apply to lump sum or turnkey contracts/projects.

5.3 In ordering the equipment or materials, the Contractor shall obtain from vendors / manufacturers, such rebates and discounts and such warranties and guarantees that such discounts, guarantees and all other grants and responsibilities shall be for the benefit of Petroleum Operations.

5.4 The Contractor shall:

(a) by means of established policies and procedures ensure that its procurement efforts provide the best total value, with proper consideration of quality, services, price, delivery and Operating Costs to the benefit of Petroleum Operations;

(b) maintain appropriate records, which shall be kept up to date, clearly documenting procurement activities;

(c) provide quarterly and annual inventory of materials and equipment in stock;

- (d) provide a quarterly listing of excess materials and equipment in its stock list to the National Petroleum Agency; and
 - (e) check the excess materials and equipment listings from other companies operating in the Territory of Sao Tome and Principe to identify materials available in the country prior to initiating any foreign purchase order.
- 5 . 5 The Contractor shall initiate and maintain policies and practices, which provide a competitive environment and climate amongst local and overseas suppliers. Competitive quotation processes shall be employed for all local procurement where the estimated value exceeds the equivalent of One Hundred Thousand United States Dollars (U.S \$100 000) as follows:
- (a) fabrication, wherever practicable, shall be done locally. To this effect, the Petroleum Operations recognize and shall accommodate local offers at a premium not exceeding ten percent (10%); and
 - (b) subject to Article 3.1, the Contractor shall give preferences to Sao-Tomean indigenous sub-contractors in the award of contracts. Contracts within the agreed financial limit of the Contractor shall be awarded to only competent Sao-Tomean indigenous sub-contractors possessing the required skill/capability for the execution of such contracts and the Contractor shall notify the National Petroleum Agency accordingly.
- 5 . 6 Analysis and recommendation of competitive quotations of a value exceeding the limits established in Article 1.5 shall be transmitted to the National Petroleum Agency for approval before a purchase order is issued to the selected vendor/manufacturer. Approval shall be deemed to have been given if a response has not been received from the National Petroleum Agency within thirty (30) days of receipt by the National Petroleum Agency of the said analysis and recommendations.
- 5.7 Pre-inspection of the rig, equipment and stock materials of reasonable value shall be jointly carried out at the factory site and/or quay before shipment at the request of either Party.

6. Project Monitoring

- 6.1 The Contractor shall provide a project report to the National Petroleum Agency.
- 6.2 For major projects exceeding One Million United States Dollars (U.S \$1,000,000) or its equivalent, the Contractor shall provide to the National Petroleum Agency a detailed quarterly report which shall include:
- (a) the approved budget total for each project;
 - (b) the expenditure on each project;
 - (c) the variance and explanations;
 - (d) the number and value of construction change orders;

- (e) a bar chart of schedules showing work progress and work already completed and schedule of mile-stones and significant events; and
- (f) a summary of progress during the reporting period, a summary of existing problems, if any, and the proposed remedial action, anticipated problems, and percentage of completion,

provided that the National Petroleum Agency shall have the right to send its own representatives to assess the project based on the report.

- 6.3 In the case of an increase in cost in excess of five percent (5%) of the project, the Contractor shall promptly notify the National Petroleum Agency and obtain necessary budget approval.
- 6.4 Not later than six (6) months following the physical completion of any major project whose cost exceeds One Million United States Dollars (U.S \$1,000,000) or its equivalent, the Contractor shall prepare and deliver to the National Petroleum Agency a project completion report which shall include the following:
 - (a) a cost performance of the project in accordance with the work breakdown at the commencement of the project;
 - (b) the significant variation in any item or sub-item;
 - (c) a summary of problems and expected events encountered during the project; and
 - d) a list of excess materials.

SCHEDULE 5

SALE OF ASSETS PROCEDURE

Upon the agreement of the National Petroleum Agency that certain identified assets are to be sold, the following procedure shall apply:

1. The Contractor shall call for a bid duly advertised in a minimum of one (1) national newspaper, national radio station and national television station for all assets whose book values are One Hundred Thousand United States dollars (U.S \$100,000) or more, irrespective of length of ownership of such assets.
2. All assets with book values between One Hundred Thousand United States dollars (U.S \$100,000) or more shall be sold with proof of the highest bid from a minimum of three (3) bidders, subject to the highest bidder not being related to the Contractor.
3. A sale of assets to the Contractor's Affiliate shall be brought to the express attention of the National Petroleum Agency and shall take place only with the written consent given by the National Petroleum Agency.
4. The Contractor may dispose of all assets with book values less than One Hundred Thousand United States dollars (U.S \$100,000) in the best manner available to the Contractor on the basis of the highest price available.

SCHEDULE 6

FORM OF PARENTAL GUARANTEE

THIS GUARANTEE is made on this [INSERT DAY] of [INSERT MONTH AND YEAR]

BETWEEN:

- (1) **[THE GUARANTOR]**, a company organized and existing under the laws of *[insert JURISDICTION]*, and having its registered office at [INSERT ADDRESS] (the Guarantor); and
- (2) **THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE** (the "**State**"), represented for the purposes of this Guarantee by the National Petroleum Agency.

WHEREAS, the Guarantor is the parent entity of Equator Exploration STP Block 5 Limited organized and existing under the laws of the British Virgin Islands with registration number 1000133 whose registered office is at Craigmuir Chambers, Road Town, Tortola British Virgin Islands with a branch registered in Sao Tome & Principe with the *Guiche Unico* under no. 343/012 and is located at Avenida da Independencia, no. 392, Sao Tome (the "**Company**");

WHEREAS, the Company has entered into a production sharing contract (the **Contract**) with, among others, the State in respect of the Contract Area;

WHEREAS, the State desires that the execution and performance of the Contract by the Company be guaranteed by the Guarantor and the Guarantor desires to furnish this Guarantee as an inducement to the State to enter into the Contract and in consideration of the rights and benefits inuring to the Company thereunder; and

WHEREAS, the Guarantor accepts that it fully understands and assumes the contractual obligations under the Contract of the Company.

NOW THEREFORE, it is hereby agreed as follows:

1. **Definitions and Interpretation**

All capitalized words and expressions in this Guarantee have the same meaning as in the Contract, unless otherwise specified to herein.

2. **Scope of this Guarantee**

The Guarantor hereby guarantees to the State the timely payment and performance of any and all indebtedness and obligations whatsoever of the Company to the State arising under or in relation to the Contract, including the payment of any amounts required to be paid by the Company to the State when the same become due and payable;

3. **Waiver of Notice, Agreement to All Modifications**

The Guarantor hereby waives notice of the acceptance of this Guarantee and of the state of indebtedness of the Company at any time, and expressly agrees to any extensions, renewals, modifications or acceleration of sums due to the State under the Contract or any of the terms of the Contract, all without relieving the Guarantor of any liability under this Guarantee.

4. **Absolute and Unconditional Guarantee**

The obligations of the Guarantor shall be an absolute, unconditional, unlimited guarantee of payment and performance to be performed strictly in accordance with the terms hereof, and without respect to such defenses as might be available to the Company.

5. **No Discharge of Guarantor**

The obligations of the Guarantor hereunder shall not in any way be released or otherwise affected by: a release or surrender by the Company of any collateral or other security it may hold or hereafter acquire for payment of any obligation hereby guaranteed; by any change, exchange or alteration of such collateral or other security; by the taking of or the failure to take any action with respect thereto either against the Company or against the Guarantor; or by any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor.

6. **No Prior Action Required**

The State shall not be required to make demand for payment or performance first against the Company or any other Person or to proceed against any collateral or other security which might be held by the State or otherwise to take any action before resorting to the Guarantor hereunder.

7. **Cumulative Rights**

All rights, powers and remedies of the State hereunder shall be cumulative and not alternative, and shall be in addition to all rights, powers and remedies given to the State by law or otherwise.

8. **Continuing Guarantee**

This Guarantee is intended to be and shall be considered as a continuing guarantee of payment and performance and shall remain in full force and effect for so long as the Contract and any amendments thereto shall remain outstanding or there shall exist any liability of the Company to the State thereunder.

9. **Notice of Demand**

Upon default in the performance of any of the obligations of the Company guaranteed hereunder, the State or its duly authorized attorney may give written notice to the Guarantor at its principle office in [INSERT JURISDICTION] of the amount due, and the Guarantor, within a period of ten (10) business days, will make, or cause to be made, payment of such amount as notified, in United States dollars, at such bank or

other place in *[insert jurisdiction]* as the State shall designate and without set-off or reduction whatsoever of such payment in respect of any claim the Parent Company or the Company may then have or thereafter might have.

10. **Assignment**

The Guarantor shall not in any way effect, or cause or permit to be effected, the assignment or transfer of any of its obligations hereunder without the express written consent of the State.

11. **Subrogation**

Until all indebtedness hereby guaranteed has been paid in full, the Guarantor shall have no right of subrogation to any security, collateral or other rights which may be held by the State.

12. **Payment of Expenses**

The Guarantor shall pay to the State all reasonable costs and expenses, including attorney's fees, incurred by it in collecting or compromising any indebtedness of the Company hereby guaranteed or in enforcing the Contract or this Guarantee.

13. **Governing Law and Arbitration**

This Guarantee shall be governed by and interpreted in accordance with the laws of the State.

All disputes or claims arising out of or relating to this Guarantee shall be finally settled by arbitration, in accordance with the procedure set forth in the Contract; however, if in addition to the arbitration hereunder an arbitration has also been commenced under the Contract with respect to obligations hereby guaranteed, the arbitration commenced hereunder shall be consolidated with the arbitration commenced under the Contract and the arbitral body appointed hereunder shall be the same arbitral body appointed pursuant to the Contract. The arbitration shall be conducted in the Portuguese and English languages and the decision shall be final and binding on the parties.

14. **Severability of Provisions**

In the event that for any reason any provision hereof may prove illegal, unenforceable or invalid, the validity or enforceability of the remaining provisions hereof shall not be affected.

15. **Confidentiality**

The Guarantor agrees to treat this Guarantee and the Contract as confidential and shall not disclose, willingly or unwillingly, to any third party, except to the extent required by law, the terms and conditions hereof or thereof without the prior written consent of the State.

IN WITNESS WHEREOF, the Guarantor and the Company execute this Guarantee this [INSERT DAY] day of [INSERT MONTH AND YEAR].

[GUARANTOR]

By: _____

Title: _____

THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE

BY THE AGENCIA NACIONAL DO PETROLEO DE SAO TOME E PRINCIPE

By: _____

Title: _____

AMENDMENT TO THE PRODUCTION SHARING CONTRACT
BETWEEN
THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE
REPRESENTED BY THE
AGÊNCIA NACIONAL DO PETRÓLEO DE SÃO TOMÉ E PRÍNCIPE
AND
EQUATOR EXPLORATION STP BLOCK 5 LIMITED
FOR
BLOCK "5"

This AMENDMENT TO THE PRODUCTION SHARING CONTRACT is made and entered into on this 24th day of November 2014 by and between:

- (1) **THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE** represented by the Agencia Nacional do Petr6leo de Sao Tome e Principe; and
- (2) **EQUATOR EXPLORATION STP BLOCK 5 LIMITED** , a company organized and existing under the laws of the British Virgin Islands with registration number 10001 33 whose registered office is al Craigmuir Chambers, Road Town. Tortola British Virgin Islands with a branch registered in Sao Tome & Principe with the Guiche Unico under no. 343/012 and is located at Avenida da Independencia, no. 392. Sao Tome (the “Contractor”).

BACKGROUND:

- (A) The Agencia Nacional do Petr6leo de Sao Tome e Principe, with the approval of the Government of Sao Tome and Principe, and the Contractor have previously entered into a Contract dated as of [DAY] day of [MONTH] [YEAR].
- (B) The Contractor has requested in a letter dated 29 of September 2014 approval to readjust the quantities of 2D and 3D seismic data acquisition commitment within the Exclusive Economic Zone Block 5 Contract Area and the Agencia Nacional do Petr6leo de Sao Tome e Principe has agreed to such request.
- (C) The Parties now wish to amend the Contract to provide for the agreed amendment.

NOW, THEREFORE, IT IS AGREED as follows:

1. DEFINED TERMS

Unless otherwise defined herein, capitalized terms used herein shall have the meanings assigned to such terms in the Contract or as defined in the Petroleum Law or the Petroleum Taxation Law. The following word shall have the following meaning:

“**Amendment**” means this amendment to the Contract executed and delivered through mutual agreement in writing between the Parties hereto pursuant to clause 27 of the Contract:

2. AMENDMENT

The section listed below from the Contract is hereby deleted and restored in their entirety as follow:

- 7.2 The minimum Work Program for each phase of the Exploration Period is as follows (the “**Minimum Work Obligations**”):

Phase I: The Contractor shall:

- reprocess all existing two dimensional seismic data (2D) with in the block;
- carry out Geological & Geophysical studies (AVO, Geochemical studies, sequence stratigraphy);

- carry out environmental studies;
- acquire, process and interpret a minimum of one thousand kilometers of two dimensional seismic data (1000 km of 2D);
- acquire magnetic and gravity surveys covering the full block;
- acquire, process and interpret a minimum of one thousand square kilometers of three dimensional seismic data (1000 km² of 3D) within three (3) year, after the Effective Date:
- hand over full documentation of the interpretation and an extensive evaluation report covering all relevant stratigraphic levels in the full block, based on all existing two dimensional seismic data (2D) and newly acquired two dimensional seismic data (2D) and three dimensional seismic data (3D) to the National Petroleum Agency no later than six (6) months before the expiry or phase I:

Phase II: If the Contractor elects to enter phase II, then during such phase II of the Exploration period the Contractor shall:

- carry out environmental studies;
- drill one (1) Exploration Well to a minimum T/D of 5500 meters TVD subsea on the Contract area; and
- carry out technical and economical evaluation studies of discoveries and remaining prospectivity;

Phase III: If the Contractor elects to enter phase III of the Exploration Period, then during such phase III the Contractor shall:

- carry out environmental studies;
- drill one (1) Exploration Well or Appraisal Well;
- drill one (1) optional Exploration Well or Appraisal Well;
- carry out technical and economical evaluation studies of discoveries and remaining prospectively. In case of a Commercial Discovery, submit a declaration of a Commercial Discovery and submit a Field Development Program.

3. EFFECTIVE DATE

This Amendment will become effective on the date it is signed by both Parties.

4. MISCELLANEOUS

- 4.1 Except as set forth in this Amendment the Contract is unaffected and shall continue in full force and effect in accordance with its terms.
- 4.2 This Amendment shall be deemed incorporated into, and a part of the Contract.
- 4.3 If there is a conflict between this Amendment and the Contract the terms of this Amendment will prevail.

IN WITNESS WHEREOF the Parties have caused this Amendment to be duly executed as of the day and year first above written.

**SIGNED AND DELIVERED for and on behalf of:
THE STATE represented by the Agenda Nacional do Petroleo de Sao Tome e Principe**

By: /s/ Christina Dias

Name: CHRISTINA DIAS

Designation: Interior Executive Director

In the presence of:

By: Houari Lázaro

Name: /s/ Houari Lázaro

Designation: Technical Director

**SIGNED AND DELIVERED for and on behalf of:
EQUATOR EXPLORATION STP BLOCK 5 LIMITED**

By: /s/ Olapade Durotoye

Name: Olapade Durotoye

Designation: MD

In the presence of:

By: PHILIP DIMMOCK

Name: /s/ Philip Dimmock

Designation: Advisor

SECOND AMENDMENT TO THE PRODUCTION SHARING CONTRACT
BETWEEN
THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE REPRESENTED
BY THE
AGENCIA NACIONAL DO PETROLEO DE SAO TOME AND
PRINCIPE
AND
EQUATOR EXPLORATION STP BLOCK S LIMITED FOR
BLOCK "5"

This SECOND AMENDMENT TO THE PRODUCTION SHARING CONTRACT is made and entered into on this 15 day of September 2015 by and between:

(1) THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE represented by the Agencia Nacional do Petroleo de Sao Tome e Principe; and

(2) EQUATOR EXPLORATION STP BLOCK 5 LIMITED, a company organized and existing under the laws of the British Virgin Islands with registration number 1000133 whose registered office is at Craigmuir Chambers, Road Town, Tortola British Virgin Islands with a branch registered in Sao Tome & Principe with the *Guiche Unico* no.343/012 and located at Avenida da Independencia, no. 392, Sao Tome (the "Contractor").

BACKGROUND:

The Agencia Nacional do Petroleo de Sao Tome e Principe, with the approval of the government of Sao Tome e Principe, and the Contractor have previously entered into a Production Sharing Contract dated as of 18th day of April 2012 (the "Contract") and an Amendment dated as of 24th day of November 2014 (the "First Amendment").

(A) The Contractor has requested in a letter dated 29th of April 2015 approval to readjust the quantities of the 20 and 30 seismic data acquisition commitment within the Exclusive Economic Zone Block 5 Contract Area and the Agencia Nacional do Petróleo de Sao Tome e Principe has agreed to such request.

(B) The Parties now wish to amend the Contract to provide for the agreed amendment.

NOW, THEREFORE, IT IS AGREED as follows:

1. DEFINED TERMS

Unless otherwise defined herein, capitalized terms used herein shall have the meanings assigned to such terms in the Contract or as defined in the Petroleum Law or the Petroleum Taxation Law. The following word shall have the following meaning:

"Second Amendment" means this amendment to the Contract executed and delivered through mutual agreement in writing between the Parties hereto pursuant to clause 27 of the Contract;

2. AMENDMENT

The section listed below from the Contract is hereby deleted and restated in its entirety as follows:

7.2 The minimum Work Program for each phase of the Exploration Period is as follows (the "Minimum Work Obligations"):

Phase I: The Contractor shall:

- reprocess all existing two dimensional seismic data (20) within the block;
- carry out Geological & Geophysical studies (AVO, geochemical studies, sequence stratigraphy);
- carry out environmental studies;
- acquire magnetic and gravity surveys covering the full block;
- acquire, process and interpret a minimum of one thousand four hundred square kilometres of three dimensional seismic data (1400 km² of 30);
- hand over full documentation of the interpretation and an extensive evaluation report covering all relevant stratigraphic levels in the full block, based on all existing two dimensional seismic data (20) and three dimensional seismic data (30) to the National Petroleum Agency no later than two (2) months before the expiry of phase I.

Phase II: If the Contractor elects to enter phase II then during such phase II of the Exploration period the Contractor shall:

- carry out environmental studies;
- drill one (1) Exploration Well to a minimum T/D of 5500 meters TYO subsea on the Contract area; and
- carry out technical and economical evaluation studies of discoveries and remaining prospectivity.

Phase III: If the Contractor elects to enter phase III of the Exploration Period, then during such phase III the Contractor shall:

- carry out environmental studies;
- drill one (1) Exploration Well or Appraisal Well;
- drill one (1) optional Exploration Well or Appraisal Well: and
- carry out technical and economical evaluation studies of discoveries and remaining prospectivity. In case of a Commercial Discovery, submit a declaration of a Commercial Discovery and submit a Field Development Program.

3. EFFECTIVE DATE

This Amendment will become effective on the 15th May 2015.

4. MISCELLANEOUS

- 4.1. Except as set forth in this Amendment, the Contract is unaffected and shall continue in full force and effect in accordance with its terms.
- 4.2. This Amendment shall be deemed incorporated into, and a part of, the Contract.
- 4.3. If there is a conflict between this Second Amendment and the Contract or the First Amendment, the terms of this Second Amendment will prevail.

IN WITNESS WHEREOF the Parties have caused this Second Amendment to be duly executed as of the day and year first above written.

SIGNED AND DELIVERED for and on behalf of:
THE STATE represented by the Agenda Nacional do Petroleo de Sao Tome e Principe

By: /s/ Orlando Pontes

Name: ORLANDO SOUSA PONTES

Designation: EXECUTIVE DIRECTOR

In the presence of:

Name: ÁLVARO SILVA

Signature: /s/ Álvaro Silva

Designation: LEGAL AND ECONOMIC DIRECTOR

SIGNED AND DELIVERED for and on behalf of:
EQUATOR EXPLORATION STP BLOCK 5 LIMITED

By: /s/ Olapade Durotoye

Name: OLAPADE DUROTOYE

Designation: MD

In the presence of:

Name: JUMOKE TAGBURE

Signature: /s/ Jumoke Tagbure

Designation: ATTORNEY

DEED OF ASSIGNMENT
(PRODUCTION SHARING CONTRACT – BLOCK 5 EEZ)

The present deed of assignment is concluded between:

THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE, represented by the Agência Nacional do Petróleo de São Tomé e Príncipe, hereinafter referred to as (“ANP-STP”);

and

EQUATOR EXPLORATION STP BLOCK 5 LIMITED, a company existing under the laws of the British Virgin Islands, registration number 1000133, with registered offices at Craigmuir Chambers, Road Town, Tortola, British Virgin Islands with a branch registered in Sao Tome and Principe with the *Guiché Único* under no. 343/012 at Avenida da Independência N°. 392, Sao Tome, hereinafter referred to as (“EQUATOR”);

and

KOSMOS ENERGY SAO TOME AND PRINCIPE, a company existing under the laws of the Cayman Islands, whose registered office is located at 4th Floor, Century Yard, Cricket Square, Hutchins Drive, Elgin Avenue, George Town, Grand Cayman KY1-1209, Cayman Islands, hereinafter referred to as (“KOSMOS”).

ANP-STP, EQUATOR and KOSMOS may collectively be referred to as the “Parties”

WHEREAS

- A. THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE represented by the Agência Nacional do Petróleo de São Tomé e Príncipe, (“ANP-STP”) and EQUATOR are parties to the Production Sharing Contract signed with the Democratic Republic of Sao Tome and Principe on 18 April, 2012 (the “Contract”), in pursuance of which they have obtained the exclusive right to undertake petroleum operations in Block 5 within the territory of Sao Tome and Principe;
- B. EQUATOR has an eighty five percent (85%) participating interest in the Contract, which for the purpose of the Assignment Equator has divided it in two parts, one of

sixty five percent (65%) and another of twenty percent (20%). Equator agreed to assign and transfer to KOSMOS, which agreed to receive, the above referred sixty five percent (65%) participating interest (the “Assignment”);

- C. Article 19 of the Contract permits the parties to the Contract comprising the Contractor to assign and transfer in whole or in part their participating interest in the Contract with the respective rights, interests and obligations;
- D. Under article 19 of the Contract, ANP-STP, by its letter dated 11 February 2016, with the Ref: 029/ANP/GM/2016, authorized the Assignment and made known that it does not intend to exercise any preferential rights in relation to the Assignment;
- E. The Parties agree to the Assignment.

In witness whereof, the Parties have agreed the following between themselves in consideration of the obligations set out in the present deed of assignment:

Article 1

The Assignment shall be effective on the date this Deed of Assignment is signed by all Parties (the “Effective Date”).

Article 2

By virtue of this Deed of Assignment, EQUATOR assigns and transfers to KOSMOS, and KOSMOS receives, the sixty five percent (65%) participating interest referred to in Recital B, with all rights, interests and obligations (the “Assigned Interest”), so that the percentage interest held by the parties in the Contract as of the Effective Date shall be as follows:

ANP-STP	fifteen percent (15%);
EQUATOR	twenty percent (20%);
KOSMOS	sixty five percent (65%).

ANP-STP and EQUATOR agree that KOSMOS shall be named as Operator under the Contract.

Article 3

KOSMOS acknowledges and accepts that it shall assume and fulfil all the obligations, responsibilities and duties from the Effective Date, under the Contract that may arise after this date related to the Assigned Interest.

KOSMOS undertakes to indemnify and hold each of ANP-STP and EQUATOR harmless from and against all such obligations, liabilities, duties, costs and expenses arising out of operations relating to the Contract which accrue after the Effective Date to the extent they are related to the Assigned Interest.

Article 4

EQUATOR declares and warrants that it has not transferred, assigned or pledged the Assigned Interest and EQUATOR undertakes to indemnify and shall hold ANP-STP and KOSMOS harmless from all direct claims, losses or damages that ANP-STP and KOSMOS may suffer or incur owing to a violation of the above declaration and warranty.

EQUATOR herein undertakes to indemnify and hold KOSMOS harmless from all direct responsibilities and obligations relating to the Assigned Interest which accrue before the Effective Date.

Article 5

The Parties shall sign all other documents and shall carry out all other requirements that may be necessary or desirable in order to confirm and record the assignment of the Assigned Interest to make the Assignment effective in accordance with the laws of the Democratic Republic of Sao Tome and Principe.

Article 6

All the terms used in the present Deed of Assignment, which are not expressly defined herein, will have the same definition as that indicated in the Contract.

In witness whereof, the Parties have duly signed this deed of assignment in three (3) originals in the Portuguese language and in three (3) originals in the English language. The Portuguese version will prevail in case of discrepancy.

EQUATOR EXPLORATION STP BLOCK 5 LIMITED

Signature: /s/ Olapade Durotoye

Name: O. DUROTOYE

Position: DIRECTOR

Date: 19 FEB 2016

KOSMOS ENERGY SAO TOME AND PRINCIPE

Signature: /s/ Scott Davis

Name: SCOTT DAVIS

Position: DIR. BUSINESS DEVELOPMENT (PROXY)

Date: 19 FEB 2016

By its agreement to this Deed of Assignment, the Agência Nacional do Petróleo de São Tomé e Príncipe, representing THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE and as a party in the Contract, confirms the authorization to the above referred Assignment of the Assigned Interest and that it will not exercise any preferential rights in relation to the Assignment. It further expresses its agreement to the Assignment.

Signature: /s/ Orlando Sousa Pontes

Name: ORLANDO PONTES

Position: EXECUTIVE DIRECTOR

Date: 19 FEBRUARY 2016

THIRD AMENDMENT TO THE
PRODUCTION SHARING CONTRACT

BY AND AMONG

THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE

REPRESENTED BY THE

AGENCIA NACIONAL DO PETROLEO DE SAO TOME E

PRINCIPE

AND

EQUATOR EXPLORATION STP BLOCK 5 LIMITED

AND

KOSMOS ENERGY SAO TOME AND PRINCIPE

FOR

BLOCK 5

Amendment Executed on the 19th day of February 2016

THIS THIRD AMENDMENT TO THE PRODUCTION SHARING CONTRACT
is entered into the 19th day of February 2016 among:

- (1) THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE (the "State") represented by the Agencia Nacional do Petroleo de Sao Tome e Principe, ("ANP-STP");
- (2) EQUATOR EXPLORATION STP BLOCK 5 LIMITED, a company existing under the laws of the British Virgin Islands, registration number 1000133, with registered offices at Craigmuir Chambers, Road Town, Tortola, British Virgin Islands with a branch registered in Sao Tome and Principe with the Guiche Unico under no. 343/012 at Avenida da Independencia N°. 392, Sao Tome, (hereinafter referred to as "Equator");

AND

- (3) KOSMOS ENERGY SAO TOME AND PRINCIPE, a company existing under the laws of the Cayman Islands, whose registered office is located at 4th Floor, Century Yard , Cricket Square, Hutchins Drive, Elgin Avenue, George Town, Grand Cayman KYI-1209, Cayman Islands, hereinafter referred to as ("Kosmos").

WHEREAS:

- A. ANP-STP and Equator are parties to the Production Sharing Contract signed with the State on April, 18 2012 (the "Contract"), in pursuance of which Equator has obtained the exclusive right to undertake petroleum operations in Block 5 with in the Exclusive Economic Zone of Sao Tome and Principe;
- B. Pursuant to article 19 of the Contract, ANP-STP, Equator and Kosmos executed on 19th February 2016, the Deed of Assignment by way of which (i) Equator assigned to Kosmos a sixty-five percent (65%) participating interest in the Contract; (ii) ANP-STP duly authorized the above-mentioned assignment; (iii) ANP-STP waived any preferential rights it has under the Contract or under applicable Laws to pre-empt the

transaction contemplated by the Deed of Assignment. Consequently the participating interests held by the Parties in the Contract shall be the following as of that date:

ANP-STP -fifteen percent (15%);

KOSMOS - sixty-five per cent (65%); EQUATOR - twenty per cent (20%).

C. Equator has requested a one (1) year extension to Phase I of the Exploration Period and ANP-STP, pursuant to its letter under Ref. N° 029/ANP/GM/2016, dated February 11 2016, grants such extension.

D. ANP-STP, Equator and Kosmos (hereinafter collectively identified as the "**Parties**") hereby execute this Third Amendment to the Contract (the "**Amendment**").

THEREFORE, the Parties agree as follows:

1. By virtue and as consequence of the assignment of the participation interest referred in recital B above, the Parties agree to amend the Contract, effective on the date of execution of the Deed of Assignment identified in recital B and, as of such date, all references in the Contract to the Contractor (as defined in the Contract) shall be understood as being made also to Kosmos to the extent of its participation in the Contract.

2. To the extent and where applicable, all references in the Contract to Party or Parties shall include Kosmos.

3. As of the date of execution of the Deed of Assignment identified in recital B, the form of Parental Guarantee provided in Schedule 6 of the Contract is hereby replaced with the form of Parental Guarantee provided in the Schedule to this Amendment.

4. ANP-STP agrees that Equator may replace its Parental Guarantee dated 16th May 2012 ("Old Equator Guarantee") with a new Parental Guarantee in the form provided in the Schedule to this Amendment ("New Equator Guarantee") by submitting the New Equator Guarantee to ANP-STP. Such New Equator Guarantee shall replace the Old

Equator Guarantee without further act or deed. Kosmos shall submit its Parental Guarantee in the form provided in the Schedule to this Amendment.

5. As a consequence of this Amendment, as of the date of execution of the Deed of Assignment identified in recital B, the Parties agree that, pursuant to clauses 27.4 and 32.1 of the Contract, the following clauses of the Contract are changed as follows:

5.1 Clause 2.5

"2.5. Social Projects

The Contractor commits to undertake social projects during each phase of the Exploration Period valued at a minimum of the amounts below:

- *Phase I: Four Hundred Thousand United States Dollars (U.S \$400,000) per year for a total of One Million Six Hundred Thousand United States Dollars (U.S \$1,600,000), plus Four Hundred Thousand United States Dollars (U.S \$400,000) as a result of the one (1) year extension;*
- *Phase II: Three Hundred and Fifty Thousand United States Dollars (U.S \$350,000) per year for a total of Seven Hundred Thousand United States Dollars (U.S \$700,000);*
- *Phase III: Three Hundred and Fifty Thousand United States Dollars (U.S \$350,000) per year for a total of Seven Hundred Thousand United States Dollars (U.S \$700,000);*

If Petroleum is produced from the Contract Area, the Contractor shall undertake additional social projects according to the following schedule:

Cumulative Production (millions of Barrels or Barrels equivalent)	Value (US\$ million) of Project
40	2
70	3
100	5

5.2. ANP-STP hereby approves a one (1) year extension to Phase I of the Exploration Period set forth in Clause 4.2 of Contract, as a result of which the duration of the Exploration Period will be eight (8) years plus one (1) year extension granted by ANP-STP. Pursuant to the foregoing, Clauses 4.1 and 4.2 of the Contract are hereby amended as follows:

"4.1. Subject to Clause 20, the term of this Contract shall be/or a period of twenty eight (28) years from the Effective Date, comprising an eight (8) year Exploration and Appraisal period, as extended pursuant to Clauses 5.1 (b) and/or (c) (the "Exploration Period") and a twenty (20) year Production period (the "Production Period").

As a result of the extension granted by ANP-STP, one (1) year shall be added to the eight (8) years referred to above, during the Exploration Period. Regardless of the extension granted in the Phase I, Contractor shall be entitled to twenty (20) years of Production Period.

4.2. The Exploration Period shall be divided as follows:

*Phase I: Four (4) years from the Effective Date plus one (1) year extension
Phase II: from the end of Phase I until two (2) years after the end of Phase I; and
Phase III: from the end of Phase II until two (2) years after the end of Phase II, as extended pursuant to Clauses 5.1(b) and/or (c). "*

5.3. For the avoidance of doubt, the provisions of Clauses 14.7 and 14.9 of the Contract shall also apply to the one (1) year extension granted pursuant to Clause 5.2 of this Amendment.

5.4. Clause 28.1

"28.1. KOSMOS ENERGY SAO TOME E PRINCIPE is hereby designated as the Operator under this Contract to execute, for and on behalf of the Contractor, all

Petroleum Operations in the Contract Area pursuant to and in accordance with this Contract and the Petroleum Law. "

5.5. Clause 30

"30.1 Any notice or other communication required to be given by a Party to another shall be in writing (in portuguese and in english) and shall be considered as duly delivered if given by hand delivery in person, by courier, by facsimile, or by electronic means of transmitting written communication, which provides written communication of receipt at the following addresses:

*Agencia Nacional do Petroleo (ANP-
STP) Avenida das Nacoes Unidas, 225 C.P.1048
Sao Tome, Sao Tome and Principe Attention: Executive Director
Fax: +239-2226937 Tel: +239-2243350
Email: anp_geral@cstome.net*

EQUATOR EXPLORATION STP BLOCK 5 LIMITED

Address: Praia Lagarto, Agua Grande, Sao Tome, Sao Tome and Principe

Tel: +239-222 4387

Name: Managing Director/ CEO

*Address: 8th Floor, 2 Ajose Adeogun Street, Victoria Island,
Lagos, Nigeria*

E-mail: eezstp@oandoenergyresources.com

Cc: dadebiyi@oandoenergyresources.com

Tel: +234 1 270 2400

Name: Philip Dimmack

Address: 1st Floor, 50 Curzon Street, London, WJJ 7UW,

United Kingdom

E-mail: pdimmock@oandoenergyresources.com

Tel: +44 207 297 4280

KOSMOS ENERGY SAO TOME AND PRINCIPE

4th Floor, Century Yard, Cricket Square,

Hutchins Drive, Elgin Avenue,

George Town, Grand Cayman KY 1-1209, Cayman Islands

Attention: License Manager

Fax: +1 214 445 9705

Tel: +1 214 445 9600

Email: SaoTomelicenseManager@KosmosEnergy.com

Cc: KosmosGeneralCounsel@KosmosEnergy.com "

6. All the remaining provisions of the Contract, which are not expressly modified by this Amendment, shall remain in full force and effect in their precise original terms.

7. Capitalized terms in this Amendment not specifically defined herein shall have the same meaning as defined in the Contract.

Signed and executed on 19th February 2016, in three originals, being each one of them held by each one of the Parties hereto.

IN WITNESS WHEREOF the Parties have caused this Amendment to be executed the date above written.

SIGNED AND DELIVERED for and on behalf of THE STATE represented by the Agencia Nacional do Petróleo of Sao Tome and Principe

Signature: /s/ Orlando Sousa Pontes

Name: ORLANDO SOUSA PONTES

Designation: EXECUTIVE DIRECTOR

In the presence of:

Signature: /s/ Álvaro Silva

Name: ÁLVARO SILVA

Designation: LEGAL AND ECONOMIC DIRECTOR

SIGNED AND DELIVERED for and on behalf of EQUATOR EXPLORATION STP BLOCK 5 LIMITED

Signature: /s/ Olapade Durotoye

Name: O. DUROTOYE

Designation: Director

Witnessed by:

Signature: /s/ Efuntomi Akpeneye

Name: EFUNTOMIAKPENEYE

Designation: LEGAL ADVISOR

SIGNED AND DELIVERED for and on behalf of KOSMOS ENERGY SAO TOME
AND PRINCIPE

Signature: /s/ Scott Davis

Name: SCOTT DAVIS

Designation: DIRECTOR BUSINESS DEVELOPMENT (PROXY)

Witnessed by:

Signature: /s/ Carlos Silva

Name: CARLOS COSTA E SILVA

Designation: LAWYER

SCHEDULE

SCHEDULE 6

FORM OF PARENTAL GUARANTEE

THIS GUARANTEE is made on this [INSERT DAY] of [INSERT MONTH AND YEAR]

BETWEEN:

- (1) [THE GUARANTOR], a company organized and existing under the laws of [insert JURISDICTION], and having its registered office at [INSERT ADDRESS] (the Guarantor); and
- (2) THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE (the "State"), represented for the purposes of this Guarantee by the National Petroleum Agency.

WHEREAS, the Guarantor is the parent entity of [INSERT NAME OF COMPANY] organized and existing under the laws of [INSERT JURISDICTION], and having its registered office at [INSERT ADDRESS] (the "Company");

WHEREAS, the Company has entered into a production sharing contract (the Contract) with, among others, the State in respect of the Contract Area;

WHEREAS, the State desires that the execution and performance of the Contract by the Company be guaranteed by the Guarantor and the Guarantor desires to furnish this Guarantee as an inducement to the State to enter into the Contract and in consideration of the rights and benefits inuring to the Company thereunder; and

WHEREAS, the Guarantor accepts that it fully understands and assumes the contractual obligations under the Contract of the Company.

NOW THEREFORE, it is hereby agreed as follows:

1. **Definitions and Interpretation**

All capitalized words and expressions in this Guarantee have the same meaning as in the Contract, unless otherwise specified to herein.

2. **Scope of this Guarantee**

The Guarantor hereby guarantees to the State the timely payment and performance of any and all indebtedness and obligations whatsoever of the Company to the State arising under or in relation to the Contract, including the payment of any amounts required to

be paid by the Company to the State when the same become due and payable; provided, however that the liability of the Guarantor to the State hereunder shall not exceed the lesser of:

- (a) the liabilities of the Company to the State;
- (b) Guarantor's proportionate share based on the Company's participating interest in the Contract of Ten Million US Dollars (US\$10,000,000) during the Exploration Period, as may be extended in accordance with the Contract, but subject to 2(c) below; and
- (c) Guarantor's proportionate share based on the Company's participating interest in the Contract of Two-Hundred Fifty Million US Dollars (US\$250,000,000) during the Production Period.

3. **Waiver of Notice, Agreement to All Modifications**

The Guarantor hereby waives notice of the acceptance of this Guarantee and of the state of indebtedness of the Company at any time, and expressly agrees to any extensions, renewals, modifications or acceleration of sums due to the State under the Contract or any of the terms of the Contract, all without relieving the Guarantor of any liability under this Guarantee.

4. **Absolute and Unconditional Guarantee**

The obligations of the Guarantor shall be an absolute, unconditional and (except as provided in Article 2 above) unlimited guarantee of payment and performance to be performed strictly in accordance with the terms hereof, and without respect to such defenses as might be available to the Company.

5. **No Discharge of Guarantor**

The obligations of the Guarantor hereunder shall not in any way be released or otherwise affected by: a release or surrender by the Company of any collateral or other security it may hold or hereafter acquire for payment of any obligation hereby guaranteed; by any change, exchange or alteration of such collateral or other security; by the taking of or the failure to take any action with respect thereto either against the Company or against the Guarantor; or by any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor.

6. **No Prior Action Required**

The State shall not be required to make demand for payment or performance first against the Company or any other Person or to proceed against any collateral or other security which might be held by the State or otherwise to take any action before resorting to the Guarantor hereunder.

7. **Cumulative Rights**

All rights, powers and remedies of the State hereunder shall be cumulative and not alternative, and shall be in addition to all rights, powers and remedies given to the State by law or otherwise.

8. **Continuing Guarantee**

This Guarantee is intended to be and shall be considered as a continuing guarantee of payment and performance and shall remain in full force and effect for so long as the Contract and any amendments thereto shall remain outstanding or there shall exist any liability of the Company to the State thereunder.

9. **Notice of Demand**

Upon default in the performance of any of the obligations of the Company guaranteed hereunder, the State or its duly authorized attorney may give written notice to the Guarantor at its principle office in [INSERT JURISDICTION] of the amount due, and the Guarantor, within a period of ten (10) business days, will make, or cause to be made, payment of such amount as notified, in United States dollars, at such bank or other place in [insert jurisdiction] as the State shall designate and without set-off or reduction whatsoever of such payment in respect of any claim the Guarantor or the Company may then have or thereafter might have.

10. **Assignment**

The Guarantor shall not in any way effect, or cause or permit to be effected, the assignment or transfer of any of its obligations hereunder without the express written consent of the State.

11. **Subrogation**

Until all indebtedness hereby guaranteed has been paid in full, the Guarantor shall have no right of subrogation to any security, collateral or other rights which may be held by the State.

12. **Payment of Expenses**

The Guarantor shall pay to the State all reasonable costs and expenses, including attorney's fees, incurred by it in collecting or compromising any indebtedness of the Company hereby guaranteed or in enforcing the Contract or this Guarantee.

13. **Governing Law and Arbitration**

This Guarantee shall be governed by and interpreted in accordance with the laws of the State.

All disputes or claims arising out of or relating to this Guarantee shall be finally settled by arbitration, in accordance with the procedure set forth in the Contract; however, if in addition to the arbitration hereunder an arbitration has also been commenced under the Contract with respect to obligations hereby guaranteed, the arbitration commenced hereunder shall be consolidated with the arbitration commenced under the Contract and the arbitral body appointed hereunder shall be the same arbitral body appointed pursuant to the Contract. The arbitration shall be conducted in the Portuguese and English languages and the decision shall be final and binding on the parties.

14. **Severability of Provisions**

In the event that for any reason any provision hereof may prove illegal, unenforceable or invalid, the validity or enforceability of the remaining provisions hereof shall not be affected.

15. **Confidentiality**

The Guarantor agrees to treat this Guarantee and the Contract as confidential and shall not disclose, willingly or unwillingly, to any third party, except to the extent required by law, the terms and conditions hereof or thereof without the prior written consent of the State.

IN WITNESS WHEREOF, the Guarantor and the Company execute this Guarantee this [INSERT DAY] day of [INSERT MONTH AND YEAR].

[GUARANTOR]

By:

Title:

**THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE BY THE
[INSERT ENTITY]**

By:

Title:

CERTIFICAÇÃO DE FOTOCÓPIA

Maria Lobo Xavier, advogada, com escritório na Rua Tomas da Fonseca, Torre A - 13° Pisa, 1600-209 Lisboa, titular da cédula profissional n.º52566L, contribuinte fiscal n.º 254599621, certifico, nos termos e ao abrigo do Artigo 38.º do Decreto-Lei n.º76- A/2006 de 29 de março, que a fotocópia anexa a presente certificação, composta por sessenta e nove páginas, por mim numeradas e rubricadas, está conforme o original que me foi apresentado e que restitui, -----
----- Ato registado no sistema de registo *online* dos atos dos advogados, nos termos da Portaria n.º657-B/2006 de 29 de junho, com o n.º52566L/ 21. ----- Lisboa, 12 de Janeiro de 2016.

A ADVOGADA



MARIA LOBO XAVIER

Advogada

Ced. Prof. 52566L NIF 254599621
R. Tomas da Fonseca, Torre A - 13.º Andar
1600-209 LISBOA
Tel. 217240621 Fax. 217242924
e-mail: mlx@galpenergia.com

Nota: Isento de custos e honorários

PRODUCTION SHARING CONTRACT

BETWEEN

THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE

REPRESENTED BY THE

AGÊNCIA NACIONAL DO PETRÓLEO OF SAO TOME AND PRINCIPE

AND

GALP ENERGIA SÃO TOMÉ E PRÍNCIPE, UNIPessoal, LDA

FOR

BLOCK 6

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THIS PRODUCTION SHARING CONTRACT is made and entered into on this day 26th of October 2015 by and between:

- (1) **THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE** represented by the **AGÊNCIA NACIONAL DO PETRÓLEO OF SAO TOME AND PRINCIPE**; and
- (2) **GALP ENERGIA SÃO TOMÉ E PRÍNCIPE, UNIPESSOAL, LDA**, a company organized and existing under the laws of the Democratic Republic of Sao Tome and Principe whose registered office is at Avenida da Independência 392, II/III, Caixa Postal 638, São Tomé, São Tomé e Príncipe (the “**Contractor**”).

BACKGROUND:

- (A) All Petroleum existing within the Territory of Sao Tome and Principe, as set forth in the Petroleum Legislation, is natural resources exclusively owned by the State.
- (B) The Agência Nacional do Petróleo of Sao Tome and Principe, with the approval of the Government of Sao Tome and Principe, has the authority to enter into contracts for the conduct of Petroleum Operations in and throughout the area, the co-ordinates of which are described and outlined on the map in Schedule 1 of this Contract, which area is hereinafter referred to as the Contract Area.
- (C) The State wishes to promote Petroleum Operations in the Contract Area and the Contractor desires to join and assist the State in accelerating the exploration and exploitation of potential petroleum resources within the Contract Area.
- (D) In compliance of Article 20 of the Petroleum Law and in accordance with the Council of Ministers’ Resolution, which met in its 15th. Extraordinary Session, held on 31st. December 2013, the Agência Nacional do Petróleo, by its Announcement no. 02/2014 of 9th. January, published on domestic and international press, promoted a bid round for the award of exploration and production of oil and gas rights for the offshore area of the Democratic Republic of Sao Tome and Principe, to which concerns Block 6 object of this Contract, asking for the presentation of bids for Petroleum contracts.
- (E) This announcement was issued following a public statement made by the Agência Nacional do Petróleo in which, under Article 21 no. 2 of the Petroleum Law, it declared, in the National and International Press, having received direct negotiations proposals, having set a Term of (20) twenty 20 days as of the date of publication of the above mentioned announcement for the receipt of statements of interest on the part of third parties.
- (F) The bidding round referred in Recital (D) above has been open from 9th. January to 30th. January 2014, with three proposals having been placed for Block 6.
- (G) On 24th. January 2014, the Contractor presented to the Government, through the Agência Nacional do Petróleo and within the framework of that announcement, a statement of interest in the rights of exploration and production of oil and gas in the area of Block 6.
- (H) Within the deadline set for the announcement, two other interested entities have presented their respective statements of interest in the negotiation of the rights of exploration and production of oil and gas in the area of Block 6.

- (I) The statements of interest have been object of a technical report and a legal opinion from the Agência Nacional do Petróleo and an opinion of the Government.
- (J) In accordance with the opinion of the Government and the Council of Ministers' Resolution (45th. Ordinary Session) of 4th. September 2014, the XV Constitutional Government resolved to authorize the Agência Nacional do Petróleo to request clarifications without any binding nature for Production Sharing Contracts. Therefore, the Government, on its 50th. Ordinary Session, of 9th. October 2014, resolved to go ahead for the phase of negotiations of the Production Sharing Contract with Petrogal regarding Block 6, provided that the interests of the State be safeguarded.
- (K) The Contractor has the necessary financial capability, technical knowledge and ability to carry out the Petroleum Operations hereinafter described in accordance with this Contract, the Petroleum Legislation and Good Oil Field Practice.
- (L) Pursuant to and in accordance with the Petroleum Legislation, this Contract has been entered into by and between the State and the Contractor for the purpose of Petroleum Operations in the Contract Area.
- (M) **GALP ENERGIA SÃO TOMÉ E PRÍNCIPE, UNIPessoal, LDA** is hereby designated as the Operator under clause 28 of this Contract.

THE PARTIES agree as follows:

1. DEFINITIONS AND INTERPRETATION

- 1.1 Definitions provided in Petroleum Legislation (Petroleum Law, Oil Revenue Law and Petroleum Taxation Law) shall apply to this Contract. If not defined in the mentioned Petroleum Legislation, the words in the Contract beginning with capital letters shall have the following meaning:

“**Accounting Procedures**” means the rules and procedures set forth in Schedule 2;

“**Affiliate**” means, in respect of a Party, a Person that Controls, is Controlled by, or is under the common Control with the Party or any such Person, as the case may be;

“**Agência Nacional do Petróleo**” means the State regulatory agency established by the Government Decree-Law 5/2004 of the 30th of June, which is responsible for the regulation and supervision of Petroleum Operations or any agency which succeeds the Agência Nacional do Petróleo with respect to some or all of its powers;

“**Allocation and Lifting Procedures**” means the allocation and lifting procedures set forth in Schedule 3;

“**Appraisal Well**” means any well whose purpose at the time of commencement of drilling such well is the determination of the extent or volume of Petroleum contained in a Discovery;

“**Associated Natural Gas**” means all Natural Gas produced from a Reservoir, the predominant content of which is Crude Oil, and which is separated from Crude Oil in accordance with generally accepted international petroleum industry practice, including free gas cap, but excluding any liquid Petroleum extracted from such gas either by normal field separation, dehydration or in a gas plant;

“**Available Crude Oil**” means the Crude Oil recovered from the Contract Area, less quantities used for Petroleum Operations;

“**Barrel**” means a quantity or unit of Crude Oil, equal to 158.9874 liters (42 (forty-two) United States gallons) at a temperature of 15.56° (fifteen point five six degrees) Centigrade (60° (sixty degrees) Fahrenheit) at 1 (one) atmosphere of pressure;

“**Barrel of Oil Equivalent**” means the equivalent number of Crude Oil Barrels emerging from the conversion of Natural Gas into Crude Oil on the basis of one (1) Crude Oil Barrel for each six thousand (6.000) standard cubic feet of Natural Gas;

“**Budget**” means the cost estimate of items included in an approved Work Program;

“**Calendar Year**” or “**Year**” means a period of twelve (12) months commencing from January 1 and ending the following December 31, according to the Gregorian calendar;

“**Commercial Discovery**” means any Discovery, which has been declared to be commercial by the Contractor;

“**Contract**” means this production sharing contract, including its Recitals and Schedules;

“**Contract Area**” means the geographic area within the Territory of Sao Tome and Principe which is the object of this Contract and as described in Schedule 1, as such area may be amended in accordance with the terms herein;

“**Cost Oil**” means the quantum of Available Crude Oil allocated to the Contractor for recovery of Operating Costs after the allocation of Royalty Oil to the State;

“**Control**” means, in relation to a Person, the power of another Person to secure:

- (a) by means of the holding of shares or the possession of voting power, directly or indirectly, in or in relation to the first Person; or
- (b) by virtue of any power conferred by the articles of association of, or any other document regulating, the first Person or any other Person,

so that the affairs of the first Person are conducted in accordance with the decisions or directions of that other Person;

“**Crude Oil**” means crude mineral oil and liquid hydrocarbons in their natural state or obtained from Natural Gas by condensation or extraction;

“**Decommissioning**” means to abandon, decommission, transfer, remove and/or dispose of structures, facilities, installations, equipment and other property and other works used in Petroleum Operations in the Contract Area, to clean the Contract Area and make it good and safe, and to protect the environment, as further set out herein and in the Petroleum Law and other applicable laws and regulations;

“**Delivery Point**” means the point located within the jurisdiction of the State at which Petroleum reaches (i) the inlet flange at the FOB export vessel, (ii) the loading facility metering station of a pipeline or (iii) such other point within the jurisdiction of the State as may be agreed between the Parties;

“**Development Area**” means the extent of an area within the Contract Area capable of Production of Petroleum identified in a Commercial Discovery and agreed upon by the Agência Nacional do Petróleo following such Commercial Discovery;

“**Discovery**” means any geological structure(s), in which after testing, sampling and/or logging an Exploration Well, existence of mobile hydrocarbons has been made probable and which the Contractor deems worthy of evaluating further by conducting Appraisal operations;

“**Effective Date**” has the meaning ascribed to it in clause 26.1;

“**Exploration Period**” has the meaning ascribed to in clause 4.1;

“**Exploration Well**” means a well on any geological structure(s), whose purpose at the time of commencement of such well is to explore for an accumulation of Petroleum whose existence at the time was unproven by drilling;

“**Field Development Program**” means the program of activities presented by the Contractor to the Agência Nacional do Petróleo for approval outlining the plans for the Development of a Commercial Discovery. Such activities include:

- (a) Reservoir, geological and geophysical studies and surveys;
- (b) Drilling of production and injection wells; and
- (c) Design, construction, installation, connection and initial testing of equipment, pipelines, systems, facilities, plants and related activities necessary to produce and operate said wells, to take, save, treat, handle, store, transport and deliver Petroleum, and to undertake re-pressurizing, recycling and other secondary or tertiary recovery projects;

“**Force Majeure**” has the meaning ascribed to it in clause 21;

“**Government**” means the government of Sao Tome and Principe, as provided for in article 109 of the Constitution;

“**LIBOR**” means the LIBOR interest rate (“*London Interbank Offered Rate*”) at which United States dollar deposits of 6 (six) months duration are offered, as published in the *Financial Times* of London. The applicable LIBOR rate for each month or part thereof within an applicable interest period shall be the interest rate published in the

Financial Times of London on the last business day of the immediately preceding calendar month. If no such rate is quoted in the *Financial Times* of London during a period of 5 (five) consecutive business days, another rate (for example, the rate quoted in the *Wall Street Journal*) chosen by mutual agreement between the Agência Nacional do Petróleo and the Contractor shall apply;

“**Minimum Financial Commitment**” has the meaning ascribed to it in clause 7.3(a);

“**Minimum Work Obligations**” has the meaning ascribed to it in clause 7.2;

“**National Petroleum Account**” means the account established in accordance with the Oil Revenue Law;

“**Natural Gas**” means all gaseous hydrocarbons and inerts, including wet mineral gas, dry mineral gas, gas produced in association with Crude Oil and residue gas remaining after the extraction of liquid hydrocarbons from wet gas, but not including Crude Oil;

“**Oil Revenue Law**” means the Fundamental Oil Revenue Law of the State, Law No. 8/2004 of the 30th of December, as amended, supplemented or replaced from time to time;

“**Operating Costs**” means expenditures incurred and obligations made as determined in accordance with Article 2 of the Accounting Procedures;

“**Parties**” or “**Party**” means the parties or a party to this Contract;

“**Petroleum**” means:

- (a) any naturally occurring hydrocarbon, whether in a gaseous, liquid or solid state;
- (b) any mixture of naturally occurring hydrocarbons, whether in a gaseous, liquid or solid state; or
- (c) any Petroleum (as defined above) that has been returned to a Reservoir;

“**Petroleum Law**” means the Fundamental Law on Petroleum Operations, Law no. 16/2009, as supplemented or amended from time to time, and regulations made and directions provided under such law;

“**Petroleum Operations**” means activities undertaken in the Contract Area for the purposes of:

- (a) the Exploration, Appraisal, Development, Production, transportation, sale or export of Petroleum;
- (b) the construction, installation or operation of any structures, facilities or installations for the Development, Production and export of Petroleum, or decommissioning or removal of any such structures, facilities or installations;

“**Petroleum Taxation Law**” means the Petroleum Taxation Law, Law no. 15/2009, as amended, supplemented or replaced from time to time;

“**Proceeds**” means the amount in United States dollars determined by multiplying the Realizable Price by the number of Barrels of Available Crude Oil lifted by a Party;

“**Production Period**” has the meaning ascribed to it in clause 4.1;

“**Profit Oil**” means the balance of Available Crude Oil after the allocation of Royalty Oil and Cost Oil;

“**Quarter**” means a period of 3 (three) consecutive months starting with the first day of January, April, July or October of each Year;

“**Realizable Price**” means the price in United States dollars per Barrel determined in accordance with clause 11;

“**Relinquished Area**” means that portion of the Contract Area that is relinquished pursuant to and in accordance with clauses 5.1(d) and/or 6;

“**Reservoir**” means a porous and permeable underground formation containing an individual and separate accumulation of producible Petroleum that is confined by impermeable rock and/or water barriers and is characterized by a single natural pressure system;

“**Retained Area**” means that portion of the Contract Area that is retained after a relinquishment under clauses 5.1(d) and/or 6;

“**Royalty**” or “**Royalty Oil**” means the quantum of Available Crude Oil allocated to the State, based on a percentage calculated as a function of daily production rates as set forth in clause 10.1(a);

“**State**” means the Democratic Republic of Sao Tome and Principe;

“**State Entity**” mean any entity or body which integrates the Public Administration’s structure of the State or, in any other way, an entity in which the State has a full equity or full interest ownership designated by the State under clause 8 of this Contract. State Entity includes the Agência Nacional do Petróleo.

“**Tax**” means the tax payable pursuant to the Petroleum Taxation Law;

“**Unassociated Natural Gas**” means all gaseous Petroleum produced from Natural Gas Reservoirs, and includes wet gas, dry gas and residual gas remaining after the extraction of liquid Petroleum from wet gas;

“**Work Program**” means the work commitments itemizing the Petroleum Operations to be carried out in the Contract Area for the required period as defined in clause 7.

- 1.2 Unless the context otherwise requires, reference to the singular shall include the plural and vice versa and reference to any gender shall include all genders.
- 1.3 The Schedules form an integral part of this Contract.
- 1.4 The table of contents and headings in this Contract are inserted for convenience only and shall not affect the meaning or construction of this Contract.
- 1.5 References in this Contract to the words “include”, “including” and “others” shall not be construed as a limitation.

1.6 In the event of any inconsistency between the main body of this Contract and any Schedule, the provisions of the former shall prevail.

2. BONUSES AND SOCIAL PROJECTS

2.1 Signature Bonus

The Contractor shall pay to the State by deposit into the National Petroleum Account in immediately available funds a signature bonus in the amount of US \$ 2,000,000 (two million United States dollars), within 30 (thirty) days after the execution of this Contract.

2.2 Production Bonuses

The Contractor shall pay to the State by deposit into the National Petroleum Account the following production bonuses based on attainment of cumulative Production of Petroleum from each Development Area as follows:

Cumulative Production (millions of Barrels or Barrels of Oil Equivalent)	Bonus (US\$ million)
100	5
150	7.5
350	10
500	10

2.3 The production bonuses provided for in clause 2.2 shall be payable to the State by deposit into the National Petroleum Account within 30 (thirty) days of such Production level being first attained in immediately available funds.

2.4 The signature and production bonuses provided for in this clause 2 shall not be recoverable as Cost Oil or deductible for Tax purposes.

2.5 Social Projects

The Contractor commits to undertake social projects during each phase of the Exploration Period, valued at a minimum of US \$ 200,000 per year (two hundred thousand United States dollars) or as extended pursuant to clauses 5.1 (b) and/or (c). If Petroleum is produced from the Contract Area, the Contractor shall undertake additional social projects according to the following schedule:

Cumulative Production (millions of Barrels or Barrels of Oil Equivalent)	Project Value (US \$ million)
50	1
100	2
150	5

2.6 The details of the social projects to be undertaken by the Contractor in accordance with clause 2.5 shall be determined by agreement between the Contractor and the Agência Nacional do Petróleo. Failing such agreement, the Contractor and the

Agência Nacional do Petróleo shall each submit a proposal to an expert appointed by the World Bank and such expert shall determine which of the 2 (two) proposals shall be implemented. The Contractor shall be solely responsible for any and all costs and expenses associated with the foregoing expert determination. The value of the projects provided for in clause 2.5 above shall not be recoverable as Cost Oil or deductible for Tax purposes.

2.7 The Contractor shall be responsible for the implementation of all agreed or chosen social projects, which shall be undertaken using all reasonable skill and care.

3. SCOPE

3.1 This Contract is a production sharing contract awarded pursuant to the Petroleum Law and governed in accordance with the terms and provisions hereof. The conduct of Petroleum Operations and provision of financial and technical requirements by the Contractor under this Contract shall be with the prior approval of or in prior consultation with the Agência Nacional do Petróleo as required under this Contract or the Petroleum Law. The State hereby appoints and constitutes the Contractor as the company with exclusive right to conduct Petroleum Operations in the Contract Area.

3.2 During the term of this Contract, the total Available Crude Oil shall be allocated to the Parties in accordance with the provisions of clause 10, the Accounting Procedures and the Allocation and Lifting Procedure.

3.3 The Contractor, together with its Affiliates, shall provide all funds and bear all risk of Operating Costs and the sole risk in carrying out Petroleum Operations.

3.4 The Contractor shall engage in Petroleum Operations solely in accordance with the Petroleum Law, the Petroleum Taxation Law, Good Oil Field Practice and all other applicable laws and regulations.

4. TERM

4.1 Subject to clause 20, the term of this Contract shall be for a period of 28 (twenty-eight) years from the Effective Date, with an 8 (eight) years Exploration and Appraisal period, as extended pursuant to clauses 5.1(b) and/or (c) (the “**Exploration Period**”) and a 20 (twenty) year Production period (the “**Production Period**”).

4.2 The Exploration Period shall be divided as follows:

Phase I: 4 (four) years from the Effective Date;

Phase II: from the end of Phase I until 2 (two) years after the end of Phase I; and

Phase III: from the end of Phase II until 2 (two) years after the end of Phase II, as extended pursuant to clauses 5.1(b) and/or (c).

4.3 The Contractor shall commence Petroleum Operations no later than 30 (thirty) days after the Agência Nacional do Petróleo has approved the first Work Program.

4.4 Provided the Contractor has fulfilled all of its obligations relative to the current phase of the Exploration Period as described in clause 7.2, the Contractor may enter the next

phase. The Contractor shall provide the Agência Nacional do Petróleo with written notice of its intention to enter the next phase of the Exploration Period at least 60 (sixty) days prior to the end of the relevant phase. The report shall document that the work commitments for the phase are fulfilled. The Ministry may upon application, grant an exemption from the work obligation.

- 4.5 Provided the Contractor has fulfilled all of its obligations relative to the current phase of the Exploration Period as described in clause 7.2, the Contractor may terminate this Contract at the end of any phase during the Exploration Period in accordance with clause 20.7.
- 4.6 The Contractor shall have the right to produce Petroleum from each Development Area for a period of 20 (twenty) years from the date of approval by the Agência Nacional do Petróleo of the Field Development Program in the relevant area in accordance with clause 5.1. This Contract will terminate with respect to the relevant Development Area at the end of such 20 (twenty) year period unless the Agência Nacional do Petróleo grants an extension on application of the Contractor. The Contractor may, for any Development Area, be granted one or more extension periods, each one for a period of 5 (five) years, until all Petroleum has been economically depleted. In connection with any such extensions, the Parties agree to engage in good faith to re-negotiate the commercial terms of this Contract governing the applicable Development Area at least 5 (five) years prior to the expiration of the initial 20 (twenty) years period and at least 2 (two) years prior to the expiration of any subsequent extension period.

5. COMMERCIAL DISCOVERY AND DECLARATION OF COMMERCIALITY

- 5.1 The sequence of Petroleum Operations to establish a Commercial Discovery of Petroleum (other than Unassociated Natural Gas) shall be as follows:
- (a) the Contractor shall have a period of up to 45 (forty-five) days from the date on which the drilling of the applicable Exploration Well terminates to declare whether or not the Exploration Well has proven a Discovery;
 - (b) the Contractor shall then have a period of 2 (two) years (unless otherwise agreed with the Agência Nacional do Petróleo) from declaration of a Discovery to declare the Discovery either on its own or in aggregation with other Discoveries is a Commercial Discovery, which may be extended for 1 (one) year, subject to approval of the Agência Nacional do Petróleo, if the results of those activities indicate that further Appraisal is necessary;
 - (c) if the Contractor declares a Commercial Discovery it shall have a period of 2 (two) years (unless otherwise agreed by the Agência Nacional do Petróleo) from the time the Contractor declares a Discovery or aggregation of Discoveries is a Commercial Discovery to submit a Field Development Program to the Agência Nacional do Petróleo for approval;
 - (d) in the event a Discovery is not determined to be a Commercial Discovery, upon expiration of the period set out in clause 5.1(b) the State may, provided it gives at least 18 (eighteen) months' notice, require the Contractor to promptly relinquish, without any compensation or indemnification whatsoever, the area

encompassing the Discovery, including all of its rights to Petroleum which may be produced from such Discovery;

- (e) if a Field Development Program is approved by the Agência Nacional do Petróleo, the Contractor shall initiate field development and production according to the time schedule outlined in the Program.

5.2 Unassociated Natural Gas shall be developed in accordance with clause 23.4.

6. RELINQUISHMENT OF AREAS

6.1 The Contractor must relinquish the Contract Area, or part thereof, in accordance with the following terms:

- (a) 25% (twenty-five percent) of the initial surface area of the Contract Area shall be relinquished at the end of Phase I of the Exploration Period;
- (b) a further 25% (twenty-five percent) of the initial surface area of the Contract Area shall be relinquished at the end of Phase II of the Exploration Period; and
- (c) the remainder of the Contract Area shall be relinquished at the end of Phase III of the Exploration Period, less:
 - (i) any area which is the subject of an approved Appraisal program pursuant to clause 5.1(b) and a Development Area;
 - (ii) areas for which the approval of a Field Development Program is pending, until finally decided; and
 - (iii) any area reserved for a possible Unassociated Natural Gas Appraisal in relation to which the Contractor is engaged in discussions with the State in accordance with clause 23.4.

6.2 Any Retained Area and Relinquished Area shall be, as far as reasonable, single continuous units and delimited by meridians and parallels of latitude expressed in whole minutes of a degree to be approved by the Agência Nacional do Petróleo.

6.3 Any Relinquished Area shall revert to the State.

6.4 Subject to the Contractor's obligations under clause 7 and its Decommissioning obligations, the Contractor may, at any time, notify the Agência Nacional do Petróleo upon 3(three) months prior written notice that it relinquishes its rights over all or part of the Contract Area. In no event shall any voluntary relinquishment by the Contractor over all or any part of the Contract Area reduce the Minimum Work Obligations or Minimum Financial Commitment set out in clause 7.

7. MINIMUM WORK PROGRAM AND BUDGET

7.1 Within 2 (two) months after the Effective Date and thereafter at least 3 (three) months

prior to the beginning of each Calendar Year, the Contractor shall prepare and submit for the approval of the Agência Nacional do Petróleo, a Work Program and Budget for the Contract Area setting forth the Petroleum Operations which the Contractor proposes to carry out during the ensuing Year, or in case of the first Work Program and Budget, during the remainder of the current Year.

7.2 The minimum Work Program for each phase of the Exploration Period is as follows (the “**Minimum Work Obligations**”):

Phase I: The Contractor shall:

- Carry out Geological and Geophysical studies
- Perform Environmental Impact Assessments
- Acquire, Process and Interpret 1200 km of 2D seismic or 750 km² of 3D seismic, as elected by the Contractor

Phase II: If the Contractor elects to enter Phase II, then during such Phase II of the Exploration Period the Contractor shall:

- Carry out Geological and Geophysical studies
- Perform Environmental Impact Assessments
- Acquire, Process and Interpret 750 km² of 3D seismic

Phase III: If the Contractor elects to enter Phase III, then during such Phase III of the Exploration Period the Contractor shall:

- Carry out Geological and Geophysical studies
- Perform Environmental Impact Assessments
- Drill one (1) Exploration Well with a minimum total vertical depth (TVDSS) of 4600m

7.3 **Minimum Financial Commitments**

- (a) The Contractor shall be obligated to incur the following minimum financial commitment (the “**Minimum Financial Commitment**”):

Phase I: US \$ 4,500,000 (four million five hundred thousand United States dollars)

Phase II: US \$ 7,500,000 (seven million five hundred thousand United States dollars)

Phase III: US \$ 50,000,000 (fifty million United States dollars)

- (b) If the Contractor fulfills the Minimum Work Obligations set forth in clause 7.2 for each phase of the Exploration Period, then the Contractor shall be deemed to have satisfied the Minimum Financial Commitments for each such phase.
- (c) If the Contractor fails to complete the Minimum Work Obligations for any phase of the Exploration Period and such commitment has not been moved to the next phase (if any), with the consent of the Agência Nacional do Petróleo,

then the Contractor shall pay to the State by deposit into the National Petroleum Account: (i) the difference between the Minimum Financial Commitment for the then current phase and the amount actually expended in Petroleum Operations for such phase; and (ii) 4% (four percent) of the Minimum Financial Commitment for any subsequent phase that is not initiated, as liquidated damages in full and final settlement of all potential claims for breach of this Contract and, notwithstanding clause 20, this Contract shall automatically terminate.

- 7.4 The Contractor shall be excused from any delay or failure to comply with the terms and conditions of clauses 7.2 and/or 7.3:
- (a) during any period of Force Majeure; or
 - (b) if the Agência Nacional do Petróleo or any other State authority denies the Contractor any required permissions to perform the Petroleum Operations which constitute Minimum Obligations of the Work Program.
- 7.5 The time for performing any incomplete Minimum Work Obligations for any phase of the Exploration Period and the term of this Contract shall be extended by the following periods in the circumstances set out in clause 7.4:
- (a) with respect to clause 7.4 (a), for the period during which Force Majeure is in existence; and
 - (b) with respect to clause 7.4 (b), for a 6 (six) months' term to permit the Contractor to make a revised plan of drilling, or other work, which is satisfactory to the Agência Nacional do Petróleo.
- 7.6 If any circumstance described in clauses 7.4 and 7.5 is not resolved within the time periods specified above, then after consultation with Agência Nacional do Petróleo, the Contractor shall be liable to pay into the National Petroleum Account an amount corresponding to the unfulfilled work for that phase and, notwithstanding clause 20, this Contract shall automatically terminate.
- 7.7 Any unfulfilled Minimum Work Obligation in any phase of the Exploration Period may, with the written consent of the Agência Nacional do Petróleo, be added to the Minimum Work Obligation for the next succeeding phase.
- 7.8 The expenses or the work by the Contractor over and above the Minimum Work Obligations or the Minimum Financial Commitment for any phase shall be credited against and reduce the Minimum Work Obligation or the Minimum Financial Commitment for the next succeeding phase.
- 7.9 For the purposes of determining whether an Exploration Well or an Appraisal Well has been drilled in accordance with the Minimum Work Obligation, such a well shall be deemed drilled if the minimum total depth has been reached or if any one of the following events occurs prior to reaching the minimum total depth:
- (a) a Discovery is made and further drilling may cause irreparable damage to such Discovery;

- (b) basement is encountered;
- (c) the Agência Nacional do Petróleo and the Contractor agree the well is drilled for the purpose of fulfilling the obligation to complete the Minimum Work Obligation; or
- (d) technical difficulties are encountered which, in the judgment of the Contractor and in accordance with reasonable and prudent international oilfield practice, makes further drilling impracticable, uneconomic, unsafe or a danger to the environment.

7.10 The Exploration Period set forth in clause 7.2 may be extended for an additional 6 (six) months to conclude the drilling and testing of any well for which operations have been commenced up until the end of Phase III of that Period (with its extensions). This Contract shall automatically terminate if no Commercial Discovery has been declared by the Contractor during the Exploration Period, as may be extended.

7.11 Performance Bond

- (a) Within 30 (thirty) days from the Effective Date, the Contractor shall submit a performance bond in a form approved by the Agência Nacional do Petróleo and from a reputable international financial institution approved by the Agência Nacional do Petróleo to cover the Minimum Financial Commitment for Phase I of the Exploration Period.
- (b) Should the Contractor satisfy in full the conditions for continuing Petroleum Operations at the end of Phase I of the Exploration Period pursuant to clause 7.2, a replacement performance bond in the same form and from the same international financial institution, unless otherwise agreed by the Agência Nacional do Petróleo, shall be submitted within 30 (thirty) days from the date of the extension to cover the Minimum Financial Commitment for Phase II of the Exploration Period.
- (c) Should the Contractor satisfy in full the conditions for continuing Petroleum Operations at the end of Phase II of the Exploration Period, pursuant to clause 7.2, a replacement performance bond in the same form and from the same international financial institution, unless otherwise agreed by the Agência Nacional do Petróleo, shall be submitted within 30 (thirty) days from the date of the extension to cover the Minimum Financial Commitment for Phase III of the Exploration Period.

7.12 The amount of the performance bond shall be reduced annually by deducting the verified expenditures the Contractor has incurred in the previous year of each phase and the performance bond shall terminate at the end of each phase if the Minimum Work Obligations or Minimum Financial Commitment for that phase have been satisfied in full.

7.13 Guarantee

Within 30 (thirty) days from the date of execution of this Contract, the Contractor shall submit a guarantee from a parent company approved by the Agência Nacional do Petróleo in the amount of and in accordance with the form of Schedule 6 which shall be valid for up to 4 (four) years after the termination of this Contract. Wherever the Contractor is formed by more than party, each one shall put forward a guarantee of a parent company approved by the Agência Nacional do Petróleo in an amount equal to its participation interest share of the amount set out in Schedule 6. The Agência Nacional do Petróleo, or the other State Entity designated to participate in this Contract, is not subject to this obligation while its participation is a carried one, in which case the remaining parties to the Contract shall guarantee the amount which will be incumbent to the former, in the proportion of their participating interests in this Contract.

8. STATE PARTICIPATION

- 8.1 The State, either through the Agência Nacional do Petróleo or any other State Entity designated by the State, shall have, as of the Effective Date, a carried 10% (ten percent) participation in the Contractor's rights and interests under this Contract. The Contractor shall fund, bear and pay all costs, expenses and amounts due in respect of Petroleum Operations conducted pursuant to this Contract.
- 8.2 In respect of its carried interest referred to in clause 8.1, the Agência Nacional do Petróleo or other State Entity designated by the State shall become a party to the Joint Operating Agreement.
- 8.3 Upon the commencement of commercial Production, the Contractor shall be entitled to receive 100% (one hundred percent) of Cost Oil in order to recover all costs, expenses and amounts paid in respect of Petroleum Operations pursuant to clause 8.1 and incurred on behalf of the Agência Nacional do Petróleo or other State Entity designated by the State.
- 8.4 The Agência Nacional do Petróleo or other State Entity designated by the State, shall be entitled to receive 10% (ten percent) of the Contractor's entitlement to Profit Oil as provided for in clause 10.1(d).
- 8.5 The Agência Nacional do Petróleo or other State Entity designated by the State, shall be entitled at any time, upon advance written notice to the Contractor, to convert its carried interest into a full working participating interest, whereupon, after reimbursement of any cost, expense or any other amount incurred by the Contractor pursuant to clause 8.1, the Agência Nacional do Petróleo, or other State Entity designated by the State, shall be entitled to 10% (ten percent) of all Available Crude Oil to which the Contractor is entitled under the terms of this Contract, pursuant to a schedule to be agreed between the Contractor and the Agência Nacional do Petróleo or other State Entity designated by the State.

9. RIGHTS AND OBLIGATIONS OF THE PARTIES

- 9.1 In accordance with this Contract, the Agência Nacional do Petróleo shall:
 - (a) pursuant to clause 14, jointly work with the Contractor's professional staff in the fulfillment of Petroleum Operations under this Contract;

- (b) assist and expedite the Contractor's execution of Petroleum Operations and Work Programs including through the assistance in supplying or otherwise making available all necessary visas, work permits, rights of way and easements as may be reasonably requested by the Contractor. All expenses incurred by the Agência Nacional do Petróleo, in providing such assistance at the Contractor's request, shall be reimbursed to the Agência Nacional do Petróleo by the Contractor in accordance with clause 12. Such reimbursement shall be made against presentation of invoices and shall be in United States dollars. The Contractor shall include such reimbursements in the Operating Costs;
- (c) have the right to recover from the Contractor all costs which are reasonably incurred for purposes of Petroleum Operations;
- (d) have legal title to and shall keep the originals of all data and information resulting from Petroleum Operations including geological, geophysical, engineering, well logs, completion reports, production, operations and any other data and information that the Contractor may compile during the term of this Contract; provided, however, that the Contractor shall be entitled to keep copies and use such data and information during the term of this Contract; and
- (e) not exercise all or any of its rights or authority over the Contract Area in derogation of the rights of the Contractor otherwise than in accordance with the Petroleum Law.

9.2 In accordance with this Contract, the Contractor shall:

- (a) promptly pay to the State by deposit into the National Petroleum Account all fees, bonuses, and other amounts due to the State under the terms of this Contract;
- (b) provide all necessary funds for the payment of Operating Costs including funds required to provide all materials, equipment, facilities, supplies and technical requirements (including personnel) whether purchased or leased;
- (c) provide such other funds for the performance of Work Programs including payments to third parties who perform services to the Contractor in the conduct of Petroleum Operations;
- (d) prepare Work Programs and Budgets and carry out approved Work Programs in accordance with Good Oil Field Practice with the objective of avoiding waste and obtaining maximum ultimate recovery of Petroleum at a minimum cost;

- (e) exercise all the rights, comply with all the obligations under the Petroleum Law and any other applicable laws and pay the following fees to the State by deposit into the National Petroleum Account (all expressed in United States dollars):

On application for the Production Period:	\$500,000
When requesting to assign or otherwise transfer any interest during	\$100,000
Exploration Period:	
When requesting to assign or otherwise transfer any interest during	\$300,000
Production Period:	
When requesting termination of the Contract	\$100,000
On application for the Contractor to commence drilling:	\$25,000

- (f) ensure that all leased equipment brought into the Territory of Sao Tome and Principe for the conduct of Petroleum Operations is treated in accordance with the terms of the applicable leases;
- (g) have the right of ingress to and egress from the Contract Area and to and from facilities therein located at all times during the term of this Contract;
- (h) promptly submit to the Agência Nacional do Petróleo for permanent custody the originals of all geological, geophysical, drilling, production, operating and other data, information and reports that the Contractor or its Associates may compile during the term of this Contract;
- (i) prepare estimated and final tax returns and submit the same to the relevant tax authority on a timely basis in accordance with the Petroleum Taxation Law;
- (j) have the right to lift Available Crude Oil in accordance with lifting and allocation procedures to be agreed by the Parties not later than 6 (six) months prior to the commencement of Production, in accordance with the principles set forth in Schedule 3, and to freely export and retain abroad the receipts from the sale of Available Crude Oil allocated to it under this Contract;
- (k) in accordance with clause 14 prepare and carry out plans and programs of the State for industry training and education of nationals of Sao Tome and Principe for all job classifications with respect to Petroleum Operations pursuant to and in accordance with the Petroleum Law;
- (l) employ only such qualified personnel as is required to conduct Petroleum Operations, in accordance with Good Oil Field Practice and in a prudent and cost effective manner, giving preference to qualified nationals of Sao Tome and Principe;
- (m) give preference to such goods, material and equipment which are available in Sao Tome and Principe or services that can be rendered by nationals of Sao Tome and Principe in accordance with the Petroleum Law and this Contract;
- (n) pay all charges and fees as are imposed by law in Sao Tome and Principe with its Associates as the case may be. The Contractor and its Associates shall not be treated differently from any other Persons engaged in similar petroleum operations in the Territory of Sao Tome and Principe;

- (o) indemnify and hold the State harmless, including the Agência Nacional do Petróleo, against all losses, damages, injuries, expenses, actions of whatever kind and nature including all legal fees and expenses suffered by the State or the Agência Nacional do Petróleo where such loss, damage, injury, expense or action is caused by the negligence or willful misconduct of the Contractor, its Affiliates, its sub-contractors or any other Person acting on its or their behalf or any of their respective directors, officers, employees, agents or consultants;
- (p) not exercise all or any rights or authority over the Contract Area in derogation of the rights of the State or in breach of the Petroleum Law; and
- (q) in the event of any emergency requiring immediate operational action, take all actions it deems proper or advisable to protect the interests of the Parties and any other affected Persons and any costs so incurred shall be included in the Operating Costs. Prompt notification of any such action taken by the Contractor and the estimated cost shall be given to the Agência Nacional do Petróleo within 48 (forty-eight) hours of becoming aware of the event.

10. RECOVERY OF OPERATING COSTS AND SHARING OF PETROLEUM PRODUCTION

10.1 The allocation of Available Crude Oil shall be calculated on a Contract Area basis for Royalty Oil, Cost Oil and Profit Oil. The allocation of Available Crude Oil shall be in accordance with the Accounting Procedures, the Allocation and Lifting Procedures and this clause 10 as follows:

- (a) Royalty Oil shall be allocated to the State from the first day of Production, based on the daily total of Available Crude Oil from a Contract Area, set at a rate of 2% (two percent);
- (b) Cost Oil shall be allocated to the Contractor in such quantum as will generate an amount of Proceeds sufficient for recovery of Operating Costs in each Contract Area. All costs will be recovered in United States dollars through Cost Oil allocation;
- (c) Cost Oil shall be not more than 80% (eighty percent) of Available Crude Oil in each Contract Area less deduction of Royalty Oil in any accounting period;
- (d) Profit Oil, being the balance of Available Crude Oil after deducting Royalty Oil and Cost Oil, shall be allocated to each Party based on the before-tax, nominal rate of return calculated on a quarterly basis for the Contract Area in accordance with the following sliding scale:

Contractor's Rate of Return for Contract Area (%per annum)	Government Share of Profit Oil	Contractor Share of Profit Oil
<19%	0%	100%
≥19 %< 22%	10%	90%
≥22 %< 26%	20%	80%
≥26 %< 29%	40%	60%
≥29%	50%	50%

10.2 Beginning at the date of Commercial Discovery, the Contractor's rate of return shall be determined at the end of each Quarter on the basis of the accumulated compounded net cash flow for each Contract Area, using the following procedure:

- (a) the Contractor's net cash flow for a Contract Area for each Quarter is:
 - (i) The result of the sum of the Contractor's Cost Oil and the share of Profit Oil of the Contract Area regarding Petroleum actually lifted in that Quarter at the Realizable Price;
 - (ii) Minus Operating Costs;
- (b) For this computation, it shall not be included in the calculation of a Contractor's net cash flow neither any expense made before the date of Commercial Discovery for a Contract Area nor any Exploration Cost.
- (c) The Contractor's net cash flows for each Quarter are compounded and accumulated for a Contract Area beginning at the date of Commercial Discovery according to the following formula:

ACNCF (Current Quarter) =

$(100\% + DQ \times ACNCF \text{ (Previous Quarter)} + NCF \text{ (Current Quarter)} 100\%$

where:

ACNCF = accumulated compounded net cash flow

NCF = net cash flow

DQ = quarterly compound rate (in percent)

The calculation will be made using quarterly compound rates (in percent) of 4.44%, 5.09%, 5.95%, and 6.57%, which correspond to annual compound rates ("DA") of 19%, 22%, 26%, and 29%, respectively.

- (d) The Contractor's rate of return in any given Quarter for a Contract Area shall be deemed to be between the largest DA which yields a positive or zero ACNCF and the smallest DA which causes the ACNCF to be negative.
- (e) The sharing of Profit Oil from a Contract Area between the State and the Contractor in a given Quarter shall be in accordance with the scale in clause 10.1, paragraph (d) above using the Contractor's deemed rate of return as per paragraph (c) in the immediately preceding Quarter.
- (f) In a given Contract Area, it is possible for the Contractor's deemed rate of return to decline as a result of negative cash flow in a Quarter with the consequence that Contractor's share of Profit Oil from that Contract Area would increase in the subsequent Quarter.
- (g) Pending finalization of accounts, Profit Oil from the Contract Area shall be shared on the basis of provisional estimates, if necessary, of a deemed rate of

return as approved by the Agência Nacional do Petróleo. Adjustments shall be effected with the procedure subsequently to be adopted by the Agência Nacional do Petróleo.

- 10.3 The quantum of Available Crude Oil to be allocated to each Party under this Contract shall be determined at the Delivery Point.
- 10.4 Each Party shall lift and dispose of Available Crude Oil in accordance with the Allocation and Lifting Procedures as provided in Schedule 3. In the event of any reconciliation, the records of the Agência Nacional do Petróleo shall be the official, final and binding records.
- 10.5 Allocation of Royalty Oil and Profit Oil shall be in the form of delivery of Production of Petroleum to the Agência Nacional do Petróleo. The Agência Nacional do Petróleo or other appropriate authority shall issue receipts for such delivery within 30 (thirty) days of lifting such Royalty Oil and Profit Oil. These receipts are issued by the Agência Nacional do Petróleo or other appropriate authority on behalf of the Government of Sao Tome and Principe.
- 10.6 Any Party may, at the request of any other Party, lift such other Party's Available Crude Oil, pursuant to clause 10.3, and the lifting Party, within 30 (thirty) days, shall transfer to the account of the non-lifting Party the Proceeds of the sale to which the non-lifting Party is entitled. Overdue payments shall bear interest at the LIBOR rate plus 2% (two percent).
- 10.7 The State may sell to the Contractor all or any portion of its allocation of Available Crude Oil from the Contract Area at the Realizable Price under mutually agreed terms and conditions.
- 10.8 The parties shall meet as and when agreed in the Allocation and Lifting Procedures to reconcile all Petroleum produced, allocated and lifted during the period in accordance with the Allocation and Lifting Procedures set forth in Schedule 3.
- 10.9 Notwithstanding the above, in lieu of lifting the State's Profit Oil and/or Royalty Oil, the State may elect to receive the State's allocation of Profit Oil and/or Royalty Oil in cash based on the Realizable Price rather than through lifting, regardless of whether or not the Contractor sells the State's Profit Oil and/or Royalty Oil to a third party. This option shall be exercised upon 180 (one hundred eighty) days advance notice issued by the Agência Nacional do Petróleo to the Operator. If the State elects to receive cash in lieu of lifting, the Operator shall lift the State's allocation of Profit Oil and/or Royalty Oil and pay into the National Petroleum Account cash in respect of such lifting within 30 (thirty) days from the last day of the month in which the lifting occurred. Every 6 (six) months, the State may elect to have an entity designated by the State to resume lifting the State's allocation of Profit Oil and/or Royalty Oil, upon 180 (one hundred eighty) days notice to the Operator, prior to the date the State elects to have an entity, designated by the State, to resume lifting.

11. VALUATION OF CRUDE OIL

- 11.1 Save as otherwise provided in this Contract, Crude Oil Production shall be valued in

accordance with the following procedures:

- (a) On the attainment of commercial production of Crude Oil, each Party shall engage the services of an independent laboratory of good repute to undertake a qualitative and quantitative analysis of such Crude Oil.
- (b) Once a trial marketing period is designated which shall extend for the first 6 (six) month period during which such new stream is lifted or for the period of time required for the first 10 (ten) liftings, whichever is longer. During the trial marketing period the Parties shall:
 - (i) collect samples of the new Crude Oil upon which the qualitative and quantitative analysis shall be performed as provided in clause 11.1(a);
 - (ii) determine the approximate quality of the new Crude Oil by estimating the yield values from refinery modeling;
 - (iii) market the new Crude Oil to which they are entitled and the other Party's allocation of Available Crude Oil they may be entitled to lift, and payments therefore shall be made by the buyers to the Operator who will be responsible for its distribution to the other Parties in accordance with their entitlement; Cost Oil and Profit Oil and the Contractor's accounting shall reflect such revenues, in accordance with clause 10;
 - (iv) provide information to a third party who shall compile the information and maintain all individual Party information confidential, with regard to the marketing of the new Crude Oil, including documents which verify the sales price and terms of each lifting; and
 - (v) apply the actual F.O.B. sales price to determine the value for each lifting which F.O.B. sales pricing for each lifting shall continue, as the Realizable Price, after the trial marketing period until the Parties agree to a valuation of the new Crude Oil but in no event longer than 90 (ninety) days after conclusion of the trial marketing period.
- (c) As soon as practicable but in any event not later than 60 (sixty) days after the end of the trial marketing period, the Parties shall meet to review the qualitative and quantitative analysis, yield and actual sales data. Each Party may present a proposal for the valuation of the new Crude Oil. A valuation formula for the Realizable Price shall be agreed to by the Parties not later than 9 (nine) months after the first lifting. It is the intent of the Parties that such prices shall reflect the true market value based on arm's length transactions for the sale of the new Crude Oil. The valuation formula, as determined hereinbefore (including the product yield values), shall be mutually agreed within 30 (thirty) days of the aforementioned meeting. In the absence of an agreement, it shall be referred to a mutually agreed independent expert who shall have the appropriate international oil and gas experience and who will

resolve and settle the matter in a manner as he shall in his absolute discretion think fit and the decision of the expert shall be final and binding on the Parties. If, after a period of 30 (thirty) days, the Parties are unable to agree on the identity of the expert, such expert shall be appointed by the *International Centre for Expertise* in accordance with the provisions for the appointment of experts under the Rules for Expertise of the *International Chamber of Commerce*.

- (d) Upon the conclusion of the trial marketing period, the Parties shall be entitled to lift their allocation of Available Crude Oil pursuant to clause 10.3 and the Allocation and Lifting Procedures set forth in Schedule 3.
- (e) When a new Crude Oil stream is produced from the Contract Area and is commingled with an existing Crude Oil produced, which has an established Realizable Price basis, then such basis shall be applied to the extent practicable for determining the Realizable Price of the new Crude Oil. The Parties shall meet and mutually agree on any appropriate modifications to such established valuation basis, which may be required to reflect any change in the market value of the Crude Oils as a result of commingling.

11.2 If, in the opinion of either the Agência Nacional do Petróleo or the Contractor, an agreed price valuation method fails to reflect the market value of Crude Oil produced in the Contract Area, then such Party may propose to the other Party modifications to such valuation method once in every 6 (six) months but in no event more than twice in any Calendar Year. The Parties shall then meet within 30 (thirty) days of such proposal and mutually agree on any modifications to such valuation within 30 (thirty) days from such meeting. In the absence of an agreement, the issue shall be referred to a mutually agreed independent expert who shall have the appropriate international oil and gas experience and who will resolve and settle the matter in a manner as he shall in his absolute discretion think fit and the decision of the expert shall be final and binding on the Parties. If after a period of 30 (thirty) days, the Parties are unable to agree on the identity of the expert, such expert shall be appointed by the *International Centre for Expertise* in accordance with the provisions for the appointment of experts under the Rules for Expertise of the *International Chamber of Commerce*.

11.3 Segregation of Crude Oils of different quality and/or grade shall, by agreement of the Parties, take into consideration, among other things, the operational practicality of segregation and the cost benefit analysis thereof. If the Parties agree on such segregation the following provisions shall apply:

- (a) any and all provisions of this Contract concerning valuation of Crude Oil shall separately apply to each segregated Crude Oil produced; and
- (b) each grade or quality of Crude Oil produced and segregated in a given year shall contribute its proportionate share to the total quantity designated in such year as Royalty Oil, Cost Oil and Profit Oil.

12. PAYMENTS

12.1 The Contractor shall make all payments to the State, for which it is liable under this Contract, in United States dollars or such other currency agreed between the Contractor and the Agência Nacional do Petróleo. Payments shall be made into the National Petroleum Account in accordance with the Oil Revenue Law. Where a

payment is made in currency other than United States dollars, the exchange rate used to convert the liability from United States dollars into that currency shall be the exchange rate published on the date of payment by the Central Bank of Sao Tome and Principe for dobras and by the *Financial Times* of London for other currencies. Overdue payments shall bear interest at the annual rate of LIBOR plus 2% (two percent) from the due date until the date of actual payment.

- 12.2 The State shall make all payments to the Contractor for which it is liable under this Contract in United States dollars or such other currency agreed between the Contractor and the Agência Nacional do Petróleo. Where a payment is made in a currency other than United States dollars, the exchange rate used to convert the liability from United States dollar into that currency shall be the exchange rate published on the date of payment by the Central Bank of Sao Tome and Principe for dobras, and the *Financial Times* of London for other currencies. Overdue payments shall bear interest at the annual rate of LIBOR plus 2% (two percent) from the due date until the date of actual payment.
- 12.3 Any payments required to be made pursuant to this Contract shall be made within 30 (thirty) days following the last day of the month in which the obligation to make such payments is incurred.

13. TITLE TO EQUIPMENT / DECOMMISSIONING

- 13.1 The Contractor shall finance the cost of purchasing or leasing all materials, equipment and facilities to be used in Petroleum Operations in the Contract Area pursuant to approved Work Programs and Budgets and such materials, equipment and facilities, if purchased, shall become the sole property of the State, free of all liens and other encumbrances, when the Contractor has recovered the cost of such materials, equipment and facilities (as the case may be) in accordance with this Contract or upon its termination, whichever occurs first. Except as otherwise provided for in the Petroleum Law, the Contractor shall have the right to use, free of any additional charge, all materials, equipment and facilities exclusively for Petroleum Operations in the Contract Area during the term of this Contract and any extensions thereof. Should the State or the Agência Nacional do Petróleo desire to use such materials, equipment and facilities outside the Contract Area, such use shall be subject to terms and conditions to be agreed by the Parties, provided that it is understood that Petroleum Operations in the Contract Area hereunder shall take precedence over such use by the State or the Agência Nacional do Petróleo. The Contractor shall only lease materials, equipment and facilities with the approval of the Agência Nacional do Petróleo, such approval not to be unreasonably withheld.
- 13.2 The Contractor's right to use such purchased materials, equipment and facilities shall cease with the termination or expiration (whichever is earlier) of this Contract, including any extensions hereof.
- 13.3 The provisions of clause 13.1, with respect to the title of property passing to the State, shall not apply to leased equipment belonging to local or foreign third parties, and such equipment may be freely exported from the Territory of Sao Tome and Principe, in accordance with the terms of the applicable lease.

13.4 Notwithstanding clause 13.2, all fixed assets purchased or otherwise acquired by the Contractor for the purposes of Petroleum Operations hereunder, shall become the exclusive property of the State when the Contractor has recovered the cost of such materials, equipment and facilities (as the case may be) in accordance with this Contract or upon its termination, whichever occurs first. Upon termination of this Contract, the Contractor shall hand over possession of such fixed assets to the State in good working order and free of all liens and other encumbrances.

13.5 During the term of this Contract, any agreed sale of equipment, lands, fixed assets, materials and machinery acquired for the purpose of Petroleum Operations shall be conducted by the Contractor on the basis of the procedure for sale of assets as set forth in Schedule 5, subject to the consent of the Agência Nacional do Petróleo.

13.6 Decommissioning

The expenditures for Decommissioning will be estimated on the basis of technical studies undertaken by the Contractor, to be agreed by the Agência Nacional do Petróleo, as part of each Field Development Program and revised as deemed necessary.

13.7 Unless otherwise agreed with the Agência Nacional do Petróleo, the procedure for the Contractor providing funds to meet its Decommissioning obligations shall be as follows:

(a) an amount shall be established on a Contract Area basis, commencing upon 4 (four) years after the commencement of the Production Period, on a unit of production basis as follows:

DP = (PVDC – DF) * (P / RP), where:

DP = Decommissioning provision for the period (millions of US dollars)

PVDC = Present Value of Decommissioning costs (millions of US dollars)

DF = Balance of Decommissioning fund at the start of the period (millions of US dollars)

P = Crude Oil production in the period (millions of Barrels)

RP = Estimated remaining Crude Oil (millions of Barrels)

(b) All Decommissioning provisions shall be held in a Decommissioning reserve fund which shall be an interest bearing escrow account jointly established by the Parties at a first class commercial bank or at another financial institution in accordance with the Petroleum Law. The bank or financial institution shall have a long term rating of not less than “AA” by Standard and Poor’s Corporation or an “Aa2” rating by Moody’s Investor Service or an equivalent rating by another mutually agreed rating service.

(c) For the purposes of calculating the present value of Decommissioning costs, the following formula shall be used:

PVDC = EDC / (1 + i)ⁿ, where:

PVDC = present value of Decommissioning costs
EDC = estimated value of Decommissioning costs in nominal terms at the expected date of Decommissioning
i = interest rate applicable to the escrow account in the current period
n = number of Years between current period and expected date of Decommissioning

- 13.8 The Decommissioning reserve fund shall be used solely for the purposes of paying for Decommissioning activities. No Party may mortgage, pledge, encumber or otherwise usurp such Decommissioning reserve fund for any purpose whatsoever, except as expressly provided herein or in the Petroleum Law. The Decommissioning reserve fund may be invested in investments approved in advance by the Contractor and the Agência Nacional do Petróleo.
- 13.9 The Contractor shall annually meet any shortfall between the actual Decommissioning costs and the Decommissioning reserve fund for any Contract Area, with such amount to be deposited into the escrow account within 30 (thirty) days after the end of each Calendar Year.
- 13.10 Any balance remaining in any Decommissioning fund after all Decommissioning costs in the Contract Area have been met shall be distributed between the Agência Nacional do Petróleo and the Contractor in the same proportion as the allocation of Available Crude Oil at the time of Decommissioning operations.
- 13.11 Decommissioning expenditures incurred under these Decommissioning provisions are cost recoverable as Contract Area non-capital costs under the Accounting Procedures and deductible for Tax purposes under the Petroleum Taxation Law.

14. EMPLOYMENT AND TRAINING OF NATIONALS OF THE STATE

- 14.1 Each Calendar Year the Contractor shall submit a detailed program for recruitment and training for the following Calendar Year in respect of its personnel from Sao Tome and Principe in accordance with the Petroleum Law.
- 14.2 Qualified nationals from Sao Tome and Principe shall be employed in all non-specialized positions.
- 14.3 Qualified nationals from Sao Tome and Principe shall also be employed in specialized positions such as those in exploration, drilling, engineering, production, environmental safety, legal and finance. Notwithstanding the applicable laws, rules and regulations, the Contractor shall have the right to employ non-nationals of Sao Tome and Principe in such specialized positions where qualified individuals from Sao Tome and Principe are not available, provided that the Contractor shall recruit and train nationals from Sao Tome and Principe for such specialized positions such that the number of expatriate staff shall be kept to a minimum.
- 14.4 Pursuant to clause 9.2 (k), qualified professionals of the Agência Nacional do Petróleo shall be seconded to work with the Contractor. Such personnel and the Contractor's national personnel from Sao Tome and Principe shall not be treated differently with regard to salaries and other benefits. The Contractor and the Agência Nacional do

Petróleo shall mutually agree on the numbers of the Agência Nacional do Petróleo's staff to be assigned to Petroleum Operations. The costs and expenses of such Agência Nacional do Petróleo personnel shall be included in Operating Costs. The Contractor shall not be liable for any damages resulting from the negligence or willful misconduct of any Agência Nacional do Petróleo employees or agents assigned to work for the Contractor.

- 14.5 The Parties shall mutually agree on the organizational chart of the Contractor which shall include nationals of Sao Tome and Principe in key positions.
- 14.6 No national of Sao Tome and Principe who is employed shall be dismissed without the previous written consent of the Agência Nacional do Petróleo, except in the case of serious misbehavior on the part of the employee, in which case a prior mere written notice to the Agência Nacional do Petróleo shall be required. For the purposes of this clause, a serious misbehavior means a specific act which corresponds to a violation and a very serious inadequate conduct which has been investigated and evidenced through documents.
- 14.7 The Contractor shall spend 0.25% (point twenty-five percent) of the Operating Costs in each Year of the Exploration Period subject to a minimum of US \$ 100,000 (one hundred thousand United States dollars) and a maximum of US \$ 200,000 (two hundred thousand United States dollars) in each Calendar Year on scholarships for the training of nationals of Sao Tome and Principe at institutions to be selected by the Agência Nacional do Petróleo. In connection with the review of the annual Work Program and Budgets, the Agência Nacional do Petróleo may propose additional budgets for training and the Agência Nacional do Petróleo and the Contractor may mutually agree as to such proposal.
- 14.8 The Contractor shall spend US \$ 300,000 (three hundred thousand United States dollars) in each Calendar Year during the Production Period on scholarships for the training of nationals of Sao Tome and Principe at institutions to be selected by the Agência Nacional do Petróleo. In connection with the review of the annual Work Program and Budgets, the Agência Nacional do Petróleo may propose additional budgets for training and the Parties may mutually agree as to such proposal.
- 14.9 Amounts payable under clauses 14.7 and 14.8 shall be recoverable as Contract Area non-drilling exploration costs under the terms of the Accounting Procedures.

15. BOOKS AND ACCOUNTS, AUDIT AND OVERHEAD CHARGES

15.1 Books and Accounts

- (a) The Contractor shall be responsible for keeping complete books of accounts consistent with Good Oil Field Practice and modern petroleum industry and accounting practices and procedures. The books and accounts maintained under and in accordance with this Contract shall be kept in United States dollars. All other books of accounts, as the Operator may consider necessary, shall also be kept in United States dollars. Officials of the Agência Nacional do Petróleo and the Contractor shall have access to such books and accounts at all times upon reasonable notice. The accountants of the Agência Nacional do Petróleo shall participate in the preparation of all books and accounts maintained under and in accordance with this Contract.

- (b) All original books of accounts shall be kept at the registered address or principal place of business of the Contractor in Sao Tome and Principe.

15.2 Audits

- (a) The Agência Nacional do Petróleo shall have the right to inspect and audit the accounting records relating to this Contract or to Petroleum Operations for any Calendar Year by giving 30 (thirty) days advance written notice to the Operator. The Operator shall facilitate the work of such inspection and auditing; provided, however, that such inspection and auditing shall be carried out within 3 (three) Calendar Years following the end of the Calendar Year in question. If not, the books and accounts relating to such Calendar Year shall be deemed to be accepted by the Parties. Any exception must be made in writing within 90 (ninety) days following the end of such audit and failure to give such written notice within such time shall establish the correctness of the books and accounts by the Parties.
- (b) The Agência Nacional do Petróleo may undertake the inspection and audit in clause 15.2(a) either through its own personnel or through a qualified firm of chartered accountants appointed for such purpose by the Agência Nacional do Petróleo; provided, however, that transport, accommodation and food costs for personnel of the Agência Nacional do Petróleo shall be borne by the Contractor as a general administrative cost, as long as these are reasonable and are duly documented and shall be recoverable. The costs of the qualified firm of chartered accountants shall be borne by the Agência Nacional do Petróleo.
- (c) Notwithstanding the expiry of said period of 3 (three) Calendar Years, if the Contractor or any of its employees or any Person acting on its behalf has acted with negligence or engaged in willful misconduct, the Agência Nacional do Petróleo shall have the right to conduct a further audit to the extent required to investigate such negligence or willful misconduct in respect of any earlier periods and all costs of such investigation shall be for the account of the Contractor and shall not be cost recoverable.

15.3 Materials

The Contractor shall maintain physical and accounting controls of all materials and equipment in stock in accordance with Good Oil Field Practice. The Contractor shall make a total inventory at least once in a Calendar Year and shall give the Agência Nacional do Petróleo 4 (four) weeks advance written notice prior to the taking of such inventory. The Agência Nacional do Petróleo and/or its external auditors shall be entitled to observe such inventory taking. The Agência Nacional do Petróleo may also carry out a partial or total check of such inventories at its own expense, whenever it considers it necessary, provided such exercise does not unreasonably disrupt Petroleum Operations.

15.4 Home Office Overhead Charges

The Contractor shall include the following percentages of total annual recoverable expenditures as overhead charges in calculating Operating Costs:

Expenditure Tranche (USD millions)	% of recoverable expenses
< 200	1,00%
The next 200 OR >200 e <400	0,75%
The next 100 OR >400 e <500	0,50%
>500	0,00%

16. TAXES AND CUSTOMS

16.1 Taxes

The Contractor shall be subject to Tax on income derived from Petroleum Operations in accordance with the Petroleum Taxation Law. Such Tax shall be payable by the Contractor in accordance with the Petroleum Taxation Law, except as otherwise provided in this Contract.

- 16.2 The Realizable Price established in accordance with clause 11 shall be used in determining the amount of profits of the Contractor and its resulting Tax liability under the Petroleum Taxation Law.

16.3 Customs

In accordance with the Petroleum Law, the Contractor, in its own name or in the name of its sub-contractors or other Persons acting on its or their behalf, are entitled to import and export all goods, materials and equipment destined exclusively and directly for the execution of Petroleum Operations. Such goods, materials and equipment shall be exempt from all and any customs duties, notwithstanding the terms and conditions set out in the Petroleum Law or in other applicable laws and regulations.

17. INSURANCE

- 17.1 The Contractor shall obtain and maintain such insurance as it customarily obtains in accordance with Good Oil Field Practice with respect to Petroleum Operations with an insurance company of good repute approved by the Agência Nacional do Petróleo, in the names of the Parties and with limits of liability not less than those required in accordance with Good Oil Field Practice. The premium for such policies shall be included in Operating Costs. All policies shall name the Agência Nacional do Petróleo as a co-insured with a waiver of subrogation rights in favor of the Contractor. Without prejudice to the generality of the foregoing, such insurance shall cover:

- (a) any loss or damage to all assets used in Petroleum Operations;
- (b) pollution caused in the course of Petroleum Operations for which the Contractor or the Operator may be held responsible;

- (c) property loss or damage or bodily injury suffered by any third party in the course of Petroleum Operations for which the Contractor, the Operator, the State or the Agência Nacional do Petróleo may be held liable;
 - (d) the cost of removing wrecks and cleaning up operations following an accident in course of Petroleum Operations; and
 - (e) the Contractor's and/or the Operator's liability to its employees and to other persons engaged in Petroleum Operations.
- 17.2 In case of any loss or damage to property, all amounts paid by an insurance company shall be received by the Contractor for the conduct of Petroleum Operations. The Contractor shall determine whether the lost or damaged property should be repaired, replaced or abandoned. If the decision is to repair or replace the property in question, the Contractor shall immediately take steps to replace or repair such lost or damaged property. Any excess cost of repair or replacement above the amount reimbursed by the insurance company shall be regarded as an Operating Cost. If the cost of repair is less than the amount reimbursed by the insurance company, the difference shall be deducted from Operating Costs. If the decision is to neither repair nor replace then the proceeds of any coverage shall be credited to Operating Costs. In the event that the loss or damage is attributable to the Contractor's negligence or willful misconduct, the excess cost of replacement or repair shall not be reimbursed as an Operating Cost.
- 17.3 The Contractor shall obtain and maintain an insurance policy covering any and all damages caused to third parties as a direct or indirect result of Petroleum Operations under this Contract.
- 17.4 All insurance policies obtained and maintained pursuant to this clause 17 shall be based upon Good Oil Field Practice and shall be obtained in Sao Tome and Principe, with the exception of those relating to risks for which the Contractor cannot obtain local coverage with an insurance company holding a long term rating not inferior to "AA" by Standard and Poor's Corporation or a "Aa2" rating by Moody's Investor Service or an equivalent rating by any other mutually agreed rating service, in which case coverage may be obtained outside the Territory of São Tomé and Príncipe. The Contractor shall not extend the duration of insurance contracts hired outside the territory of São Tomé and Príncipe whenever an insurance company which meets the above mentioned requirements becomes existent in São Tomé and Príncipe.
- 17.5 In entering into contracts with any sub-contractor or other Person for the performance of Petroleum Operations, the Contractor shall require, whenever possible, such sub-contractor or other Person to take out adequate insurance in accordance with this clause 17, and properly indemnifying the State and its organs and agencies and the Contractor for any damage done and fully indemnifying and holding the State and its organs and agencies and the Contractor harmless against claims from any third parties.
- 17.6 The Contractor shall also maintain all other insurance policies required under the laws of Sao Tome and Principe.

18. CONFIDENTIALITY AND PUBLIC ANNOUNCEMENTS

18.1 Notwithstanding clauses 18.4 and 18.5, the Contractor and the Agência Nacional do Petróleo shall keep information furnished to each other in connection with Petroleum Operations and all plans, maps, drawings, designs, data, scientific, technical and financial reports and other data and information of any kind or nature relating to Petroleum Operations – including any discovery of Petroleum – as strictly confidential and shall ensure that their entire or partial contents shall under no circumstances be disclosed in any announcement to the public or to any third party without the prior written consent of the other. In relation to geologic data, reservoir engineering or production engineering and the reports and other materials submitted to public authorities, the confidentiality obligations shall have the following duration as of the moment they become available to the Contractor:

- 2 (two) years for data which is not available for commercial purposes which are the Contractor's property and come from the contract area at stake;
- 10 (ten) years for commercially available data as of the moment it becomes available to the Contractor;
- 5 (five) years for all the other data.

The provisions of this clause 18 shall not apply to disclosure to:

- (a) Affiliates;
- (b) sub-contractors, auditors, financial consultants or legal advisers, provided that such disclosures are required for the effective performances of the aforementioned recipients' duties related to Petroleum Operations and provided further that they are under a similar undertaking of confidentiality as that contained in this clause 18;
- (c) comply with statutory obligation or the requirements of any governmental agency or the rules of a stock exchange on which a Party's stock is publicly traded in which case the disclosing Party will notify the other Party of any information so disclosed prior to such disclosure;
- (d) financial institutions involved in the provision of finance for the Petroleum Operations hereunder provided, in all such cases, that the recipients of such data and information agree in writing to keep such data and information strictly confidential;
- (e) a third party bone fide purchaser, provided that the party receiving such information executes an undertaking similar to the undertaking contained in this clause 18 to keep the information disclosed to it strictly confidential; and
- (f) in accordance with and as required by the Oil Revenue Law.

18.2 The Parties shall take the necessary measures in order to make their directors, officers, employees, agents and representatives comply with the same obligation of confidentiality provided for in this clause 18.

18.3 The provisions of this clause 18 shall terminate 5 (five) years after the termination or expiration of this Contract.

18.4 The Contractor shall use its best endeavors to ensure that it, its Affiliates and

Associates and each of their respective directors, officers, servants, employees and agents shall not, without the prior written consent of the Agência Nacional do Petróleo, make any reference in public or publish any notes in newspapers, periodicals or books nor divulge, by any other means whatsoever, any information on the activities under the Petroleum Operations, or any reports, data or any facts and documents that may come to their knowledge by virtue of this Contract.

- 18.5 No announcement of a Discovery or Commercial Discovery may be made by the Contractor otherwise than in accordance with this clause 18 and unless and until the Government has made a prior announcement of such Discovery or Commercial Discovery in the national and international media.

19. ASSIGNMENT

- 19.1 Notwithstanding clauses 19.5 and 19.7, the Contractor may not sell, assign, transfer, encumber, convey or otherwise dispose of part or all of its rights, interest and/or obligations under this Contract to any third party without the prior written consent of the Agência Nacional do Petróleo.
- 19.2 All changes in Control of a Contractor Party shall be subject to the prior approval of the Government. Where a change in Control occurs without the prior approval of the Government, the Government may terminate this Contract in respect of such Contractor Party. This clause 19.2 does not apply if the change of Control is the direct result of an acquisition of shares or other securities of a publicly traded company on a recognized stock exchange. Change of Control includes a Person ceasing to be Controlled (whether or not another Person becomes in Control), and a Person obtaining Control (whether or not another Person was under Control).
- 19.3 When an assignment, transfer or other disposition of any rights under this Contract, other than a transfer pursuant to clause 19.5 is anticipated, the assigning Contractor Party must notify in writing the Agência Nacional do Petróleo as soon as practicable. The Government, acting through the Agência Nacional do Petróleo or other nominee, shall then have the right to purchase the assigning Contractor Party's interest under this Contract proposed to be assigned, transferred or otherwise disposed of on the same terms and conditions as those offered to a bone fide transferee. Such right shall be in addition to any preference right granted under any applicable Joint Operating Agreement.
- 19.4 If the written consent by the Agência Nacional do Petróleo is granted, the assigning Contractor Party shall be relieved of its obligation and liabilities under this Contract to the extent that the assignee or transferee accepts the assumption of such obligations and liabilities under this Contract.
- 19.5 The Contractor may sell, assign, transfer, convey or otherwise dispose of part or all of its rights and interest under this Contract to an Affiliate with a prior written notice to the Agência Nacional do Petróleo, provided that the relevant Contractor Party and the Affiliate shall remain jointly and severally liable for all obligations and liabilities under this Contract, notwithstanding such assignment, transfer, conveyance or other disposal. If the Affiliate ceases at any time to be an Affiliate of the transferring Contractor Party, the Affiliate shall immediately re-assign or re-transfer to the original Contractor Party all rights and obligations transferred to it under this Contract. Transfers of interests to an Affiliate of a Contractor Party shall not change the nationality of the Contractor Party for the purpose of determining jurisdiction of

any arbitration tribunal.

19.6 Any request for consent pursuant to clause 19.1 made by a Contractor to the Agência Nacional do Petróleo shall include the deed of assignment and other relevant information relating to financial and corporate standing of the assignee, and its capability to contribute to the Petroleum Operations under this Contract as required under the Petroleum Law.

19.7 As long as strictly for the purposes of financing of Petroleum Operations, the Contractor may grant, as security, its rights under this Contract, provided that such transaction does not conflict with the interests and rights of the State of São Tomé and Príncipe under this Contract and pursuant to the applicable legislation.

20. TERMINATION

20.1 The State, by decision of the Government, shall be entitled to terminate this Contract with the Contractor (or in respect of any Party making up the Contractor) if any of the following events occurs:

- (a) the Contractor defaults in the performance of any of its material obligations set forth in clause 9;
- (b) the Contractor fails to execute the Minimum Work Obligations;
- (c) the Contractor assigns, transfers, conveys, encumbers or disposes of its rights, interests and/or obligations under this Contract, otherwise than in accordance with clause 19 and/or the Petroleum Law;
- (d) the Contractor is adjudged insolvent or bankrupt by a court of competent jurisdiction or acknowledges or claims that it is unable to pay its debts or makes an application for bankruptcy protection that is not discharged within 30 (thirty) days;
- (e) the Contractor ceases to carry on its business as carried on at the date of this Contract or liquidates or terminates its corporate existence;
- (f) the warranties made by the Contractor under clause 24 are found to have been untrue when made;
- (g) the Contractor fails to make any payment to the State when due;
- (h) the Contractor fails to submit the insurance or performance bond, when due;
- (i) the Contractor fails to initiate field development and production in accordance to the time schedule outlined in the approved Field Development Program (clause 5.1 (e)), except if that occurs for acceptable and duly demonstrated reasons; (ii) or if after production of Petroleum is initiated in the Contract Area, production of Petroleum ceases for a period of more than 4 (four) months for causes which are not acceptable, not attributable to Force Majeure or without the consent of the Agência Nacional do Petróleo;

- (j) the events provided for in the articles 34, 35 or 36 of the Petroleum Law.
- 20.2 If the cause for termination is an event specified in clause 20.1 (a), (b), (f), (g), (h), (i) and/or (j), the Agência Nacional do Petróleo shall give written notice thereof to the Contractor requiring it to remedy such default within a maximum deadline of 30 (thirty) days of receipt of the Agência Nacional do Petróleo's notice or such additional days as the Agência Nacional do Petróleo deems, in its sole discretion, appropriate in the circumstances. If upon the expiration of the said period, such default has not been remedied or removed, the Government may, by written notice issued by the Agência Nacional do Petróleo to the Contractor, declare this Contract terminated.
- 20.3 Termination for any of the events specified in clause 20.1 (c), (d) and/or (e), shall be with immediate effect and the Government may, by written notice to the Contractor issued by the Agência Nacional do Petróleo, declare this Contract terminated. Termination as to one Contractor Party shall not constitute termination as to the other Contractor Party(ies).
- 20.4 Where only one Contractor Party is in breach of this Contract, the State shall have the option to assume the interests, rights and obligations of such defaulting Contractor Party under this Contract. If the State elects not to exercise this option, the interests, rights and obligations shall be assigned to the remaining Contractor Parties who shall be liable jointly and severally.
- 20.5 In the event that any other Contractor Party(ies) fail(s) to meet any and all liabilities of the terminated Contractor Party as provided in clause 20.4, the State reserves the right to terminate this Contract in respect to such Contractor Party(ies) upon written notice.
- 20.6 Without prejudice to all other rights of the State, the Contractor shall upon the termination of this Contract permit inspection, copying and auditing of its accounts and records for the Petroleum Operations by the Agência Nacional do Petróleo and/or its agents.
- 20.7 The Contractor shall have the right, at its sole discretion, to relinquish its rights and to terminate this Contract without further obligations or liabilities, upon completion of the stipulated Minimum Work Obligations and Minimum Financial Commitment at the end of any phase of the Exploration Period, upon giving a 30 (thirty) day advance notice to the Agência Nacional do Petróleo. This clause 20.7 shall not release the Contractor from any unfulfilled obligations incurred prior to the termination of this Contract, nor from any liabilities arising from acts or omissions taking place prior to the termination of this Contract.
- 20.8 This Contract shall automatically terminate if no Commercial Discovery is made in the Contract Area at the end of Exploration Period, as extended.

21. FORCE MAJEURE

- 21.1 Any failure or delay on the part of any Party in the performance of its obligations or duties (other than the obligation to pay money) under this Contract shall be excused to the extent attributable to Force Majeure. A Force Majeure situation includes delays,

defaults or inability to perform under this Contract due to any event beyond the reasonable control of the Party claiming Force Majeure. Such event may be, but is not limited to, any act, event, happening or occurrence due to natural causes and acts or perils of navigation, fire, hostilities, war (whether declared or undeclared), blockade, labor disturbances, strikes riots, insurrection, civil commotion, quarantine restrictions, epidemics, storms, floods, earthquakes, accidents, blowouts and lightning.

- 21.2 If the Petroleum Operations are delayed, curtailed or prevented by an event of Force Majeure, then the time for carrying out the obligation and duties thereby affected, and rights and obligations hereunder, shall be extended for a period equal to the period of such delay.
- 21.3 The Party who is unable to perform its obligations as a result of the Force Majeure shall promptly notify the other Parties not later than 48 (forty-eight) hours after the establishment of the commencement of the event of Force Majeure, stating the cause and motive, and the Parties shall do all that is reasonably within their powers to remove such cause.
- 21.4 The Contractor's failure or inability to find Petroleum in commercial quantities for reasons other than as specified in clause 21.1 shall not be deemed an event of Force Majeure.

22. LAWS AND REGULATIONS

- 22.1 This Contract shall be governed by and construed in accordance with the laws of the Democratic Republic of Sao Tome and Principe.
- 22.2 Subject to clause 25.8 and without prejudice to the principles of public international law, no term of this Contract, shall prevent or limit the State from exercising its sovereign rights.

23. NATURAL GAS

- 23.1 If the Contractor discovers a commercially viable quantity of Natural Gas, it shall have the right to develop, commercialize, recover the costs and share the profits of a development of such Natural Gas under this Contract on terms to be mutually agreed. Such terms when agreed shall become an integral part of this Contract.
- 23.2 Notwithstanding clause 23.1, the Contractor may utilize, at no cost, Natural Gas required as fuel for Petroleum Operations such as gas recycling, gas injection or any other Crude Oil enhancing recovery schemes, for the necessary stimulation of wells aimed at the maximum Crude Oil recovery in the field discovered and developed by the Contractor and such usage shall be with prior written consent of the Agência Nacional do Petróleo, which consent shall not be unreasonably withheld. This shall be included in a Field Development Program.
- 23.3 The recovery of Crude Oil through an efficient, economic and technically acceptable method shall always be paramount in all decisions regarding Associated Natural Gas. However, prior to the commencement of Production of Crude Oil from the Contract Area, the Contractor shall submit to the Agência Nacional do Petróleo, a program for the utilization of any Associated Natural Gas that has been discovered in the Contract Area, which shall be subject to the approval of the Agência Nacional do Petróleo.

23.4 If the Contractor discovers sufficient volumes of Unassociated Natural Gas that could justify commercial development, the Contractor shall immediately report the volume of potentially recoverable Natural Gas to the Agência Nacional do Petróleo and shall promptly investigate and submit proposals to the Agência Nacional do Petróleo for the commercial development of such Natural Gas taking in consideration local strategic needs as may be identified by the Agência Nacional do Petróleo within 2 (two) years of the date of the relevant discovery. Any cost in respect of such proposals or investigation presented by the Contractor to the Agência Nacional do Petróleo shall be included in Operating Costs. The Contractor and the Agência Nacional do Petróleo will determine the plan and time needed, which shall be no more than 5 (five) years, unless otherwise established by the Agência Nacional do Petróleo, to progress a commercial development project, which shall include the terms for recovery of Operating Costs and sharing of Natural Gas production, which terms when agreed shall form an integral part of this Contract. If the Contractor fails to justify a commercial development within the agreed timeframe and if the Agência Nacional do Petróleo determines that a sufficient volume of Unassociated Natural Gas exists, the Agência Nacional do Petróleo shall have the right to propose to the Contractor a commercial development of such Natural Gas. The Contractor shall have the right to participate in the commercial development under the terms provided for in clause 23.1. If the Contractor declines to participate in the commercial development of such Natural Gas as presented by the Agência Nacional do Petróleo and if the Field Development Program does not hinder or jeopardize current Petroleum Operations, the Agência Nacional do Petróleo may develop the Natural Gas in the manner presented to the Contractor.

24. REPRESENTATIONS AND WARRANTIES

24.1 In consideration of the State entering into this Contract, the Contractor hereby represents and warrants to the State as follows:

- (a) The Contractor has the power to enter into and perform this Contract and has taken all necessary actions to execute, deliver and perform this Contract in accordance with the terms herein contained and has been granted all necessary concessions, licenses, permits and authorizations to initiate Petroleum Operations.
- (b) The execution, delivery and performance of this Contract by the Contractor will not contravene any of the provisions of:
 - (i) any law or regulations or order of any governmental authority, agency or court applicable to or by which the Contractor may be bound; and
 - (ii) any mortgage, contract or other undertaking or instrument to which the Contractor is a party or to which it is bound upon or any of its respective revenues or assets.
- (c) Full disclosure has been made to the Agência Nacional do Petróleo.

- (d) As of the Effective Date, all facts in relation to the Contractor and its financial condition and affairs are material and properly ought to be made known to the Agência Nacional do Petróleo and have been made known in full.
- (e) The Contractor, together with its Affiliates, has sufficient funds both in foreign and local currencies to carry out Petroleum Operations under this Contract.
- (f) The representations and warranties set out in this clause 24 shall remain in full force and effect for the duration of this Contract.

25. CONCILIATION AND ARBITRATION

- 25.1 Should there be a difference or dispute between the Parties concerning the interpretation or performance of this Contract (a “**Dispute**”) such that the dispute cannot be resolved by mutual agreement, the Parties may refer the matter to an independent expert for an opinion to assist the Parties in reaching a mutual agreement.
- 25.2 Where an independent expert is used, the Agência Nacional do Petróleo and the Contractor shall furnish the expert with all written information which he may reasonably requires. The cost of the expert’s services, if appointed, shall be equally shared between the Agência Nacional do Petróleo and each Contractor Party.
- 25.3 If the Dispute cannot be settled by amicable agreement or through an independent expert or if a Party does not agree to the use of an independent expert, then either the Agência Nacional do Petróleo or the Contractor may serve on the other a demand for arbitration in accordance with this clause 25. The procedures set forth in this clause 25 shall be the exclusive procedures for arbitration of any and all disputes arising under or involving the interpretation of this Contract. No other arbitration tribunal under any other procedure, agreement or international treaty shall have jurisdiction over such Disputes between the Parties.
- 25.4 If the Parties have not reached an agreement after 3 (three) months of the date of a notice of a dispute by one Party to another, unless the Parties mutually agree to an extension, any Party to the Dispute may refer the Dispute for resolution by final and binding arbitration to the International Centre for the Settlement of Investment Disputes (“CIRDI”, the “Centre” or “ICSID”) established by the Convention on the Settlement of Investment Disputes between States and Nationals of other States, done at Washington, March 18, 1965 (the “ICSID **Convention**”); or to the Additional Facility of the Centre, if the Centre is not available; or in accordance with the Arbitration Rules of the United Nations Commission for International Commercial Law (UNCITRAL), if neither the Centre nor the Additional Facility of the Centre consider having jurisdiction to resolve the dispute or are unavailable.

25.5 Seat and Language of Arbitration

The seat of the arbitration shall be Paris, France, or any other location as may be agreed by the Parties to the Dispute. The substantive law of the merits of the arbitration shall be the laws of São Tomé and Príncipe which shall also apply to the arbitral clause. The language of the arbitration proceedings, and of all orders, decisions, and the award, shall be Portuguese.

25.6 Number and Identity of Arbitrators

The arbitral tribunal shall be constituted by 3 (three) arbitrators selected according to the following procedure:

- (i) The claimant and the respondent shall each appoint one arbitrator (and if there is more than 1 (one) claimant or more than 1 (one) respondent, then the claimants and/or the respondents shall collectively appoint a single arbitrator) within 30 (thirty) days as of the date of a request for arbitration is presented, by giving notice in writing of such appointment to the Secretary-General of the Centre and the other Party or Parties to the Dispute.
- (ii) If either the claimant or the respondent fails to comply with the time limit in the preceding paragraph, the Chairman of the Administrative Council of the Centre shall appoint the arbitrator or arbitrators that have not yet been appointed, at the request of either the claimant or the respondent and after consulting with the claimant and the respondent as far as possible. The Chairman of the Administrative Council of the Centre shall give notice in writing of such appointment or appointments to the Secretary-General of the Centre and to the claimant and the respondent.
- (iii) The 2 (two) arbitrators so appointed shall, within thirty (30) days of their appointment, agree upon the person to be appointed as the President of the tribunal, and give notice of such appointment to the Secretary-General of the Centre and to the claimant and the respondent.
- (iv) If the 2 (two) arbitrators fail to agree upon the person to be the President of the tribunal, the Chairman of the Administrative Council of the Centre shall appoint the President, at the request of either the claimant or the respondent, and after consulting with the claimant and the respondent as far as possible. The Chairman of the Administrative Council of the Centre shall give notice in writing of such appointment to the Secretary-General of Centre and to the claimant and the respondent.
- (v) None of the arbitrators shall be a citizen of the countries of any of the Parties to the Dispute (or in the case where the Party is a company or another entity, any country or countries of nationality of such Party, including the country of its ultimate parent that controls the group of companies to which it belongs).

25.7 Rules of Arbitration

The arbitration procedures initiated under this Contract shall operate under the arbitration rules in effect for ICSID or the Additional Facility or UNCITRAL, as the case may be, in force at the time of the filing of the request for arbitration, which rules are deemed to be incorporated herein by reference in this clause 25.

25.8 Binding Nature of Arbitration

The arbitration award shall be final and binding on the Parties and shall be immediately enforceable, notwithstanding the remedies provided for in the ICSID Convention and in the Arbitration Rules or in the Arbitration Rules of the Additional Facility of the Centre or the Arbitration Rules of UNCITRAL, as appropriate. The

Parties waive any right to refer any question of law, and any right of appeal on the law and/or merits to any court. It is expressly agreed that the arbitrators shall have no authority to award aggravated, exemplary or punitive damages. The Parties acknowledge that the rights and obligations hereunder are imminently of a commercial nature. The Parties waive any defense grounded on sovereign immunity regarding the validity of this arbitration clause or of any decision issued in the Arbitration.

25.9 Costs of Arbitration

The costs of arbitration shall be charged in accordance with the directions of the arbitration tribunal, failing which shall be borne equally by the Parties to the Dispute. The costs of the Contactor shall not be recoverable.

25.10 Payment of Awards

Any monetary award issued shall be expressed and payable in United States dollars.

26. EFFECTIVE DATE

- 26.1 This Contract shall come into force on the date (the “**Effective Date**”) of receipt by the State of the Contractor’s deposit into the National Petroleum Account of the signature bonus specified in clause 2.1, payable after the execution and delivery to the Contractor of an instrument of ratification of the Contract executed by the Prime-Minister on behalf of the Government. Record of such receipt shall be annexed to this Contract as proof of the Effective Date.
- 26.2 Failure by the Contractor to meet its obligation to pay the signature bonus in accordance with the terms of clause 2.1 shall mean that this Contract shall be null and void.

27. REVIEW / RE-NEGOTIATION OF CONTRACT AND FISCAL TERMS

- 27.1 The Parties agree that the commercial terms and conditions of this Contract have been negotiated and agreed having due regard to the existing fiscal terms in accordance with the provisions of the Petroleum Law and the Petroleum Taxation Law in force at the time of the Effective Date. If such fiscal terms are materially changed to the detriment of the Contractor, the Parties agree to review the terms and conditions of this Contract affected by such changes and to align such terms and conditions with the fiscal terms as at the Effective Date.
- 27.2 If at any time or from time to time, there is a change in legislation or regulations which materially affect the commercial benefits afforded to the Contractor under this Contract, the Parties will consult each other and shall agree to such amendments to this Contract as are necessary to restore as near as practicable such commercial benefits which existed under this Contract as of the Effective Date.

28. OPERATOR

- 28.1 GALP ENERGIA SÃO TOMÉ E PRÍNCIPE, UNIPESSOAL, LDA is hereby designated as the Operator under this Contract to execute, for and on behalf of the Contractor, all Petroleum Operations in the Contract Area pursuant to and in accordance with this Contract and the Petroleum Law.

28.2 The Operator, for and on behalf of the Contractor, shall have the exclusive control and administration of Petroleum Operations under this Contract. The Operator, for and on behalf of the Contractor, and within the limits defined by the Agência Nacional do Petróleo, by this Contract and the Petroleum Law, shall have the authority to execute all contracts, incur in expenses, make commitments, and implement other actions in connection with the Petroleum Operations.

29. CONFLICT OF INTERESTS

29.1 The Contractor represents and warrants that it did not engage any person, firm or company as a commission agent for purposes of this Contract and that it has not given or offered to give nor will it give or offer to give (directly or indirectly) to any person any bribe, gift, gratuity, commission or other thing of significant value, as an inducement or reward for doing or forbearing to do any action or take any decision in relation to this Contract, or for showing or forbearing to show favor or disfavor to any person in relation thereto.

29.2 The Contractor further represents and warrants that no loan, reward, offer, advantage or benefit of any kind has been given to any Official or to any person for the benefit of such Official or person or third parties, as consideration for an act or omission by such Official in connection with the performance of such person's duties or functions or to induce such Official to use his or her position to influence any act or decisions of the administration with respect to this Contract. Any breach of this representation shall cause this Contract to be declared invalid and voidable by the State administration.

30. NOTICES

30.1 Any notice or other communication required to be given by a Party to another shall be in writing (in Portuguese and in English) and shall be considered as duly delivered if given by hand delivery in person, by courier or by facsimile at the following addresses:

Agência Nacional do Petróleo (ANP-STP)
Avenida das Nações Unidas, 225
C.P.1048

Sao Tome, Sao Tome and Principe Attention: Executive Director
Fax: +239-2226937 Tel: +239-2226940
Email: anp_geral@cstome.net

GALP ENERGIA SÃO TOMÉ E PRÍNCIPE, UNIPESSOAL, LDA

Avenida da Independência, 392, II/III

C.P. 638

Sao Tome, Sao Tome and Principe

Attention: Exploration Director
Fax: +351 21 839 12 98

Tel: +351 21 724 25 00
Email: roland.muggli@galpenergia.com

- 30.2 All notices and other communications shall be deemed to have been duly delivered upon actual receipt by the intended recipient.
- 30.3 Each Party shall promptly notify the other of any change in the above addresses.

31. LIABILITY

Where the Contractor is comprised of more than one Party, the liabilities and obligations of such Parties under this Contract shall be joint and several.

32. MISCELLANEOUS

- 32.1 No supplement or modification of any provision of this Contract shall be binding unless executed in writing by all Parties.
- 32.2 No waiver by any Party of any breach of a provision of this Contract shall be binding unless made expressly in writing. Any such waiver shall relate only to the breach to which it expressly relates and shall not apply to any other breach, whether subsequent or not.
- 32.3 The validity and effectiveness of this Contract shall be subject to the full compliance with all applicable administrative procurement rules relating to State contracting.
- 32.4 This Contract is elaborated and filed in the Portuguese and English languages, and in case of non-conformity, the Portuguese language version shall prevail.
- 32.5 This Contract shall be made public and a copy hereof shall be provided to the Public Registration and Information Office within ten (10) days from its execution.

IN WITNESS WHEREOF the Parties have caused this Contract to be executed the date above written.

SIGNED AND DELIVERED for and on behalf of **THE STATE** represented by the Agência Nacional do Petróleo of Sao Tome and Principe

Signature: /s/ Orlando Pontes

Name: ORLANDO MENEZES SOUSA PONTES

Designation: EXECUTIVE DIRECTOR

In the presence of:

Signature: /s/ Álvaro da Costa Varela da Silva

Name: ÁLVARO DA COSTA VARELA DA SILVA

Designation: LEGAL AND ECONOMIC DIRECTOR

SIGNED AND DELIVERED for and on behalf of Galp Energia São Tomé e Príncipe, Unipessoal, Lda.

Signature: /s/ Thore E. Kristiansen

Name: THORE E. KRISTIANSEN

Designation: EXECUTIVE DIRECTOR

Signature: /s/ Filipe Silva

Name: FILIFE SILVA

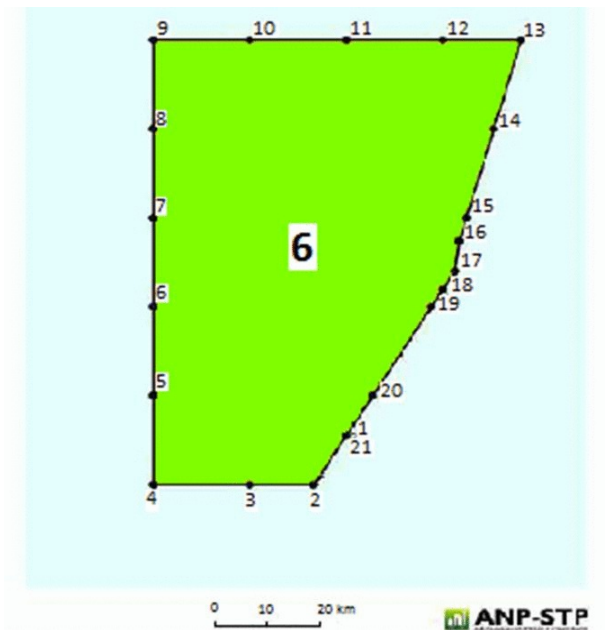
Designation: DIRECTOR

SCHEDULE 1
CONTRACT AREA

Coordinates (DATUM: WGS84)

BLOCK	POINTS	ZONE	UTM X	UTM Y	DD Long	DD Lat
6	1	A	388720.49	28649.33	8.000000	0.259160
6	2	A	382442.77	18424.83	7.943599	0.166667
6	3	A	370170.73	18425.53	7.833333	0.166667
6	4	A	351620.53	18426.70	7.666667	0.166667
6	5	A	351622.41	36853.40	7.666667	0.333333
6	6	A	351625.52	55280.11	7.666667	0.500000
6	7	A	351629.89	73706.83	7.666667	0.666667
6	8	A	351635.50	92133.55	7.666667	0.833333
6	9	A	351642.37	110560.30	7.666667	1.000000
6	10	A	370189.84	110553.23	7.833333	1.000000
6	11	A	388736.20	110547.11	8.000000	1.000000
6	12	A	407281.62	110541.93	8.166667	1.000000
6	13	A	422295.12	110538.43	8.301598	1.000000
6	14	A	417039.44	92116.29	8.254397	0.833333
6	15	A	411783.66	73693.84	8.207194	0.666667
6	16	A	410425.90	68934.67	8.195000	0.623611
6	17	A	409590.38	62640.02	8.187500	0.566666
6	18	A	407271.56	58863.37	8.166667	0.532499
6	19	A	405066.02	55271.21	8.146852	0.500000
6	20	A	393754.69	36848.51	8.045229	0.333333
6	21	A	388720.49	28649.33	8.000000	0.259160

Map (for purpose illustration only)



SCHEDULE 2

ACCOUNTING PROCEDURES

1. GENERAL PROVISIONS

1.1 Definitions

This Accounting Procedure attached to and forming a part of the Contract is to be followed and observed in the performance of the Parties' obligations hereunder. The defined terms appearing herein shall have the same meaning as ascribed to them in the Contract.

1.2 Accounts and Statements

The Contractor's accounting records and books shall be kept as provided under clause 15 of the Contract in accordance with generally accepted and internationally recognized accounting standards, consistent with modern petroleum industry practices and procedures and in accordance with Good Oil Field Practice. All original books of accounts together with original supporting documentation shall be kept and maintained at the office of the Contractor in Sao Tome and Principe.

1.3 In the event of a conflict between the terms of this Accounting Procedures and the Contract, the terms of the Contract shall apply.

1.4 These Accounting Procedures may be amended from time to time by the mutual agreement of the Parties.

2. Operating Costs

2.1 Operating Costs shall be defined as all costs, expenses paid and obligations incurred in carrying out Petroleum Operations and shall consist of:

- (a) Contract Area Non-capital Costs;
- (b) Contract Area Capital Costs;
- (c) Contract Area Non-Drilling Exploration Costs; and
- (d) Contract Area Unsuccessful Exploration and Appraisal Costs.

Operating Costs shall be recorded separately for each Development Area and calculated on the basis of a Contract Area.

2.2 Contract Area Non-capital Costs

Contract Area Non-capital Costs means those Operating Costs incurred that are chargeable to the current year's operations. Contract Area Non-capital Costs include the following:

- (a) General office expenses - office, services and general administration services pertaining to Petroleum Operations including services of legal, financial, purchasing, insurance, accounting, computer and personnel department; communications, transportation, rental of specialized equipment, scholarships, charitable contributions and educational awards.

- (b) Labor and other related costs - salaries and wages, including bonuses of employees of the Contractor who are directly engaged in the conduct of Petroleum Operations, whether temporarily or permanently assigned, irrespective of the location of such employee including the costs of employee benefits, customary allowance and personal expenses incurred under the Contractor's practice and policy, and amounts imposed by applicable governmental authorities which are applicable to such employees.

These costs and expenses shall include:

- (i) cost of established plans for employee group life insurance, hospitalization, pension, retirement, savings and other benefit plans;
 - (ii) cost of holidays, vacations, sickness and disability benefits;
 - (iii) cost of living, housing and other customary allowances;
 - (iv) reasonable personal expenses, which are reimbursable under the Contractor's standard personnel policies;
 - (v) obligations imposed by governmental authorities;
 - (vi) cost of transportation of employees, other than as provided in paragraph (c) below, as required in the conduct of Petroleum Operations; and
 - (vii) charges in respect of employees temporarily engaged in Petroleum Operations, which shall be calculated to reflect the actual costs thereto during the period or periods of such engagement.
- (c) Employee relocation costs - costs for relocation, transportation and transfer of employees of the Contractor engaged in Petroleum Operations, including the cost of freight and passenger service of such employees' families and their personal and household effects together with meals, hotel and other expenditures related to such transfer incurred with respect to:
- (i) employees of the Contractor within Sao Tome and Principe including expatriate employees engaged in Petroleum Operations;
 - (ii) transfer to Sao Tome and Principe for engagement in Petroleum Operations;
 - (iii) relocation costs and other expenses incurred in the final repatriation or transfer of the Contractor's expatriate employees and families, in the case of such employees' retirement, or separation from the Contractor, or in case of such employees' relocation to the Contractor's point of origin; provided that relocation costs incurred in moving an expatriate employee and his family beyond point of origin, established at the time of his transfer to Sao Tome and Principe, will not be recoverable as Operating Costs; and
 - (iv) Sao-Tomean employees on training assignments outside the Contract Area.

- (d) Services provided by third parties - cost of professional, technical, consultation, utilities and other services procured from third party sources pursuant to any Contract or other arrangements between such third parties and the Contractor for the purpose of Petroleum Operations.
- (e) Legal expenses - all costs or expenses of handling, investigating, asserting, defending, and settling litigation or claims arising out of or relating to Petroleum Operations or necessary to protect or recover property used in Petroleum Operations including, but not limited to, legal fees, court costs, arbitration costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation, arbitration or claims in accordance with the provisions hereof.
- (f) Head office overhead charge – parent company overhead in the amount specified in clause 15.4 of the Contract.
- (g) Insurance premiums and settlements - premiums paid for insurance normally required to be carried for the Petroleum Operations together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including fees and deductibles relating to the Contractor's performance of the Contract.
- (h) Duties and taxes - all duties and taxes, fees and any Government assessments, including gas flare charges, license fees, custom duties, and any other than Royalty and Tax.
- (i) Operating expenses - labor, materials and services used in day to day oil well operations, oil field production facilities operations, secondary recovery operations, storage, transportation, delivering and marketing operations, and other operating activities, including repairs, well walkovers, maintenance and related leasing or rental of all materials, equipment and supplies.
- (j) Successful Exploration drilling - all expenditures incurred in connection with the drilling of any Exploration Well which results in a Commercial Discovery.
- (k) Successful Appraisal drilling – all expenditures incurred in connection with the drilling of Appraisal Wells on a Commercial Discovery.
- (l) Unsuccessful Development drilling - all expenditures incurred in connection with drilling of development wells which are dry, including costs incurred in respect of casing, well cement and other well fixtures.
- (m) Successful Development drilling - all intangible expenditures incurred in connection with labor, fuel, repairs, maintenance, hauling, supplies and materials (not including, casing and other well fixtures) which are for or incidental to drilling, cleaning, deepening or completion wells or the preparation thereof incurred in respect of:
 - (i) determination of well locations, geological, geophysical, topographical and geographical surveys for site evaluation preparatory to drilling including the determination of near surface and near sea bed hazards;

- (ii) cleaning, draining and leveling land, road-building and the laying of foundations;
 - (iii) drilling, shooting, testing and cleaning wells; and
 - (iv) construction of drilling rigs, tankage assembly and installation of pipelines and other plan and equipment required in the preparation or drilling of wells producing Crude Oil.
- (n) Decommissioning provisions - any deposits in a Decommissioning reserve fund set aside for the purposes of Decommissioning pursuant to clause 13 of the Contract.
- (o) Affiliate services – professional, administrative, scientific and technical services provided by Affiliates of the Contractor for the direct benefit of Petroleum Operations including services provided by the Exploration, Production, legal, financial, purchasing, insurance, accounting and computer services departments of such Affiliates. Charges for providing these services shall reflect costs only, and must be consistent with international market practices and shall not include any element of profit.
- (p) Pre-production Contract Area Non-capital Costs – all recoverable Contract Area Non-capital Costs incurred before first production from the Contract Area are accumulated and treated as if they had been incurred on the first day of production from the Contract Area.

2.3 **Contract Area Capital Costs**

Contract Area Capital Costs mean those Operating Costs incurred that are subject to depreciation. Contract Area Capital costs include the following:

- (a) Plant expenditures – expenditures in connection with the design, construction, and installation of plant facilities (including machinery, fixtures and other equipment) associated with the production, treating and processing of Crude Oil (except such costs properly allocable to intangible drilling costs) including offshore platforms, secondary or enhanced recovery systems, gas injection, water disposal, expenditures for equipment, machinery and fixtures purchased to conduct the Petroleum Operations such as office furniture and office equipment, barges, floating crafts, automotive equipment, petroleum operational aircraft, construction equipment e miscellaneous equipment.
- (b) Pipeline and storage expenditure - expenditures in connection with the design, installation, and construction of pipeline, transportation, storage, and terminal facilities associated with Petroleum Operations including tanks, metering, and export lines.
- (c) Building expenditure - expenditures incurred in connection with the construction of buildings, structures or works of a permanent nature including workshops, warehouses, offices, roads, wharves, furniture and fixtures related to employee housing and recreational facilities and other tangible property incidental to construction.

- (d) Successful Development Drilling - all tangible expenditures incurred in connection with drilling development wells such as casing, tubing, surface and sub-surface production equipment, flow lines and instruments.
- (e) Material inventory - cost of materials purchased and maintained as inventory items solely for the Petroleum Operations subject to the following provisions:
 - (i) the Contractor shall supply or purchase any materials required for the Petroleum Operations, including those required in the foreseeable future. Inventory stock levels shall take account of the time necessary to provide the replacement, emergency needs and similar considerations;
 - (ii) purchased by the Contractor for use in the Petroleum Operations shall be valued so as to include invoice price (less prepayment discounts, cash discounts, and other discounts if any) plus freight and forwarding charges between point of supply and point of destination but excluding from in the invoice price, inspection costs, insurance, custom fees and taxes, on imported materials required for the Contract;
 - (iii) materials not available in Sao Tome and Principe supplied by the Contractor or from its Affiliates stocks shall be valued at the current competitive cost in the international market; and
 - (iv) the Contractor shall maintain physical and accounting controls of materials in stock in accordance with Good Oil Field Practice. The Contractor shall make a total inventory at least once a year to be observed by the Agência Nacional do Petróleo and its external auditors. The Agência Nacional do Petróleo may however carry out partial or total inventories at its own expenses, whenever it considers necessary, provided such exercise does not unreasonably disrupt Petroleum Operations.
- (f) Pre-production Contract Area Capital Costs – all recoverable Contract Area Capital Costs incurred before first production from the Contract Area will be accumulated and treated as if they had been incurred on the first day of production from the Contract Area.

2.4 Contract Area Non-Drilling Exploration Costs

Contract Area Non-Drilling Exploration Costs mean Operating Costs incurred anywhere in the Contract Area in the Exploration Period or related activities, not directly connected with the drilling of an Exploration Well. Contract Area Non-Drilling Exploration Costs should be allocated to the current year's operations and may be added to the Operating Costs of any Contract Area. Contract Area Non-Drilling Exploration Costs include the following:

- (a) Geological and geophysical surveys - labor, materials and services used in aerial, geological, topographical, geophysical and seismic surveys incurred in connection with exploration excluding the purchase of data from the Agência Nacional do Petróleo.

- (b) Pre-Contract seismic costs – reasonable costs associated with the acquisition of seismic data covering the Contract Area, including third party processing, but not interpretation of the data by the Contractor or its Affiliates, which were incurred prior to the Effective Date.
- (c) Annual scholarship payments as described under clause 14 of the Contract.

2.5 **Contract Area Unsuccessful Exploration and Appraisal Costs**

Contract Area Unsuccessful Exploration and Appraisal Costs are those Operating Costs incurred anywhere in the Contract Area in connection with the drilling of any Exploration Well or Appraisal Well in the Contract Area which does not result in a Commercial Discovery. Contract Area Unsuccessful Exploration and Appraisal Costs are subject to depreciation over a five (5) year period in equal installments of 20% (twenty percent) per annum or the remaining life of the Contract Area(s) whichever is less, commencing with Production. Unsuccessful Exploration and Appraisal Costs in any period shall be allocated to the Operating Costs of a Contract Area, subject to the following restrictions:

- (a) to the extent that the Contract Area has Available Cost Oil after recovering the Operating Costs (other than Unsuccessful Exploration and Appraisal Costs) related to that Contract Area; and
- (b) if there is insufficient Available Cost Oil in a Contract Area in any period to fully recover Unsuccessful Exploration and Appraisal Costs, the unrecovered amount may be carried forward and included in the next period's Unsuccessful Exploration and Appraisal Costs account.

2.6 **Non-Recoverable Operating Costs**

The following costs are not recoverable as Operating Costs:

- (a) bonuses and expenditure incurred by the Contractor in carrying out any obligation to fund social projects as defined in clause 2 of the Contract;
- (b) interest incurred under loans taken to finance Petroleum Operations from Affiliates or third parties; and
- (c) costs incurred in excess of 5% (five percent) above costs budgeted for in a Work Program and Budget, unless such costs are approved in advance by the Agência Nacional do Petróleo, approval which shall only be denied in cases where costs do not reflect fair market conditions or are not technically supported.

3. **Computation of Royalty and Tax**

- 3.1 The Contractor shall compute the amount of Royalty and Tax payable to the State pursuant to and in accordance with the Contract. Such amounts shall be computed in the manner set forth in the Petroleum Law, the Petroleum Taxation Law and the provisions hereof as stated in Article 4 of this Schedule 2.

- 3.2 The Contractor shall compute the Royalty to be paid to the State in a given month based on the Realizable Price of the Crude Oil produced in the second previous month. Tax payments shall be calculated and remitted in accordance with the Petroleum Taxation Law.
4. **Accounting Analyses**
- 4.1 The Contractor and the Agência Nacional do Petróleo shall agree within 3 (three) months on a format for monthly accounting analysis reflecting the volumes lifted in terms of Royalty Oil, Cost Oil, and Profit Oil, and Proceeds received by each Party.
- 4.2 The Realizable Price and the quantities lifted by the Parties shall be used to compute the proceeds as reflected in the agreed monthly accounting analysis format in Article 4.1 above and the allocation of such Proceeds in the categories described under clause 10 of the Contract.
- 4.3 The allocation of the quantity of Available Crude Oil to each Party pursuant to clause 10 of the Contract shall be carried out according to and governed by provisions of the Allocation and Lifting Procedure Principles.
- 4.4 The priority of allocation of the total proceeds for each period shall be as follows:
- (a) Royalty Oil;
 - (b) Cost Oil; and
 - (c) Profit Oil.
- 4.5 The amount chargeable to and recoverable as Royalty Oil, and Cost Oil shall be determined as follows:
- (a) Royalty Oil - The sum of royalties payable during such month.
 - (b) Cost Oil - The Operating Costs applicable to such month for the purposes of Cost Oil are as follows:
 - (i) Contract Area Non-Capital Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedures and shall be recoverable in full in the period incurred.
 - (ii) Contract Area Capital Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedures and shall be recoverable over the depreciation period or the remaining life of the Contract, whichever is less.
 - (iii) Contract Area Non-Drilling Exploration Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedures and shall be recoverable in full in the period incurred.

- (iv) Contract Area Unsuccessful Exploration and Appraisal Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedures and shall be recoverable over the depreciation period of 5 (five) years in equal installments of 20% (twenty percent) per annum or the remaining life of the Contract Area, whichever is less, commencing with Production from the Contract Area which costs shall be allocated to a Development Area in accordance with Article 2.5 of this Schedule 2.
- (c) Any carryover cost from previous months as provided under Article 4.6 of this Schedule 2.
- 4.6 Any amounts chargeable and recoverable in excess of the allocation of Proceeds for the month to Royalty Oil and Cost Oil shall be carried forward to subsequent months. Carryovers shall be determined as follows:
 - (a) A Royalty Oil carryover results when the Proceeds for such month are insufficient for allocation of the Royalty Oil due for the month, as described in clause 10 of the Contract.
 - (b) A Cost Oil carryover results when the Proceeds remaining, after allocating a portion of the proceeds to Royalty Oil, are insufficient for allocation of Cost Oil due for the month, as described in clause 10 of the Contract.
- 4.7 Profit Oil is available where Proceeds remain after allocations to Royalty Oil and Cost Oil pursuant to Articles 4.5 and 4.6 above. Profit Oil shall be allocated as described in clause 10 of the Contract.

5. **Other Provisions**

- 5.1 The Contractor shall open and keep bank accounts in United States dollars where all funds remitted from abroad shall be deposited for the purpose of meeting local expenditures. For purposes of keeping the books of accounts, any foreign currency remitted by the Contractor shall be converted at the monthly exchange rates published on the date of payment by the Central Bank of Sao Tome and Principe for Dobra, and the Financial Times of London for other currencies.
- 5.2 The Contractor shall prepare financial, accounting and budget statements in accordance with the Agência Nacional do Petróleo's prescribed reporting format.
- 5.3 With respect to any agreed sum arising out of this Contract owing between the Parties that is past due, any set-off pursuant to clause 12 of the Contract shall be exercised by giving the other Party written notice thereof accompanied by sufficient description of the offsetting sums to allow the Parties to properly account thereof.

The Contractor shall report on the cumulative production in the Contract Area in a format to be agreed with the Agência Nacional do Petróleo.

6. **Depreciation Schedule**

- 6.1 Any Operating Costs, which are to be depreciated, shall be depreciated according to the following schedule:

Year	Depreciation Rate (%)
1	20%
2	20%
3	20%
4	20%
5	20%

SCHEDULE 3

ALLOCATION AND LIFTING PROCEDURE PRINCIPLES

1. Application

- 1.1 This Allocation and Lifting Procedure attached to and forming part of the Contract sets out the methods for the allocation of available Crude Oil from the Contract Area and the Parties shall allocate all lifting of available Crude Oil in accordance with this Allocation and Lifting Procedure and the Contract.
- 1.2 In the event that the production of Available Crude Oil is segregated into 2 (two) or more types or grades, the provisions of this Allocation and Lifting Procedure shall apply separately to each such type or grade. To the extent that distribution on such a basis is impracticable, a separate method for the allocation of such Available Crude Oil shall be agreed upon by the Parties.
- 1.3 In the event of a conflict between the terms of this Allocation and Lifting Procedure and the Contract, the terms of the Contract shall apply.
- 1.4 This Allocation and Lifting Procedure may be amended from time to time by mutual agreement of the Parties.

2. Definitions

- 2.1 The words and expressions defined in the Contract when used herein shall have the meaning ascribed to them in the Contract. In addition, the following words shall have the meaning set forth below:
 - (a) “**Current Quarter**” means the calendar quarter within which the relevant schedules are prepared and submitted;
 - (b) “**Forecast Quarter**” means the first calendar quarter succeeding the Current Quarter;
 - (c) “**Lifting Allocation**” means the quantity of Available Crude Oil, which each Party has the right to take in kind, lift and dispose of in accordance with clause 10 of the Contract;
 - (d) “**Primary Nominations**” means a written statement issued by each Party to the other at least 25 (twenty-five) days prior to the commencement of each quarter declaring the volume by grade of its estimated Lifting Allocation which the Party desires to lift during the Forecast Quarter;
 - (e) “**Proceeds**” means the amount in United States dollars determined by multiplying the Realizable Price by the number of Barrels of Available Crude Oil lifted by a Party; and

- (f) **“Proceeds Imbalance”** means the difference between each Party’s Proceeds to which it is entitled and the Proceeds that each Party has received.

3. Lifting Allocation

- 3.1 On or before September 30 of every Calendar Year, the Operator shall advise the Parties of its forecast of the Available Crude Oil by grades to be produced during each month of the first semester of the next ensuing Calendar Year.
- 3.2 On or before March 31 of every Calendar Year, the Contractor shall advise the Agência Nacional do Petróleo of its forecast of Available Crude Oil by grades to be produced during each month of the semester commencing on July 1 of the Calendar Year.
- 3.3 35 (thirty-five) days before the commencement of Production from the Contract Area and thereafter 35 (thirty-five) days prior to the beginning of the Forecast Quarter, the Contractor, through the Operator, shall notify the Agência Nacional do Petróleo of the estimated Lifting Allocation which can be produced and made available for disposal during the Forecast Quarter. Such estimated Lifting Allocation shall take into account any Proceeds Imbalance for the quarter first preceding the Current Quarter and any estimated Proceeds Imbalance for the Current Quarter computed in accordance with Article 4 of this Schedule 3. Such notice shall indicate the estimated quantities of Royalty Oil, Cost Oil and Profit Oil, each Party’s estimated Lifting Allocation and the estimated Realizable Price used to prepare such estimated Lifting Allocations.
- 3.4 25 (twenty-five) days before the commencement of production from the Contract Area and thereafter not later than 25 (twenty-five) days before the beginning of the Forecast Quarter, each Party shall notify the other of its Primary Nomination of Available Crude Oil which it intends to lift during the Forecast Quarter which shall not exceed its estimated Lifting Allocation.
- 3.5 The estimated Realizable Price to be used by the Contractor to prepare the Estimated Quarterly Lifting Allocation shall be the Realizable Price of the first month of the Current Quarter.
- 3.6 Each Party shall be obliged to lift its own Lifting Allocation. In the event that one Party lifts the other Party’s Lifting Allocation, pursuant to clause 10 of the Contract, the lifting Party shall pay to the non-lifting Party the applicable Proceeds pursuant to clause 10 of the Contract. In such case, the non-lifting Party shall be treated, for all other purpose under the Contract, as though it had made such lifting itself.

4. Adjustments of Lifting Allocations

- 4.1 On or before 35 (thirty-five) days prior to the last day of the Current Quarter, the Lifting Allocation for the first preceding quarter thereto shall be computed and the Proceeds Imbalance determined and agreed to by the Agência Nacional do Petróleo.
- 4.2 On or before 35 (thirty-five) days prior to the last day of the Current Quarter, the Proceeds Imbalance for the Current Quarter shall be estimated, taking into account the Proceeds Imbalance computed for the first preceding quarter under Article 4.1 above.

- 4.3 The Proceeds Imbalance for the first preceding quarter computed under Article 4.1 above and the estimated Proceeds Imbalance for the Current Quarter computed under Article 4.2 above shall be taken into account by the Parties by debiting or crediting such Proceeds Imbalances to each Party's share of the estimated Lifting Allocation for the Forecast Quarter filed by dividing the respective Proceeds Imbalance by the Realizable Price applicable for the period in question.
- 4.4 The Contractor shall keep complete records of all liftings. At the end of each quarter, the Parties will meet to reconcile the Lifting Allocations and the actual lifting volume with a view to making adjustments as appropriate. If any disagreement arises with respect to such reconciliation, the area of disagreement shall be mutually resolved by the Parties in accordance with the official records of the Agência Nacional do Petróleo.
- 4.5 All Lifting Allocations and actual lifting shall be audited at the end of each Calendar Year by a mutually acceptable independent auditor.

5. Scheduling Details

5.1 Scheduling Notification

At least 25 (twenty-five) days prior to the beginning of a calendar month, the Agência Nacional do Petróleo shall notify the Contractor of its proposed tanker schedule for that calendar month specifying the following:

- (a) a loading date range of 10 (ten) days for each tanker lifting;
- (b) the desired parcel size for each lifting in Barrels, subject always to change within a range of plus or minus 5% (five percent) by the Party so nominating;
- (c) the tanker's name or "To Be Named" (TBN) for each tanker lifting. Tanker nomination made as TBN shall be replaced at least 5 (five) working days prior to the accepted date range, unless a shorter time is acceptable to the Contractor; and
- (d) documentation instructions shall be given for each lifting not later than 4 (four) days prior to the first day of the accepted date range for the tanker in question.

5.2 Tanker Substitution

Any Party may substitute a tanker for another to lift its nominated volume of Crude Oil, provided such substituted tanker has the same arrival date range as the originally scheduled tanker and all other provisions of this Allocation and Lifting Procedure are complied with.

5.3 Overlapping Date Ranges

In the event the combined lifting schedule contains overlapping accepted date ranges, the tanker which first gives its Notice of Readiness (NOR), has provided all documentation and obtained clearances within such accepted date ranges shall be loaded first, unless urgent operational requirements dictate otherwise in which case, demurrage shall be borne by Petroleum Operations and charged to Operating Costs.

5.4 Confirmation of Lifting Schedules

At least 15 (fifteen) days prior to the beginning of a calendar month, the Contractor shall either confirm the feasibility of the proposed monthly lifting schedules or, alternatively, advise necessary modifications to such schedules. Such confirmation which shall be in the form of a combined lifting schedule should include a loading date range of 3 (three) days for each lifting, the first day being the first date of arrival and the third day being the last date of arrival.

5.5 Operational Delays

The Parties recognize that occasionally environmental and technical problems in the Contract Area may cause delays and/or disruptions in the combined lifting schedule. The Contractor shall promptly notify the Agência Nacional do Petróleo of such delays and/or disruptions, the projected termination of each of such delays and/or disruptions and advise the Agência Nacional do Petróleo of the revised combined lifting schedule. In the event such notification does not allow for a revised combined lifting schedule on the part of the Agência Nacional do Petróleo, then any resultant costs will be charged to Operating Costs.

5.6 Estimated Delayed Arrival of a Tanker

Whenever it becomes apparent that a tanker will not be available as scheduled or will be delayed, the Party utilizing such tanker shall notify the other Party(ies) of the circumstances and expected duration of the delay. Upon assessing the impact that the delay will have upon the combined lifting schedule and production during the current and/or next month, the Contractor shall make appropriate revision(s) to the combined lifting schedule to avoid disruption in production. In the event that any Party fails to lift its nominated share of production in any month/quarter due to circumstances beyond the Party's control or difficulties in maintaining the lifting schedule, that Party shall have the right during the following quarter/month to lift the unlifted quantities.

5.7 Tanker Standards

All tankers nominated for lifting by any Party shall conform to the international regulations and standards concerning size, equipment, safety, maintenance and similar requirements approved by the Contractor for the terminal in question and by the appropriate authorities. Failure of a tanker to meet such standards shall not excuse the nominating Party from the applicable consequences provided in the Contract.

5.8 Destination of Crude Oil

The Contractor shall at all times disclose the destination of the Crude Oil lifted under the Contract.

SCHEDULE 4

PROCUREMENT AND PROJECT IMPLEMENTATION PROCEDURES

1. Application

- 1.1 These Procurement Procedures form part of the Contract and shall be followed and observed in the performance of a Party's obligations under the Contract.
- 1.2 These Procurement Procedures shall be applicable to all contracts and purchase orders whose values exceed the respective limits set forth in Article 1.5 below and which, pursuant thereto, require the prior approval of the Agência Nacional do Petróleo.
- 1.3 In the event of a conflict between the terms of these Procurement Procedures and the Contract, the terms of the Contract shall prevail.
- 1.4 These Procurement Procedures may be amended from time to time by the mutual agreement of the Parties.
- 1.5 The Contractor shall have the authority to enter into any contract or place any purchase order in its own name for the performance of services or the procurement of facilities, equipment, materials or supplies, provided that:
 - (a) prior approval of the Agência Nacional do Petróleo shall be obtained for all foreign contracts and purchase orders awarded to third parties where the cost exceeds US \$750,000 or in another currency equivalent during the Exploration Period and US \$1,500,000 or in another currency equivalent during the Production Period;
 - (b) prior approval of the Agência Nacional do Petróleo shall be obtained for all local contracts and local purchase orders where the cost exceeds US \$500,000 or in another currency equivalent on the place of the contract or the purchase.
 - (c) the amount set forth in paragraphs (a), (b) and (h) of this Article 1.5 will be reviewed by the Agência Nacional do Petróleo whenever it becomes apparent to a Party that such limits create unreasonable constraints on Petroleum Operations or are no longer appropriate. In the event of a significant change in the exchange rate of local currencies to United States dollars compared to that which existed on the Effective Date, the Agência Nacional do Petróleo shall review the limits set forth in paragraphs (a), (b) and (h) of this Article 1.5;
 - (d) such contracts shall be entered into and such purchase orders shall be placed with third parties which in the Contractor's opinion are technically and financially able to properly perform their obligations;
 - (e) procedures customary in the oil industry for securing competitive prices shall be utilized at all times;

- (f) the Contractor shall give preferences to sub-contractors that are companies organized under the laws of Sao Tome and Principe to the maximum extent possible and in accordance with the Petroleum Law;
- (g) the Contractor shall give preference to such goods which are manufactured or produced in Sao Tome and Principe or services rendered by nationals of Sao Tome and Principe in accordance with the Petroleum Law; and
- (h) The above referred limits and these procedures shall not apply to purchases made to replenish warehouse stocks which do not exceed US \$750,000 or the equivalent in another currency and shall also not apply to the purchase of tubulars made following planned drilling programs for an amount of less than US \$750,000 or the equivalent in another currency. When different currencies are used in those purchases, the total shall not be more than the amount equivalent to US \$750,000 (seven hundred fifty thousand United States Dollars).

2. Project Implementation Procedure

- 2.1 The Contractor, realizing the need for a project or contract to which these Procurement Procedures apply pursuant to Article 1.5, shall introduce it as part of the proposed Work Program and Budgets to be developed and submitted by the Contractor to the Agência Nacional do Petróleo pursuant to clause 7 of the Contract.
 - (a) The Contractor shall provide full information with respect to a project including the following:
 - (i) a clear definition of the necessity and objectives of the project;
 - (ii) the scope of the project; and
 - (iii) the cost estimate thereof.
 - (b) The Contractor shall transmit the project proposal along with all related documentation to the Agência Nacional do Petróleo for consideration.
 - (c) The Agência Nacional do Petróleo shall consider the proposal and the recommendation of the Contractor and shall finally determine the matter. If the Agência Nacional do Petróleo does not object to the project or any part thereof within 30 (thirty) days of the submission of the project, the project as proposed by the Contractor, shall be deemed to have been approved.
- 2.2 The project, as approved pursuant to Article 2.1, shall form part of the Work Program and Budget for Petroleum Operations. Such approval shall also constitute all authorizations by the Agência Nacional do Petróleo to the Contractor to initiate contracts and purchase orders relevant to the project proposal, subject to the provisions of Articles 1.5 and 3 of this Schedule 4.
- 2.3 The resources for the project design, supervision, and management shall first be drawn from the Contractor's available in-house expertise. If the Agência Nacional do Petróleo approves the foregoing, it may be performed by the Contractor under the approved budget for the project. Competent Sao-Tomean engineering and design companies shall be given priority over other third parties by the Contractor for such projects in accordance with the Petroleum Law. Staff of the Agência Nacional do Petróleo who shall be seconded pursuant to clause 14 of the Contract shall be fully involved in the project design, supervision and management.

- 2.4 After approval of the project and its budget, the Contractor shall prepare and transmit to the Agência Nacional do Petróleo complete details of the project including the following:
- (a) project definition;
 - (b) project specification;
 - (c) flow diagrams;
 - (d) project implementation schedule showing all phases of the project including engineering design, material and equipment procurement, inspection, transportation, fabrication, construction, installation, testing and commissioning;
 - (e) major equipment specifications;
 - (f) cost estimate of the project;
 - (g) an activity status report; and
 - (h) copies of all approved authorizations for expenditure (AFEs).

3. Contract Tender Procedure

- 3.1 The following tender procedure shall apply to works contracts and contracts for the supply of services and supply contracts not directly undertaken by the Contractor or an Affiliate:
- (a) The Contractor shall maintain a list of approved sub-contractors for the purpose of contracts for Petroleum Operations, (the “**Approved Contractors’ List**”). The Agência Nacional do Petróleo shall have the right to nominate sub-contractors to be included in or deleted from the list. The Agência Nacional do Petróleo and the Contractor shall be responsible for pre-qualifying any sub-contractor to be included in the Approved Contractors’ List
 - (b) Sub-contractors included in the Approved Contractors’ List shall be both local and/or foreign individuals or legal persons. Where required by law, they shall be registered with the Agência Nacional do Petróleo.
 - (c) When a contract is to be bid, the Contractor shall present a list of proposed bidders to the Agência Nacional do Petróleo for concurrence not less than 15 (fifteen) working days before the issuance of invitations to bid to prospective sub-contractors. The Agência Nacional do Petróleo may propose additional names to be included in the list of proposed bidders or the deletion of anyone thereof. Contract specifications shall be in Portuguese and/or English and in a recognized format used in the international petroleum industry.

- (d) If the Agência Nacional do Petróleo has not responded within 15 (fifteen) working days from the date of the official receipt following the presentation of the list of proposed bidders as aforesaid, the list shall be deemed to have been approved.
- 3.2 The Contractor shall, within its limits set forth in Article 1.5, establish a Tender Committee who shall be responsible for pre-qualifying bidders, sending out bid invitations, receiving and evaluating bids and determining successful bidders to whom contracts shall be awarded.
- 3.3 The Contractor shall send analysis and recommendations of bids received and opened by the Tender Committee to the Agência Nacional do Petróleo for approval before a contract is signed within 30 (thirty) days from the date of the official receipt. Approval of the Contractor's recommendations shall be deemed to have been given if the Agência Nacional do Petróleo has not responded within such period.
- 3.4 Prospective vendors and/or sub-contractors for work estimated in excess of US \$750,000 (seven hundred fifty thousand United States Dollars) for the Exploration Period and US \$1,500,000 (one million five hundred thousand United States Dollars) for the Production Period or their equivalent shall submit a summary of the commercial terms of their bids to the Contractor in 2 (two) properly sealed envelopes, one addressed to the Contractor and the other addressed to the Agência Nacional do Petróleo. The Contractor shall retain one and send the other to the Agência Nacional do Petróleo properly enveloped, sealed and addressed to the Agência Nacional do Petróleo.
- 3.5 In all cases, the Contractor shall make full disclosure to the Agência Nacional do Petróleo of its relationship, if any, with any sub-contractors.
- 3.6 These Procurement Procedures may be waived and the Contractor may negotiate directly with a sub-contractor:
 - (a) in emergency situations provided that it promptly informs the Agência Nacional do Petróleo of the outcome of such negotiations; and
 - (b) in work requiring unusually specialized skills or when special circumstances warrant, upon the approval of the Agência Nacional do Petróleo, which approval shall not be unreasonably withheld.

4. General Conditions of Contracts

- 4.1 The payment terms, to the extent viable, shall provide that:
 - (a) a minimum of 10% (ten percent) of the contract price shall be withheld as a retention fee until after the end of a guarantee period agreed with the sub-contractor which shall vary between 6 (six) months and 12 (twelve) months, depending upon the contract, with the exception of drilling and seismic data acquisition, well surveys and other such services, provided that a sub-contractor may be given the option to provide another guarantee equivalent to the 10% (ten percent) retention such as an irrevocable stand-by letter of credit or performance bond; and

- (b) provision shall be made for appropriate withholding tax as may be applicable.
- 4.2 The governing law of all agreements signed with sub-contractors shall be, to the extent feasible, Sao-tomean Law.
- 4.3 Sao-Tomean Law shall apply to all sub-contractors performing work in the Territory of Sao Tome and Principe. In as far as practicable, they shall use Sao-Tomean resources, both human and material, in accordance with the Petroleum Law.
- 4.4 Each contract shall provide for early termination, where necessary, and the Contractor shall use all reasonable endeavors to obtain a termination provision with minimal penalty.
- 4.5 Sub-contractors shall provide, in the case of a foreign sub-contractor, that the local part of the work shall be performed by the sub-contractor's local subsidiary whenever possible.

5. Materials and Equipment Procurement

- 5.1 The Contractor may, through itself or its Affiliates, procure materials and equipment subject to conditions set forth in this Article 5 and these Procurement Procedures.
- 5.2 The provisions of this Article 5 shall not apply to lump sum or turnkey contracts/projects.
- 5.3 In ordering the equipment or materials, the Contractor shall obtain from vendors / manufacturers, rebates, discounts and guarantees that such discounts, guarantees and all other grants and responsibilities shall be for the benefit of Petroleum Operations.
- 5.4 The Contractor shall:
 - (a) by means of established policies and procedures ensure that its procurement efforts provide the best total value, with proper consideration of quality, services, price, delivery terms and Operating Costs to the benefit of Petroleum Operations;
 - (b) maintain appropriate records, which shall be kept up to date, clearly documenting procurement activities;
 - (c) provide quarterly and annual inventory of materials and equipment in stock;
 - (d) provide a quarterly listing of excess materials and equipment in its stock list to the Agência Nacional do Petróleo; and
 - (e) check the excess materials and equipment listings from other companies operating in the Territory of Sao Tome and Principe to identify materials available in the country prior to initiating any foreign purchase order.

- 5.5 The Contractor shall initiate and maintain policies and practices, which provide a competitive environment and climate amongst local and overseas suppliers. Competitive quotation processes shall be employed for all local procurement where the estimated value exceeds US \$500,000 during the Exploration Period and US \$750,000 during the Production Period as follows:
- (a) fabrication, whenever practicable, shall be done locally. To this effect, the Petroleum Operations recognize and shall accommodate local offers at a premium not exceeding 10% (ten percent); and
 - (b) Notwithstanding Article 3.1, the Contractor shall give preferences to Sao-Tomean indigenous sub-contractors in the award of contracts. Contracts within the agreed financial limit of the Contractor shall be awarded to only competent Sao-Tomean indigenous sub-contractors possessing the required skill/capability for the execution of such contracts and the Contractor shall notify the Agência Nacional do Petróleo.
- 5.6 Analysis and recommendation of competitive quotations of a value exceeding the limits established in Article 1.5 shall be transmitted to the Agência Nacional do Petróleo for approval before a purchase order is issued to the selected vendor/manufacturer. Approval shall be deemed to have been given if a response has not been received from the Agência Nacional do Petróleo within 30 (thirty) days of receipt by the Agência Nacional do Petróleo of the said analysis and recommendation.
- 5.7 Pre-inspection of the drilling rig, equipment and stock materials of reasonable value shall be jointly carried out at the factory site and/or quay before shipment at the request of either Party.

6. Project Monitoring

- 6.1 The Contractor shall provide a project report to the Agência Nacional do Petróleo.
- 6.2 For major projects exceeding US \$2,500,000 or its equivalent, the Contractor shall provide to the Agência Nacional do Petróleo a detailed quarterly report which shall include:
- (a) the approved budget total for each project;
 - (b) the expenditure on each project;
 - (c) the variance and explanations;
 - (d) the number and value of construction change orders;
 - (e) a bar chart of schedules showing work progress and work already completed and schedule of mile-stones and significant events; and
 - (f) a summary of progress during the reporting period, a summary of existing problems, if any, and the proposed remedial action, anticipated problems, and percentage of completion,
- provided that the Agência Nacional do Petróleo shall have the right to send its own representatives to assess the project based on the report.
- 6.3 In the case of an increase in cost in excess of 5% (five percent) of the project, the Contractor shall promptly notify the Agência Nacional do Petróleo and obtain necessary budget approval, in accordance with clause 2.6 (c) of Schedule 2.
- 6.4 Not later than 6 (six) months following the actual completion of any major project whose cost exceeds US \$2,500,000 or its equivalent, the Contractor shall prepare and deliver to the Agência Nacional do Petróleo a project completion report which shall include the following:
- (a) a cost performance of the project in accordance with the work breakdown at the commencement of the project;
 - (b) the significant variation in any item or sub-item;
 - (c) a summary of problems and unexpected events encountered during the project; and
 - (d) a list of excess materials.

SCHEDULE 5

SALE OF ASSETS PROCEDURE

Upon the agreement of the Agência Nacional do Petróleo that certain identified assets are to be sold, the following procedure shall apply:

1. The Contractor shall call for a bid duly advertised in a minimum of 1 (one) national newspaper, national radio station and national television station for all assets whose book value are of a minimum of US \$100,000 or more, irrespective of length of ownership of such assets.
2. All assets with book value of a minimum of US \$100,000 or more shall be sold with proof of the highest bid from a minimum of 3 (three) bidders, subject to the highest bidder not being related to the Contractor.
3. A sale of assets to the Contractor's Affiliate shall be brought to the express attention of the Agência Nacional do Petróleo and shall take place only with the written consent given by the Agência Nacional do Petróleo.
4. The Contractor may dispose of all assets with book value less than US \$100,000 in the best manner available to the Contractor on the basis of the highest price available.

SCHEDULE 6

FORM OF PARENTAL GUARANTEE

THIS GUARANTEE is made on this [INSERT DAY] of [INSERT MONTH AND YEAR]

BETWEEN:

1. **[THE GUARANTOR]**, a company organized and existing under the laws of [*insert* JURISDICTION], and having its registered office at [INSERT ADDRESS] (the Guarantor); and
2. **THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE** (the “State”), represented for the purposes of this Guarantee by the Agência Nacional do Petróleo.

WHEREAS, the Guarantor is the parent entity of [INSERT NAME OF COMPANY] organized and existing under the laws of [INSERT JURISDICTION] and having his registered office at [INSERT ADDRESS] (the “Company”);

WHEREAS, the Company has entered into a production sharing contract (the **Contract**) with, among others, the State in respect of the Contract Area;

WHEREAS, the State desires that the execution and performance of the Contract by the Company be guaranteed by the Guarantor and the Company desires to furnish this Guarantee as an inducement to the State to enter into the Contract and in consideration of the rights and benefits inuring to the Company thereunder; and

WHEREAS, the Guarantor fully understands and accepts to undertake the contractual obligations under the Contract of the Company.

NOW THEREFORE, it is hereby agreed as follows:

1. **Definitions and Interpretation**

All capitalized words and expressions in this Guarantee have the same meaning as in the Contract, unless otherwise specified to herein.

2. **Scope of this Guarantee**

The Guarantor hereby guarantees to the State the timely payment of any and all indebtedness and the timely performance of any and all obligations whatsoever of the Company to the State arising under or in relation to the Contract, including the payment of any amounts required to be paid by the Company to the State when the same become due and payable, provided that, the obligations of the Guarantor to the State under this instrument will not exceed the lesser of:

- (a) the liabilities of the Company to the State;
- (b) US\$10,000,000 (ten million United States Dollars) during the Exploration Period, as may be extended in accordance with the Contract; and
- (c) US\$250,000,000 (two hundred and fifty million United States Dollars) during the Production Period

3. Waiver of Notice, Agreement to All Modifications

The Guarantor hereby waives notice of the acceptance of this Guarantee and of the state of indebtedness of the Company at any time, and expressly agrees to any extensions, renewals, modifications or acceleration of sums due to the State resulting from the Contract or any of the terms of the Contract, all without relieving the Guarantor of any liability under this Guarantee.

4. Absolute and Unconditional Guarantee

The obligations of the Guarantor shall constitute an absolute, unconditional and (save for the provisions of Article 2 above) unlimited guarantee of payment and performance to be granted strictly in accordance with the terms hereof, and without respect to such defenses as might be available to the Company.

5. No Discharge of Guarantor

The obligations of the Guarantor hereunder shall not in any way be released or otherwise affected by: a release or surrender by the Company of any collateral or other security it may hold or hereafter acquire for payment of any obligation hereby guaranteed; by any change, exchange or alteration of such collateral or other security; by the taking of or the failure to take any action with respect thereto either against the Company or against the Guarantor; or by any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor.

6. No Prior Action Required

The State shall not be required to make demand for payment or performance first against the Company or any other Person or to proceed against any collateral or other security which might be held by the State or otherwise to take any action before resorting to the Guarantor hereunder.

7. Cumulative Rights

All rights, powers and remedies of the State hereunder shall be cumulative and not alternative, and shall be in addition to all rights, powers and remedies given to the State by law or otherwise.

8. Continuing Guarantee

This Guarantee is intended to be and shall be considered as a continuing guarantee of payment and performance and shall remain in full force and effect for so long as the Contract and any amendments thereto shall remain outstanding or there shall exist any liability of the Company to the State thereunder.

9. Notice of Demand

Upon default in the performance of any of the obligations of the Company guaranteed hereunder, the State or its duly authorized attorney may give written notice to the Guarantor at its principle office in [INSERT JURISDICTION] of the amount due and the Guarantor, within a period of 10 (ten) business days, will make, or cause to be made, payment of such amount as notified, in United States dollars, at such bank or other place in [insert jurisdiction] as the State shall designate and without set-off or reduction whatsoever of such payment in respect of any claim the Parent Company or the Company may then have or thereafter might have.

10. Assignment

The Guarantor shall not in any way effect, or cause or permit to be effected, the assignment or transfer of any of its obligations hereunder without the express written consent of the State.

11. Subrogation

Until all indebtedness hereby guaranteed has been paid in full, the Guarantor shall have no right of subrogation to any security, collateral or other rights which may be held by the State.

12. Payment of Expenses

The Guarantor shall pay to the State all reasonable costs and expenses, including attorney's fees, incurred by it in collecting or compromising any indebtedness of the Company hereby guaranteed or in enforcing the Contract or this Guarantee.

13. Governing Law and Arbitration

This Guarantee shall be governed by and interpreted in accordance with the laws of the State.

All Disputes or claims arising out of or relating to this Guarantee shall be finally settled by arbitration, in accordance with the procedure set forth in the Contract; however, if in addition to the arbitration hereunder an arbitration has also been commenced under the Contract with respect to obligations hereby guaranteed, the arbitration commenced hereunder shall be consolidated with the arbitration commenced under the Contract and the arbitral tribunal appointed hereunder shall be the same arbitral tribunal appointed pursuant to the Contract. The arbitration shall be conducted in the Portuguese language and the decision shall be final and binding on the parties.

14. Severability of Provisions

In the event that for any reason any provision hereof may prove illegal, unenforceable or invalid, the validity or enforceability of the remaining provisions hereof shall not be affected.

15. Confidentiality

The Guarantor agrees to treat this Guarantee and the Contract as confidential and shall not disclose, willingly or unwillingly, to any third party, except to the extent required by law, the terms and conditions hereof or thereof without the prior written consent of the State.

IN WITNESS WHEREOF, the Guarantor and the Company executed this Guarantee this [INSERT DAY] day of [INSERT MONTH AND YEAR].

[GUARANTOR]

By: _____

Title: _____

THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE

BY THE AGÊNCIA NACIONAL DO PETRÓLEO OF SAO TOME AND PRINCIPE

By: _____

Title: _____

Comprovativo de Movimento

AO
MINISTÉRIO DAS FINANÇAS
E ADMINISTRAÇÃO PÚBLICA
SÃO TOMÉ
RDSTP-FED.C/NACIONAL DE PETRÓLEO-US

S.TOMÉ, 05 DE NOVEMBRO DE 2015

IMPORTÂNCIA QUE LEVAMOS A CREDITO DA CONTA 4711101-RDSTP-FED. C/NACIONAL DE PETROLEO-US,
CONFORME A ORDEM DE PAGAMENTO RECEBIDO PELO NOSSO CORRESPONDENTE FEDERAL RESERVE BANK
REFERENTE AO BÓNUS DE ASSINATURA GALP STP/I,POR OREDEM DE PETROLEOS PORTUGAL PETROGAL SA,
DV 04/11/2015.

COM OS NOSSOS MELHORES CUMPRIMENTOS.

Nde Conta	Designai;	Moeda	Moeda Estrangelra		Moeda Nacional	
			Debito	Credito	Debito	Credito
4111101	RDSTP-FED. C/NAC.DO PETROLEO-USD	USD		2.00.000.00		
Total				2.00.000.00		



ORDEM DOS ADVOGADOS

REGISTO ONLINE DOS ACTOS DOS ADVOGADOS

Artigo 38.º do Decreto-Lei n.º 76-A/2006, de 29-03

Portaria n.º657-8/2006, de 29-06

Dr.(a) Maria Lobo Xavier

CÉDULA PROFISSIONAL: 52566L

IDENTIFICAÇÃO:AO DA NATUREZA E ESPÉCIE DO ACTO

Certificação de fotocópias

IDENTIFICAÇÃO DOS INTERESSADOS

Petróleos de Portugal - Petrolgal, S.A.

NIPC n.º. 500697370

OBSERVAÇÕES

Certifico que a fotocópia anexa a presente certificação, composta por sessenta e nove páginas, por mim numeradas e rubricadas, esta conforme o original que me foi apresentado e que restitui.

EXECUTADO A: 2016-01-12 17:21

REGISTADO A: 2016-01-12 17:24

COM O N.º: 52566L/21

Podera consultar este registo em <http://atos>
usando o código 23043753-434265

www.oa.pt

**ADDENDUM TO THE
PRODUCTION SHARING CONTRACT
EXECUTED ON 26 OCTOBER 2015 BY AND BETWEEN
THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE
REPRESENTED BY THE
AGÊNCIA NACIONAL DO PETRÓLEO OF SAO TOME AND PRINCIPE
AND
GALP ENERGIA SÃO TOMÉ E PRÍNCIPE, UNIPESSOAL, LDA
FOR
BLOCK 6**

THIS ADDENDUM TO THE PRODUCTION SHARING CONTRACT is entered into on 9 November 2015 among:

- (1) THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE (the “State”)** represented by the Agência Nacional do Petróleo de São Tomé e Príncipe, ("ANP-STP");
- (2) GALP ENERGIA SÃO TOMÉ E PRÍNCIPE, UNIPessoal, LDA**, a company organized and existing under the laws of the Democratic Republic of Sao Tome and Principe whose registered office is at Avenida da Independência 392, II/III, Caixa Postal 638, São Tomé, São Tomé e Príncipe (“Galp”); and
- (3) KOSMOS ENERGY SAO TOME AND PRINCIPE**, a company organized and established under the laws of the Cayman Islands, whose registered office is located at 4th Floor, Century Yard, Cricket Square, Hutchins Drive, Elgin Avenue, George Town, Grand Cayman KY1-1209, Cayman Islands, hereinafter named ("**Kosmos**");

WHEREAS

- A.** ANP and Galp are parties to the Production Sharing Contract signed with the State on 26 October, 2015 (the "**Contract**"), in pursuance of which they have obtained the exclusive right to undertake petroleum operations in Block 6 within the Exclusive Economic Zone of Sao Tome and Principe;
 - B.** By letter dated the 8th of October 2015, Ref. N.º 164/ANP/GM/2015, ANP STP pre-authorized the assignment by Galp of fifty percent (50%) of its ninety percent (90%) participating interest in the Contract to Kosmos and further informed it did not had the intention to exercise any preferential right thereof;
 - C.** Under article 19 of the Contract and pursuant to the authorization identified in the previous recital B), ANP-STP, Galp and Kosmos executed on 9 November 2015 the Deed of Assignment by way of which Galp assigned fifty percent (50%) of its ninety percent (90%) participating interest in the Contract to Kosmos, which consequently made the percentage interests held by the parties in the Contract to be the following as of that date:
-

ANP-STP – ten per cent (10%);

GALP – forty-five per cent (45%);

KOSMOS – forty-five per cent (45%);

ANP-STP, Galp and Kosmos (hereinafter collectively identified as the “**Parties**”) hereby execute this addendum to the Production Sharing Contract (the “**Adenddum**”), subject to the following terms and conditions:

Capitalized terms in this Addendum not specifically defined herein shall have the same meaning as defined in the Contract.

SINGLE CLAUSE

1. By virtue and as consequence of the assignment of the participation interest referred in recital C) above, the Parties agree to amend the Contract, effective on the date of execution of the Deed of Assignment identified in recital C) and, as of such date, all references in the Contract to the Contractor (as defined in the Contract) shall be understood as being made collectively to Galp and Kosmos, to the extent of the participation interests held by each one of them in the Contract. Galp shall continue to be the Operator in the Contract.
2. To the extent and where applicable, as of the same date, all references in the Contract to Party or Parties shall include Kosmos.
3. Consequent to this Addendum, as of the date of execution of the Deed of Assignment identified in recital C),

3.1. The headings of the Contract shall read as follows:

*

*“THIS PRODUCTION SHARING CONTRACT is made and entered into on this day of
26 October 2015 by and between:*

THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE represented by the AGÊNCIA NACIONAL DO PETRÓLEO OF SAO TOME AND PRINCIPE; and

GALP ENERGIA SÃO TOMÉ E PRÍNCIPE, UNIPESSOAL, LDA, a company organized and existing under the laws of the Democratic Republic of Sao Tome and Principe whose registered office is at Avenida da Independência 392, II/III, Caixa Postal 638, São Tomé, São Tomé e Príncipe (“Galp”);

KOSMOS ENERGY SAO TOME AND PRINCIPE, a company organized and established under the laws of the Cayman Islands, whose registered office is located at 4th Floor, Century Yard, Cricket Square, Hutchins Drive, Elgin Avenue, George Town, Grand Cayman KY1-1209, Cayman Islands, hereinafter (“Kosmos”);

Galp and Kosmos are collectively referred to as the “Contractor””

*

3.2. Clause 30 of the Contract is amended as follows:

“30.1 Any notice or other communication required to be given by a Party to another shall be in writing (in Portuguese and in English) and shall be considered as duly delivered if given by hand delivery in person, by courier or by facsimile at the following addresses:

Agência Nacional do Petróleo (ANP-STP)

Avenida das Nações Unidas, 225

C.P.1048

Sao Tome, Sao Tome and Principe Attention: Executive Director

Fax: +239-2226937 Tel: +239-2226940

E-mail: anp_geral@cstome.net

GALP ENERGIA SÃO TOMÉ E PRÍNCIPE, UNIPESSOAL, LDA

Avenida da Independência, 392, II/III

C.P. 638

Sao Tome, Sao Tome and Principe

Attention: Exploration Director

Fax: +351 21 839 12 98

Tel: +351 21 724 25 00

E-mail: roland.muggli@galpenenergia.com

KOSMOS ENERGY SAO TOME AND PRINCIPE

4th Floor, Century Yard, Cricket Square,

Hutchins Drive, Elgin Avenue,

George Town, Grand Cayman KY1-1209, Cayman Islands

Attention: License Manager

Fax: +1 214 445 9705

Tel: +1 214 445 9600

E-mail: SaoTomeLicenseManager@KosmosEnergy.com

Cc:

E-mail: KosmosGeneralCounsel@KosmosEnergy.com "

*

4. All the remaining provisions of the Contract, which are not expressly modified by this Addendum, shall remain in full force and effect in their precise original terms.

Signed and executed on 9 November 2015, in three originals, being each one of them held by each one of the Parties hereto.

IN WITNESS WHEREOF the Parties have caused this Addendum to be executed the date above written.

SIGNED AND DELIVERED for and on behalf of **THE STATE** represented by the Agência Nacional do Petróleo of Sao Tome and Principe

Signature: /s/ Orlando Sousa Pontes

Name: ORLANDO MENEZES DA COSTA SOUSA PONTES

Designation: EXECUTIVE DIRECTOR

SIGNED AND DELIVERED for and on behalf of Galp Energia São Tomé e Príncipe, Unipessoal, Lda.

Signature: /s/ Carlos Gomes da Silva

Name: CARLOS GOMES DA SILVA

Designation: CEO

SIGNED AND DELIVERED for and on behalf of Kosmos Energy Sao Tome and Principe

Signature: /s/ Paul Dailly

Name: PAUL DAILLY

Designation: SVP

CONTRACT DEED OF ASSIGNMENT

The present deed of assignment is concluded by and between:

KOSMOS ENERGY SAO TOME AND PRINCIPE, a company organized and established under the laws of the Cayman Islands, whose registered office is located at 4th Floor, Century Yard, Cricket Square, Hutchins Drive, Elgin Avenue, George Town, Grand Cayman KY1 1209, Cayman Islands, hereinafter named "KOSMOS",

and

GALP ENERGIA SÃO TOMÉ E PRÍNCIPE, UNIPESSOAL, LDA., a company existing under the laws of Sao Tome and Principe, whose registered offices is located in Avenida da Independência, 392 II-III, São Tome, São Tomé Príncipe, hereinafter referred to as "GALP"

and

THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE represented by the Agência Nacional do Petróleo de São Tomé e Príncipe, hereinafter referred to as "ANP";

ANP, GALP and KOSMOS may collectively be referred to as the "Parties"

PREAMBLE

- A. ANP and GALP are parties to the Production Sharing Contract signed with the Democratic Republic of Sao Tome and Principe on 26 October, 2015 (the "Contract"), in pursuance of which they have obtained the exclusive right to undertake petroleum operations in Block 6 with in the Territory of Sao Tome and Principe;
- B. GALP has agreed to transfer and assign fifty percent (50%) of its ninety percent (90%) participating interest in the Contract to KOSMOS (the "Assignment");
- C. Article 19 of the Contract permits the Parties to the Contract to assign and transfer in whole or in part their participating interest in the Contract;
- D. Article 19 of the Contract requires the prior written consent of ANP, and ANP,
-

by letter dated the 8th of October 2015, Ref. N.º 164/ANP/GM/2015, informed that the assignment by Galp of fifty percent (50%) of its ninety percent (90%) participating interest in the Contract to Kosmos becomes automatically authorized once the Contract between the State and Galp was signed and the Signature Bonus was paid and further informed it did not had the intention to exercise any preferential right thereof;

- E. ANP and GALP already signed the Contract and GALP already paid the signature bonus.
- F. The Parties agree to the Assignment.

In witness whereof, the Patties have agreed the following between themselves in consideration of the obligations set out in the present deed of assignment:

Article 1

The Assignment shall be effective on the date this deed of assignment is signed by all Patties (the "Effective Date").

Article 2

GALP assigns and transfers, and KOSMOS accepts by the present document, fifty percent (50%) of its undivided participating interest specified in the Contract (the "KOSMOS Assigned Interest"), so that the Percentage Interest held by the parties in the Contract as of the Effective Date is as follows:

ANP	ten percent (10%)
GALP	forty-five percent (45%)
KOSMOS	forty-five percent (45%)

GALP and ANP warrant and guarantee that the only consideration received by GALP from KOSMOS for the Assignment shall be the payment of an amount equal to half the signature bonus amount, corresponding to the amount KOSMOS would have to pay if it had a forty five per cent (45%) participating interests in the Contract at the date of its signature.

Article 3

KOSMOS acknowledges and accepts that it shall assume and fulfil all the obligations, responsibilities and duties from the Effective Date, under the Contract that may arise after this date related to the KOSMOS Assigned Interest.

KOSMOS agrees to indemnify and hold each of ANP and GALP harmless from and against all such obligations, liabilities, duties, costs and expenses arising out of operations relating to the Contract which accrue after the Effective Date to the extent they are related to the KOSMOS Assigned Interest.

Article 4

GALP declares and warrants by the present deed of assignment that it has not in any way previously transferred, assigned or pledged its interest under the Contract constituting the object of the present assignment to KOSMOS, and GALP shall undertake to indemnify and shall hold KOSMOS harmless from all claims, losses or damages that KOSMOS may suffer or incur owing to a violation of the above declaration and warranty.

GALP herein commits to indemnify and hold KOSMOS harmless from all responsibilities and obligations relating to the KOSMOS Assigned Interest which accrue before the Effective Date.

Article 5

The Parties shall sign all other documents and shall carry out all other requirements that may be necessary or desirable in order to confirm or record the assignment of the KOSMOS Assigned Interest, and to put this into effect in accordance with the laws of the Democratic Republic of Sao Tome and Principe.

Article 6

All the terms used in the present deed of assignment have the same definition as that indicated in the Contract.

In witness whereof, the Parties have duly signed this deed of assignment on the date of 9th, November 2015 in three (3) original copies in the Portuguese language and in three (3) copies in the English language and the Portuguese language version shall prevail over the English in case of discrepancy between both versions.

GALP ENERGIA SÃO TOMÉ EPRÍNCIPE, UNIPessoal, LDA

SIGNATURE: /s/ Carlos Gomes da Silva

BY: CARLOS GOMES DA SILVA

POSITION: CEO

DATE: 11/9/2015

KOSMOS ENERGY SAO TOME AND PRINCIPE

SIGNATURE: /s/ Paul Dailly

BY: PAUL DAILLY

POSITION: SVP

DATE: 11/9/2015

By signing this Deed of Assignment, ANP, acting as a party to the Contract in representation of the Democratic Republic of Sao Tome and Principe, confirms the authorization of the Assignment in the terms above, that it will not exercise any preferential right, and states its concurrence with the Assignment.

Signature: /s/ Orlando Sousa Pontes

By: ORLANDO MENEZES DA COSTA SOUSA PONTES

Position: EXECUTIVE DIRECTOR

Date: 11/9/2015

PRODUCTION SHARING CONTRACT

BETWEEN

THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE

REPRESENTED BY THE

AGENCIA NACIONAL DO PETROLEO DE SAO TOME E PRINCIPE

AND

ERHC ENERGY EEZ, LDA

FOR

BLOCK "11"

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THIS PRODUCTION SHARING CONTRACT, is made and entered into on this 23rd day of July 2014 by and between:

- (1) **THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE** represented by the **Agencia Nacional do Petroleo de Sao Tome e Principe** and
- (2) **ERHC ENERGY EEZ, LDA**, a company organized and existing under the laws of the Democratic Republic of Sao Tome e Principe whose registered office is at Avenida da Independencia, 392, II/III, C.P. 1092, Sao Tome (the "**Contractor**").

BACKGROUND:

- (A) All Petroleum existing within the Territory of Sao Tome and Principe, as set forth in the Petroleum Law, is natural resources exclusively owned by the State.
- (B) The Agencia Nacional do Petroleo de Sao Tome e Principe, with the approval of the Government of Sao Tome and Principe, has the authority to enter into contracts for the conduct of Petroleum Operations in and throughout the area, the co-ordinates of which are described and outlined on the map in Schedule 1 of this Contract, which area is hereinafter referred to as the Contract Area.
- (C) The State wishes to promote Petroleum Operations in the Contract Area and the Contractor desires to join and assist the State in accelerating the exploration and exploitation of potential Petroleum resources within the Contract Area.
- (D) The Contractor has the necessary financial capability, technical knowledge and ability to carry out the Petroleum Operations hereinafter described in accordance with this Contract, the Petroleum Law and Good Oil Field Practice.
- (E) Pursuant to and in accordance with the Petroleum Law, this Contract has been entered into by and between the State and the Contractor for the purpose of Petroleum Operations in the Contract Area.
- (F) ERHC ENERGY EEZ, LDA is hereby designated as the Operator under Clause 28 of this Contract.

IT IS AGREED as follows:

1. **DEFINITIONS AND INTERPRETATION**

- 1.1 Except where the context otherwise indicates or as defined in the relevant petroleum laws or regulations, the following words and expressions shall have the following meanings:

"Accounting Procedure" means the rules and procedures set forth in Schedule 2;

"Affiliate" means, in respect of a Party, a Person that Controls, is Controlled by, or is under the common Control with, the Party or any such Person, as the case may be;

"Allocation and Lifting Procedures" means the allocation and lifting procedures set forth in Schedule 3;

"**Appraisal Well**" means any well whose purpose at the time of commencement of drilling such well is the determination of the extent or volume of Petroleum contained in a Discovery ;

"**Associate**" means any Affiliate, subcontractor or other person associated with an authorized person in the conduct of Petroleum Operations.

"**Associated Natural Gas**" means all Natural Gas produced from a Reservoir the predominant content of which is Crude Oil and which is separated from Crude Oil in accordance with generally accepted international petroleum industry practice, including free gas cap, but excluding any liquid Petroleum extracted from such gas either by normal field separation, dehydration or in a gas plant;

"**Available Crude Oil**" means the Crude Oil recovered from the Contract Area, less quantities used for Petroleum Operations;

"**Barrel**" means a quantity or unit of Crude Oil, equal to 158.9874 liters (forty-two (42) United States gallons) at a temperature of fifteen point five six degrees (15.56°) Centigrade (sixty degrees (60°) Fahrenheit) and at one (1) atmosphere of pressure;

"**Budget**" means the cost estimate of items included in an approved Work Program;

"**Calendar Year**" or "**Year**" means a period of twelve (12) months commencing from January 1 and ending the following December 31, according to the Gregorian calendar;

"**Commercial Discovery**" means any Discovery, which has been declared to be commercial by the Contractor;

"**Contract**" means this production sharing contract, including its Recitals and Schedules, as amended from time to time through mutual agreement in writing between the Parties hereto;

"**Contract Area**" means the geographic area within the Territory of Sao Tome and Principe which is the subject of this Contract and as described in Schedule I , as such area may be amended in accordance with the terms herein;

"**Cost Oil**" means the quantum of Available Crude Oil allocated to the Contractor for recovery of Operating Costs after the allocation of Royalty Oil to the State;

"**Control**" means, in relation to a Person, the power of another Person to secure:

- (a) by means of the holding of shares or the possession of voting power, directly or indirectly, in or in relation to the first Person; or
- (b) by virtue of any power conferred by the articles of association of, or any other document regulating, the first Person or any other Person,

so that the affairs of the first Person are conducted in accordance with the decisions or directions of that other Person;

"**Crude Oil**" means crude mineral oil and liquid hydrocarbons in their natural state or obtained from Natural Gas by condensation or extraction;

"Decommissioning" means to abandon, decommission, transfer, remove and/or dispose of structures, facilities, installations, equipment and other property and other works used in Petroleum Operations in the Contract Area, to clean the Contract Area and make it good and safe, and to protect the environment, as further set out herein, and in the Petroleum Law and other applicable laws and regulations;

"Delivery Point" means the point located within the jurisdiction of the State at which Petroleum reaches (i) the inlet flange at the FOB export vessel, (ii) the loading facility metering station of a pipeline or (iii) such other point within the jurisdiction of the State as may be agreed between the Parties;

"Development Area" means the extent of an area within the Contract Area capable of Production of Petroleum identified in a Commercial Discovery, and agreed upon by the National Petroleum Agency following such Commercial Discovery;

"Discovery" means any geological structure(s), in which after testing, sampling and/or logging an Exploration Well existence of mobile hydrocarbons has been made probable and which structure(s), the Contractor deems worthy of evaluating further by conducting Appraisal operations;

"Effective Date" has the meaning ascribed to it in Clause 26.1;

"Exploration Period" has the meaning ascribed to in Clause 4.1;

"Exploration Well" means a well on any geological structure(s), whose purpose at the time of commencement of such well is to explore for an accumulation of Petroleum whose existence at the time was unproven by drilling;

"Field Development Program" means the program of activities presented by the Contractor to the National Petroleum Agency for approval outlining the plans for the Development of a Commercial Discovery. Such activities include:

- (a) Reservoir, geological and geophysical studies and surveys;
- (b) Drilling of production and injection wells; and
- (c) Design, construction, installation, connection and initial testing of equipment, pipelines, systems, facilities, plants and related activities necessary to produce and operate said wells, to take, save, treat, handle, store, transport and deliver Petroleum, and to undertake re-pressurizing, recycling and other secondary or tertiary recovery projects;

"Force Majeure" has the meaning ascribed to it in Clause 21;

"Government" means the government of Sao Tome and Principe, as provided for in article 109 of the Constitution;

"LIBOR" means the interest rate at which United States dollar deposits of six (6) months duration are offered in the London Inter Bank Offered Rate, as published in the Financial Times of London. The applicable LIBOR rate for each month or part thereof within an applicable interest period shall be the interest rate published in the Financial Times of

London on the last business day of the immediately preceding calendar month. If no such rate is quoted in the Financial Times of London during a period of five (5) consecutive business days, another rate (for example, the rate quoted in the Wall Street Journal) chosen by mutual agreement between the National Petroleum Agency and the Contractor shall apply;

"Minimum Financial Commitment" has the meaning ascribed to it in Clause 7.3(a);

"Minimum Work Obligations" has the meaning ascribed to it in Clause 7.2;

"National Petroleum Account" means the account established in accordance with the Oil Revenue Law;

"National Petroleum Agency" or "Agencia Nacional do Petroleo" means the national regulatory agency established by the Government's Decree-Law 5/2004 of the 30th of June, which is responsible for the regulation and supervision of Petroleum Operations or any agency which succeeds the National Petroleum Agency with respect to some or all of its powers;

"Natural Gas" means all gaseous hydrocarbons and inerts, including wet mineral gas, dry mineral gas, gas produced in association with Crude Oil and residue gas remaining after the extraction of liquid hydrocarbons from wet gas, but not including Crude Oil;

"Oil Revenue Law" means the oil revenue law of the State, Law No. 8/2004 of the 30th of December, as amended, supplemented or replaced from time to time;

"Operating Costs" means expenditures incurred and obligations made as determined in accordance with Article 2 of the Accounting Procedure;

"Parties" or "Party" means the parties or a party to this Contract; "Petroleum" means:

- (a) any naturally occurring hydrocarbon, whether in a gaseous, liquid or solid state;
- (b) any mixture of naturally occurring hydrocarbons, whether in a gaseous, liquid or solid state; or
- (c) any Petroleum (as defined above) that has been returned to a Reservoir;

"Petroleum Law" means the Fundamental Law on Petroleum Operations, Law n° 16/2009, as amended or supplemented from time to time, and regulations made and directions provided under such law;

"Petroleum Operations" means activities undertaken in relation to the Contract Area for the purposes of:

- the Exploration, Appraisal, Development, Production, transportation, sale or export of Petroleum;

- the construction, installation or operation of any structures, facilities or installations for the Development, Production and export of Petroleum, or Decommissioning or removal of any such structure, facility or installation;

"Petroleum Taxation Law" means the Petroleum Taxation Law, Law n° 15/2009, as amended, supplemented or replaced from time to time;

"Proceeds" means the amount in United States dollars determined by multiplying the Realizable Price by the number of Barrels of Available Crude Oil lifted by a Party;

"Production Period" has the meaning ascribed to it in Clause 4.1;

"Profit Oil" means the balance of Available Crude Oil after the allocation of Royalty Oil and Cost Oil;

"Quarter" means a period of three (3) consecutive Months starting with the first day of January, April, July or October of each Year;

"Realizable Price" means the price in United States dollars per Barrel determined in accordance with Clause 11;

"Relinquished Area" means that portion of the Contract Area that is relinquished pursuant to and in accordance with Clauses 5.1 (d) and/or 6;

"Reservoir" means a porous and permeable underground formation containing an individual and separate natural accumulation of producible Petroleum that is confined by impermeable rock and/or water barriers and is characterized by a single natural pressure system;

"Retained Area" means that portion of the Contract Area that is retained after a relinquishment under Clauses 5.1 (d) and/or 6;

"Royalty" or "Royalty Oil" means the quantum of Available Crude Oil allocated to the State, based on a percentage calculated as a function of daily production rates as set forth in Clause 10.1(a);

"State" means the Democratic Republic of Sao Tome and Principe;

"Tax" means the tax payable pursuant to the Petroleum Taxation Law;

"Unassociated Natural Gas" means all gaseous Petroleum produced from Natural Gas Reservoirs, and includes wet gas, dry gas and residual gas remaining after the extraction of liquid Petroleum from wet gas; and

"Work Program" means the work commitments itemizing the Petroleum Operations to be carried out in relation to the Contract Area for the required period as defined in Clause 7.

- 1.2 Unless the context otherwise requires, reference to the singular shall include the plural and vice versa and reference to any gender shall include all genders.

- 1.3 The Schedules form an integral part of this Contract.
- 1.4 The table of contents and headings in this Contract are inserted for convenience only and shall not affect the meaning or construction of this Contract.
- 1.5 References in this Contract to the words "include", "including" and "other" shall be construed without limitation.
- 1.6 In the event of any inconsistency between the main body of this Contract and any Schedule, the provisions of the former shall prevail.

2. BONUSES AND SOCIAL PROJECTS

2.1 Signature Bonus

Pursuant to the Memorandum of Agreement made between the State and Environmental Remediation Holding Corp. (ERHC) on 27th of May 1997, renewed on 21st of May 2001 and finally renewed on 2nd April 2003, ERHC awarded block is not subject to the payment of signature bonus.

2.2 Production Bonuses

The Contractor shall pay to the State by deposit into the National Petroleum Account production bonuses based on attainment of cumulative Production of Petroleum from each Development Area as follows:

Cumulative Production (millions of Barrels or Barrels equivalent)	Bonus (US\$ million)
50	10
100	12.5
200	15
350	20
550	25

- 2.3 The production bonuses provided for in Clause 2.2 shall be payable to the State by deposit into the National Petroleum Account within thirty (30) days of such Production level being first attained in immediately available funds.
- 2.4 The signature and production bonuses provided for in this Clause 2 shall not be recoverable as Cost Oil or deductible for Tax purposes.

2.5 Social Projects

The Contractor commits to undertake social projects during each phase of the Exploration Period valued at a minimum of the amounts below:

- Phase I: Three Hundred Thousand United States dollars per year (U.S \$300,000) for a total of One Million Two Hundred Thousand United States dollars (U.S \$1,200,000);

- Phase II: Five Hundred Thousand United States dollars per year (U.S \$500,000) for a total of One Million United States dollars ((U.S \$1,000,000);
- Phase III: Four Hundred Thousand United States dollars per year (U.S \$ 400,000) for a total of Eight Hundred Thousand United States dollars (U.S \$800,000).

If Petroleum is produced from the Contract Area, the Contractor shall undertake additional social projects according to the following schedule:

Cumulative Production (millions of Barrels or Barrels equivalent)	Value (US\$ million) of Project
20	2
40	4
60	6

- 2.6 The details of the social projects to be undertaken by the Contractor in accordance with Clause 2.5 shall be determined by agreement between the Contractor and the National Petroleum Agency. Failing such agreement, the Contractor and the National Petroleum Agency shall each submit a proposal to an expert appointed by the World Bank and such expert shall determine which of the two (2) proposals shall be implemented. The Contractor shall be solely responsible for any and all costs and expenses associated with the foregoing expert determination. The value of the projects provided for in Clause 2.5 above shall not be recoverable as Cost Oil or deductible for Tax purposes.
- 2.7 The Contractor shall be responsible for the implementation of all agreed or chosen social projects, which shall be undertaken using all reasonable skill and care.

3. SCOPE

- 3.1 This Contract is a production sharing contract awarded pursuant to the Petroleum Law and governed in accordance with the terms and provisions hereof. The conduct of Petroleum Operations and provision of financial and technical requirements by the Contractor under this Contract shall be with the prior approval of or in prior consultation with the National Petroleum Agency as required under this Contract or the Petroleum Law. The State hereby appoints and constitutes the Contractor as the exclusive company (ies) to conduct Petroleum Operations in the Contract Area.
- 3.2 During the term of this Contract, the total Available Crude Oil shall be allocated to the Parties in accordance with the provisions of Clause 10, the Accounting Procedure and the Allocation and Lifting Procedures.
- 3.3 The Contractor, together with its Affiliates, shall provide all funds and bear all risk of Operating Costs and the sole risk in carrying out Petroleum Operations.
- 3.4 The Contractor shall engage in Petroleum Operations solely in accordance with the Petroleum Law, the Petroleum Taxation Law, Good Oil Field Practice and all other applicable laws and regulations.

4. TERM

- 4.1 Subject to Clause 20, the term of this Contract shall be for a period of twenty-eight (28) years from the Effective Date, with an eight (8) year Exploration and Appraisal period, as extended pursuant to Clauses 5.1 (b) and/or (c) (the "**Exploration Period**") and a twenty (20) year Production period (the "**Production Period**").
- 4.2 The Exploration Period shall be divided as follows:
- Phase I: four (4) years from the Effective Date;
- Phase II: from the end of Phase I until two (2) years after the end of Phase I; and
- Phase III: from the end of Phase II until two (2) years after the end of Phase II, as extended pursuant to Clauses 5.1(b) and/or (c).
- 4.3 The Contractor shall commence Petroleum Operations no later than thirty (30) days after the National Petroleum Agency has approved the first Work Program.
- 4.4 Provided the Contractor has fulfilled all of its obligations relative to the current phase of the Exploration Period as described in Clause 7.2, the Contractor may enter the next phase. The Contractor shall provide the National Petroleum Agency with written notice of its intention to enter the next phase of the Exploration Period at least thirty (30) days prior to the end of the relevant phase. The report shall document that the work commitments for the phase are fulfilled. The Ministry may upon application grant an exemption from the work obligation.
- 4.5 Provided the Contractor has fulfilled all of its obligations relative to the current phase of the Exploration Period as described in Clause 7.2, the Contractor may terminate this Contract at the end of any phase during the Exploration Period in accordance with Clause 20.7.
- 4.6 The Contractor shall have the right to produce Petroleum from each Development Area for a period of twenty (20) years from the date the Contractor declares a Commercial Discovery in the relevant area in accordance with Clause 5.1(b). This Contract will terminate with respect to the relevant Development Area at the end of such twenty (20) year period unless the National Petroleum Agency grants an extension on application of the Contractor. The Contractor may, for any Development Area, be granted one (1) or more five (5) year extension periods for a Development Area until all Petroleum has been economically depleted. In connection with any such extensions, the Parties agree to engage in good faith to re-negotiate the commercial terms of this Contract governing the applicable Development Area at least five (5) years prior to the expiration of the initial twenty (20) year period and at least two (2) years prior to the expiration of any subsequent extension period.

5. COMMERCIAL DISCOVERY AND DECLARATION OF COMMERCIALITY

- 5.1 The sequence of Petroleum Operations to establish a Commercial Discovery of Petroleum (other than Unassociated Natural Gas) shall be as follows:

- (a) the Contractor shall have a period of up to forty-five (45) days from the date on which the drilling of the applicable Exploration Well terminates to declare whether the Exploration Well has proven a Discovery;
- (b) the Contractor shall then have a period of two (2) years (unless otherwise agreed by the National Petroleum Agency) from declaration of a Discovery to declare the Discovery either on its own or in aggregation with other Discoveries a Commercial Discovery;
- (c) if the Contractor declares a Commercial Discovery it shall have a period of two (2) years (unless otherwise agreed by the National Petroleum Agency) from the time the Contractor declares a Discovery or aggregation of Discoveries to be a Commercial Discovery to submit a Field Development Program to the National Petroleum Agency for approval;
- (d) in the event a Discovery is not determined to be a Commercial Discovery, upon expiration of the period set out in Clause 5.1(b), the State may, provided it gives at least six (6) months' notice, require the Contractor to promptly relinquish, without any compensation or indemnification whatsoever, the area encompassing the Discovery, including all of its rights to Petroleum which may be produced from such Discovery.
- (e) if a field Development Program is approved by the National Petroleum Agency, the Contractor shall initiate field development and production according to the time schedule outlined in the Program

5.2 Unassociated Natural Gas shall be developed in accordance with Clause 23.4.

6. RELINQUISHMENT OF AREAS

6.1 The Contractor must relinquish the Contract Area or part thereof in accordance with the following:

- (a) twenty-five percent (25%) of the initial surface area of the Contract Area shall be relinquished at the end of phase 1 of the Exploration Period;
- (b) a further twenty-five percent (25%) of the initial surface area of the Contract Area shall be relinquished at the end of phase 2 of the Exploration Period; and
- (c) the remainder of the Contract Area shall be relinquished at the end of phase 3 of the Exploration Period less:
 - (i) any Development Area;
 - (ii) areas for which the approval of a Field Development Program is pending, until finally decided; and
 - (iii) any area reserved for a possible Unassociated Natural Gas Appraisal in relation to which the Contractor is engaged in discussions with the State in accordance with Clause 23.4.

- 6.2 Any Retained Area and Relinquished Area shall be single continuous units and delimited by meridians and parallels of latitude expressed in whole minutes of a degree to be approved by the National Petroleum Agency.
- 6.3 Any Relinquished Area shall revert to the State.
- 6.4 Subject to the Contractor's obligations under Clause 7 and its Decommissioning obligations, the Contractor may, at any time, notify the National Petroleum Agency upon three (3) months prior written notice that it relinquishes its rights over all or part of the Contract Area. In no event shall any voluntary relinquishment by the Contractor over all of any part of the Contract Area reduce the Minimum Work Obligations or Minimum Financial Commitment set out in Clause 7.

7. MINIMUM WORK PROGRAM AND BUDGET

7.1 Within two (2) months after the Effective Date and thereafter at least three (3) months prior to the beginning of each Calendar Year, the Contractor shall prepare and submit for the approval of the National Petroleum Agency, a Work Program and Budget for the Contract Area setting forth the Petroleum Operations which the Contractor proposes to carry out during the ensuing Year, or in case of the first Work Program and Budget, during the remainder of the current Year.

7.2 The minimum Work Program for each phase of the Exploration Period is as follows (the "**Minimum Work Obligations**"):

Phase I: The Contractor shall:

- purchase and reprocess all existing 2D seismic within the block;
- carry out Geological & Geophysical studies (including AVO, geochemical studies, sequence stratigraphy);
- carry out environmental studies;
- acquire of magnetic and gravity surveys covering the full block;
- acquire, process and interpret a minimum of 2.500 km 2D seismic;
- hand over full documentation of the interpretation and an extensive evaluation report covering all relevant stratigraphic levels in the full block, based on all existing 2D data and newly acquired 2D data - to ANP-STP no later than 3 months before the expiry of phase I.

Phase II: If the Contractor elects to enter phase II, then during such phase II of the Exploration Period the Contractor shall:

- carry out environmental studies;
- acquire, process and interpret 1100 km² 3D seismic data covering all identified prospects in the area;
- drill one (1) Exploration Well to a minimum TVD up to the reservoir top;
- carry out technical and economical evaluation studies of discoveries and remaining prospectivity

Phase III: If the Contractor elects to enter phase III of the Exploration Period, then during such phase III the Contractor shall:

- carry out environmental studies;
- drill one (1) Exploration Well to a minimum TVD up to the reservoir top;
- carry out technical and economical evaluation studies of discoveries and remaining prospectivity.

7.3 Minimum Financial Commitments

- (a) The Contractor shall be obligated to incur the following minimum financial commitment (the "**Minimum Financial Commitment**"):

Phase I: Two Million Five Hundred Thousand United States dollars (U.S \$2,500,000)
Phase II: Forty Million United States dollars (U.S \$40,000,000)
Phase III: Forty Million United States dollars (U.S \$40,000,000)

- (b) If the Contractor fulfills the Minimum Work Obligations set forth in Clause 7.2 for each phase of the Exploration Period, then the Contractor shall be deemed to have satisfied the Minimum Financial Commitments for each such phase.
- (c) If the Contractor fails to complete the Minimum Work Obligations for any phase of the Exploration Period and such commitment has not been moved to the next phase, if any, with the consent of the National Petroleum Agency, then the Contractor shall pay to the State by deposit into the National Petroleum Account (i) the difference between the Minimum Financial Commitment for the then current phase and the amount actually expended in Petroleum Operations for such phase and (ii) eight percent (8%) of the Minimum Financial Commitment for all subsequent phase that are not initiated, as liquidated damages in full and final settlement of all potential claims for breach of this Contract and, subject to Clause 20, this Contract shall automatically terminate.

7.4 The Contractor shall be excused from any delay or failure to comply with the terms and conditions of Clauses 7.2 and/or 7.3:

- (a) during any period of Force Majeure; or
- (b) if the National Petroleum Agency denies the Contractor permission to drill

7.5 The time for performing any incomplete Minimum Work Obligations for any phase of the Exploration Period and the term of this Contract shall be extended by the following periods in the circumstances set out in Clause 7.4:

- (a) with respect to Clause 7.4(a), for the period during which Force Majeure is in existence; and

- (b) with respect to Clause 7.4(b), for a reasonable time not less than six (6) months to permit the Contractor time to make a revised drilling plan which is satisfactory to the National Petroleum Agency.
- 7.6 Subject to Clause 20, if any circumstance described in clause 7.5 (a) and (b) is not resolved after the time periods specified above, then after consultation with National Petroleum Agency under Clause 7.7 below and consent is not granted, the Contractor shall be liable to pay into the National Petroleum Account an amount corresponding to the unfulfilled work for that phase.
- 7.7 Any unfulfilled Minimum Work Obligation in any phase of the Exploration Period may, with the written consent of the National Petroleum Agency, be added to the Minimum Work Obligation for the next succeeding phase.
- 7.8 Work by the Contractor over and above the Minimum Work Obligations for any phase shall be credited against and reduce the Minimum Work Obligation for the next succeeding phase.
- 7.9 For the purposes of determining whether an Exploration Well or an Appraisal Well has been drilled in accordance with the Minimum Work Obligation, such a well shall be deemed drilled if the minimum total depth has been reached or if any one of the following events occurs prior to reaching the minimum total depth:
 - (a) a Discovery is made and further drilling may cause irreparable damage to such Discovery;
 - (b) basement is encountered;
 - (c) the National Petroleum Agency and the Contractor agree the well is drilled for the purpose of fulfilling the obligation to complete the Minimum Work Obligation; or
 - (d) technical difficulties are encountered which, in the judgment of the Contractor and in accordance with reasonable and prudent international oilfield practice, makes further drilling impracticable, uneconomic, unsafe or a danger to the environment.
- 7.10 The Exploration Period provided in clause 7.2, may be extended for a reasonable time not less than six (6) months to conclude the drilling and testing of any well for which operations have been commenced by the end of such phase; provided that if no Commercial Discovery has been declared by the Contractor during the Exploration Period, as may be extended, this Contract shall automatically terminate.
- 7.11 **Performance Bond**
 - (a) Within thirty (30) days from the Effective Date of this Contract, the Contractor shall submit a performance bond in a form approved by the National Petroleum Agency and from a reputable international financial institution approved by the National Petroleum Agency to cover the Minimum Financial Commitment for phase I of the Exploration Period. Failure by the Contractor to deliver the

performance bond in as required by and in accordance with this Contract shall render this Contract null and void.

- (b) Should the Contractor satisfy in full the conditions for continuing Petroleum Operations at the end of phase I of the Exploration Period pursuant to Clause 7.2, a replacement performance bond in the same form and from the same international financial institution, unless otherwise agreed by the National Petroleum Agency, shall be submitted within thirty (30) days from the date of the extension to cover the Minimum Financial Commitment for phase II of the Exploration Period.
- (c) Should the Contractor satisfy in full the conditions for continuing Petroleum Operations at the end of phase II of the Exploration Period, pursuant to Clause 7.2, a replacement performance bond in the same form and from the same international financial institution, unless otherwise agreed by the National Petroleum Agency shall be submitted within thirty (30) days from the date of the extension to cover the Minimum Financial Commitment for phase III of the Exploration Period.

7.12 The amount of the performance bond shall be reduced annually by deducting the verified expenditures the Contractor has incurred in the previous year of each phase and shall terminate at the end of each phase, if the Minimum Work Obligations or Minimum Financial Commitment for that phase has been satisfied in full.

7.13 Guarantee

Within thirty (30) days from date of execution of this Contract, the Contractor shall submit a guarantee from a parent company approved by the National Petroleum Agency in the form of Schedule 6 which shall be valid for up to four (4) years after the termination of this Contract.

8. STATE PARTICIPATION

- 8.1 The State, either through the National Petroleum Agency or any other entity designated by the State, shall have as of the Effective Date a carried fifteen percent (15%) of the Contractor's rights and interest under this Contract. The Contractor shall fund, bear and pay all costs, expenses and amounts due in respect of Petroleum Operations conducted pursuant to this Contract.
- 8.2 The National Petroleum Agency or other entity designated by the State shall become a party to the Joint Operating Agreement in respect of its carried interest referred to in Clause 8.1.
- 8.3 Upon the commencement of commercial Production the Contractor shall be entitled receive one hundred percent (100%) of Cost Oil in order to recover all costs, expenses and amounts paid in respect of Petroleum Operations pursuant to Clause 8.1 and incurred on behalf of the National Petroleum Agency or other entity designated by the State.

- 8.4 The National Petroleum Agency or other entity designated by the State shall be entitled to receive fifteen percent (15%) of the Contractor's entitlement to Profit Oil as provided for in Clause 10.1(d).
- 8.5 The National Petroleum Agency or other entity designated by the State shall be entitled, at any time, upon advance written notice to the Contractor to convert its carried interest into a full working participating interest, whereupon the National Petroleum Agency or other entity designated by the State shall be entitled to fifteen percent (15%) of all Available Crude Oil to which the Contractor is entitled under the terms of this Contract.

9. RIGHTS AND OBLIGATIONS OF THE PARTIES

- 9.1 In accordance with this Contract, the National Petroleum Agency shall:
- (a) pursuant to Clause 14, jointly work with the Contractor's professional staff in the fulfillment of Petroleum Operations under this Contract;
 - (b) assist and expedite the Contractor's execution of Petroleum Operations and Work Programs including assistance in supplying or otherwise making available all necessary visas, work permits, rights of way and easements as may be reasonably requested by the Contractor in writing. All expenses incurred by the National Petroleum Agency, at the Contractor's request in providing such assistance, shall be reimbursed to the National Petroleum Agency by the Contractor in accordance with Clause 12. Such reimbursement shall be made against presentation of invoices and shall be in United States dollars. The Contractor shall include such reimbursements in the Operating Costs;
 - (c) have the right to recover from the Contractor all costs which are reasonably incurred for purposes of Petroleum Operations and have been previously agreed with the Contractor;
 - (d) have legal title to and shall keep the originals of all data and information resulting from Petroleum Operations including geological, geophysical, engineering, well logs, completion, production , operations, status reports and any other data and information as that the Contractor may compile during the term of this Contract; provided, however, that the Contractor shall be entitled to keep copies and use such data and information during the term of this Contract; and
 - (e) not exercise all or any of its rights or authority over the Contract Area in derogation of the rights of the Contractor otherwise than in accordance with the Petroleum Law.
- 9.2 In accordance with this Contract, the Contractor shall:
- (a) promptly pay to the State by deposit into the National Petroleum Account all fees, bonuses, and other amounts due to the State under the terms of this Contract;

- (b) provide all necessary funds for the payment of Operating Costs including funds required to provide all materials, equipment, facilities, supplies and technical requirements (including personnel) whether purchased or leased;
- (c) provide such other funds for the performance of Work Programs including payments to third parties who perform services to the Contractor in the conduct of Petroleum Operations;
- (d) prepare Work Programs and Budgets and carry out approved Work Programs in accordance with Good Oil Field Practice with the objective of avoiding waste and obtaining maximum ultimate recovery of Petroleum at a minimum cost;
- (e) exercise all the rights, comply with all the obligations under the Petroleum Law and any other applicable laws and pay the following fees to the State by deposit into the National Petroleum Account (all expressed in United States dollars):

On application for the Production Period:	\$500,000
To assign or otherwise transfer any interest during Exploration Period	\$100,000
To assign or otherwise transfer any interest during Production Period	\$300,000
On application to terminate this Contract:	\$100,000
On application for the Contractor to commence drilling:	\$25,000

- (f) ensure that all leased equipment brought into the Territory of Sao Tome and Principe for the conduct of Petroleum Operations is treated in accordance with the terms of the applicable leases;
- (g) have the right of ingress to and egress from the Contract Area and to and from facilities therein located at all times during the term of this Contract;
- (h) promptly submit to the National Petroleum Agency for permanent custody the originals of all geological, geophysical, drilling, well production, operating and other data, information and reports as it or its Associates may compile during the term of this Contract;
- (i) prepare estimated and final tax returns and submit the same to the relevant tax authority on a timely basis in accordance with the Petroleum Taxation Law;
- (j) have the right to lift in accordance with lifting and allocation procedures to be agreed by the Parties within six (6) months prior to the commencement of Production, in accordance with the principles set forth in Schedule 3, and to freely export and retain abroad the receipts from the sale of Available Crude Oil allocated to it under this Contract;

- (k) prepare and carry out plans and programs of the State for industry training and education of nationals of Sao Tome and Principe for all job classifications with respect to Petroleum Operations pursuant to and in accordance with the Petroleum Law;
- (l) employ only such qualified personnel as is required to conduct Petroleum Operations in accordance with Good Oil Field Practice and in a prudent and cost effective manner giving preference to qualified nationals of Sao Tome and Principe;
- (m) give preference to such goods, material and equipment which are available in Sao Tome and Principe or services that can be rendered by nationals of Sao Tome and Principe in accordance with the Petroleum Law and this Contract;
- (n) with its Associates shall, as the case may be, pay all charges and fees as are imposed by law in Sao Tome and Principe. The Contractor and its Associates shall not be treated less favorably from any other Persons engaged in similar petroleum operations in the Territory of Sao Tome and Principe;
- (o) indemnify and hold the State, including the National Petroleum Agency, harmless against all losses, damages, injuries, expenses, actions of whatever kind and nature including all legal fees and expenses suffered by the State or the National Petroleum Agency where such loss, damage, injury, expense or action is caused by the negligence or willful misconduct of the Contractor, its Affiliates, its sub-contractors or any other Person acting on its or their behalf or any of their respective directors, officers, employees, agents or consultants;
- (p) not exercise all or any rights or authority over the Contract Area in derogation of the rights of the State or in breach of the Petroleum Law; and
- (q) in the event of any emergency requiring immediate operational action, take all actions it deems proper or advisable to protect the interests of the Parties and any other affected Persons and any costs so incurred shall be included in the Operating Costs. Prompt notification of any such action taken by the Contractor and the estimated cost shall be given to the National Petroleum Agency within forty-eight (48) hours of becoming aware of the event.

10. RECOVERY OF OPERATING COSTS AND SHARING OF PETROLEUM PRODUCTION

- 10.1 The allocation of Available Crude Oil shall be calculated on a Contract Area basis for Royalty Oil, Cost Oil and Profit Oil. This allocation of Available Crude Oil shall be in accordance with the Accounting Procedure, the Allocation and Lifting Procedure and this Clause 10 as follows:
- (a) Royalty Oil shall be allocated to the State from the first day of Production, based on the daily total of Available Crude Oil from a Contract Area, set at a rate of 2%;

- (b) Cost Oil shall be allocated to the Contractor in such quantum as will generate an amount of Proceeds sufficient for recovery of Operating Costs in each Contract Area. All costs will be recovered in United States dollars through Cost Oil allocation;
- (c) Cost Oil shall be not more than eighty percent (80) % of Available Crude Oil in each Contract Area less deduction of Royalty Oil in any accounting period;
- (d) Profit Oil, being the balance of Available Crude Oil after deducting Royalty Oil and Cost Oil shall be allocated to each Party based on the pre-tax, nominal rate of return calculated on a quarterly basis for the Contract Area in accordance with the following sliding scale:

Contractor's Rate of Return for Contract Area (%per annum)	Government Share of Profit Oil	Contractor Share of Profit Oil
<16%	0%	100%
≥16 %< 19%	10%	90%
≥19 %< 23%	20%	80%
≥23 %< 26%	40%	60%
≥26%	50%	50%

10.2 Beginning at the date of Commercial Discovery, Contractor's rate of return shall be determined at the end of each Quarter on the basis of the accumulated compounded net cash flow for each Contract Area, using the following procedure:

- (a) The Contractor's net cash flow for a Contract Area for each Quarter is:
 - (i) The sum of the Contractor's Cost Oil and share of Contract Area Profit Oil regarding the Petroleum actually lifted in that Quarter at the Realizable Price;
 - (ii) Minus Operating Costs;
- (b) For this computation, neither any expenditure incurred prior to the date of Commercial Discovery for a Contract Area nor any Exploration Expenditure shall be included in the computation of the Contractor's net cash flow.
- (c) The Contractor's net cash flows for each Quarter are compounded and accumulated for a Contract Area from the date of the Commercial Discovery according to the following formula:

$$\text{ACNCF (Current Quarter)} = (100\% + \text{DQ}) \times \text{ACNCF (Previous Quarter)} + \text{NCF (Current Quarter)} 100\%$$

where:

ACNCF = accumulated compounded net cash flow
 NCF = net cash flow

DQ = quarterly compound rate (in percent)

The formula will be calculated using quarterly compound rates (in percent) of 3.78%, 4.45%, 5.31%, and 5.95%, which correspond to annual compound rates ("DA") of 16%, 19%, 23%, and 26%, respectively.

- (d) The Contractor's rate of return in any given Quarter for a Contract Area shall be deemed to be between the largest DA which yields a positive or zero ACNCF and the smallest DA which causes the ACNCF to be negative.
 - (e) The sharing of Profit Oil from a Contract Area between the State and the Contractor in a given Quarter shall be in accordance with the scale in paragraph (a) above using the Contractor's deemed rate of return as per paragraph (c) in the immediately preceding Quarter.
 - (f) In a given Contract Area, it is possible for the Contractor's deemed rate of return to decline as a result of negative cash flow in a Quarter with the consequence that Contractor's share of Profit Oil from that Contract Area would increase in the subsequent Quarter.
 - (g) Pending finalization of accounts, Profit Oil from the Contract Area shall be shared on the basis of provisional estimates, if necessary, of a deemed rate of return as approved by the National Petroleum Agency. Adjustments shall be effected with the procedure subsequently to be adopted by the National Petroleum Agency.
- 10.3 The quantum of Available Crude Oil to be allocated to each Party under this Contract shall be determined at the Delivery Point.
- 10.4 Each Party shall lift and dispose of its allocation of Available Crude Oil in accordance with the Allocation and Lifting Procedures as provided in Schedule 3. In the event of any reconciliation, the records of the National Petroleum Agency shall be the official, final and binding records.
- 10.5 Allocation of Royalty Oil and State Profit Oil shall be in the form of delivery of Production of Petroleum to the National Petroleum Agency and the National Petroleum Agency or other appropriate authority shall issue receipts for such delivery within thirty (30) days of lifting such Royalty Oil and Profit Oil. These receipts are issued by the National Petroleum Agency or other appropriate authority on behalf of the Government of Sao Tome and Principe.
- 10.6 Any Party may, at the request of any other Party, lift such other Party's Available Crude Oil pursuant to Clause 10.3 and the lifting Party within thirty (30) days shall transfer to the account of the non-lifting Party the Proceeds of the sale to which the non-lifting Party is entitled. Overdue payments shall bear interest at the rate of LIBOR plus two percent (2%).
- 10.7 The State may sell to the Contractor all or any portion of its allocation of Available Crude Oil from the Contract Area under mutually agreed terms and conditions at the Realizable Price.

- 10.8 The Parties shall meet as and when agreed in the Allocation and Lifting Procedures to reconcile all Petroleum produced, allocated and lifted during the period in accordance with the Allocation and Lifting Procedures set forth in Schedule 3.
- 10.9 Notwithstanding the above, in lieu of lifting the State's Profit Oil and/or Royalty Oil, the State, upon one hundred eighty (180) days advance notice to the Operator, issued by the National Petroleum Agency, may elect to receive the State's allocation of Profit Oil and/or Royalty Oil in cash based on the Realizable Price rather than through lifting regardless of whether or not the Contractor sells the State's Profit Oil and/or Royalty Oil to a third party. If the State elects to receive cash in lieu of lifting, the Operator shall lift the State's allocation of Profit Oil and/or Royalty Oil and pay into the National Petroleum Account cash in respect of such lifting within thirty (30) days from the end of the month in which the lifting occurred. Every six (6) months, the State may elect to have an entity designated by the State to resume lifting the State's allocation of Profit Oil and/or Royalty Oil upon one hundred eighty (180) days notice to the Operator prior to the date the State elects to have an entity, designated by the State, to resume lifting.

11. VALUATION OF CRUDE OIL

- 11.1 Save as otherwise provided in this Contract, Crude Oil Production shall be valued in accordance with the following procedures:
- (a) On the attainment of commercial production of Crude Oil, each Party shall engage the services of an independent laboratory of good repute to undertake a qualitative and quantitative analysis of such Crude Oil.
 - (b) When a new Crude Oil stream is produced, a trial marketing period shall be designated which shall extend for the first six (6) month period during which such new stream is lifted or for the period of time required for the first ten (10) liftings, whichever is longer. During the trial marketing period the Parties shall:
 - (i) collect samples of the new Crude Oil upon which the qualitative and quantitative analysis shall be performed as provided in Clause 11.1(a);
 - (ii) determine the approximate quality of the new Crude Oil by estimating the yield values from refinery modeling;
 - (iii) market in accordance with their entitlement to the new Crude Oil and to the extent that one Party lifts the other Party's allocation of Available Crude Oil, and payments therefore, shall be made by the buyers to the Operator who will be responsible for distributing to the other Parties in accordance with their entitlement, Cost Oil and Profit Oil and the Contractor's accounting shall reflect such revenues, in accordance with Clause 10;

- (iv) provide information to a third party who shall compile the information and maintain all individual Party information confidential, with regard to the marketing of the new Crude Oil, including documents which verify the sales price and terms of each lifting; and
 - (v) apply the actual F.O.B. sales price to determine the value for each lifting which F.O.B. sales pricing for each lifting shall continue, as the Realizable Price, after the trial marketing period until the Parties agree to a valuation of the new Crude Oil but in no event longer than ninety (90) days after conclusion of the trial marketing period.
- (c) As soon as practicable but in any event not later than sixty (60) days after the end of the trial marketing period, the Parties shall meet to review the qualitative and quantitative analysis, yield and actual sales data. Each Party may present a proposal for the valuation of the new Crude Oil. A valuation formula for the Realizable Price shall be agreed to by the Parties not later than nine (9) months after the first lifting. It is the intent of the Parties that such prices shall reflect the true market value based on arm's length transactions for the sale of the new Crude Oil. The valuation formula, as determined hereinbefore (including the product yield values), shall be mutually agreed within thirty (30) days of the aforementioned meeting, failing which, it shall be referred to a mutually agreed independent expert who shall have the appropriate international oil and gas experience and who will resolve and settle the matter in a manner as he shall in his absolute discretion think fit and the decision of the expert shall be final and binding on the Parties. If, after a period of thirty (30) days, the Parties are unable to agree on the identity of the expert, such expert shall be appointed by the International Centre for Expertise in accordance with the provisions for the appointment of experts under the Rules for Expertise of the International Chamber of Commerce.
- (d) Upon the conclusion of the trial marketing period, the Parties shall be entitled to lift their allocation of Available Crude Oil pursuant to Clause 10.3 and the Allocation and Lifting Procedures set forth in Schedule 3.
- (e) When a new Crude Oil stream is produced from the Contract Area and is commingled with an existing Crude Oil produced, which has an established Realizable Price basis, then such basis shall be applied to the extent practicable for determining the Realizable Price of the new Crude Oil. The Parties shall meet and mutually agree on any appropriate modifications to such established valuation basis, which may be required to reflect any change in the market value of the Crude Oils as a result of commingling.
- 11.2 If, in the opinion of either the National Petroleum Agency or the Contractor, an agreed price valuation method fails to reflect the market value of Crude Oil produced in the Contract Area, then such Party may propose to the other Party modifications to such valuation method once in every six (6) months but in no event more than twice in any Calendar Year. The Parties shall then meet within thirty (30) days of such proposal and mutually agree on any modifications to such valuation within thirty (30) days from such meeting, failing which, the issue shall be referred to a mutually agreed independent expert who shall have the appropriate international oil and gas experience

and who will resolve and settle the matter in a manner as he shall in his absolute discretion think fit and the decision of the expert shall be final and binding on the Parties. If after a period of thirty (30) days, the Parties are unable to agree on the identity of the expert, such expert shall be appointed by the International Centre for Expertise in accordance with the provisions for the appointment of experts under the Rules for Expertise of the International Chamber of Commerce.

11.3 Segregation of Crude Oils of different quality and/or grade shall, by agreement of the Parties, take into consideration, among other things, the operational practicality of segregation and the cost benefit analysis thereof. If the Parties agree on such segregation the following provisions shall apply:

- (a) any and all provisions of this Contract concerning valuation of Crude Oil shall separately apply to each segregated Crude Oil produced; and
- (b) each grade or quality of Crude Oil produced and segregated in a given year shall contribute its proportionate share to the total quantity designated in such year as Royalty Oil, Cost Oil and Profit Oil.

12. PAYMENTS

12.1 The Contractor shall make all payments to the State for which it is liable under this Contract in United States dollars or such other currency agreed between the Contractor and the National Petroleum Agency. Payments shall be made into the National Petroleum Account in accordance with the Oil Revenue Law. Where a payment is made in currency other than United States dollars, the exchange rate used to convert the United States dollars liability into that currency shall be the exchange rate published on the date of payment by the Central Bank of Sao Tome and Principe for Dobras and the Financial Times of London for other currencies. Overdue payments shall bear interest at the annual rate of LIBOR plus two percent (2%) from the due date until the date of actual payment.

12.2 The State shall make all payments to the Contractor for which it is liable under this Contract in United States dollars or such other currency agreed between the Contractor and the National Petroleum Agency. Where a payment is made in a currency other than United States dollars, the exchange rate used to convert the United States dollar liability into that currency shall be the exchange rate published on the date of payment by the Central Bank of Sao Tome and Principe for Dobras, and the Financial Times of London for other currencies. Overdue payments shall bear interest at the annual rate of LIBOR plus two percent (2%) from the due date until the date of actual payment.

12.3 Any payments required to be made pursuant to this Contract shall be made within ten (10) days following the end of the month in which the obligation to make such payments is incurred.

13. TITLE TO EQUIPMENT / DECOMMISSIONING

- 13.1 The Contractor shall finance the cost of purchasing or leasing all materials, equipment and facilities to be used in Petroleum Operations in the Contract Area pursuant to approved Work Programs and Budgets and such materials, equipment and facilities, if purchased, shall become the sole property of the State when the Contractor has recovered the cost of such materials, equipment and facilities (as the case may be) in accordance with this Contract or upon its termination, whichever occurs first, free of all liens and other encumbrances. Except as otherwise provided for in the Petroleum Law, the Contractor and the State, including the National Petroleum Agency, shall have the right to use all materials, equipment and facilities exclusively for Petroleum Operations in the Contract Area during the term of this Contract and any extensions thereof. Should the State or the National Petroleum Agency desire to use such materials, equipment and facilities outside the Contract Area, such use shall be subject to terms and conditions agreed by the Parties, provided that it is understood that Petroleum Operations in the Contract Area hereunder shall take precedence over such use by the State or the National Petroleum Agency. The Contractor shall only lease materials, equipment and facilities with the approval of the National Petroleum Agency, such approval not to be unreasonably withheld if such lease is in the best interest of the Petroleum Operations.
- 13.2 The Contractor's right to use such purchased materials, equipment and facilities shall cease with the termination or expiration (whichever is earlier) of this Contract, including any extensions hereof.
- 13.3 The provisions of clause 13.1, with respect to the title of property passing to the State, shall not apply to leased equipment belonging to local or foreign third parties, and such equipment may be freely exported from the Territory of Sao Tome and Principe in accordance with the terms of the applicable lease.
- 13.4 Subject to clause 13.2, all fixed assets purchased or otherwise acquired by the Contractor for the purposes of Petroleum Operations hereunder shall become the property of the State when the Contractor has recovered the cost of such materials, equipment and facilities (as the case may be) in accordance with this Contract or upon its termination, whichever occurs first. Upon termination of this Contract, the Contractor shall hand over possession of such fixed assets to the State in good working order and free of all liens and other encumbrances.
- 13.5 During the term of this Contract, any agreed sales of equipment, land, fixed assets, materials and machinery acquired for the purpose of Petroleum Operations shall be conducted by the Contractor on the basis of the procedure for sale of assets as set forth in Schedule 5, subject to the consent of the National Petroleum Agency.

13.6 Decommissioning

The expenditure for Decommissioning will be estimated on the basis of technical studies undertaken by the Contractor, to be agreed by the National Petroleum Agency, as part of each Field Development Program and revised as necessary.

13.7 Unless otherwise agreed by the National Petroleum Agency, the procedure for the Contractor providing funds to meet its Decommissioning obligations shall be as follows:

- (a) an amount shall be established on a Contract Area basis, commencing two years after the start of Production Period, on a unit of production basis as follows:

DP = (PVDC - DF) * (P / RP), where:

DP = Decommissioning provision for the period (millions of US dollars)

PVDC = Present Value of Decommissioning costs (millions of US dollars)

DF = Balance of Decommissioning fund at the start of the period (millions of US dollars)

P = Crude Oil production in the period (millions of Barrels)

RP = Estimated remaining Crude Oil (millions of Barrels)

- (b) All Decommissioning provisions shall be held in a Decommissioning reserve fund which shall be an interest bearing escrow account jointly established by the Parties at a first class commercial bank or other financial institution in accordance with the Petroleum Law. The bank or financial institution shall have a long term rating of not less than "AA" by Standard and Poor's Corporation or an "Aa2" rating by Moody's Investor Service or a comparable rating by another mutually agreed rating service.

- (c) For the purposes of calculating the present value of Decommissioning costs, the following formula shall be used:

PVDC = EDC / (1 + i)ⁿ, where:

PVDC = present value of Decommissioning costs

EDC = estimated value of Decommissioning costs in nominal terms at the expected date of Decommissioning

i = interest rate applicable to the escrow account in the current period

n = number of Years between current period and expected date of Decommissioning

13.8 The Decommissioning reserve fund shall be used solely for the purposes of paying for Decommissioning activities. No Party may mortgage, pledge, encumber or otherwise use such Decommissioning reserve fund for any purpose whatsoever, except as expressly provided herein or in the Petroleum Law. The Decommissioning reserve fund may be invested in investments approved in advance by the Contractor and the National Petroleum Agency.

13.9 The Contractor shall annually meet any shortfall between the actual Decommissioning costs and the Decommissioning reserve fund for any Contract Area, with such amount

to be deposited into the escrow account within thirty (30) days after the end of each Calendar Year.

- 13.10 Any balance remaining in any Decommissioning fund after all Decommissioning costs in the Contract Area have been met shall be distributed between the National Petroleum Agency and the Contractor in the same proportion as the allocation of Available Crude Oil at the time of Decommissioning operations.
- 13.11 Decommissioning expenditures incurred under these Decommissioning provisions are both cost recoverable as Contract Area non-capital costs under the Accounting Procedure and deductible for Tax purposes under the Petroleum Taxation Law.

14. EMPLOYMENT AND TRAINING OF NATIONALS OF THE STATE

- 14.1 Each Calendar Year the Contractor shall submit a detailed program for recruitment and training for the following Calendar Year in respect of its personnel from Sao Tome and Principe in accordance with the Petroleum Law.
- 14.2 Qualified nationals from Sao Tome and Principe shall be employed in all non specialized positions.
- 14.3 Qualified nationals from Sao Tome and Principe shall also be employed in specialized positions such as those in exploration, drilling, engineering, production, environmental safety, legal and finance. The Contractor shall have the right, subject to applicable laws, rules and regulations, to employ non-nationals of Sao Tome and Principe in such specialized positions where qualified individuals from Sao Tome and Principe are not available, provided that the Contractor shall recruit and train nationals from Sao Tome and Principe for such specialized positions such that the number of expatriate staff shall be kept to a minimum.
- 14.4 Pursuant to Clause 9(k), qualified competent professionals of the National Petroleum Agency shall be assigned to work with the Contractor and such personnel and the Contractor's national personnel from Sao Tome and Principe shall not be treated differently with regard to salaries and other benefits. The Contractor and the National Petroleum Agency shall mutually agree on the numbers of the National Petroleum Agency's staff to be assigned to work with the Contractor. The costs and expenses of such National Petroleum Agency personnel shall be included in Operating Costs. The Contractor shall not be liable for any damages resulting from the negligence or willful misconduct of any National Petroleum Agency employees assigned to work for the Contractor.
- 14.5 The Parties shall mutually agree on the organizational chart of the Contractor which shall include nationals of Sao Tome and Principe in key positions.
- 14.6 No Sao-Tomean employed shall be disengaged without the prior written approval of the National Petroleum Agency, except in the case of gross misconduct by such employee, in which case only prior notice to the National Petroleum Agency will be required. Gross misconduct for the purposes of this Clause shall mean a specific act of very serious wrongdoing and improper behavior which has been investigated and proved by documentary evidence.

- 14.7 The Contractor shall spend [point twenty-five percent (0.25%)] of the Operating Costs in each Year of the Exploration Period (subject to a minimum of One Hundred Thousand United States dollars (U.S \$100,000) and a maximum of Two Hundred and Fifty Thousand United States dollars (U.S \$250,000) in any Calendar Year on scholarships for the training of nationals of Sao Tome and Principe at institutions to be selected by the National Petroleum Agency. In connection with the review of the annual Work Program and Budgets, the National Petroleum Agency may propose additional budgets for training and the National Petroleum Agency and the Contractor may mutually agree to such proposal.
- 14.8 The Contractor shall spend Five Hundred and Fifty Thousand United States dollars (U.S \$550,000) in each Calendar Year during the Production Period on scholarships for the training of nationals of Sao Tome and Principe at institutions to be selected by the National Petroleum Agency. In connection with the review of the annual Work Program and Budgets, the National Petroleum Agency may propose additional budgets for training and the Parties may mutually agree to such proposal.
- 14.9 Amounts payable under Clauses 14.7 and 14.8 shall be recoverable as Contract Area non-drilling exploration costs under the terms of the Accounting Procedure.

15. BOOKS AND ACCOUNTS, AUDIT AND OVERHEAD CHARGES

15.1 Books and Accounts

- (a) The Contractor shall be responsible for keeping complete books of accounts consistent with Good Oil Field Practice and modern petroleum industry and accounting practices and procedures. The books and accounts maintained under and in accordance with this Contract shall be kept in United States dollars. All other books of accounts, as the Operator may consider necessary shall also be kept in United States dollars. Officials of the National Petroleum Agency and the Contractor shall have access to such books and accounts at all times upon reasonable notice. The accountants of the National Petroleum Agency shall participate in the preparation of all books and accounts maintained under and in accordance with this Contract.
- (b) All original books of account shall be kept at the registered address or principal place of business of the Contractor in Sao Tome and Principe.

15.2 Audits

- (a) The National Petroleum Agency shall have the right to inspect and audit the accounting records relating to this Contract or Petroleum Operations for any Calendar Year by giving thirty (30) days advance written notice to the Operator. The Operator shall facilitate the work of such inspection and auditing; provided, however, that such inspection and auditing shall be carried out within three (3) Calendar Years following the end of the Calendar Year in question. If not, the books and accounts relating to such Calendar Year shall be deemed to be accepted by the Parties. Any exception must be made in writing within ninety (90) days following the end of such audit and failure to

give such written notice within such time shall establish the correctness of the books and accounts by the Parties.

- (b) The National Petroleum Agency may undertake the inspection and audit in Clause 15.2(a) either through its own personnel or through a qualified firm of chartered accountants appointed for such purpose by the National Petroleum Agency; provided, however, that the transportation and per diem costs of the National Petroleum Agency's own personnel shall be borne by the Contractor as a general administrative cost and shall be cost recoverable. Costs for the qualified firm of chartered accountants shall be borne by the National Petroleum Agency.
- (c) Notwithstanding that the said period of three (3) Calendar Years may have expired, if the Contractor or any of its employees or any Person acting on its behalf has acted with negligence or engaged in willful misconduct, the National Petroleum Agency shall have the right to conduct a further audit to the extent required to investigate such negligence or willful misconduct in respect of any earlier periods and all costs of such investigation shall be for the account of the Contractor and shall not be cost recoverable.

15.3 Materials

The Contractor shall maintain physical and accounting controls of all materials and equipment in stock in accordance with Good Oil Field Practice. The Contractor shall make a total inventory at least once in a Calendar Year and shall give the National Petroleum Agency four (4) weeks advance written notice prior to the taking of such inventory. The National Petroleum Agency and/or its external auditors shall be entitled to observe such inventory taking. The National Petroleum Agency may also carry out a partial or total check of such inventories at its own expense, whenever it considers it necessary, provided such exercise does not unreasonably disrupt Petroleum Operations .

15.4 Home Office Overhead Charges

The Contractor shall include the following percentages of total annual recoverable expenditures as overhead charges in calculating total Operating Costs.

Expenditure Tranche (USD million)	% of Recoverable expenditures
< 200	1.00%
the next 200 OR >200 and<400	0.75%
the next 100 OR >400 and<500	0.50%
≥ 500	0.00%

16. TAXES AND CUSTOMS

16.1 Tax

The Contractor shall be subject to Tax on income derived from Petroleum Operations in accordance with the Petroleum Taxation Law. Such Tax shall be payable by the Contractor in accordance with the Petroleum Taxation Law, except as otherwise provided in this Contract.

- 16.2 The Realizable Price established in accordance with Clause 11 shall be used in determining the amount of profits of a Contractor and its resulting Tax liability under the Petroleum Taxation Law.

16.3 Customs

In accordance with the Petroleum Law, the Contractor, in its own name or in the name of its sub-contractors or other Persons acting on its or their behalf, are entitled to import and export all goods, materials and equipment destined exclusively and directly for the execution of Petroleum Operations. Such goods, materials and equipment shall be exempt from all and any customs duties, subject to the terms and conditions set out in the Petroleum Law or other applicable laws and regulations.

17. INSURANCE

- 17.1 The Contractor shall obtain and maintain such insurance as it customarily obtains in accordance with Good Oil Field Practice with respect to Petroleum Operations with an insurance company of good repute approved by the National Petroleum Agency, in the names of the Parties and with limits of liability not less than those required in accordance with Good Oil Field Practice. The premium for such policies shall be included in Operating Costs. All policies shall name the National Petroleum Agency as a co-insured with a waiver of subrogation rights in favor of the Contractor. Without prejudice to the generality of the foregoing, such insurance shall cover:

- (a) any loss or damage to all assets used in Petroleum Operations;
- (b) pollution caused in the course of Petroleum Operations for which the Contractor or the Operator may be held responsible;
- (c) property loss or damage or bodily injury suffered by any third party in the course of Petroleum Operations for which the Contractor, the Operator, the State or the National Petroleum Agency may be held liable;
- (d) the cost of removing wrecks and cleaning up operations following an accident in course of Petroleum Operations; and
- (e) the Contractor's and/or the Operator's liability to its employees and other persons engaged in Petroleum Operations.

- 17.2 In case of any loss or damage to property, all amounts paid by an insurance company shall be received by the Contractor for the conduct of Petroleum Operations. The

Contractor shall determine whether the lost or damaged property should be repaired replaced or abandoned. If the decision is to repair or replace the property in question, the Contractor shall immediately replace or repair such lost or damaged property. Any excess cost of repair or replacement above the amount reimbursed by the insurance company shall be regarded as an Operating Cost. If the cost of repair is less than the amount reimbursed by the insurance company, the difference shall be deducted from Operating Costs. If the decision is to neither repair nor replace then the proceeds of any coverage shall be credited to Operating Costs. In the event that the loss or damage is attributable to the Contractor's negligence or willful misconduct, the excess cost of replacement or repair shall not be reimbursed as an Operating Cost.

- 17.3 The Contractor shall obtain and maintain an insurance policy covering any and all damages caused to third parties as a direct or indirect result of Petroleum Operations under this Contract.
- 17.4 All insurance policies obtained and maintained pursuant to this Clause 17 shall be based upon Good Oil Field Practice and shall be taken out in Sao Tome and Principe except for those concerning risks for which the Contractor cannot obtain coverage, in which case it shall be taken out outside of the Territory of Sao Tome and Principe.
- 17.5 In entering into contracts with any sub-contractor or other Person for the performance of Petroleum Operations, the Contractor shall require such sub-contractor or other Person to take out adequate insurance in accordance with this Clause 17 and to properly indemnify the State and its organs and agencies and the Contractor for any damage done and to fully indemnify and hold the State and its organs and agencies and the Contractor harmless against claims from any third parties.
- 17.6 The Contractor shall also maintain all other insurance policies required under the laws of Sao Tome and Principe.

18. CONFIDENTIALITY AND PUBLIC ANNOUNCEMENTS

- 18.1 Subject to Clauses 18.4 and 18.5, the Contractor and the National Petroleum Agency shall keep information furnished to each other in connection with Petroleum Operations and all plans, maps, drawings, designs, data, scientific, technical and financial reports and other data and information of any kind or nature relating to Petroleum Operations, including any discovery of Petroleum, as strictly confidential and shall ensure that their entire or partial contents shall under no circumstances be disclosed in any announcement to the public or to any third party without the prior written consent of the other. With regard to data about aspects of geology, reservoir engineering or production engineering from reports or other material submitted to public authorities, the duty of secrecy shall have the following duration calculated from the time when the data became available to the contractor:

- 2 years for data which are not commercially available, which are owned by the contractor and which originate from the contract area in question,

- 10 years for data, which have been commercially available, from the time when

they became available to the contractor,

- 5 years for other data.

The provisions of this Clause 18 shall not apply to disclosure to:

- (a) Affiliates;
 - (b) sub-contractors, auditors, financial consultants or legal advisers, provided that such disclosures are required for the effective performances of the aforementioned recipients' duties related to Petroleum Operations and provided further that they are under a similar undertaking of confidentiality as that contained in this Clause 18;
 - (c) comply with statutory obligation or the requirements of any governmental agency or the rules of a stock exchange on which a Party's stock is publicly traded in which case the disclosing Party will notify the other Party of any information so disclosed prior to such disclosure;
 - (d) financial institutions involved in the provision of finance for the Petroleum Operations hereunder provided, in all such cases, that the recipients of such data and information agree in writing to keep such data and information strictly confidential;
 - (e) a bona fide third party purchaser provided that such third party executes an undertaking similar to the undertaking contained in this Clause 18 to keep the information disclosed to it strictly confidential; and
 - (f) in accordance with and as required by the Oil Revenue Law.
- 18.2 The Parties shall take necessary measures in order to make their directors, officers, employees, agents and representatives comply with the same obligation of confidentiality provided for in this Clause 18.
- 18.3 The provisions of this clause 18 shall terminate five (5) years after the termination or expiration of this Contract.
- 18.4 The Contractor shall use best endeavors to ensure that it, its Affiliates and Associates and each of their respective directors, officers, servants, employees and agents shall not make any reference in public or publish any notes in newspapers, periodicals or books nor divulge, by any other means whatsoever, any information on the activities under the Petroleum Operations, or any reports, data or any facts and documents that may come to their knowledge by virtue of this Contract, without the prior written consent of the National Petroleum Agency.
- 18.5 No announcement of a Discovery or Commercial Discovery may be made by the Contractor otherwise than in accordance with this clause 18 and unless and until the Government has made a prior announcement of such Discovery or Commercial Discovery in the national and international media.

19. ASSIGNMENT

- 19.1 Subject to Clause 19.5, the Contractor may not sell, assign, transfer, encumber, convey or otherwise dispose of part or all of its rights, interest and/or obligations under this Contract to any third party without the prior written consent of the National Petroleum Agency.
- 19.2 All changes in Control of a Contractor Party shall be subject to the prior approval of the Government. Where a change in Control occurs without the prior approval of the Government, the Government may terminate this Contract in respect of such Contractor Party. This Clause 19.2 does not apply if the change of Control is the direct result of an acquisition of shares or other securities of a publicly traded company on a recognized stock exchange. Change of Control includes a Person ceasing to be Controlled (whether or not another Person becomes in Control), and a Person obtaining Control (whether or not another Person was in Control).
- 19.3 When an assignment, transfer or other disposition of any rights under this Contract, other than a transfer pursuant to Clause 19.5 is anticipated, the assigning Contractor Party must notify in writing the National Petroleum Agency as soon as practicable. The Government, acting through the National Petroleum Agency or other nominee, shall then have the right to purchase the assigning Contractor Party's interest under this Contract proposed to be assigned, transferred or otherwise disposed of on the same terms and conditions as those offered to a bona fide transferee. This right is in addition to any right of pre-emption granted under an applicable Joint Operating Agreement.
- 19.4 If the written consent by the National Petroleum Agency is granted, the assigning Contractor Party shall be relieved of its obligation and liabilities under this Contract to the extent that the assignee or transferee accepts the assumption of such obligations and liabilities under this Contract.
- 19.5 The Contractor may sell, assign, transfer, convey or otherwise dispose of part or all of its rights and interest under this Contract to an Affiliate with a prior written notice to the National Petroleum Agency, provided that the relevant Contractor Party and the Affiliate shall remain jointly and severally liable for all obligations and liabilities under this Contract, notwithstanding such assignment, transfer, conveyance or other disposal. If the Affiliate shall cease at any time to be an Affiliate of the transferring Contractor Party, the Affiliate shall immediately re-assign or re-transfer to the original Contractor Party all rights and obligations transferred to it under this Contract. Transfers of interests to an Affiliate of a Contractor Party shall not change the nationality of the Contractor Party for the purpose of determining jurisdiction of any arbitration tribunal.
- 19.6 Any request for consent pursuant to Clause 19.1 made by the Contractor to the National Petroleum Agency shall include the deed of assignment and other relevant information relating to financial and corporate standing of the assignee, and its capability to contribute to the Petroleum Operations under this Contract as required under the Petroleum Law.

20. TERMINATION

20.1 The State, by decision of the Government, shall be entitled to terminate this Contract with the Contractor (or in respect of any Party making up the Contractor) if any of the following events occur:

- (a) the Contractor defaults in the performance of any of its obligations set forth in Clause 9;
 - (b) the Contractor fails to execute the Minimum Work Obligations;
 - (c) the Contractor assigns, transfers, conveys, encumbers or disposes of its rights, interests and/or obligations under this Contract, otherwise than in accordance with Clause 19 and/or the Petroleum Law;
 - (d) the Contractor is adjudged insolvent or bankrupt by a court of competent jurisdiction or acknowledges or claims that it is unable to pay its debts or makes an application for bankruptcy protection that is not discharged within thirty (30) days;
 - (e) the Contractor ceases to carry on its business as carried on at the date of this Contract or liquidates or terminates its corporate existence;
 - (f) the warranties made by the Contractor under Clause 24 are found to have been untrue when made;
 - (g) the Contractor fails to make any payment to the State when due;
 - (h) the Contractor fails to submit the performance bond or guarantee when due;
 - (i) the Contractor fails to initiate field development and production in accordance to the time schedule outlined in the approved Field Development Program (Clause 5.1 (e)), or if after production of Petroleum is initiated in a Contract Area, production of Petroleum ceases for a period of more than three (3) months for causes not attributable to Force Majeure or without the consent of the National Petroleum Agency;
- and
- (j) the events provided for in the articles 34, 35 or 36 of the Petroleum Law.

20.2 If the cause for termination is an event specified in Clause 20.1 (a), (b), (f), (g), (h), (i) and/or G) above, the National Petroleum Agency shall give written notice thereof to the Contractor requiring it to remedy such default within a period not more than thirty (30) days of receipt of the National Petroleum Agency's notice or such additional days as the National Petroleum Agency deems appropriate in the circumstances in its sole discretion. If upon the expiration of the said period such default has not been remedied or removed, the Government may, by written notice issued by the National Petroleum Agency to the Contractor, declare this Contract terminated.

- 20.3 Termination for any of the events specified in Clause 20.1 (c), (d) and/or (e) above, shall be with immediate effect and the Government may, by written notice to the Contractor issued by the National Petroleum Agency, declare this Contract terminated. Termination as to one Contractor Party shall not constitute termination as to the other Contractor Party(ies).
- 20.4 Where this Contract is terminated with respect to only one Contractor Party, the State shall have the option to assume the interests, rights and obligations of such defaulting Contractor Party under this Contract. If the State elects not to exercise this option, the interests, rights and obligations shall be assigned to the remaining Contractor Parties who shall be liable jointly and severally.
- 20.5 In the event that the other Contractor Party(ies) fail to meet any and all liabilities of the terminated Contractor Party as provided in Clause 20.4, the State reserves the right to terminate this Contract in respect of all other Contractor Parties upon written notice.
- 20.6 Without prejudice to all other rights of the State, the Contractor shall upon the termination of this Contract permit inspection, copying and auditing of its accounts and records for the Petroleum Operations by the National Petroleum Agency and/or its agents.
- 20.7 The Contractor shall have the right, at its sole discretion, to relinquish its rights and to terminate this Contract without further obligations or liabilities, upon completion of the stipulated Minimum Work Obligations and Minimum Financial Commitment at the end of any phase of the Exploration Period, upon giving a thirty (30) day advance notice to the National Petroleum Agency. This Clause 20.7 shall not release the Contractor from any unfulfilled obligations incurred prior to the termination of this Contract nor from any liabilities arising from acts or omissions taking place prior to the termination of this Contract.
- 20.8 This Contract shall automatically terminate if no Commercial Discovery is made in the Contract Area at the end of Exploration Period, as extended.

21. FORCE MAJEURE

- 21.1 Any failure or delay on the part of any Party in the performance of its obligations or duties (other than the obligation to pay money) under this Contract shall be excused to the extent attributable to Force Majeure. A Force Majeure situation includes delays, defaults or inability to perform under this Contract due to any event beyond the reasonable control of the Party claiming Force Majeure. Such event may be, but is not limited to, any act, event, happening or occurrence due to natural causes and acts or perils of navigation, fire, hostilities, war (whether declared or undeclared), blockade, labor disturbances, strikes riots, insurrection, civil commotion, quarantine restrictions, epidemics, storms, floods, earthquakes, accidents, blowouts and lightning.
- 21.2 If Petroleum Operations are delayed, curtailed or prevented by an event of Force Majeure, then the time for carrying out the obligation and duties thereby affected, and rights and obligations hereunder, shall be extended for a period equal to the period of such delay.

21.3 The Party who is unable to perform its obligations as a result of the Force Majeure shall promptly notify the other Parties not later than forty-eight (48) hours after the establishment of the commencement of the event of Force Majeure, stating the cause, and the Parties shall do all that is reasonably within their powers to remove such cause.

21.4 The Contractor's failure or inability to find Petroleum in commercial quantities for reasons other than as specified in Clause 21.1 shall not be deemed an event of Force Majeure.

22. **LAWS AND REGULATIONS**

22.1 This Contract shall be governed by and construed in accordance with the laws of the Democratic Republic of Sao Tome and Principe.

22.2 Subject to principles of public international law, no term of this Contract including the agreement of the Parties to submit to arbitration hereunder, shall prevent or limit the State from exercising its sovereign rights.

23. **NATURAL GAS**

23.1 If the Contractor discovers a commercially viable quantity of Natural Gas, the Contractor shall have the right to develop, commercialize, recover the costs and share in the profits of a development of such Natural Gas under this Contract on terms to be mutually agreed. Such terms when agreed shall become an integral part of this Contract.

23.2 Notwithstanding Clause 23.1, the Contractor may utilize, at no cost, Natural Gas required as fuel for Petroleum Operations such as gas recycling, gas injection, gas lift or any other Crude Oil enhancing recovery schemes, stimulation of wells necessary for maximum Crude Oil recovery in the field discovered and developed by the Contractor and such usage shall be with prior written consent of the National Petroleum Agency, which consent shall not be unreasonably withheld. This shall be included in a Field Development Program.

23.3 The attainment of recovery of Crude Oil through an efficient, economic and technically acceptable method shall always be paramount in all decisions regarding Associated Natural Gas. However, prior to the commencement of Production of Crude Oil from the Contract Area, the Contractor shall submit to the National Petroleum Agency, a program for the utilization of any Associated Natural Gas that has been discovered in the Contract Area, which shall be subject to the approval of the National Petroleum Agency.

23.4 If the Contractor discovers sufficient volumes of Unassociated Natural Gas that could justify commercial development, the Contractor shall immediately report the volume of potentially recoverable Natural Gas to the National Petroleum Agency and shall promptly investigate and submit proposals to the National Petroleum Agency for the commercial development of such Natural Gas taking in consideration local strategic needs as may be identified by the National Petroleum Agency, within two (2) years of the date of the relevant discovery. Any cost in respect of such proposals or

investigation presented by the Contractor to the National Petroleum Agency shall be included in Operating Costs. The Contractor and the National Petroleum Agency will determine the plan and time needed, which shall be no more than five (5) years, unless otherwise agreed by the National Petroleum Agency, to progress a commercial development project, which shall include the terms for recovery of Operating Costs and sharing of Natural Gas production, which terms when agreed shall form an integral part of this Contract. If the Contractor fails to justify a commercial development within the agreed timeframe and if the National Petroleum Agency determines that a sufficient volume of Unassociated Natural Gas exists, the National Petroleum Agency shall have the right to propose to the Contractor a commercial development of such Natural Gas. The Contractor shall have the right to participate in the commercial development under terms pursuant to Clause 23.1. If the Contractor declines to participate in the commercial development of such Natural Gas as presented by the National Petroleum Agency and if the Field Development Program does not hinder or jeopardize current Petroleum Operations, the National Petroleum Agency may develop the Natural Gas in the manner presented to the Contractor.

24. REPRESENTATIONS AND WARRANTIES

24.1 In consideration of the State entering into this Contract, the Contractor hereby represents and warrants to the State as follows:

- (a) The Contractor has the power to enter into and perform this Contract and has taken all necessary action to execute, deliver and perform this Contract in accordance with the terms herein contained and has been granted all concessions, licenses, permits and authorizations in respect of Petroleum Operations.
- (b) The execution, delivery and performance of this Contract by the Contractor will not contravene in any respect, any of the provisions of:
 - (i) any law or regulations or order of any governmental authority, agency or court applicable to or by which the Contractor may be bound; and
 - (ii) any mortgage, contract or other undertaking or instrument to which the Contractor is a party or which is binding upon it or any of its respective revenues or assets.
- (c) Full disclosure has been made to the National Petroleum Agency.
- (d) As of the Effective Date all facts in relation to the Contractor and its financial condition and affairs are material and ought properly to be made known to the National Petroleum Agency and have been made so known in full.
- (e) The Contractor, together with its Affiliates, has sufficient funds both in foreign and local currencies to carry out Petroleum Operations under this Contract.
- (f) The representations and warranties set out in this Clause 24 shall remain in full force and effect for the duration of this Contract

25. CONCILIATION AND ARBITRATION

- 25.1 Should there be a difference or dispute between the Parties concerning the interpretation or performance of this Contract (a "**Dispute**") such that the dispute cannot be resolved by mutual agreement, the Parties may refer the matter to an independent expert for an opinion to assist the Parties in reaching a mutual agreement.
- 25.2 Where an independent expert is used, the National Petroleum Agency and the Contractor shall furnish the expert with all written information which he may reasonably require. The cost of the services of the expert, if appointed, shall be shared equally between the National Petroleum Agency and each Contractor Party.
- 25.3 If the Dispute cannot be settled by amicable agreement or through an independent expert or if a Party does not agree to the use of an independent expert, then either the National Petroleum Agency or the Contractor may serve on the other a demand for arbitration in accordance with this clause 25. The procedures set forth in this Clause 25 shall be the exclusive procedures for arbitration of any and all Disputes arising under or involving the interpretation of this Contract. No other arbitration tribunal under any other procedure, agreement or international treaty shall have jurisdiction over such disputes between the Parties.
- 25.4 If the relevant Parties have not reached a mutual agreement after three (3) months of the date of a notice of a Dispute by one Party to another, unless the Parties to the Dispute mutually agree to an extension, any Party to the Dispute may refer the Dispute for resolution by final and binding arbitration to the International Centre for the Settlement of Investment Disputes (the "**Centre**") established by the Convention on the Settlement of Investment Disputes between States and Nationals of other States, done at Washington, March 18, 1965 (the "**ICSID Convention**") or to the Additional Facility of the Centre, if the Centre is not available.

In the case that the arbitration is to be conducted under the Additional Facility, the Parties hereby give their consent to the jurisdiction of ICSID as regulated in this Clause 25 and in Article 25 of the ICSID Convention. The Parties agree to submit an application to the Secretary General of the Center for approval of access to the Center Additional Facility.

25.5 Seat and Language of Arbitration

The seat of the arbitration shall be Lisbon, Portugal, the law of the merits of the arbitration shall be Sao Tomean law and the law governing the arbitration agreement shall be Sao Tomean Jaw. The languages of the arbitration proceedings, and of all orders, decisions, and the award, shall be Portuguese and English. Notwithstanding Clause 32.4, the Portuguese version of this Contract signed by the Parties shall be used as the official version in arbitral proceedings.

25.6 Number and Identity of Arbitrators

The arbitral tribunal shall be constituted by three (3) arbitrators selected according to the following procedure:

- (i) The claimant and the respondent shall, within thirty (30) days from the day on which a request for arbitration has been submitted, appoint an arbitrator each (and if there is more than one claimant or more than one (1) respondent, then the claimants and/or the respondents collectively shall each appoint a single arbitrator), by giving notice in writing of such appointment to the Secretary General of the Centre and the other Party or Parties to the Dispute.
- (ii) If either the claimant or the respondent fails to comply with the time limit in the preceding paragraph, the Chairman of the Administrative Council of the Centre shall appoint the arbitrator or arbitrators that have not yet been appointed, at the request of either the claimant or the respondent and after consulting the claimant and the respondent as far as possible. The Chairman of the Administrative Council of the Centre shall give notice in writing of such appointment or appointments to the Secretary-General of the Centre and the claimant and the respondent.
- (iii) The two (2) arbitrators so appointed shall, within thirty (30) days of their appointment, agree upon the person to be appointed as the President of the tribunal, and give notice of such appointment to the Secretary-General of the Centre and the claimant and the respondent.
- (iv) If the two (2) arbitrators fail to agree upon the person to be the President of the tribunal, the Chairman of the Administrative Council of the Centre shall appoint the President, at the request of either the claimant or the respondent, and after consulting with the claimant and the respondent as far as possible. The Chairman of the Administrative Council of the Centre shall give notice in writing of such appointment to the Secretary-General of the Centre and the claimant and the respondent.
- (v) None of the arbitrators shall be a citizen of the countries of any of the Parties to the Dispute (or in the case where the Party is a company or another entity, any country or countries of nationality of such Party, including the country of its ultimate parent).

25.7 Rules of Arbitration

The arbitration procedures initiated under this Contract shall operate under the arbitration rules in effect for the Centre or the Additional Facility, as the case may be, at the time of the filing of the request for arbitration, which rules are deemed to be incorporated herein by reference in this Clause 25.

25.8 Binding Nature of Arbitration

The arbitration award shall be final and binding on the Parties and shall be immediately enforceable, subject to the remedies provided for in the ICSID

Convention and Arbitration Rules or in the Arbitration Rules of the Additional Facility of the Centre, as appropriate. The Parties waive any right to refer any question of law, and any right of appeal on the law and/or merits to any court. It is expressly agreed that the arbitrators shall have no authority to award aggravated, exemplary or punitive damages.

25.9 Costs of Arbitration

The costs of arbitration shall be charged in accordance with the directions of the arbitration tribunal, failing which shall be borne proportionally by the Parties to the Dispute on a per capita basis. The costs of the Parties comprising the Contactor shall not be recoverable.

25.10 Payment of Awards

Any monetary award issued shall be expressed and payable in United States dollars.

26. EFFECTIVE DATE

26.1 This Contract shall come into force after execution and delivery to the Contractor of an instrument of ratification executed by the Prime-Minister on behalf of the Government (the "Effective Date"). Record of such delivery shall be annexed to this Contract as proof of the Effective Date.

27. REVIEW / RE-NEGOTIATION OF CONTRACT AND FISCAL TERMS

27.1 The Parties agree that the commercial terms and conditions of this Contract have been negotiated and agreed having due regard to the existing fiscal terms in accordance with the provisions of the Petroleum Law and the Petroleum Taxation Law in force at the time of the Effective Date. If such fiscal terms are materially changed to the detriment of the Contractor, the Parties agree, subject to clause 27.2, to review the terms and conditions of this Contract affected by such changes and to align such terms and conditions with the fiscal terms as at the Effective Date.

27.2 If at any time or from time to time, there is a change in legislation or regulations which materially affect the commercial benefit afforded to the Contractor under this Contract, the Parties will consult each other and shall agree to such amendments to this Contract as are necessary to restore as near as practicable such commercial benefits which existed under this Contract as of the Effective Date.

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

28. OPERATOR

28.1 ERHC ENERGY EEZ, LDA is hereby designated as the Operator under this Contract to execute, for and on behalf of the Contractor, all Petroleum Operations in the Contract Area pursuant to and in accordance with this Contract and the Petroleum Law.

28.3 The Operator, for and on behalf of the Contractor, shall have the exclusive control and administration of Petroleum Operations under this Contract. The Operator, for and on behalf of the Contractor, and within the limits defined by the National Petroleum Agency, this Contract and the Petroleum Law, shall have the authority to execute all contracts, incur expenses, make commitments, and implement other actions in connection with the Petroleum Operations.

29. CONFLICT OF INTERESTS

29.1 The Contractor represents and warrants that it did not engage any person, firm or company as a commission agent for purposes of this Contract and that it has not given or offered to give (directly or indirectly) to any person any bribe, gift, gratuity, commission or other thing of significant value, as an inducement or reward for doing or forbearing to do any action or take any decision in relation to this Contract, or for showing or forbearing to show favor or disfavor to any person in relation thereto.

29.2 The Contractor further represents and warrants that no loan, reward, offer, advantage or benefit of any kind has been given to any Official or any person for the benefit of such Official or person or third parties, as consideration for an act or omission by such Official in connection with the performance of such person's duties or functions or to induce such Official to use his or her position to influence any act or decisions of the administration with respect to this Contract. Any breach of this representation shall cause this Contract to be invalid and voidable by the State administration.

30. NOTICES

30.1 Any notice or other communication required to be given by a Party to another shall be in writing (in Portuguese and English) and shall be duly given by hand delivery in person, by courier, by facsimile or by electronic means of transmitting written communication, which provides written communication of receipt at the following addresses:

Agencia Nacional do Petroleo de Sao Tome e Principe (ANP-STP)
Avenida das Nacoes Unidas, 225
C.P.1048
Sao Tome, Sao Tome and Principe

Attention: Executive Director

Fax: 239-2226937
Tel: 239-2226940
Email: anp_geral@cstome.net

THE CONTRACTOR

ERHC ENERGY EEZ, LDA
Avenida da Independencia, 392, II/III, C.P. 1092, Sao Tome

- 30.2 All notices and other communications shall be deemed to have been duly delivered upon actual receipt by the intended recipient.
- 30.3. Each Party shall notify the other promptly of any change in the above address.

31. LIABILITY

Where the Contractor is comprised of more than one Party, the liabilities and obligations of such Parties under this Contract shall be joint and several.

32. MISCELLANEOUS

- 32.1 No supplement or modification of any provision of this Contract shall be binding unless executed in writing by all Parties.
- 32.2 No waiver by any Party of any breach of a provision of this Contract shall be binding unless made expressly in writing. Any such waiver shall relate only to the breach to which it expressly relates and shall not apply to any subsequent or other breach.
- 32.3 The validity and effectiveness of this Contract shall be subject to the full compliance with all applicable administrative procurement rules relating to State contracting.
- 32.4 This Contract is elaborated and filed in the Portuguese and English languages, in case of non-conformity, the Portuguese language version shall prevail.
- 32.5 This Contract shall be made public and a copy hereof shall be provided to the Public Registration and Information Office within ten (10) days from its execution.

IN WITNESS WHEREOF the Parties have caused this Contract to be executed the day and year first above written.

SIGNED AND DELIVERED for and on behalf of:

THE STATE represented by the **Agência Nacional do Petróleo de São Tomé e Príncipe**

By: /s/ Cristina Dias

Name: CRISTINA DIAS

Designation: Director Executive Interior

In the presence of:

Name: MÉ-CHINAS ALBANO COSTA ALEGRE

Signature: /s/ Mé-Chinas Albano Costa Alegre

Designation: LEGAL DIRECTOR

SIGNED AND DELIVERED for and on behalf of:

ERHC ENERGY EEZ, LDA

By: /s/ Peter Ntephe

Name: PETER NTEPHE

Designation: PRESIDENT/CEO

In the presence of:

Name: LANCE SANTOS

Signature: /s/ Lance Lima dos Santos

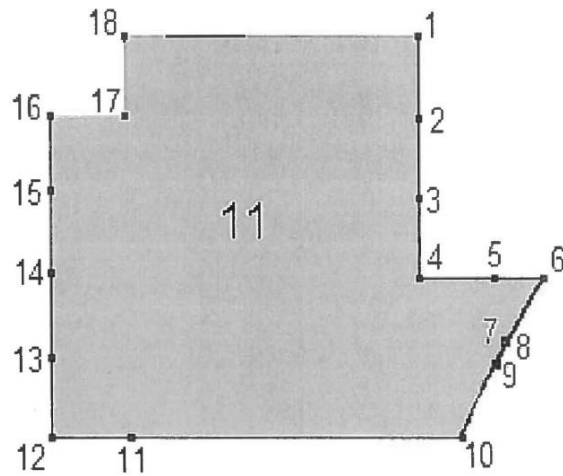
Designation: WITNESS

SCHEDULE 1
CONTRACT AREA

Coordinates (DATUM: WGS84)

BLOCK	POINTS	ZONE	UTM X	UTM Y	DD Long	DD Lat
11	1	B	351629.89	73706.82	7.666667	0.666667
11	2	B	351625.52	55280.11	7.666667	0.500000
11	3	B	351622.40	36853.40	7.666667	0.333333
11	4	B	351620.53	18426.70	7.666667	0.166667
11	5	B	370170.73	18425.52	7.833333	0.166667
11	6	B	382442.76	18424.83	7.943599	0.166667
11	7	B	371130.13	0.0044	7.841958	0.000000
11	8	B	371035.87	-153.51	7.841112	-0.001389
11	9	B	370170.19	-1809.06	7.833333	-0.016364
11	10	B	361481.23	-18426.04	7.75526	-0.166667
11	11	B	277405.51	-18432.98	7.000000	-0.166667
11	12	B	258847.40	-18434.94	6.833333	-0.166667
11	13	B	258846.38	0.0044	6.833333	0.000000
11	14	B	258847.40	18434.94	6.833333	0.166667
11	15	B	258350.44	36869.89	6.833333	0.333333
11	16	B	258855.51	55304.84	6.833333	0.500000
11	17	B	275169.27	55298.84	7.000000	0.500000
11	18	B	275167.07	73739.82	7.000000	0.666667

Map (for purposes of illustration only)



SCHEDULE 2
ACCOUNTING PROCEDURE

1. GENERAL PROVISIONS

1.1 Definitions

This Accounting Procedure attached to and forming a part of the Contract is to be followed and observed in the performance of the Parties's obligations thereunder. The defined terms appearing herein shall have the same meaning as is ascribed to them in the Contract.

1.2 Accounts and Statements

The Contractor's accounting records and books shall be kept as provided under Clause 15 of the contract in accordance with generally accepted and internationally recognized accounting standards, consistent with modern petroleum industry practices and procedures and in accordance with Good Oil Field Practice. All original books of accounts together with original supporting documentation shall be kept and maintained at the office of the Contractor in Sao Tome and Principe.

1.3 In the event of a conflict between the terms of this Accounting Procedure and the Contract, the terms of the Contract shall apply.

1.4 This Accounting Procedure may be amended from time to time by the mutual agreement of the Parties.

2. Operating Costs

2 . 1 Operating Costs shall be defined as all costs, expenses paid and obligations incurred in carrying out Petroleum Operations and shall consist of:

- (a) Contract Area Non-capital Costs;
- (b) Contract Area Capital Costs;
- (c) Contract Area Non-Drilling Exploration Costs; and
- (d) Contract Area Unsuccessful Exploration and Appraisal Costs.

Operating Costs shall be recorded separately for each Development Area and calculated on the basis of a Contract Area.

2.2 Contract Area Non-capital Costs

Contract Area Non-capital Costs means those Operating Costs incurred that are chargeable to the current year's operations. Contract Area Non-capital Costs includes the following:

- (a) General office expenses - office, services and general administration services pertaining to Petroleum Operations including services of legal, financial, purchasing, insurance, accounting, computer, and the personnel department; communications, transportation, rental of specialized equipment, scholarships, charitable contributions and educational awards.
- (b) Labor and related costs - salaries and wages, including bonuses, of employees of the Contractor who are directly engaged in the conduct of Petroleum Operations, whether temporarily or permanently assigned, irrespective of the location of such employee including the costs of employee benefits, customary allowance and personal expenses incurred under the Contractor's practice and policy, and amounts imposed by applicable governmental authorities which are applicable to such employees.

These costs and expenses shall include:

- (i) cost of established plans for employee group life insurance, hospitalization, - pension, retirement, savings and other benefit plans;
 - (ii) cost of holidays, vacations, sickness and disability benefits;
 - (iii) cost of living, housing and other customary allowances;
 - (iv) reasonable personal expenses, which are reimbursable under the Contractor's standard personnel policies;
 - (v) obligations imposed by governmental authorities;
 - (vi) cost of transportation of employees, other than as provided in paragraph (c) below, as required in the conduct of Petroleum Operations; and
 - (vii) charges in respect of employees temporarily engaged in Petroleum Operations, which shall be calculated to reflect the actual costs thereto during the period or periods of such engagement.
- (c) Employee relocation costs - costs for relocation, transportation and transfer of employees of the Contractor engaged in Petroleum Operations including the cost of freight and passenger service of such employees' families and their personal and household effects together with meals, hotel and other expenditures related to such transfer incurred with respect to:
 - (i) employees of the Contractor within Sao Tome and Principe including expatriate employees engaged in Petroleum Operations;
 - (ii) transfer to Sao Tome and Principe for engagement in Petroleum Operations;
 - (iii) relocation costs and other expenses incurred in the final repatriation or transfer of the Contractor's expatriate employees and families, in the

case of such employees' retirement, or separation from the Contractor, or in case of such employees' relocation to the Contractor's point of origin, provided that relocation costs incurred in moving an expatriate employee and his family beyond point of origin, established at the time of his transfer to Sao Tome and Principe, will not be recoverable as Operating Costs; and

- (iv) Sao-Tomean employees on training assignments outside the Contract Area.
- (d) Services provided by third parties - cost of professional, technical, consultation, utilities and other services procured from third party sources pursuant to any Contract or other arrangements between such third parties and the Contractor for the purpose of Petroleum Operations.
- (e) Legal expenses - all costs or expenses of handling, investigating, asserting, defending, and settling litigation or claims arising out of or relating to Petroleum Operations or necessary to protect or recover property used in Petroleum Operations including, but not limited to, legal fees, court costs, arbitration costs, cost of investigation or procuring evidence and amount paid in settlement or satisfaction of any such litigation, arbitration or claims in accordance with the provisions hereof .
- (f) Head office overhead charge - parent company overhead in the amount specified in Clause 15.4 of the Contract.
- (g) Insurance premiums and settlements - premiums paid for insurance normally required to be carried for the Petroleum Operations together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including fees and deductibles relating to the Contractor's performance under the Contract.
- (h) Duties and taxes - all duties and taxes, fees and any Government assessments, including gas flare charges, license fees, custom duties, and any other than Royalty and Tax.
- (i) Operating expenses - labor, materials and services used in day to day oil well operations, oil field production facilities operations, secondary recovery operations, storage, transportation, delivering and marketing operations; and other operating activities, including repairs, well walkovers, maintenance and related leasing or rental of all materials, equipment and supplies.
- (j) Successful Exploration drilling - all expenditures incurred in connection with the drilling of any Exploration Well which results in a Commercial Discovery.
- (k) Successful Appraisal drilling - all expenditures incurred in connection with the drilling of Appraisal Wells on a Commercial Discovery.
- (l) Unsuccessful Development drilling - all expenditures incurred in connection with drilling of development wells which are dry, including costs incurred in

respect of casing, well cement and well fixtures.

- (m) Successful Development drilling - all intangible expenditures incurred in connection with labor, fuel, repairs, maintenance, hauling, and supplies and materials (not including, casing and other well fixtures) which are for or incidental to drilling, cleaning, deepening or completion wells or the preparation thereof incurred in respect of:
 - (i) determination of well locations, geological, geophysical, topographical and geographical surveys for site evaluation preparatory to drilling including the determination of near surface and near sea bed hazards;
 - (ii) cleaning, draining and leveling land, road-building and the laying of foundations;
 - (iii) drilling, shooting, testing and cleaning wells; and
 - (iv) erection of rigs and tankage assembly and installation of pipelines and other plan and equipment required in the preparation or drilling of wells producing Crude Oil.
- (n) Decommissioning provisions - any deposits in a Decommissioning reserve fund set aside for the purposes of Decommissioning pursuant to Clause 13 of the Contract.
- (o) Affiliate services - professional, administrative, scientific and technical services provided by Affiliates of the Contractor for the direct benefit of Petroleum Operations including services provided by the Exploration, Production, legal, financial, purchasing, insurance, accounting and computer services departments of such Affiliates. Charges for providing these services shall reflect costs only, and must be consistent with international market practices and shall not include any element of profit.
- (p) Pre-production Contract Area Non-capital Costs - all recoverable Contract Area Non-capital Costs incurred before first production from the Contract Area are accumulated and treated as if they had been incurred on the first day of production from the Contract Area.

2.3 Contract Area Capital Costs

Contract Area Capital Costs mean those Operating Costs incurred that are subject to depreciation. Contract Area Capital costs include the following:

- (a) Plant expenditures - expenditures in connection with the design, construction, and installation of plant facilities (including machinery, fixtures, and appurtenances) associated with the production, treating, and processing of Crude Oil (except such costs properly allocable to intangible drilling costs) including offshore platforms, secondary or enhanced recovery systems, gas injection, water disposal, expenditures for equipment, machinery and fixtures purchased to conduct Petroleum Operations such as office furniture and

fixtures, office equipment, barges, floating crafts, automotive equipment, petroleum operational aircraft, construction equipment, miscellaneous equipment.

- (b) Pipeline and storage expenditure - expenditures in connection with the design, installation, and construction of pipeline, transportation, storage, and terminal facilities associated with Petroleum Operations including tanks, metering, and export lines.
- (c) Building expenditure - expenditures incurred in connection with the construction of building, structures or works of a permanent nature including workshops, warehouses, offices, roads, wharves, furniture and fixtures related to employee housing and recreational facilities and other tangible property incidental to construction.
- (d) Successful Development drilling - all tangible expenditures incurred in connection with drilling development wells such as casing, tubing, surface and sub-surface production equipment, flow lines and instruments.
- (e) Material inventory - cost of materials purchased and maintained as inventory items solely for Petroleum Operations subject to the following provisions:
 - (i) the Contractor shall supply or purchase any materials required for Petroleum Operations, including those required in the foreseeable future. Inventory stock levels shall take account of the time necessary to provide the replacement, emergency needs and similar considerations;
 - (ii) materials purchased by the Contractor for use in Petroleum Operations shall be valued so as to include invoice price (less prepayment discounts, cash discounts, and other discounts if any) plus freight and forwarding charges between point of supply and point of destination but not included in the invoice price, inspection costs, insurance, custom fees and taxes, on imported materials required for the Contract;
 - (iii) materials not available in Sao Tome and Principe supplied by the Contractor or from its Affiliates stocks shall be valued at the current competitive cost in the international market; and
 - (iv) the Contractor shall maintain physical and accounting controls of materials in stock in accordance with Good Oil Field Practice. The Contractor shall make a total inventory at least once a year to be observed by the National Petroleum Agency and its external auditors. The National Petroleum Agency may however carry out partial or total inventories at its own expenses, whenever it considers necessary, provided such exercise does not unreasonably disrupt Petroleum Operations.
- (f) Pre-production Contract Area Capital costs - all recoverable Contract Area Capital costs incurred before first production from the Contract Area are

accumulated and treated as if they had been incurred on the first day of production from the Contract Area.

2.4 Contract Area Non-Drilling Exploration Costs

Contract Area Non-Drilling Exploration Costs mean those Operating Costs incurred anywhere in the Contract Area in the Exploration Period or a related activity, not directly connected with the drilling of an Exploration Well. Contract Area Non-Drilling Exploration Costs are chargeable to the current year's operations and may be added to the Operating Costs of any Contract Area. Contract Area Non-Drilling Exploration Costs include the following:

- (a) Geological and geophysical surveys - labor, materials and services used in aerial, geological, topographical, geophysical and seismic surveys incurred in connection with exploration excluding the purchase of data from the National Petroleum Agency.
- (b) Pre-Contract seismic costs - reasonable costs associated with the acquisition of seismic data covering the Contract Area, including third party processing but not interpretation of the data by the Contractor or its Affiliates, which were incurred prior to the Effective Date.
- (c) Annual scholarship payments as described under clause 14 of the Contract.

2.5 Contract Area Unsuccessful Exploration and Appraisal Costs

Contract Area Unsuccessful Exploration and Appraisal Costs mean those Operating Costs incurred anywhere in the Contract Area in connection with the drilling of any Exploration Well or Appraisal Well in the Contract Area which does not result in a Commercial Discovery. Contract Area Unsuccessful Exploration and Appraisal Costs are subject to depreciation over a five (5) year period in equal installments of twenty percent (20%) per annum or the remaining life of the Contract Area(s) whichever is less, commencing with production. Unsuccessful Exploration and Appraisal costs in any period shall be allocated to the Operating Costs of a Contract Area, subject to the following restrictions:

- (a) to the extent that the Contract Area has Available Cost Oil after recovering the Operating Costs (other than Unsuccessful Exploration and Appraisal Costs) related to that Contract Area; and
- (b) if there is insufficient Available Cost Oil in a Contract Area in any period to fully recover Unsuccessful Exploration and Appraisal costs the unrecovered amount may be carried forward and included in the next period's Unsuccessful Exploration and Appraisal costs account.

2.6 Non-Recoverable Costs

The following costs are explicitly not recoverable as Operating Costs:

- (a) bonuses and expenditure incurred by the Contractor in carrying out any obligation to fund social projects as defined in Clause 2 of the Contract;
- (b) interest incurred under loans taken to finance Petroleum Operations from either inter-Affiliate loans or loans from third parties; and
- (c) costs incurred in excess of five percent (5%) above costs budgeted for in a Work Program and Budget, unless such costs are approved in advance by the National Petroleum Agency.

3. Computation of Royalty and Tax

- 3.1 The Contractor shall compute the amount of Royalty and Tax payable to the State pursuant to and in accordance with the Contract. Such amounts shall be computed in the manner set forth in the Petroleum Law, the Petroleum Taxation Law and the provisions hereof as stated in Article 4 of this Schedule 2.
- 3.2 The Contractor shall compute the Royalty payments for remittance by the State in a given month based on the prevailing fiscal value of the Crude Oil produced during the second preceding month. Tax payments shall be calculated and remitted in accordance with the Petroleum Taxation Law.

4. Accounting Analyses

- 4.1 The Contractor and the National Petroleum Agency shall agree within three (3) months on a format for monthly accounting analysis reflecting the volumes lifted in terms of Royalty Oil, Cost Oil, and Profit Oil, and Proceeds received by each Party.
- 4.2 The Realizable Price and the quantities actually lifted by the Parties shall be used to compute the proceeds as reflected in the agreed monthly accounting analysis format in Article 4.1 above and the allocation of such Proceeds in the categories described under Clause 10 of the Contract shall be reflected.
- 4.3 The allocation of the quantity of Available Crude Oil to each Party pursuant to Clause 10 of the Contract shall be according to and governed by provisions of the Allocation and Lifting Procedure Principles.
- 4.4 The priority of allocation of the total proceeds for each period shall be as follows:
 - (a) Royalty Oil;
 - (b) Cost Oil;
 - and
 - (c) Profit Oil.
- 4.5 The amount chargeable to and recoverable from Royalty Oil, and Cost Oil shall be determined as follows:
 - (a) Royalty Oil - The sum of royalties payable during such month.

- (b) Cost Oil - The Operating Costs applicable to such month for the purposes of Cost Oil are as follows:
- (i) Contract Area Non-Capital Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedure and shall be recoverable in full in the period incurred.
 - (ii) Contract Area Capital Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedure and shall be recoverable over the depreciation period or the remaining life of the Contract, whichever is less.
 - (iii) Contract Area Non-Drilling Exploration Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedure and shall be recoverable in full in the period incurred.
 - (iv) Contract Area Unsuccessful Exploration and Appraisal Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedure and shall be recoverable over the depreciation period of five (5) years in equal installments of twenty percent (20%) per annum or the remaining life of the Contract Area, whichever is less, commencing with production from the Contract Area which costs are allocated to a Development Area in accordance with Article 2.5 of this Schedule 2.
- (c) Any carryover from previous months as provided under Article 4.6 of this Schedule 2.

4.6 Any amounts chargeable and recoverable in excess of the allocation of Proceeds for the month to Royalty Oil and Cost Oil shall be carried forward to subsequent months. Carryovers shall be determined as follows:

- (a) A Royalty Oil carryover results when the Proceeds for such month are insufficient for allocation of the Royalty Oil due for the month, as described in Clause 10 of the Contract.
- (b) A Cost Oil carryover results when the Proceeds remaining after allocating a portion of the proceeds to Royalty Oil are insufficient for allocation of Cost Oil due for the month, as described in clause 10 of the Contract.

4.7 Profit Oil is available where Proceeds remain after allocations to Royalty Oil and Cost Oil, pursuant to Articles 4.5 and 4.6 above, Profit Oil shall be allocated as described in Clause 10 of the Contract.

5. Other Provisions

- 5.1 The Contractor shall open and keep bank accounts in United States dollars where all funds remitted from abroad shall be deposited for the purpose of meeting local expenditures. For purposes of keeping the books of accounts, any foreign currency remitted by the Contractor shall be converted at the monthly exchange rates published on the date of payment by the Central Bank of Sao Tome and Principe for Dobra, and the Financial Times of London for other currencies.
- 5.2 The Contractor shall prepare financial accounting and budget statements in accordance with the National Petroleum Agency's prescribed reporting format.
- 5.3 With respect to any agreed sum arising out of this Contract owing between the Parties that is past due, any set-off pursuant to Clause 12 of the Contract shall be exercised by giving the other Party written notice thereof accompanied by sufficient description of the offsetting sums to allow the Parties to properly account thereof.

The Contractor shall report on the cumulative production in the Contract Area in a format to be agreed with the National Petroleum Agency.

6. Depreciation Schedule

- 6.1 Any Operating Costs, which are to be depreciated, shall be depreciated according to the following schedule:

Year	Depreciation Rate (%)
1	20%
2	20%
3	20%
4	20%
5	20%

SCHEDULE 3

ALLOCATION AND LIFTING PROCEDURE PRINCIPLES

1. Application

- 1.1 This Allocation and Lifting Procedure attached to and forming part of the Contract sets out the methods for the allocation of available Crude Oil from the Contract Area and the Parties shall allocate all lifting of available Crude Oil in accordance with this Allocation and Lifting Procedure and the Contract.
- 1.2 In the event that the production of Available Crude Oil is segregated into two (2) or more types or grades, the provisions of this Allocation and Lifting Procedure shall apply separately to each such type or grade. To the extent that distribution on such a basis is impracticable, a separate method for the allocation of such Available Crude Oil shall be agreed upon by the Parties.
- 1.3 In the event of a conflict between the terms of this Allocation and Lifting Procedure and the Contract, the terms of the Contract shall apply.
- 1.4 This Allocation and Lifting Procedure may be amended from time to time by mutual agreement of the Parties.

2. Definitions

- 2.1 The words and expressions defined in the Contract when used herein shall have the meaning ascribed to them in the Contract. In addition, the following words shall have the meaning set forth below:
 - (a) "**Current Quarter**" means the calendar quarter within which the relevant schedules are prepared and submitted;
 - (b) "**Forecast Quarter**" means the first calendar quarter succeeding the Current Quarter;
 - (c) "**Lifting Allocation**" means the quantity of Available Crude Oil, which each Party has the right to take in kind, lift and dispose of in accordance with Clause 10 of the Contract;
 - (d) "**Primary Nominations**" means a written statement issued by each Party to the other at least twenty-five (25) days prior to the commencement of each quarter declaring the volume by grade of its estimated Lifting Allocation which the Party desires to lift during the Forecast Quarter;
 - (e) "**Proceeds**" means the amount in United States dollars determined by multiplying the Realizable Price by the number of Barrels of Available Crude Oil lifted by a Party; and

- (f) **"Proceeds Imbalance"** means the difference between each Party's Proceeds to which it is entitled and the Proceeds that each Party has received.

3. Lifting Allocation

- 3.1 On or before September 30 of every Calendar Year, the Operator shall advise the Parties of its forecast of the Available Crude Oil to be produced by grades during each month of the first six (6) months of the next ensuing Calendar Year.
- 3.2 On or before March 31 of every Calendar Year, the Contractor shall advise the National Petroleum Agency of its forecast of Available Crude Oil to be produced by grades during each month of the six (6) months commencing July 1 of the Calendar Year.
- 3.3 Thirty-five (35) days before the commencement of production from the Contract Area and thereafter thirty-five (35) days prior to the beginning of the Forecast Quarter, the Contractor, through the Operator, shall notify the National Petroleum Agency of the estimated Lifting Allocation which can be produced and made available for disposal during the Forecast Quarter. Such estimated Lifting Allocation shall take into account any Proceeds Imbalance for the quarter first preceding the Current Quarter and any estimated Proceeds Imbalance for the Current Quarter computed in accordance with Article 4 of this Schedule 3. Such notice shall indicate the estimated quantities of Royalty Oil, Cost Oil and Profit Oil, each Party's estimated Lifting Allocation and the estimated Realizable Price used to prepare such estimated Lifting Allocations.
- 3.4 Twenty-five (25) days before the commencement of production from the Contract Area and thereafter not later than twenty-five (25) days before the beginning of the Forecast Quarter, each Party shall notify the other of its Primary Nomination of Available Crude Oil which it intends to lift during the Forecast Quarter which shall not exceed its estimated Lifting Allocation.
- 3.5 The estimated Realizable Price to be used by the Contractor to prepare the Estimated Quarterly Lifting Allocation shall be the Realizable Price of the first month of the Current Quarter.
- 3.6 Each Party shall be obliged to lift its own Lifting Allocation. In the event that one Party lifts the other Party's Lifting Allocation, pursuant to Clause 10 of the Contract, the lifting Party shall pay to the non-lifting Party the applicable Proceeds pursuant to Clause 10 of the Contract. In such case, the non-lifting Party shall be treated, for all other purpose under the Contract, as though it had made such lifting itself.

4. Adjustments of Lifting Allocations

- 4.1 On or before thirty-five (35) days prior to the last day of the Current Quarter, the Lifting Allocation for the first preceding quarter thereto shall be computed and the Proceeds Imbalance determined and agreed to by the National Petroleum Agency.
- 4.2 On or before thirty-five (35) days prior to the last day of the Current Quarter, the Proceeds Imbalance for the Current Quarter shall be estimated, taking into account the actual Proceeds Imbalance computed for the first preceding quarter under Article 4.1

above.

- 4.3 The Proceeds Imbalance for the first preceding quarter computed under Article 4.1 above and the estimated Proceed Imbalance for the Current Quarter computed under Article 4.2 above shall be taken into account by the Parties by debiting or crediting such Proceeds Imbalances to each Party's share of the estimated Lifting Allocation for the Forecast Quarter filed by dividing the respective Proceeds Imbalance by the Realizable Price applicable for the period in question.
- 4.4 The Contractor shall keep complete records of all liftings. At the end of each quarter, the Parties will meet to reconcile the Lifting Allocations and the actual lifting with a view to making adjustments as appropriate. If any disagreement arises with respect to such reconciliation, the area of disagreement shall be mutually resolved by the Parties, in accordance with the official records of the National Petroleum Agency.
- 4.5 All Lifting Allocations and actual lifting shall be audited at the end of each Calendar Year by a mutually acceptable independent auditor.

5. Scheduling Details

5.1 Scheduling Notification

At least twenty-five (25) days prior to the beginning of a calendar month, the National Petroleum Agency shall notify the Contractor of its proposed tanker schedule for that calendar month specifying the following:

- (a) a loading date range of ten (10) days for each tanker lifting;
- (b) the desired parcel size for each lifting in Barrels, subject always to change within a range of plus or minus five percent (5%) by the Party so nominating;
- (c) the tanker's name or To Be Named (TBN) for each tanker lifting. Tanker nomination made as TBN shall be replaced at least five (5) working days prior to the accepted date range, unless a shorter time is acceptable to the Contractor; and
- (d) documentation instructions shall be given for each lifting not later than four (4) days prior to the first day of the accepted date range for the tanker in question.

5.2 Tanker Substitution

A Party may substitute another tanker to lift its nominated volume of Crude Oil, provided such substituted tanker has the same arrival date range as the originally scheduled tanker and all other provisions of this Allocation and Lifting Procedure are complied with.

5.3 Overlapping Date Ranges

In the event the combined lifting schedule contains overlapping accepted date ranges, the tanker which gives its Notice of Readiness (NOR) has provided all documentation

and obtained clearances first within such accepted date ranges shall be loaded first, unless urgent operational requirements dictate otherwise in which case, demurrage shall be borne by Petroleum Operations and charged to Operating Costs.

5.4 Confirmation of Lifting Schedules

At least fifteen (15) days prior to the beginning of a calendar month, the Contractor shall either confirm the feasibility of the proposed monthly lifting schedules or, alternatively, advise necessary modifications to such schedules. Such confirmation which shall be in the form of a combined lifting schedule should include a loading date range of three (3) days for each lifting, the first day being the earliest date of arrival and the third day being the latest date of arrival.

5.5 Operational Delays

The Parties recognize that occasionally environmental and technical problems in the Contract Area may cause delays and/or disruptions in the combined lifting schedule. The Contractor shall promptly notify the National Petroleum Agency of such delays and/or disruptions, the projected termination of each of such delays and/or disruptions and advise the National Petroleum Agency of the revised combined lifting schedule. In the event such notification does not allow for a revised combined lifting schedule on the part of the National Petroleum Agency then any resultant costs will be charged to Operating Costs.

5.6 Estimated Delayed Arrival of a Tanker

Whenever it becomes apparent that a tanker will not be available as scheduled or will be delayed, the Party utilizing such tanker shall notify the other Party(ies) of the circumstances and expected duration of the delay. Upon assessing the impact that the Delay will have upon the combined lifting schedule and production during the current and/or next month, the Contractor shall make appropriate revision(s) to the combined lifting schedule to avoid disruption in production. In the event that any Party fails to lift its nominated share of production in any month/quarter due to circumstances beyond the Party's control or difficulties in maintaining the lifting schedule, that Party shall have the right during the following quarter/month to lift the unlifted quantities.

5.7 Tanker Standards

All tankers nominated for lifting by any Party shall conform to the international regulations and standards concerning size, equipment, safety, maintenance and the like adopted by the Contractor for the terminal in question and by the appropriate authority. Failure of a tanker to meet such standards shall not excuse the nominating Party from the applicable consequences provided in the Contract.

5.8 Destination of Crude Oil

The Contractor shall at all times disclose the destination of the Crude Oil lifted under the Contract.

SCHEDULE 4

PROCUREMENT AND PROJECT IMPLEMENTATION PROCEDURES

1. Application

- 1.1 These Procurement Procedures form part of the Contract and shall be followed and observed in the performance of a Party's obligations under the Contract.
- 1.2 These Procurement Procedures shall be applicable to all contracts and purchase orders whose values exceed the respective limits set forth in Article 1.5 below and which, pursuant thereto, require the prior approval of the National Petroleum Agency.
- 1.3 In the event of a conflict between the terms of these Procurement Procedures and the Contract, the terms of the Contract shall prevail.
- 1.4 These Procurement Procedures may be amended from time to time by the mutual agreement of the Parties.
- 1.5 The Contractor shall have the authority to enter into any contract or place any purchase order in its own name for the performance of services or the procurement of facilities, equipment, materials or supplies, provided that:
 - (a) prior approval of the National Petroleum Agency shall be obtained for all foreign contracts and foreign purchase orders awarded to third parties where the cost exceeds Two Hundred Thousand United States Dollars (U.S \$200,000) or in another currency equivalent during the Exploration Period and Three Hundred Thousand United States Dollars (U.S \$300,000) or in another currency equivalent during the Production Period. The National Petroleum Agency approval under this provision shall not be unreasonably withheld;
 - (b) prior approval of the National Petroleum Agency shall be obtained for all local contracts and purchase orders where the cost exceeds Two Hundred Thousand United States Dollars (U.S \$200,000) or in other currency equivalent in utilization at the location of the contract or purchase;
 - (c) the amount set forth in paragraphs (a), (b) and (h) of this Article 1.5 will be reviewed by the National Petroleum Agency whenever it becomes apparent to a Party that such limits create unreasonable constraints on Petroleum Operations or are no longer appropriate. In the event of a significant change in the exchange rate of local currencies to United States dollars compared to that which existed on the Effective Date, the National Petroleum Agency shall review the limits set forth in paragraphs (a), (b) and (h) of this Article 1.5;
 - (d) such contracts shall be entered into and such purchase orders shall be placed with third parties, which in the Contractor's opinion are technically and financially able to properly perform their obligations;
 - (e) procedures customary in the oil industry for securing competitive prices shall

be utilized at all times;

- (f) the Contractor shall give preferences to sub-contractors that are companies organized under the laws of Sao Tome and Principe to the maximum extent possible and in accordance with the Petroleum Law;
- (g) the Contractor shall give preference to such goods which are manufactured or produced in Sao Tome and Principe or services rendered by nationals of Sao Tome and Principe in accordance with the Petroleum Law; and
- (h) the above limits and these procedures shall not apply to purchases made for warehouse replenishment stock not exceeding One Hundred Thousand United States Dollars (U.S \$100,000) or in another currency equivalent nor shall they apply to the purchase of tubulars of less than One Hundred Thousand United States Dollars (U.S \$100,000) or in another currency equivalent made in furtherance of planned drilling programs. Where there are United States dollars and other currency components of such purchases the total shall not exceed the equivalent of One Hundred Thousand United States Dollars (U.S \$100,000).

2. Project Implementation Procedure

- 2.1 The Contractor, realizing the need for a project or contract to which these Procurement Procedures apply pursuant to Article 1.5, shall introduce it as part of the proposed Work Program and Budgets to be developed and submitted by the Contractor to the National Petroleum Agency pursuant to clause 7 of the Contract.
 - (a) The Contractor shall provide full information with respect to a project including the following:
 - (i) a clear definition of the necessity and objectives of the project;
 - (ii) the scope of the project; and
 - (iii) the cost estimate thereof.
 - (b) The Contractor shall transmit the project proposal along with all related documentation to the National Petroleum Agency for consideration.
 - (c) The National Petroleum Agency shall consider the proposal and the recommendation of the Contractor and shall finally determine the matter. If the National Petroleum Agency does not object to the project or any part thereof within thirty (30) days of the submission of the project, the project as proposed by the Contractor shall be deemed to have been approved.
- 2.2 The project as approved pursuant to Article 2.1 shall form part of the Work Program and Budget for Petroleum Operations. Such approval shall also constitute all authorizations by the National Petroleum Agency to the Contractor to initiate contracts and purchase orders relevant to the project proposal, subject to the provisions of Articles 1.5 and 3 of this Schedule 4.

- 2.3 The resources for the project design, supervision, and management shall first be drawn from the Contractor's available in-house expertise. If the National Petroleum Agency approves the foregoing, it may be performed by the Contractor under the approved budget for the project. Competent Sao-Tomean engineering and design companies shall be given priority over other third parties by the Contractor for such projects in accordance with the Petroleum Law. Staff of the National Petroleum Agency who shall be seconded pursuant to Clause 14 of the Contract shall be fully involved in the project design, supervision and management.
- 2.4 After approval of the project and its budget, the Contractor shall prepare and transmit to the National Petroleum Agency complete details of the project including the following:
- (a) project definition;
 - (b) project specification;
 - (c) flow diagrams;
 - (d) projects implementation schedule showing all phases of the project including engineering design, material and equipment procurement, inspection, transportation, fabrication, construction, installation, testing and commissioning;
 - (e) major equipment specifications;
 - (f) cost estimate of the project;
 - (g) an activity status report; and
 - (h) copies of all approved authorization for expenditure (AFEs).

3. **Contract Tender Procedure**

- 3.1 The following tender procedure shall apply to works contracts and contracts for the supply of services and supply contracts not directly undertaken by the Contractor or an Affiliate:
- (a) The Contractor shall maintain a list of approved sub-contractors for the purpose of contracts for Petroleum Operations, (the "**Approved Contractors' List**"). The National Petroleum Agency shall have the right to nominate sub contractors to be included in or deleted from the list. The National Petroleum Agency and the Contractor shall be responsible for pre-qualifying any sub contractor to be included in the Approved Contractors' List.
 - (b) Sub-contractors included in the Approved Contractors' List shall be both local and/or overseas sub-contractors and entities. Where required by law, they shall be registered with the National Petroleum Agency.
 - (c) When a contract is to be bid, the Contractor shall present a list of proposed

bidders to the National Petroleum Agency for concurrence not less than fifteen (15) working days before the issuance of invitations to bid to prospective sub contractors. The National Petroleum Agency may propose additional names to be included in the list of proposed bidders or the deletion of anyone thereof. Contract specifications shall be in Portuguese and in a recognized format used in the international petroleum industry.

- (d) If the National Petroleum Agency has not responded within fifteen (15) working days from the date of the official receipt following the presentation of the list of proposed bidders as aforesaid, the list shall be deemed to have been approved.
- 3.2 The Contractor shall within its limits set forth in Article 1.5 establish a Tender Committee who shall be responsible for pre-qualifying bidders, sending out bid invitations, receiving and evaluating bids and determining successful bidders to whom contracts shall be awarded.
- 3.3 The Contractor shall send analysis and recommendations of bids received and opened by the Tender Committee to the National Petroleum Agency for approval before a contract is signed within thirty (30) working days from the date of the official receipt by the National Petroleum Agency. Approval of the Contractor's recommendations shall be deemed to have been given if the National Petroleum Agency has not responded within such period.
- 3.4 Prospective vendors and/or sub-contractors for work estimated in excess of One Hundred Thousand United States Dollars (U.S \$100,000) for the Exploration Period and Two Hundred Thousand United States Dollars (U.S \$200,000) for the Production Period or their equivalent shall submit the commercial summary of their bids to the Contractor in two (2) properly sealed envelopes, one addressed to the Contractor and one addressed to the National Petroleum Agency. The Contractor shall retain one and send one to the National Petroleum Agency properly enveloped, sealed and addressed to the National Petroleum Agency.
- 3.5 In all cases, the Contractor shall make full disclosure to the National Petroleum Agency of its relationship, if any, with any sub-contractors.
- 3.6 These Procurement Procedures may be waived and the Contractor may negotiate directly with a sub-contractor:
 - (a) in emergency situations provided that it promptly informs the National Petroleum Agency of the outcome of such negotiations; and
 - (b) in work requiring unusually specialized skills or when special circumstances warrant, upon the approval of the National Petroleum Agency, which approval shall not be unreasonably withheld.

4. General Conditions of Contracts

- 4.1 The payment terms shall provide that:

- (a) a minimum of ten percent (10%) of the contract price shall be held as a retention fee until after the end of a guarantee period agreed with the sub contractor which shall vary between six (6) months and twelve (12) months, depending upon the contract, with the exception of drilling and seismic data acquisition, well surveys and other such services provided that a sub-contractor may be given the option to provide another guarantee equivalent to the ten percent (10%) retention such as an irrevocable stand-by letter of credit or performance bond; and
 - (b) a provision shall be made for appropriate withholding tax as may be applicable.
- 4.2 The governing law of all agreements signed with sub-contractors shall be, to the extent feasible, Sao-Tomean law.
- 4.3 Sao-Tomean law shall apply to all sub-contractors performing work in the Territory of Sao Tome and Principe. In as far as practicable, they shall use Sao-Tomean resources both human and material in accordance with the Petroleum Law.
- 4.4 Each contract shall provide for early termination where necessary and the Contractor shall use all reasonable endeavors to obtain a termination provision with minimal penalty.
- 4.5 Sub-contractors shall provide, in the case of a foreign sub-contractor, that the local part of the work, in all cases, shall be performed by the sub-contractor's local subsidiary whenever possible.
- 5. Materials and Equipment Procurement**
- 5.1 The Contractor may, through itself or its Affiliates, procure materials and equipment subject to conditions set forth in this Article 5 and these Procurement Procedures.
- 5.2 The provisions of this Article 5 shall not apply to lump sum or turnkey contracts/projects.
- 5.3 In ordering the equipment or materials, the Contractor shall obtain from vendors / manufacturers, such rebates and discounts and such warranties and guarantees that such discounts, guarantees and all other grants and responsibilities shall be for the benefit of Petroleum Operations.
- 5.4 The Contractor shall:
 - (a) by means of established policies and procedures ensure that its procurement efforts provide the best total value, with proper consideration of quality, services, price, delivery and Operating Costs to the benefit of Petroleum Operations;
 - (b) maintain appropriate records, which shall be kept up to date, clearly documenting procurement activities;

- (c) provide quarterly and annual inventory of materials and equipment in stock;
 - (d) provide a quarterly listing of excess materials and equipment in its stock list to the National Petroleum Agency; and
 - (e) check the excess materials and equipment listings from other companies operating in the Territory of Sao Tome and Principe to identify materials available in the country prior to initiating any foreign purchase order.
- 5.5 The Contractor shall initiate and maintain policies and practices, which provide a competitive environment and climate amongst local and overseas suppliers. Competitive quotation processes shall be employed for all local procurement where the estimated value exceeds the equivalent of One Hundred Thousand United States Dollars (U.S \$100 000) as follows:
- (a) fabrication, wherever practicable shall be done locally. To this effect, the Petroleum Operations recognize and shall accommodate local offers at a premium not exceeding ten percent (10%); and
 - (b) subject to Article 3.1, the Contractor shall give preferences to Sao-Tomean indigenous sub-contractors in the award of contracts. Contracts within the agreed financial limit of the Contractor shall be awarded to only competent Sao-Tomean indigenous sub-contractors possessing the required skill/capability for the execution of such contracts and the Contractor shall notify the National Petroleum Agency accordingly.
- 5.6 Analysis and recommendation of competitive quotations of a value exceeding the limits established in Article 1.5 shall be transmitted to the National Petroleum Agency for approval before a purchase order is issued to the selected vendor/manufacture. Approval shall be deemed to have been given if a response has not been received from the National Petroleum Agency within thirty (30) days of receipt by the National Petroleum Agency of the said analysis and recommendations.
- 5.7 Pre-inspection of the rig, equipment and stock materials of reasonable value shall be jointly carried out at the factory site and/or quay before shipment at the request of either Party.
- 6. Project Monitoring**
- 6.1 The Contractor shall provide a project report to the National Petroleum Agency.
- 6.2 For major projects exceeding One Million United States Dollars (U.S \$1,000,000) or its equivalent, the Contractor shall provide to the National Petroleum Agency a detailed quarterly report which shall include:
- (a) the approved budget total for each project;
 - (b) the expenditure on each project;

- (c) the variance and explanations;
- (d) the number and value of construction change orders;
- (e) a bar chart of schedule showing work progress and work already completed and schedule of mile-stones and significant events; and
- (f) a summary of progress during the reporting period, summary of existing problems, if any, and the proposed remedial action, anticipated problems, and percentage of completion,

provided that the National Petroleum Agency shall have the right to send its own representatives to assess the project based on the report.

6.3 In the case of an increase in cost in excess of five percent (5%) of the project, the Contractor shall promptly notify the National Petroleum Agency and obtain necessary budget approval.

6.4 Not later than six (6) months following the physical completion of any major project whose cost exceeds One Million United States Dollars (U.S \$1 ,000,000) or its equivalent, the Contractor shall prepare and deliver to the National Petroleum Agency a project completion report which shall include the following:

- (a) a cost performance of the project in accordance with the work breakdown at the commencement of the project;
- (b) the significant variation in any item or sub-item;
- (c) a summary of problems and expected events encountered during the project; and
- (d) a list of excess materials.

SCHEDULE 5

SALE OF ASSETS PROCEDURE

Upon the agreement of the National Petroleum Agency that identified assets are to be sold, the following procedure shall apply:

1. The Contractor shall call for a bid duly advertised in a minimum of one (1) national newspaper, national radio station and national television station for all assets whose book values are One Hundred Thousand United States dollars (U.S 100,000) and over, irrespective of length of ownership of such assets.
2. All assets with book values between One Hundred Thousand United States dollars (U.S \$100,000) and over shall be sold with proof of the highest bid from a minimum of three (3) bidders, subject to the highest bidder not being related to the Contractor.
3. A sale of assets to the Contractor's Affiliate shall be brought to the express attention of the National Petroleum Agency and shall take place only with the written consent given by the National Petroleum Agency.
4. The Contractor may dispose of all assets with book values less than One Hundred Thousand United States dollars (U.S \$100,000) in the best manner available to the Contractor on the basis of the highest price available.

SCHEDULE 6

FORM OF PARENTAL GUARANTEE

THIS GUARANTEE is made on []

BETWEEN:

- (1) **ERHC ENERGY INC**, a company organized and existing under the laws of Houston - United States of America, and having its registered office at 5444 Westheimer Road, Suite 1440, Houston, TX 77056, United States of America (the Guarantor); and
- (2) **THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE** (the "**State**"), represented for the purposes of this Guarantee by the National Petroleum Agency.

WHEREAS, the Guarantor is the parent entity of ERHC ENERGY EEZ, LDA organized and existing under the laws of the Democratic Republic of Sao Tome e Principe, and having its registered office at Avenida da Independencia, 392, II/III, Sao Tome (the "**Company**");

WHEREAS, the Company has entered into a production sharing contract (the **Contract**) with, among others, the State in respect of the Contract Area;

WHEREAS, the State desires that the execution and performance of the Contract by the Company be guaranteed by the Guarantor and the Guarantor desires to furnish this Guarantee as an inducement to the State to enter into the Contract and in consideration of the rights and benefits inuring to the Company thereunder; and

WHEREAS, the Guarantor accepts that it fully understands and assumes the contractual obligations under the Contract of the Company.

NOW THEREFORE, it is hereby agreed as follows:

1. Definitions and Interpretation

All capitalized words and expressions in this Guarantee have the same meaning as in the Contract, unless otherwise specified to herein.

2. Scope of this Guarantee

The Guarantor hereby guarantees to the State the timely payment and performance of any and all indebtedness and obligations whatsoever of the Company to the State arising under or in relation to the Contract, including the payment of any amounts required to be paid by the Company to the State when the same become due and payable; provided, however, that the liability of the Guarantor to the State hereunder shall not exceed the liabilities of the Company to the State.

3. Waiver of Notice, Agreement to All Modifications

The Guarantor hereby waives notice of the acceptance of this Guarantee and of the state of indebtedness of the Company at any time, and expressly agrees to any extensions, renewals, modifications or acceleration of sums due to the State under the Contract or any of the terms of the Contract, all without relieving the Guarantor of any liability under this Guarantee.

4. Absolute and Unconditional Guarantee

The obligations of the Guarantor shall be an absolute, unconditional and (except as provided in Article 2 above) unlimited guarantee of payment and performance to be performed strictly in accordance with the terms hereof.

5. No Discharge of Guarantor

The obligations of the Guarantor hereunder shall not in any way be released or otherwise affected by: a release or surrender by the Company of any collateral or other security it may hold or hereafter acquire for payment of any obligation hereby guaranteed; by any change, exchange or alteration of such collateral or other security; by the taking of or the failure to take any action with respect thereto either against the Company or against the Guarantor; or by any other circumstance which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

6. No Prior Action Required

The State shall not be required to make demand for payment or performance first against the Company or any other Person or to proceed against any collateral or other security which might be held by the State or otherwise to take any action before resorting to the Guarantor hereunder.

7. Cumulative Rights

All rights, powers and remedies of the State hereunder shall be cumulative and not alternative, and shall be in addition to all rights, powers and remedies given to the State by law or otherwise.

8. Continuing Guarantee

This Guarantee is intended to be and shall be considered as a continuing guarantee of payment and performance and shall remain in full force and effect for so long as the Contract and any amendments thereto shall remain outstanding or there shall exist any liability of the Company to the State thereunder.

9. Notice of Demand

Upon default in the performance of any of the obligations of the Company guaranteed hereunder, the State or its duly authorized attorney may give written notice to the Guarantor at its principle office in United States of America, 5444 Westheimer Road, Suite 1440, Houston, TX 77056 of the amount due, and the Guarantor, within a period of ten (10) business days, will make, or cause to be made, payment of such amount as notified , in United States dollars, at such bank or other place as the State shall

designate and without set-off or reduction whatsoever of such payment in respect of any claim the Parent Company or the Company may then have or thereafter might have.

10. Assignment

The Guarantor shall not in any way effect, or cause or permit to be effected, the assignment or transfer of any of its obligations hereunder without the express written consent of the State.

11. Subrogation

Until all indebtedness hereby guaranteed has been paid in full, the Guarantor shall have no right of subrogation to any security, collateral or other rights which may be held by the State.

12. Payment of Expenses

The Guarantor shall pay to the State all reasonable costs and expenses, including attorney's fees, incurred by it in collecting or compromising any indebtedness of the Company hereby guaranteed or in enforcing the Contract or this Guarantee.

13. Governing Law and Arbitration

This Guarantee shall be governed by and interpreted in accordance with the laws of the State.

All disputes or claims arising out of or relating to this Guarantee shall be finally settled by arbitration, in accordance with the procedure set forth in the Contract; however, if in addition to the arbitration hereunder an arbitration has also been commenced under the Contract with respect to obligations hereby guaranteed, the arbitration commenced hereunder shall be consolidated with the arbitration commenced under the Contract and the arbitral body appointed hereunder shall be the same arbitral body appointed pursuant to the Contract. The arbitration shall be conducted in the Portuguese and English languages and the decision shall be final and binding on the parties.

14. Severability of Provisions

In the event that for any reason any provision hereof may prove illegal, unenforceable or invalid, the validity or enforceability of the remaining provisions hereof shall not be affected.

15. Confidentiality

The Guarantor agrees to treat this Guarantee and the Contract as confidential and shall not disclose, willingly or unwillingly, to any third party, except to the extent required by law, the terms and conditions hereof or thereof without the prior written consent of the State.

IN WITNESS WHEREOF, the Guarantor executes this Guarantee and it is accepted by the State on the date specified above.

ERHC ENERGY INC

By: _____

Title: _____

THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE

BY THE AGENCIA NACIONAL DO PETROLEO DE SAO TOME E PRINCIPE

By: _____

Title: _____

SCHEDULE 7
FORM OF PERFORMANCE BOND

[Date]

The Democratic Republic of Sao Tome and Principe
Represented by the **Agenda Nacional do Petroleo de Sao Tome e Principe**
Avenida das Nacoes Unidas, 225A
Caixa Postal 1048 Sao Tome
Sao Tome e Principe

1. We understand that on 20[•], the Democratic Republic of Sao Tome and Principe (the "**State**"), and [insert name of Contractor under the PSC] (the "**Contractor**" or "**Guarantor**") entered into a Production Sharing Contract for Block [.....], Sao Tome and Principe (the "**PSC**"). Capitalised words not defined in this Performance Bond shall have the meaning ascribed to them in the PSC.
2. We, the undersigned [BANK LEGAL NAME] (the "**Bank**"), hereby, save for the conditions stipulated below in clause 5, unconditionally and irrevocably on first demand guarantee in favour of the Democratic Republic of Sao Tome and Principe the due and punctual payment of all sums owed to the State and unpaid by the Guarantor in respect of the Contractor's failure to fulfil the Minimum Financial Commitment for phase [•] of the Exploration Period, up to a maximum of United States dollars [.....] million (US \$[....],000,000).
3. The guarantee amount referred to in clause 2 above shall be reduced from time to time upon delivery to the Bank of a certificate from the Contractor, countersigned on behalf of the State by the State representative, setting forth the amount of such reduction based on verified expenditures under Clause 7.12 of the PSC.
4. This Performance Bond shall become effective on the [Effective Date of the PSC/ commencement date of the phase [•]] and shall terminate on the expiry of phase [•] of the Exploration Period, or such earlier time as the total of the reductions during the particular phase of the Exploration Period equal the applicable guarantee amount referred to in clause 2 above, provided that the Minimum Work Obligations or Minimum Financial Commitment for the phase has been satisfied in full.
5. Demands may be made under this Performance Bond by the Government by delivering to the Bank the Government's written statement setting forth the amount claimed and certifying that the amount claimed represents the amount due and owing by the Guarantor in respect of the Contractor's failure under the PSC to fulfil the Minimum Work Obligations in relation to the applicable phase of the Exploration Period and:

- (a) the Contractor has failed to incur the Minimum Financial Commitment in relation to the relevant phase of the Exploration Period;
 - (b) the Guarantor has been notified in writing by the National Petroleum Agency, by registered letter or courier (a copy of which to be attached to such written statement), of Contractor's non-compliance and the details thereof, and has been advised that a drawing is being made against this unconditional and irrevocable Performance Bond; and
 - (c) the Contractor has been provided a minimum of seven (7) days to correct the conditions of non-compliance and has failed to do so.
- 6. Upon its cancellation or expiry, this Performance Bond shall be returned to the Guarantor.
 - 7. This guarantee shall be governed by the laws of the Democratic Republic of Sao Tome and Principe.
 - 8. Any disputes between the State and the Bank shall be settled in accordance with the dispute resolution provisions of the PSC, and Article 25 of the PSC shall apply to this guarantee as if Contractor and the Bank were both Parties (as defined therein) to the PSC, with the following exceptions:
 - 1. The use of independent expert as means for conciliation shall not be available to the parties;
 - 2. The period from a notice of Dispute has been served until the Dispute may be referred to arbitration, as specified in Article 25.4, shall be reduced from three months to ten days

The duly authorised representative of the Bank has executed this Bank Guarantee on this the _____ day of _____ 20[•].

Very truly yours,

for and on behalf of
[BANK LEGAL NAME]

DEED OF ASSIGNMENT

between

ERHC ENERGY EEZ, LDA

and

KOSMOS ENERGY SAO TOME AND PRINCIPE

relating to the Production Sharing Contract
in respect of the Block 11, São Tomé e Príncipe

THIS DEED OF ASSIGNMENT is made on the 16TH day of OCTOBER, 2015 between:

- (1) **ERHC ENERGY EEZ, LDA**, a company organized and existing under the laws of the Democratic Republic of São Tomé e Príncipe whose registered office is at Avenida da Independência, 392, II/III, São Tomé (hereinafter referred to as “**ERHC**”); and
- (2) **KOSMOS ENERGY SAO TOME AND PRINCIPE**, a company organized and existing under the laws of the Cayman Islands whose registered office is at 4th Floor Century Yard, Cricket Square, P.O. Box 32322, Georgetown, Grand Cayman KY1 1209 (hereinafter referred to as “**KOSMOS**”).

WHEREAS

- A. ERHC is the sole Contractor in a production sharing contract between ERHC and the Government of the Democratic Republic São Tomé and Príncipe covering Block 11 offshore São Tomé and Príncipe, dated July 23, 2014 and any amendment or supplement thereto.
- B. ERHC has agreed to transfer and assign to KOSMOS one hundred per cent (100%) of its rights and obligations as the Contractor in the Block 11 PSC and the operatorship of Block 11.

IT IS AGREED AS FOLLOWS:

1. **DEFINITIONS AND INTERPRETATION**

1.1 **Definitions**

Unless the context otherwise requires, the words and expressions defined in the PSC shall bear the same meanings ascribed to them in the PSC wherever used in this Deed of Assignment (including recitals to this Deed of Assignment).

- 1.1.1 **Business Day** means means a calendar day on which the banks in London, Houston and São Tomé are customarily open for business;
- 1.1.2 **National Petroleum Agency** means the national regulatory agency established by the Government of the Democratic Republic São Tomé and Príncipe Decree-Law 7/2014 of the 25th of April;
- 1.1.3 **PSC** means the Production Sharing Contract between ERHC and the Government of the Democratic Republic São Tomé and Príncipe covering Block 11 offshore São Tomé and Príncipe, dated July 23, 2014 and any amendment or supplement thereto;
- 1.1.4 **Parties** means the parties to this Deed of Assignment.

1.2 **Interpretation**

- 1.2.1 In addition to the definitions in clause 1.1, unless the context requires otherwise:
 - 1.2.1.1 the singular includes the plural and *vice versa*;
 - 1.2.1.2 a person includes reference to a body corporate or other legal entity;
 - 1.2.1.3 any written law includes that law as amended or re-enacted from time to time;
 - 1.2.1.4 any agreement or other document includes that agreement or other document as varied or replaced from time to time;
 - 1.2.1.5 a clause is to the relevant clause of this agreement;

1.2.1.6 any party includes that party's successors and assigns.

1.3 Clause headings are inserted for convenience only and shall be ignored in construing this Deed of Assignment.

NOW THIS DEED WITNESSETH THAT

2. With effect from the date first written above, ERHC hereby assigns and by novation transfers to KOSMOS one hundred per cent (100%) of its rights, interests, liabilities and/or obligations under the PSC (the "**Transferred Interest**") to hold the same and subject to performance and observance by KOSMOS of the terms and conditions contained in the PSC and on the part of the Contractor therein described to be performed and observed, in so far as they relate to the Transferred Interest.
3. KOSMOS hereby undertakes and covenants with ERHC that it will hold the Transferred Interest subject to all of the terms and conditions of the PSC and, will perform, observe, discharge and be bound by all of the duties, liabilities and obligations arising under the PSC in respect of the Transferred Interest in the place of ERHC.
4. ERHC shall cease, for all purposes, to be a holder of the Transferred Interest and KOSMOS shall, for all purposes, take the place of ERHC in respect of the Transferred Interest.
5. ERHC confirms that the rights and privileges of the Democratic Republic of São Tomé and Príncipe under the PSC shall not be prejudiced by the provisions of this Deed of Assignment.
6. KOSMOS covenants with and in favour of the National Petroleum Agency that they will perform and observe the terms and conditions contained in the PSC and on the part of the Contractor therein described to be performed and observed.

7. For the purpose of this Deed of Assignment, all notices shall be sent to the following email addresses:
- 7.1 If to ERHC
- Tel: +1 713 626 4700
Email: slyodobulu@erhc.com
Attention : Sylvan Odobulu
- 7.2 If to KOSMOS
- Tel: + 1-214-445-9792
E-mail: jdoughty@kosmosenergy.com
Attention: Jason Doughty, General Counsel
8. If any clause or provision of this Deed of Assignment shall be ruled invalid or unenforceable by any court of competent jurisdiction or appropriate arbitral body, the invalidity or unenforceability of such clause or provision shall not affect any remaining clause or provision.
9. This Deed of Assignment may be executed in any number of counterparts with the same effect as if the signatures on the counterparts were upon a single engrossment of this Deed of Assignment provided that this Deed of Assignment shall not be effective until all the counterparts have been executed.
10. The construction, validity and performance of this Deed of Assignment shall be governed by the Laws of Democratic Republic of São Tomé and Príncipe and any disputes hereunder shall be resolved pursuant to Article 25 of the PSC.

IN WITNESS WHEREOF the parties hereunto affixed their respective common seals the day and year first above written.

The Common Seal of ERHC ENERGY)
EEZ, LDA was hereunto)
affixed in the presence of:)
)
)
Director /s/ Peter Ntephe)
)
)
)
)
Director/Secretary /s/ Sylvan Odobulu)

The Common Seal of KOSMOS ENERGY)
SAO TOME AND PRINCIPE was hereunto)
affixed in the presence of:)
)
)
)
President /s/ Brian F. Maxted)
)
)
)
)
Secretary /s/ Richard Stephens)

CONSENT

By executing this Deed of Assignment, the National Petroleum Agency herein represented by its Executive Director does on behalf of the Government of the Democratic Republic São Tomé and Príncipe consent and approve to the assignment of the Transferred Interest by ERHC ENERGY EEZ, LDA to KOSMOS ENERGY SAO TOME AND PRINCIPE in accordance with the provisions of the PSC.

**APPROVED BY THE EXECUTIVE DIRECTOR OF THE NATIONAL
PETROLEUM AGENCY:**

/s/ Orlando Pontes
The Executive Director

October 20, 2015
Date

FIRST ADDENDUM TO THE PRODUCTION SHARING CONTRACT BY AND BETWEEN
THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE REPRESENTED BY THE
AGENCIA NACIONAL DO PETROLEO OF SAO TOME AND PRINCIPE AND
KOSMOS ENERGY SAO TOME AND PRINCIPE FOR
BLOCK 11

Addendum Executed 17 day of December 2015



THIS ADDENDUM TO THE PRODUCTION SHARING CONTRACT is entered into on 17 December 2015 among:

(1) **THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE** (the "State") represented by the Agencia Nacional do Petr6leo de Sao Tome e Principe, ("ANP-STP");

(2) **KOSMOS ENERGY SAO TOME AND PRINCIPE**, a company organized and established under the laws of the Cayman Islands, whose registered office is located at 4th Floor, Century Yard, Cricket Square, Hutchins Drive, Elgin Avenue, George Town, Grand Cayman KY 1-1209, Cayman Islands, hereinafter named ("Kosmos");

WHEREAS

- A. ANP and ERHC ENERGY EEZ, LDA ("EHRC") are parties to the Production Sharing Contract signed with the State on 23 July, 2014 (the "Contract"), in pursuance of which EHRC have obtained the exclusive right to undertake petroleum operations in Block 11 within the Exclusive Economic Zone of Sao Tome and Principe;
- B. Under article 19 of the Contract EHRC and Kosmos executed on 16 October 2015 the Deed of Assignment by way of which EHRC assigned one hundred percent (100%) of its eighty-five percent (85%) participating interest in the Contract to Kosmos, which consequently made the percentage interests held by the parties in the Contract to be the following as of that date:

ANP-STP - fifteen per cent (15%); KOSMOS - eighty-five per cent (85%);

IT IS AGREED:

The State, ANP-STP and Kosmos (hereinafter collectively identified as the "Parties") hereby execute this addendum to the Contract (the "Addendum"), subject to the following terms and conditions:

1. Capitalized terms in this Addendum not specifically defined herein shall have the same meaning as defined in the Contract.
-

1. Clause 7.2 of the Contract is amended by deleting the Phase I Minimum Work Obligation and replacing said Phase I Minimum Work Obligation with the following:

Phase I: The Contractor shall:

- *carry out environmental studies;*
- *acquire of magnetic and gravity surveys covering 2.000 km²;*
- *acquire, process and interpret a minimum of 2.000 km² 3D seismic;*
- *hand over full documentation of the interpretation and an extensive evaluation report covering all relevant stratigraphic levels in the full block, based on all newly acquired 3D data - to ANP-STP no later than 3 months before the expiry of phase I.*

2. Clause 28 of the Contract is amended as follows:

"28.1 KOSMOS ENERGY SAO TOME AND PRINCIPE is hereby designated as the Operator under this Contract"

3. Clause 30 of the Contract is amended as follows:

"30.1 Any notice or other communication required to be given by a Party to another shall be in writing (in Portuguese and in English) and shall be considered as duly delivered if given by hand delivery in person, by courier or by facsimile at the following addresses:

Agencia Nacional do Petroleo (ANP-STP)

Avenida das Nacoes Unidas, 225 C.P.1048

Sao Tome, Sao Tome and Principe Attention: Executive Director

Fax: +239-2226937 Tel: +239-2226940

E-mail: anp_geral@cstome.net

KOSMOS ENERGY SAO TOME AND PRINCIPE

4th Floor, Century Yard, Cricket Square,

Hutchins Drive, Elgin Avenue,

George Town, Grand Cayman KY 1-1209, Cayman Islands

Attention: License Manager

Fax: +1 214 445 9705

Tel: +1 214 445 9600

(This address will be replaced by an address located in Sao Tome e Principe within 30 days)

E-mail: SaoTomeLicenseManager@ KosmosEnergy.com Cc:E-mail: KosmosGeneralCounsel@ KosmosEnergy.com "

4. All the remaining provisions of the Contract, which are not expressly modified by this Addendum, shall remain in full force and effect in their precise original terms.

IN WITNESS WHEREOF the Parties have caused this Addendum to be executed in three (3) originals as of the date above written.

SIGNED AND DELIVERED for and on behalf of **THE STATE** represented by the Agencia Nacional do Petróleo of Sao Tome and Principe

Signature: /s/ Orlando Pontes

Name: ORLANDO MENEZES SOUSA PONTES

Designation: EXECUTIVE DIRECTOR

In the presence of:

Signature: /s/ Alvaro da Costa Varela da Silva

Name: ALVARO DA COSTA VARELA DA SILVA

Designation: LEGAL AND ECONOMIC DIRECTOR

SIGNED AND DELIVERED for and on behalf of Kosmos Energy Sao Tome and Principe

Signature: /s/ Paul Dailly

Name: PAUL DAILLY

Designation: SVP

In the presence of:

Signature: /s/ Carlos Silva

Name: CARLOS COSTA E SILVA

Designation: LAWYER

PRODUCTION SHARING CONTRACT

BETWEEN

THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE

REPRESENTED BY THE AGÊNCIA NACIONAL DO PETRÓLEO DE SÃO TOMÉ E PRÍNCIPE

AND

EQUATOR EXPLORATION STP BLOCK 12 LIMITED

FOR

BLOCK "12"

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THIS PRODUCTION SHARING CONTRACT, is made and entered into on this 19th day of February 2016 by and between:

- (1) **THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE** represented by the **Agência Nacional do Petróleo de São Tomé e Príncipe**; and
- (2) **EQUATOR EXPLORATION STP BLOCK 12 LIMITED**, a company organized and existing under the laws of the Commonwealth of The Bahamas whose registered office is at Lyford Manor (West Bldg), Western Road, Lyford Cay, P. O. Box CB-13007, Nassau, The Bahamas with a branch registered in Sao Tome and Principe with the *Guiché Único* under n°. 554120160217 at Avenida da Independência N°. 392, Sao Tome (the "**Contractor**").

BACKGROUND:

- (A) All Petroleum existing within the Territory of Sao Tome and Principe, as set forth in the Petroleum Law, is natural resources exclusively owned by the State.
- (B) The Agência Nacional do Petróleo de São Tomé e Príncipe, with the approval of the Government of Sao Tome and Principe, has the authority to enter into contracts for the conduct of Petroleum Operations in and throughout the area, the co-ordinates of which are described and outlined on the map in Schedule 1 of this Contract, which area is hereinafter referred to as the Contract Area.
- (C) The State wishes to promote Petroleum Operations in the Contract Area and the Contractor desires to join and assist the State in accelerating the exploration and exploitation of potential petroleum resources within the Contract Area.
- (D) The Contractor has the necessary financial capability technical knowledge and ability to carry out the Petroleum Operations hereinafter described in accordance with this Contract, the Petroleum Law and Good Oil Field Practice.
- (E) Pursuant to and in accordance with the Petroleum Law, this Contract has been entered into by and between the State and the Contractor for the purpose of Petroleum Operations in the Contract Area.
- (F) Equator Exploration STP Block 12 Limited is hereby designated as the Operator under Clause 28 of this Contract.

IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

- 1.1 Except where the context otherwise requires or as defined in the Petroleum Law or the Petroleum Taxation Law, the following words and expressions shall have the following meanings:

"**Accounting Procedure**" means the rules and procedures set forth in Schedule 2;

"**Affiliate**" means, in respect of a Party, a Person that Controls, is Controlled by, or is under the common Control with the Party or any such Person, as the case may be;

"**Allocation and Lifting Procedures**" means the allocation and lifting procedures set forth in Schedule 3;

"**Appraisal Well**" means any well whose purpose at the time of commencement of drilling such well is the determination of the extent or volume of Petroleum contained in a Discovery;

"Associate" means any Affiliate, subcontractor or other person associated with an authorized person in the conduct of Petroleum Operations;

"**Associated Natural Gas**" means all Natural Gas produced from a Reservoir the predominant content of which is Crude Oil and which is separated from Crude Oil in accordance with generally accepted international petroleum industry practice, including free gas cap, but excluding any liquid Petroleum extracted from such gas either by normal field separation, dehydration or in a gas plant;

"**Available Crude Oil**" means the Crude Oil recovered from the Contract Area, less quantities used for Petroleum Operations;

"**Barrel**" means a quantity or unit of Crude Oil, equal to 158.9874 liters (forty-two (42) United States gallons) at a temperature of fifteen point five six degrees (15.56°) Centigrade (sixty degrees (60°) Fahrenheit) and at one (1) atmosphere of pressure;

"**Biddable Terms**" are those terms that are biddable in the first licensing round including but not limited to: the signature bonuses, Minimum Work Obligations, Minimum Financial Commitment, production bonuses, social projects, employment and training of nationals of the State and State participation.

"**Budget**" means the cost estimate of items included in an approved Work Program;

"**Calendar Year**" or "**Year**" means a period of twelve (12) months commencing from January 1 and ending the following December 31, according to the Gregorian calendar;

"**Commercial Discovery**" means any Discovery, which has been declared to be commercial by the Contractor;

"**Contract**" means this production sharing contract, including its Recitals and Schedules as amended from time to time through mutual agreement in writing between the Parties hereto;

"**Contract Area**" means the geographic area within the Territory of Sao Tome and Principe which is the subject of this Contract and as described in Schedule 1, as such area may be amended in accordance with the terms herein;

"**Cost Oil**" means the quantum of Available Crude Oil allocated to the Contractor for recovery of Operating Costs after the allocation of Royalty Oil to the State;

"**Control**" means, in relation to a Person, the power of another Person to secure:

- (a) by means of the holding of shares or the possession of voting power, directly or indirectly in or in relation to the first Person; or
- (b) by virtue of any power conferred by the articles of association of, or any other document regulating, the first Person or any other Person,

so that the affairs of the first Person are conducted in accordance with the decisions or directions of that other Person;

"Crude Oil" means crude mineral oil and liquid hydrocarbons in their natural state or obtained from Natural Gas by condensation or extraction;

"Decommissioning" means to abandon, decommission, transfer, remove and/or dispose of structures, facilities, installations, equipment and other property and other works used in Petroleum Operations in the Contract Area, to clean the Contract Area and make it good and safe, and to protect the environment, as further set out herein, and in the Petroleum Law and other applicable laws and regulations;

"Delivery Point" means the point located within the jurisdiction of the State at which Petroleum reaches (i) the inlet flange at the FOB export vessel, (ii) the loading facility metering station of a pipeline or (iii) such other point within the jurisdiction of the State as may be agreed between the Parties;

"Development Area" means the extent of an area within the Contract Area capable of Production of Petroleum identified in a Commercial Discovery, and agreed upon by the National Petroleum Agency following such Commercial Discovery;

"Discovery" means any geological structure(s), in which after testing, sampling and/or logging an Exploration Well existence of mobile hydrocarbons has been made probable and which structure(s), the Contractor deems worthy of evaluating further by conducting Appraisal operations;

"Effective Date" has the meaning ascribed to it in Clause 26.1;

"Exploration Period" has the meaning ascribed to it in Clause 4.1;

"Exploration Well" means a well on any geological structure(s), whose purpose at the time of commencement of such well is to explore for an accumulation of Petroleum whose existence at the time was unproven by drilling;

"Field Development Program" means the program of activities presented by the Contractor to the National Petroleum Agency for approval outlining the plans for the Development of a Commercial Discovery. Such activities include:

- (a) Reservoir, geological and geophysical studies and surveys;
- (b) Drilling of production and injection wells; and
- (c) Design, construction, installation, connection and initial testing of equipment, pipelines, systems, facilities, plants and related activities necessary to produce and operate said wells, to take, save, treat, handle, store, transport and deliver Petroleum, and to undertake re-pressurizing, recycling and other secondary or tertiary recovery projects;

"Force Majeure" has the meaning ascribed to it in Clause 21;

"Government" means the government of Sao Tome and Principe, as provided for in article 109 of the Constitution;

"LIBOR" means the interest rate at which United States dollar deposits of six (6) months duration are offered in the London Inter-Bank Offered Rate, as published in the Financial Times of London. The applicable LIBOR rate for each month or part thereof within an applicable interest period shall be the interest rate published in the Financial Times of London on the last business day of the immediately preceding calendar month. If no such rate is quoted in the Financial Times of London during a

period of five (5) consecutive business days, another rate (for example, the rate quoted in the Wall Street Journal) chosen by mutual agreement between the National Petroleum Agency and the Contractor shall apply;

"**Minimum Financial Commitment**" has the meaning ascribed to it in Clause 7.3(a);

"**Minimum Work Obligations**" has the meaning ascribed to it in Clause 7.2;

"**National Petroleum Account**" means the account established in accordance with the Oil Revenue Law;

"**National Petroleum Agency**" or "**Agência Nacional do Petróleo**" means the national regulatory agency established by the Government Decree-Law 5/2004 of the 30th of June, which is responsible for the regulation and supervision of Petroleum Operations or any agency which succeeds the National Petroleum Agency with respect to some or all of its powers;

"**Natural Gas**" means all gaseous hydrocarbons and inerts, including wet mineral gas, dry mineral gas, gas produced in association with Crude Oil and residue gas remaining after the extraction of liquid hydrocarbons from wet gas, but not including Crude Oil;

"**Oil Revenue Law**" means the oil revenue law of the State, Law No. 8/2004 of the 30th of December, as amended, supplemented or replaced from time to time;

"**Operating Costs**" means expenditures incurred and obligations made as determined in accordance with Article 2 of the Accounting Procedure;

"**Parties**" or "**Party**" means the parties or a party to this Contract;

"**Petroleum**" means:

- (a) any naturally occurring hydrocarbon, whether in a gaseous, liquid or solid state;
- (b) any mixture of naturally occurring hydrocarbons, whether in a gaseous, liquid or solid state; or
- (c) any Petroleum (as defined above) that has been returned to a Reservoir;

"**Petroleum Law**" means the Fundamental Law on Petroleum Operations, Law no. 16/2009, as amended or supplemented from time to time, and regulations made and directions provided under such law;

"**Petroleum Operations**" means activities undertaken in relation to the Contract Area for the purposes of:

- (a) the Exploration, Appraisal, Development, Production, transportation, sale or export of Petroleum;
- (b) the construction, installation or operation of any structures, facilities or installations for the Development, Production and export of Petroleum, or Decommissioning or removal of any such structure, facility or installation;

"**Petroleum Taxation Law**" means the Petroleum Taxation Law, Law no. 15/2009, as amended, supplemented or replaced from time to time;

"Proceeds" means the amount in United States dollars determined by multiplying the Realizable Price by the number of Barrels of Available Crude Oil lifted by a Party;

"Production Period" has the meaning ascribed to it in Clause 4.1;

"Profit Oil" means the balance of Available Crude Oil after the allocation of Royalty Oil and Cost Oil;

"Quarter" means a period of three (3) consecutive Months starting with the first day of January, April, July or October of each Year;

"Realizable Price" means the price in United States dollars per Barrel determined in accordance with Clause 11;

"Relinquished Area" means that portion of the Contract Area that is relinquished pursuant to and in accordance with Clauses 5.1(d) and/or 6;

"Reservoir" means a porous and permeable underground formation containing an individual and separate natural accumulation of producible Petroleum that is confined by impermeable rock and/or water barriers and is characterized by a single natural pressure system;

"Retained Area" means that portion of the Contract Area that is retained after a relinquishment under Clauses 5.1(d) and/or 6;

"Royalty" or **"Royalty Oil"** means the quantum of Available Crude Oil allocated to the State, based on a percentage calculated as a function of daily production rates as set forth in Clause 10.1(a);

"State" means the Democratic Republic of Sao Tome and Principe;

"State Entity" mean any entity or body which integrates the Public Administration's structure of the State or, in any other way, an entity in which the State has a full equity or full interest ownership designated by the State under clause 8 of this Contract. State Entity includes the Agência Nacional do Petróleo;

"Tax" means the tax payable pursuant to the Petroleum Taxation Law;

"Unassociated Natural Gas" means all gaseous Petroleum produced from Natural Gas Reservoirs, and includes wet gas, dry gas and residual gas remaining after the extraction of liquid Petroleum from wet gas; and

"Work Program" means the work commitments itemizing the Petroleum Operations to be carried out in relation to the Contract Area for the required period as defined in Clause 7.

- 1.2 Unless the context otherwise requires, reference to the singular shall include the plural and vice versa and reference to any gender shall include all genders.
- 1.3 The Schedules form an integral part of this Contract.
- 1.4 The table of contents and headings in this Contract are inserted for convenience only and shall not affect the meaning or construction of this Contract.
- 1.5 References in this Contract to the words "include", "including" and "other" shall be construed without limitation.
- 1.6 In the event of any inconsistency between the main body of this Contract and any Schedule, the provisions of the former shall prevail.

2. BONUSES AND SOCIAL PROJECTS

2.1 Signature Bonuses

a) Signature Bonus

The Contractor shall pay to the State by deposit into the National Petroleum Account a signature bonus in the amount of Two Million Five Hundred Thousand United States dollars (U.S. \$2,500,000) within ten (10) days after the execution of this Contract and the delivery to the Contractor of the instrument of ratification of the Contract executed by the Prime-Minister on behalf of the Government, pursuant to Clause 26.1 in immediately available funds.

b) Commercial Discovery Bonus

Upon Commercial Discovery the Contractor shall pay to the State by deposit into the National Petroleum Account Five Million Five Hundred Thousand United States dollars (U.S. \$5,500,000).

c) Additional Signature Bonus

An additional signature bonus based on cumulative production obtained in this block shall be payable to the State by deposit into the National Petroleum Account within thirty (30) days of achieving the relevant production level as follows:

Cumulative Production (MBO)	Bonus (US\$ million)
50	3
100	3
150	3
250	5
350	5
450	10
500	10
750	15
1000	15

2.2 Production Bonuses

The Contractor shall pay to the State by deposit into the National Petroleum Account production bonuses based on attainment of cumulative Production of Petroleum from each Development Area as follows:

Cumulative Production (millions of Barrels or Barrels equivalent)	Bonus (US\$ million)
200	5
350	10
450	15
600	15
800	15

2.3 The production bonuses provided for in Clause 2.2 shall be payable to the State by deposit into the National Petroleum Account within thirty (30) days of such Production level being first attained in immediately available funds.

2.4 The signature and production bonuses provided for in this Clause 2 shall not be recoverable as Cost Oil or deductible for Tax purposes.

2.5 Social Projects

The Contractor commits to undertake social projects during each phase of the Exploration Period valued at a minimum of the amounts below:

- Phase I: One Hundred Fifty Thousand United States dollars per year (U.S \$150,000) for a total of Six Hundred Thousand United States dollars (U.S \$600,000);
- Phase II: Two Hundred Thousand United States dollars per year (U.S \$200,000) for a total of Four Hundred Thousand United States dollars (U.S \$400,000);
- Phase III: Two Hundred Thousand United States dollars per year (U.S \$200,000) for a total of Four Hundred Thousand United States dollars (U.S \$400,000).

If Petroleum is produced from the Contract Area, the Contractor shall undertake additional social projects according to the following schedule:

Cumulative Production (millions of Barrels or Barrels equivalent)	Value (US\$ million) of Project
40	2
70	3
100	5

2.6 The details of the social projects to be undertaken by the Contractor in accordance with Clause 2.5 shall be determined by agreement between the Contractor and the National Petroleum Agency. Failing such agreement, the Contractor and the National Petroleum Agency shall each submit a proposal to an expert appointed by the World Bank and such expert shall determine which of the two (2) proposals shall be implemented. The Contractor shall be solely responsible for any and all costs and expenses associated with the foregoing expert determination. The value of the projects provided for in Clause 2.5 above shall not be recoverable as Cost Oil or deductible for Tax purposes.

2.7 The Contractor shall be responsible for the implementation of all agreed or chosen social projects, which shall be undertaken using all reasonable skill and care.

3. SCOPE

3.1 This Contract is a production sharing contract awarded pursuant to the Petroleum Law and governed in accordance with the terms and provisions hereof. The conduct of Petroleum Operations and provision of financial and technical requirements by the Contractor under this Contract shall be with the prior approval of or in prior consultation with the National Petroleum Agency as required under this Contract or the Petroleum Law. The State hereby appoints and constitutes the Contractor as the exclusive company(ies) to conduct Petroleum Operations in the Contract Area.

3.2 During the term of this Contract the total Available Crude Oil shall be allocated to the Parties in accordance with the provisions of Clause 10, the Accounting Procedure and the Allocation and Lifting Procedures.

3.3 The Contractor together with its Affiliates shall provide all funds and bear all risk of Operating Costs and the sole risk in carrying out Petroleum Operations.

3.4 The Contractor shall engage in Petroleum Operations solely in accordance with the Petroleum Law, the Petroleum Taxation Law, Good Oil Field Practice and all other applicable laws and regulations.

4. TERM

4.1 Subject to Clause 20, the term of this Contract shall be for a period of twenty-eight (28) years from the Effective Date, with an eight (8) year Exploration and Appraisal period, as extended pursuant to Clauses 5.1(b) and/or (c) (the "**Exploration Period**") and a twenty (20) year Production period (the "**Production Period**").

4.2 The Exploration Period shall be divided as follows:

Phase I: four (4) years from the Effective Date;

Phase II: from the end of Phase I until two (2) years after the end of Phase I; and

Phase III: from the end of Phase II until two (2) years after the end of Phase II, as extended pursuant to Clauses 5.1(b) and/or (c).

4.3 The Contractor shall commence Petroleum Operations no later than thirty (30) days after the National Petroleum Agency has approved the first Work Program.

4.4 Provided the Contractor has fulfilled all of its obligations relative to the current phase of the Exploration Period as described in Clause 7.2, the Contractor may enter the next phase. The Contractor shall provide the National Petroleum Agency with written notice of its intention to enter the next phase of the Exploration Period at least sixty (60) days prior to the end of the relevant phase. The report shall document that the work commitments for the phase are fulfilled. The Ministry may upon application, grant an exemption from the work obligation

- 4.5 Provided the Contractor has fulfilled all of its obligations relative to the current phase of the Exploration Period as described in Clause 7.2, the Contractor may terminate this Contract at the end of any phase during the Exploration Period in accordance with Clause 20.7.
- 4.6 The Contractor shall have the right to produce Petroleum from each Development Area for a period of twenty (20) years from the date the Contractor declares a Commercial Discovery in the relevant area in accordance with Clause 5.1(b). This Contract will terminate with respect to the relevant Development Area at the end of such twenty (20) year period unless the National Petroleum Agency grants an extension on application of the Contractor. The Contractor may, for any Development Area, be granted one (1) or more five (5) year extension periods for a Development Area until all Petroleum has been economically depleted. In connection with any such extensions, the Parties agree to engage in good faith to re-negotiate the commercial terms of this Contract governing the applicable Development Area at least five (5) years prior to the expiration of the initial twenty (20) year period and at least two (2) years prior to the expiration of any subsequent extension period.

5. COMMERCIAL DISCOVERY AND DECLARATION OF COMMERCIALITY

- 5.1 The sequence of Petroleum Operations to establish a Commercial Discovery of Petroleum (other than Unassociated Natural Gas) shall be as follows:
- (a) the Contractor shall have a period of up to forty-five (45) days from the date on which the drilling of the applicable Exploration Well terminates to declare whether the Exploration Well has proven a Discovery;
 - (b) the Contractor shall then have a period of two (2) years (unless otherwise agreed by the National Petroleum Agency) from declaration of a Discovery to declare the Discovery either on its own or in aggregation with other Discoveries a Commercial Discovery;
 - (c) if the Contractor declares a Commercial Discovery it shall have a period of two (2) years (unless otherwise agreed by the National Petroleum Agency) from the time the Contractor declares a Discovery or aggregation of Discoveries to be a Commercial Discovery to submit a Field Development Program to the National Petroleum Agency for approval;
 - (d) in the event a Discovery is not determined to be a Commercial Discovery, upon expiration of the period set out in Clause 5.1(b), the State may, provided it gives at least eighteen (18) months' notice, require the Contractor to promptly relinquish, without any compensation or indemnification whatsoever, the area encompassing the Discovery, including all of its rights to Petroleum which may be produced from such Discovery;
 - (e) if a Field Development Program is approved by the National Petroleum Agency, the Contractor shall initiate field development and production according to the time schedule outlined in the Program.

5.2 Unassociated Natural Gas shall be developed in accordance with Clause 23.4.

6. RELINQUISHMENT OF AREAS

6.1 The Contractor must relinquish the Contract Area or part thereof in accordance with the following:

- (a) twenty-five percent (25%) of the initial surface area of the Contract Area shall be relinquished at the end of phase 1 of the Exploration Period;
- (b) a further twenty-five percent (25%) of the initial surface area of the Contract Area shall be relinquished at the end of phase 2 of the Exploration Period; and
- (c) the remainder of the Contract Area shall be relinquished at the end of phase 3 of the Exploration Period less:
 - (i) any Development Area;
 - (ii) areas for which the approval of a Field Development Program is pending, until finally decided; and
 - (iii) any area reserved for a possible Unassociated Natural Gas Appraisal in relation to which the Contractor is engaged in discussions with the State in accordance with Clause 23.4.

6.2 Any Retained Area and Relinquished Area shall be single continuous units and delimited by meridians and parallels of latitude expressed in whole minutes of a degree to be approved by the National Petroleum Agency.

6.3 Any Relinquished Area shall revert to the State.

6.4 Subject to the Contractor's obligations under Clause 7 and its Decommissioning obligations, the Contractor may at any time notify the National Petroleum Agency upon three (3) months prior written notice that it relinquishes its rights over all or part of the Contract Area. In no event shall any voluntary relinquishment by the Contractor over all of any part of the Contract Area reduce the Minimum Work Obligations or Minimum Financial Commitment set out in Clause 7.

7. MINIMUM WORK PROGRAM AND BUDGET

7.1 Within two (2) months after the Effective Date and thereafter at least three (3) months prior to the beginning of each Calendar Year, the Contractor shall prepare and submit for the approval of the National Petroleum Agency, a Work Program and Budget for the Contract Area setting forth the Petroleum Operations which the Contractor proposes to carry out during the ensuing Year, or in case of the first Work Program and Budget, during the remainder of the current Year.

7.2 The minimum Work Program for each phase of the Exploration Period is as follows (the "**Minimum Work Obligations**"):

- (a) Phase I: The Contractor shall:
- Reprocess all existing 2D seismic within the block;
 - Carry out geological & geophysical studies (AVO, geochemical studies, sequence stratigraphy, etc);
 - Carry out environmental studies;
 - Acquire, process and interpret a minimum of 2,000 km² of 3D seismic;
 - Acquire magnetic and gravity surveys covering the full block;
 - Carry out a full interpretation and evaluation report covering all relevant stratigraphic levels in the entire block based on all existing 2D data and a copy of the newly acquired 3D data shall be handed over to ANP no later than three (3) months before the expiry of the first exploration phase.
- (b) Phase II: If the Contractor elects to enter phase II, then during such phase II of the Exploration period the Contractor shall:
- Carry out environmental studies;
 - Drill one (1) exploration well;
 - Carry out technical and economical evaluation studies of discoveries and remaining prospectivity.
- (c) Phase III: If the Contractor elects to enter phase III of the Exploration Period, then during such phase III the Contractor shall:
- Carry out environmental studies;
 - Drill one (1) exploration well;
 - Carry out technical and economical evaluation studies of discoveries and remaining prospectivity.

7.3 Minimum Financial Commitments

- (a) The Contractor shall be obligated to incur the following minimum financial commitment (the "**Minimum Financial Commitment**"):
- Phase I: Four Million Five Hundred Thousand United States Dollars (U.S \$4,500,000)
- Phase II: Twenty Four Million Five Hundred Thousand United States Dollars (U.S \$24,500,000)
- Phase III: Twenty Four Million Five Hundred Thousand United States dollars (U.S \$24,500,000)
- (b) If the Contractor fulfills the Minimum Work Obligations set forth in Clause 7.2 for each phase of the Exploration Period, then the Contractor shall

be deemed to have satisfied the Minimum Financial Commitments for each such phase.

- (c) If the Contractor fails to complete the Minimum Work Obligations for any phase of the Exploration Period and such commitment has not been moved to the next phase, if any, with the consent of the National Petroleum Agency, then the Contractor shall pay to the State by deposit into the National Petroleum Account the difference between the Minimum Financial Commitment for the then current phase and the amount actually expended in Petroleum Operations for such phase and four percent (4 %) of the Minimum Financial Commitment for the subsequent phase that is not initiated, as liquidated damages in full and final settlement of all potential claims for breach of this Contract and, subject to Clause 20, this Contract shall automatically terminate.

7.4 The Contractor shall be excused from any delay or failure to comply with the terms and conditions of Clauses 7.2 and/or 7.3:

- (a) during any period of Force Majeure; or
- (b) if the National Petroleum Agency has denied the Contractor permission to drill.

7.5 The time for performing any incomplete Minimum Work Obligations for any phase of the Exploration Period and the term of this Contract shall be extended by the following periods in the circumstances set out in Clause 7.4:

- (a) with respect to Clause 7.4(a), for the period during which Force Majeure is in existence; and
- (b) with respect to Clause 7.4(b), for six (6) months to permit the Contractor time to make a revised drilling plan which is satisfactory to the National Petroleum Agency.

7.6 If any circumstance described in Clauses 7.4 and 7.5 is not resolved within the time periods specified above, then after consultation with National Petroleum Agency, the Contractor shall be liable to pay into the National Petroleum Account an amount corresponding to the unfulfilled work for that phase and, subject to Clause 20, this Contract shall automatically terminate.

7.7 Any unfulfilled Minimum Work Obligation in any phase of the Exploration Period may, with the written consent of the National Petroleum Agency, be added to the Minimum Work Obligation for the next succeeding phase.

7.8 Expenditures or work by the Contractor over and above the Minimum Work Obligations or Minimum Financial Commitment for any phase shall be credited against and reduce the Minimum Work Obligation or Minimum Financial Commitment for the next succeeding phase.

7.9 For the purposes of determining whether an Exploration Well or an Appraisal Well has been drilled in accordance with the Minimum Work Obligation, such a well shall

be deemed drilled if the minimum total depth has been reached or if any one of the following events occurs prior to reaching the minimum total depth:

- (a) a Discovery is made and further drilling may cause irreparable damage to such Discovery;
- (b) basement is encountered;
- (c) the National Petroleum Agency and the Contractor agree the well is drilled for the purpose of fulfilling the obligation to complete the Minimum Work Obligation; or
- (d) technical difficulties are encountered which, in the judgment of the Contractor and in accordance with reasonable and prudent international oilfield practice, makes further drilling impracticable, uneconomic, unsafe or a danger to the environment.

7.10 The Exploration Period provided in Clause 7.2, may be extended for an additional six (6) months to conclude the drilling and testing of any well for which operations have been commenced by the end of phase III of such period (as extended); provided that if no Commercial Discovery has been declared by the Contractor during the Exploration Period, as may be extended, this Contract shall automatically terminate.

7.11 Performance Bond

- (a) Within thirty (30) days from the Effective Date, the Contractor shall submit a performance bond in a form approved by the National Petroleum Agency and from a reputable international financial institution approved by the National Petroleum Agency to cover the Minimum Financial Commitment for phase I of the Exploration Period.
- (b) Should the Contractor satisfy in full the conditions for continuing Petroleum Operations at the end of phase I of the Exploration Period pursuant to Clause 7.2, a replacement performance bond in the same form and from the same international financial institution, unless otherwise agreed by the National Petroleum Agency, shall be submitted within thirty (30) days from the date of the extension to cover the Minimum Financial Commitment for phase II of the Exploration Period.
- (c) Should the Contractor satisfy in full the conditions for continuing Petroleum Operations at the end of phase II of the Exploration Period pursuant to Clause 7.2, a replacement performance bond in the same form and from the same international financial institution, unless otherwise agreed by the National Petroleum Agency, shall be submitted within thirty (30) days from the date of the extension to cover the Minimum Financial Commitment for phase III of the Exploration Period.

7.12 The amount of the performance bond shall be reduced annually by deducting the verified expenditures the Contractor has incurred in the previous year of each phase

and shall terminate at the end of each phase, if the Minimum Work Obligations or Minimum Financial Commitment for that phase has been satisfied in full.

7.13 Guarantee

Within thirty (30) days from date of execution of this Contract, the Contractor shall submit a guarantee from a parent company approved by the National Petroleum Agency in the form of Schedule 6 which shall be valid for up to four (4) years after the termination of this Contract.

8. STATE PARTICIPATION

8.1 The State, either through the National Petroleum Agency or any other state entity designated by the State, shall have as of the Effective Date a carried twelve and a half percent (12.5%) of the Contractor's rights and interest under this Contract. The Contractor shall fund, bear and pay all costs, expenses and amounts due in respect of Petroleum Operations conducted pursuant to this Contract.

8.2 The entity designated by the State shall become a party to the Joint Operating Agreement in respect of its carried interest referred to in Clause 8.1.

8.3 Upon the commencement of commercial Production the Contractor shall be entitled to receive one hundred percent (100%) of Cost Oil in order to recover all costs, expenses and amounts paid in respect of Petroleum Operations pursuant to Clause 8.1 and incurred on behalf of the National Petroleum Agency or other entity designed by the State.

8.4 For the avoidance of doubt, as regarding the rights referred to in clause 8.1 the National Petroleum Agency or other entity designated by the State shall be entitled to receive twelve and a half percent (12.5%) of the Contractor's entitlement to Profit Oil as provided for in Clause 10.1(d).

8.5 The National Petroleum Agency, or other entity designated by the State, shall be entitled at any time, upon advance written notice to the Contractor, to convert its carried interest into a full working participating interest, whereupon the National Petroleum Agency, or other entity designated by the State, shall be entitled to twelve and a half percent (12.5%) of all Available Crude Oil to which the Contractor is entitled under the terms of this Contract. Upon such conversion of the carried interest, the State and the Contractor shall agree a schedule for the State to reimburse any costs, expenses and any amount incurred by the Contractor on behalf of the National Petroleum Agency or any other entity designated by the State, which terms shall not be materially more burdensome than the terms agreed for the carried period.

8.6 The terms under which the State will convert the carried interest into a full working participating interest, referred to in clause 8.5, will be defined in a separate conversion agreement.

9. RIGHTS AND OBLIGATIONS OF THE PARTIES

9.1 In accordance with this Contract, the National Petroleum Agency shall:

- (a) pursuant to Clause 14, jointly work with the Contractor's professional staff in the fulfillment of Petroleum Operations under this Contract;
- (b) assist and expedite the Contractor's execution of Petroleum Operations and Work Programs including assistance in supplying or otherwise making available all necessary visas, work permits, rights of way and easements as may be reasonably requested by the Contractor. All expenses incurred by the National Petroleum Agency, at the Contractor's request in providing such assistance, shall be reimbursed to the National Petroleum Agency by the Contractor in accordance with Clause 12. Such reimbursement shall be made against presentation of invoices and shall be in United States dollars. The Contractor shall include such reimbursements in the Operating Costs;
- (c) have the right to recover from the Contractor all costs which are reasonably incurred for purposes of Petroleum Operations and have been previously agreed with the Contractor;
- (d) have legal title to and shall keep the originals of all data and information resulting from Petroleum Operations including geological, geophysical, engineering, well logs, completion, production, operations, status reports and any other data and information that the Contractor may compile during the term of this Contract; provided, however, that the Contractor shall be entitled to keep copies and use such data and information during the term of this Contract; and
- (e) not exercise all or any of its rights or authority over the Contract Area in derogation of the rights of the Contractor otherwise than in accordance with the Petroleum Law.

9.2 In accordance with this Contract, the Contractor shall:

- (a) promptly pay to the State by deposit into the National Petroleum Account all fees, bonuses, and other amounts due to the State under the terms of this Contract;
- (b) provide all necessary funds for the payment of Operating Costs including funds required to provide all materials, equipment, facilities, supplies and technical requirements (including personnel) whether purchased or leased;
- (c) provide such other funds for the performance of Work Programs including payments to third parties who perform services to the Contractor in the conduct of Petroleum Operations;
- (d) prepare Work Programs and Budgets and carry out approved Work Programs in accordance with Good Oil Field Practice with the objective of avoiding

waste and obtaining maximum ultimate recovery of Petroleum at a minimum cost;

- (e) exercise all the rights, comply with all the obligations under the Petroleum Law and any other applicable laws and pay the following fees to the State by deposit into the National Petroleum Account (all expressed in United States dollars):

On application for the Production Period:	\$ 500,000
To assign or otherwise transfer any interest during Exploration Period:	\$ 100,000
To assign or otherwise transfer any interest during Production Period:	\$ 300,000
On application to terminate this Contract:	\$ 100,000
On application for the Contractor to commence drilling:	\$ 25,000

- (f) ensure that all leased equipment brought into the Territory of Sao Tome and Principe for the conduct of Petroleum Operations is treated in accordance with the terms of the applicable leases;
- (g) with its Associates, have the right of ingress to and egress from the Contract Area and to and from facilities therein located at all times during the term of this Contract;
- (h) promptly submit to the National Petroleum Agency for permanent custody the originals of all geological, geophysical, drilling, well production, operating and other data, information and reports as it or its Associates may compile during the term of this Contract;
- (i) prepare estimated and final tax returns and submit the same to the relevant tax authority on a timely basis in accordance with the Petroleum Taxation Law;
- (j) have the right to lift in accordance with lifting and allocation procedures to be agreed by the Parties within six (6) months prior to the commencement of Production, in accordance with the principles set forth in Schedule 3, and to freely export and retain abroad the receipts from the sale of Available Crude Oil allocated to it under this Contract;
- (k) prepare and carry out plans and programs of the State for industry training and education of nationals of Sao Tome and Principe for all job classifications with respect to Petroleum Operations pursuant to and in accordance with the Petroleum Law;
- (l) employ only such qualified personnel as is required to conduct Petroleum Operations, in accordance with Good Oil Field Practice and in a prudent and cost effective manner, giving preference to qualified nationals of Sao Tome and Principe;

- (m) give preference to such goods, material and equipment which are available in Sao Tome and Principe or services that can be rendered by nationals of Sao Tome and Principe in accordance with the Petroleum Law and this Contract;
- (n) with its Associates shall, as the case may be, pay all charges and fees as are imposed by law in Sao Tome and Principe. The Contractor and its Associates shall not be treated differently from any other Persons engaged in similar petroleum operations in the Territory of Sao Tome and Principe;
- (o) indemnify and hold the State, including the National Petroleum Agency, harmless against all losses, damages, injuries, expenses, actions of whatever kind and nature including all legal fees and expenses suffered by the State or the National Petroleum Agency where such loss, damage, injury, expense or action is caused by the negligence or willful misconduct of the Contractor, its Affiliates, its sub-contractors or any other Person acting on its or their behalf or any of their respective directors, officers, employees, agents or consultants;
- (p) not exercise all or any rights or authority over the Contract Area in derogation of the rights of the State or in breach of the Petroleum Law; and
- (q) in the event of any emergency requiring immediate operational action, take all actions it deems proper or advisable to protect the interests of the Parties and any other affected Persons and any costs so incurred shall be included in the Operating Costs. Prompt notification of any such action taken by the Contractor and the estimated cost shall be given to the National Petroleum Agency within forty-eight (48) hours of becoming aware of the event.

10. RECOVERY OF OPERATING COSTS AND SHARING OF PETROLEUM PRODUCTION

10.1 The allocation of Available Crude Oil shall be calculated on a Contract Area basis for Royalty Oil, Cost Oil and Profit Oil. This allocation of Available Crude Oil shall be in accordance with the Accounting Procedure, the Allocation and Lifting Procedure and this Clause 10 as follows:

- (a) Royalty Oil shall be allocated to the State from the first day of Production, based on the daily total of Available Crude Oil from a Contract Area, set at a rate of two percent (2%);
- (b) Cost Oil shall be allocated to the Contractor in such quantum as will generate an amount of Proceeds sufficient for recovery of Operating Costs in each Contract Area. All costs will be recovered in United States dollars through Cost Oil allocation;
- (c) Cost Oil shall be not more than eighty percent (80%) of Available Crude Oil in each Contract Area less deduction of Royalty Oil in any accounting period;
- (d) Profit Oil, being the balance of Available Crude Oil after deducting Royalty Oil and Cost Oil shall be allocated to each Party based on the pre-tax, nominal

rate of return calculated on a quarterly basis for the Contract Area in accordance with the following sliding scale:

Contractor's Rate of Return for Contract Area (%per annum)	Government Share of Profit Oil	Contractor Share of Profit Oil
<19%	0%	100%
>=19 %< 22%	10%	90%
>=22 %< 26%	20%	80%
>=26 %< 29%	40%	60%
>=29%	50%	50%

10.2 Beginning at the date of Commercial Discovery, Contractor's rate of return shall be determined at the end of each Quarter on the basis of the accumulated compounded net cash flow for each Contract Area, using the following procedure:

- (a) The Contractor's net cash flow for a Contract Area for each Quarter is:
 - (i) The sum of the Contractor's Cost Oil and share of Contract Area Profit Oil regarding the Petroleum actually lifted in that Quarter at the Realizable Price;
 - (ii) Minus Operating Costs;
- (b) For this computation, neither any expenditure incurred prior to the date of Commercial Discovery for a Contract Area nor any Exploration Expenditure shall be included in the computation of the Contractor's net cash flow.
- (c) The Contractor's net cash flows for each Quarter are compounded and accumulated for a Contract Area from the date of the Commercial Discovery according to the following formula:

$$\text{ACNCF (Current Quarter)} = (100\% + \text{DQ}) \times \text{ACNCF (Previous Quarter)} + \text{NCF (Current Quarter)} \times 100\%$$

where:

ACNCF = accumulated compounded net cash flow

NCF = net cash flow

DQ = quarterly compound rate (in percent)

The formula will be calculated using quarterly compound rates (in percent) of 4.44%, 5.09%, 5.95%, and 6.57%, which correspond to annual compound rates ("DA") of 19%, 22%, 26%, and 29%, respectively.

- (d) The Contractor's rate of return in any given Quarter for a Contract Area shall be deemed to be between the largest DA which yields a positive or zero ACNCF and the smallest DA which causes the ACNCF to be negative.
- (e) The sharing of Profit Oil from a Contract Area between the State and the Contractor in a given Quarter shall be in accordance with the scale in clause

10.1 (d) above using the Contractor's deemed rate of return as per clause 10.2 (c) in the immediately preceding Quarter.

(f) In a given Contract Area, it is possible for the Contractor's deemed rate of return to decline as a result of negative cash flow in a Quarter with the consequence that Contractor's share of Profit Oil from that Contract Area would increase in the subsequent Quarter.

(g) Pending finalization of accounts, Profit Oil from the Contract Area shall be shared on the basis of provisional estimates, if necessary, of a deemed rate of return as approved by the National Petroleum Agency. Adjustments shall be effected with the procedure subsequently to be adopted by the National Petroleum Agency.

10.3 The quantum of Available Crude Oil to be allocated to each Party under this Contract shall be determined at the Delivery Point.

10.4 Each Party shall lift and dispose of its allocation of Available Crude Oil in accordance with the Allocation and Lifting Procedures as provided in Schedule 3. In the event of any reconciliation, the records of the National Petroleum Agency shall be the official, final and binding records.

10.5 Allocation of Royalty Oil and Profit Oil shall be in the form of delivery of Production of Petroleum to the National Petroleum Agency and the National Petroleum Agency or other appropriate authority shall issue receipts for such delivery within thirty (30) days of lifting such Royalty Oil and Profit Oil. These receipts are issued by the National Petroleum Agency or other appropriate authority on behalf of the Government of Sao Tome and Principe.

10.6 Any Party may, at the request of any other Party, lift such other Party's Available Crude Oil pursuant to Clause 10.3, and the lifting Party within thirty (30) days shall transfer to the account of the non-lifting Party, the Proceeds of the sale to which the non-lifting Party is entitled. Overdue payments shall bear interest at the rate of LIBOR plus two percent (2%).

10.7 The State may sell to the Contractor all or any portion of its allocation of Available Crude Oil from the Contract Area under mutually agreed terms and conditions at the Realizable Price.

10.8 The Parties shall meet as and when agreed in the Allocation and Lifting Procedures to reconcile all Petroleum produced, allocated and lifted during the period in accordance with the Allocation and Lifting Procedures set forth in Schedule 3.

10.9 Notwithstanding the above, in lieu of lifting the State's Profit Oil and/or Royalty Oil, the State, upon one hundred eighty (180) days advance notice to the Operator, issued by the National Petroleum Agency, may elect to receive the State's allocation of Profit Oil and/or Royalty Oil in cash based on the Realizable Price rather than through lifting, regardless of whether or not the Contractor sells the State's Profit Oil and/or Royalty Oil to a third party. If the State elects to receive cash in lieu of lifting, the Operator shall lift the State's allocation of Profit Oil and/or Royalty Oil and pay into

the National Petroleum Account cash in respect of such lifting within thirty (30) days from the end of the month in which the lifting occurred. Every six (6) months, the State may elect to have an entity designated by the State to resume lifting the State's allocation of Profit Oil and/or Royalty Oil upon one hundred eighty (180) days' notice to the Operator prior to the date the State elects to have an entity designated by the State to resume lifting. In the event the State elects to receive its allocation of Profit Oil and or/Royalty Oil in cash, then the Contractor may charge a marketing fee to be mutually agreed.

11. VALUATION OF CRUDE OIL

11.1 The valuation of Crude Oil shall reflect the true market value based on arm's length transactions for the sale of the Crude Oil.

11.2 Save as otherwise provided in this Contract, Crude Oil Production shall be valued in accordance with the following procedures:

- (a) On the attainment of commercial production of Crude Oil, each Party shall engage the services of an independent laboratory of good repute to undertake a qualitative and quantitative analysis of such Crude Oil.
- (b) When a new Crude Oil stream is produced, a trial marketing period shall be designated which shall extend for the first six (6) month period during which such new stream is lifted or for the period of time required for the first ten (10) liftings, whichever is longer. During the trial marketing period the Parties shall:
 - (i) collect samples of the new Crude Oil upon which the qualitative and quantitative analysis shall be performed as provided in Clause 11.2(a);
 - (ii) determine the approximate quality of the new Crude Oil by estimating the yield values from refinery modeling;
 - (iii) market in accordance with their entitlement to the new Crude Oil and to the extent that one Party lifts the other Party's allocation of Available Crude Oil, and payments therefore, shall be made by the buyers to the Operator who will be responsible for distributing to the other Parties in accordance with their entitlement, Cost Oil and Profit Oil and the Contractor's accounting shall reflect such revenues, in accordance with Clause 10;
 - (iv) provide information to a third party who shall compile the information and maintain all individual Party information confidential, with regard to the marketing of the new Crude Oil, including documents which verify the sales price and terms of each lifting; and
 - (v) apply the actual F.O.B. sales price to determine the value for each lifting which F.O.B. sales pricing for each lifting shall continue, as the Realizable Price, after the trial marketing period until the Parties agree

to a valuation of the new Crude Oil but in no event longer than ninety (90) days after conclusion of the trial marketing period.

- (c) As soon as practicable but in any event not later than sixty (60) days after the end of the trial marketing period, the Parties shall meet to review the qualitative and quantitative analysis, yield and actual sales data. Each Party may present a proposal for the valuation of the new Crude Oil. A valuation formula for the Realizable Price shall be agreed to by the Parties not later than nine (9) months after the first lifting. It is the intent of the Parties that such prices shall reflect the true market value based on arm's length transactions for the sale of the new Crude Oil. The valuation formula, as determined hereinbefore (including the product yield values), shall be mutually agreed within thirty (30) days of the aforementioned meeting, failing which, it shall be referred to a mutually agreed independent expert who shall have the appropriate international oil and gas experience and who will resolve and settle the matter in a manner as he shall in his absolute discretion think fit and the decision of the expert shall be final and binding on the Parties. If, after a period of thirty (30) days, the Parties are unable to agree on the identity of the expert, such expert shall be appointed by the International Centre for Expertise in accordance with the provisions for the appointment of experts under the Rules for Expertise of the International Chamber of Commerce.
- (d) Upon the conclusion of the trial marketing period, the Parties shall be entitled to lift their allocation of Available Crude Oil pursuant to Clause 10.3 and the Allocation and Lifting Procedures set forth in Schedule 3.
- (e) When a new Crude Oil stream is produced from the Contract Area and is commingled with an existing Crude Oil produced which has an established Realizable Price basis then such basis shall be applied to the extent practicable for determining the Realizable Price of the new Crude Oil. The Parties shall meet and mutually agree on any appropriate modifications to such established valuation basis, which may be required to reflect any change in the market value of the Crude Oils as a result of commingling.

- 11.3 If in the opinion of either the National Petroleum Agency or the Contractor an agreed price valuation method fails to reflect the market value of Crude Oil produced in the Contract Area, then such Party may propose to the other Party modifications to such valuation method once in every six (6) months but in no event more than twice in any Calendar Year. The Parties shall then meet within thirty (30) days of such proposal and mutually agree on any modifications to such valuation within thirty (30) days from such meeting, failing which, the issue shall be referred to a mutually agreed independent expert who shall have the appropriate international oil and gas experience and who will resolve and settle the matter in a manner as he shall in his absolute discretion think fit and the decision of the expert shall be final and binding on the Parties. If after a period of thirty (30) days, the Parties are unable to agree on the identity of the expert, such expert shall be appointment by the International Centre for Expertise in accordance with the provisions for the appointment of experts under the Rules for Expertise of the International Chamber of Commerce.

- 11.4 Segregation of Crude Oils of different quality and/or grade shall, by agreement of the Parties, take into consideration, among other things, the operational practicality of segregation and the cost benefit analysis thereof. If the Parties agree on such segregation the following provisions shall apply:
- (a) any and all provisions of this Contract concerning valuation of Crude Oil shall separately apply to each segregated Crude Oil produced; and
 - (b) each grade or quality of Crude Oil produced and segregated in a given year shall contribute its proportionate share to the total quantity designated in such year as Royalty Oil, Cost Oil and Profit Oil.
- 11.5 If the Crude Oil is sold to a verifiable independent third party, the actual F.O.B sales price for each lifting shall, for the purpose of calculation of the sales price under this Contract, constitute the Realizable Price.

12. PAYMENTS

- 12.1 The Contractor shall make all payments to the State, for which it is liable under this Contract, in United States dollars or such other currency agreed between the Contractor and the National Petroleum Agency. Payments shall be made into the National Petroleum Account in accordance with the Oil Revenue Law. Where a payment is made in currency other than United States dollars, the exchange rate used to convert the United States dollars liability into that currency shall be the exchange rate published on the date of payment by the Central Bank of Sao Tome and Principe for Dobras and the Financial Times of London for other currencies. Overdue payments shall bear interest at the annual rate of LIBOR plus two percent (2%) from the due date until the date of actual payment.
- 12.2 The State shall make all payments to the Contractor for which it is liable under this Contract in United States dollars or such other currency agreed between the Contractor and the National Petroleum Agency. Where a payment is made in a currency other than United States dollars, the exchange rate used to convert the United States dollar liability into that currency shall be the exchange rate published on the date of payment by the Central Bank of Sao Tome and Principe for Dobras, and the Financial Times of London for other currencies. Overdue payments shall bear interest at the annual rate of LIBOR plus two percent (2%) from the due date until the date of actual payment.
- 12.3 Any payments required to be made pursuant to this Contract shall be made within ten (10) days following the end of the month in which the obligation to make such payments is incurred.

13. TITLE TO EQUIPMENT / DECOMMISSIONING

- 13.1 The Contractor shall finance the cost of purchasing or leasing all materials, equipment and facilities to be used in Petroleum Operations in the Contract Area pursuant to approved Work Programs and Budgets and such materials, equipment and facilities, if purchased, shall become the sole property of the State when the Contractor has recovered the cost of such materials, equipment and facilities (as the case may be) in accordance with this Contract or upon its termination, whichever occurs first, free of

all liens and other encumbrances. Except as otherwise provided for in the Petroleum Law, the Contractor and the State, including the National Petroleum Agency, shall have the right to use all materials, equipment and facilities exclusively for Petroleum Operations in the Contract Area during the term of this Contract and any extensions thereof. Should the State or the National Petroleum Agency desire to use such materials, equipment and facilities outside the Contract Area, such use shall be subject to terms and conditions agreed by the Parties, provided that it is understood that Petroleum Operations in the Contract Area hereunder shall take precedence over such use by the State or the National Petroleum Agency. The Contractor shall only lease materials, equipment and facilities with the approval of the National Petroleum Agency, such approval not to be unreasonably withheld if such lease is in the best interest of the Petroleum Operations.

- 13.2 The Contractor's right to use such purchased materials, equipment and facilities shall cease with the termination or expiration (whichever is earlier) of this Contract, including any extensions hereof.
- 13.3 The provisions of Clause 13.1, with respect to the title of property passing to the State, shall not apply to leased equipment belonging to local or foreign third parties, and such equipment may be freely exported from the Territory of Sao Tome and Principe, in accordance with the terms of the applicable lease.
- 13.4 Subject to Clause 13.2, all fixed assets purchased or otherwise acquired by the Contractor for the purposes of Petroleum Operations hereunder, shall become the property of the State when the Contractor has recovered the cost of such materials, equipment and facilities (as the case may be) in accordance with this Contract or upon its termination, whichever occurs first. Upon termination of this Contract, the Contractor shall hand over possession of such fixed assets to the State in good working order and free of all liens and other encumbrances.
- 13.5 During the term of this Contract, any agreed sales of equipment, land, fixed assets, materials and machinery acquired for the purpose of Petroleum Operations shall be conducted by the Contractor on the basis of the procedure for sale of assets as set forth in Schedule 5, subject to the consent of the National Petroleum Agency.

13.6 **Decommissioning**

The expenditure for Decommissioning will be estimated on the basis of technical studies undertaken by the Contractor, to be agreed by the National Petroleum Agency, as part of each Field Development Program and revised as necessary.

- 13.7 Unless otherwise agreed by the National Petroleum Agency, the procedure for the Contractor providing funds to meet its Decommissioning obligations shall be as follows:
- (a) an amount shall be established on a Contract Area basis, commencing two years after the start of the Production Period, on a unit of production basis as follows:

$$DP = (PVDC - DF) * (P / RP), \text{ where:}$$

DP = Decommissioning provision for the period (millions of US dollars)
PVDC = Present Value of Decommissioning costs (millions of US dollars)
DF = Balance of Decommissioning fund at the start of the period (millions of US dollars)
P = Crude Oil production in the period (millions of Barrels)
RP = Estimated remaining Crude Oil (millions of Barrels)

- (b) All Decommissioning provisions shall be held in a Decommissioning reserve fund which shall be an interest bearing escrow account jointly established by the Parties at a first class commercial bank or other financial institution in accordance with the Petroleum Law. The bank or financial institution shall have a long term rating of not less than "AA" by Standard and Poor's Corporation or an "Aa2" rating by Moody's Investor Service or a comparable rating by another mutually agreed rating service.
- (c) For the purposes of calculating the present value of Decommissioning costs, the following formula shall be used:

PVDC = $EDC / (1 + i)^n$, where:
PVDC = present value of Decommissioning costs
EDC = estimated value of Decommissioning costs in nominal terms at the expected date of Decommissioning
i = interest rate applicable to the escrow account in the current period
n = number of Years between current period and expected date of Decommissioning

- 13.8 The Decommissioning reserve fund shall be used solely for the purposes of paying for Decommissioning activities. No Party may mortgage, pledge, encumber or otherwise use such Decommissioning reserve fund for any purpose whatsoever, except as expressly provided herein or in the Petroleum Law. The Decommissioning reserve fund may be invested in investments approved in advance by the Contractor and the National Petroleum Agency.
- 13.9 The Contractor shall annually meet any shortfall between the actual Decommissioning costs and the Decommissioning reserve fund for any Contract Area, with such amount to be deposited into the escrow account within thirty (30) days after the end of each Calendar Year.
- 13.10 Any balance remaining in any Decommissioning fund after all Decommissioning costs in the Contract Area have been met shall be distributed between the National Petroleum Agency and the Contractor in the same proportion as the allocation of Available Crude Oil at the time of Decommissioning operations.
- 13.11 Decommissioning expenditures incurred under these Decommissioning provisions are both cost recoverable as Contract Area non-capital costs under the Accounting Procedure and deductible for Tax purposes under the Petroleum Taxation Law.

14. EMPLOYMENT AND TRAINING OF NATIONALS OF THE STATE

- 14.1 Each Calendar Year, the Contractor shall submit a detailed program for recruitment and training for the following Calendar Year in respect of its personnel from Sao Tome and Principe in accordance with the Petroleum Law.
- 14.2 Qualified nationals from Sao Tome and Principe shall be employed in all non-specialized positions.
- 14.3 Qualified nationals from Sao Tome and Principe shall also be employed in specialized positions such as those in exploration, drilling, engineering, production, environmental safety, legal and finance. The Contractor shall have the right, subject to applicable laws, rules and regulations, to employ non-nationals of Sao Tome and Principe in such specialized positions where qualified individuals from Sao Tome and Principe are not available, provided that the Contractor shall recruit and train nationals from Sao Tome and Principe for such specialized positions, such that the number of expatriate staff shall be kept to a minimum.
- 14.4 Pursuant to Clause 9.2(k), qualified competent professionals of the National Petroleum Agency shall be assigned to work with the Contractor and such personnel and the Contractor's national personnel from Sao Tome and Principe shall not be treated differently with regard to salaries and other benefits. The Contractor and the National Petroleum Agency shall mutually agree on the numbers of the National Petroleum Agency's staff to be assigned to Petroleum Operations. The costs and expenses of such National Petroleum Agency personnel shall be included in Operating Costs. The Contractor shall not be liable for any damages resulting from the negligence or willful misconduct of any National Petroleum Agency employees or agents assigned to work for the Contractor.
- 14.5 The Parties shall mutually agree on the organizational chart of the Contractor which shall include nationals of Sao Tome and Principe in key positions.
- 14.6 No Sao-Tomean employed shall be disengaged without the prior written approval of the National Petroleum Agency except in the case of gross misconduct by such employee, in which case only prior notice to the National Petroleum Agency will be required. Gross misconduct for the purposes of this Clause shall mean a specific act of very serious wrongdoing and improper behavior which has been investigated and proved by documentary evidence.
- 14.7 The Contractor shall spend zero point twenty-five percent (0.25%) of the Operating Costs in each Year of the Exploration Period (subject to a minimum of One Hundred Thousand United States Dollars (U.S \$100,000) and a maximum of Two Hundred and Fifty Thousand United States Dollars (U.S \$250,000) in any Calendar Year) on scholarships for the training of nationals of Sao Tome and Principe at institutions to be selected by the National Petroleum Agency. In connection with the review of the annual Work Program and Budgets, the National Petroleum Agency may propose additional budgets for training and the National Petroleum Agency and the Contractor may mutually agree to such proposal.

14.8 The Contractor shall spend Three Hundred and Fifty Thousand United States Dollars (U.S \$350,000) in each Calendar Year during the Production Period on scholarships for the training of nationals of Sao Tome and Principe at institutions to be selected by the National Petroleum Agency. In connection with the review of the annual Work Program and Budgets, the National Petroleum Agency may propose additional budgets for training and the Parties may mutually agree to such proposal.

14.9 Amounts payable under Clauses 14.7 and 14.8 shall be recoverable as Contract Area non-drilling exploration costs under the terms of the Accounting Procedure.

15. BOOKS AND ACCOUNTS, AUDIT AND OVERHEAD CHARGES

15.1 Books and Accounts

- (a) The Contractor shall be responsible for keeping complete books of accounts consistent with Good Oil Field Practice and modern petroleum industry and accounting practices and procedures. The books and accounts maintained under and in accordance with this Contract shall be kept in United States dollars. All other books of accounts, as the Operator may consider necessary, shall also be kept in United States dollars. Officials of the National Petroleum Agency and the Contractor shall have access to such books and accounts at all times upon reasonable notice. The accountants of the National Petroleum Agency shall participate in the preparation of all books and accounts maintained under and in accordance with this Contract.
- (b) All original books of account shall be kept at the registered address or principal place of business of the Contractor in Sao Tome and Principe.

15.2 Audits

- (a) The National Petroleum Agency shall have the right to inspect and audit the accounting records relating to this Contract or Petroleum Operations for any Calendar Year by giving thirty (30) days advance written notice to the Operator. The Operator shall facilitate the work of such inspection and auditing; provided, however, that such inspection and auditing shall be carried out within three (3) Calendar Years following the end of the Calendar Year in question. If not, the books and accounts relating to such Calendar Year shall be deemed to be accepted by the Parties. Any exception must be made in writing within ninety (90) days following the end of such audit and failure to give such written notice within such time shall establish the correctness of the books and accounts by the Parties.
- (b) The National Petroleum Agency may undertake the inspection and audit in Clause 15.2(a) either through its own personnel or through a qualified firm of chartered accountants appointed for such purpose by the National Petroleum Agency; provided, however, that the transportation and per diem costs of the National Petroleum Agency's own personnel shall be borne by the Contractor as a general administrative cost and shall be cost recoverable. Costs for the qualified firm of chartered accountants shall be borne by the National Petroleum Agency.

- (c) Notwithstanding that the said period of three (3) Calendar Years may have expired, if the Contractor or any of its employees or any Person acting on its behalf has acted with negligence or engaged in willful misconduct, the National Petroleum Agency shall have the right to conduct a further audit to the extent required to investigate such negligence or willful misconduct in respect of any earlier periods and all costs of such investigation shall be for the account of the Contractor and shall not be cost recoverable.

15.3 **Materials**

The Contractor shall maintain physical and accounting controls of all materials and equipment in stock in accordance with Good Oil Field Practice. The Contractor shall make a total inventory at least once in a Calendar Year and shall give the National Petroleum Agency four (4) weeks advance written notice prior to the taking of such inventory. The National Petroleum Agency and/or its external auditors shall be entitled to observe such inventory taking. The National Petroleum Agency may also carry out a partial or total check of such inventories at its own expense, whenever it considers it necessary, provided such exercise does not unreasonably disrupt Petroleum Operations.

15.4 **Home Office Overhead Charges**

The Contractor shall include the following percentages of total annual recoverable expenditures as overhead charges in calculating total Operating Costs. From time to time the Parties agree to review these expenditures tranches to account for inflation.

Expenditure Tranche (USD million)	% of Recoverable expenditures
< 200	1.00%
the next 200 OR >200 and<400	0.75%
the next 100 OR >400 and<500	0.50%
≥ 500	0.00%

16. **TAXES AND CUSTOMS**

16.1 **Tax**

The Contractor shall be subject to Tax on income derived from Petroleum Operations in accordance with the Petroleum Taxation Law. Such Tax shall be payable by the Contractor in accordance with the Petroleum Taxation Law, except as otherwise provided in this Contract.

16.2 The Realizable Price established in accordance with Clause 11 shall be used in determining the amount of profits of each Contractor Party and its resulting Tax liability under the Petroleum Taxation Law.

16.3 **Customs**

In accordance with the Petroleum Law, the Contractor, in its own name or in the name of its sub-contractors or other Persons acting on its or their behalf, are entitled to import and export all goods, materials and equipment destined exclusively and directly for the execution of Petroleum Operations. Such goods, materials and equipment shall be exempt from all and any customs duties, subject to the terms and conditions set out in the Petroleum Law or other applicable laws and regulations.

17. **INSURANCE**

17.1 The Contractor shall obtain and maintain such insurance as it customarily obtains in accordance with Good Oil Field Practice with respect to Petroleum Operations with an insurance company of good repute approved by the National Petroleum Agency, in the names of the Parties and with limits of liability not less than those required in accordance with Good Oil Field Practice. The premium for such policies shall be included in Operating Costs. All policies shall name the National Petroleum Agency as a co-insured with a waiver of subrogation rights in favor of the Contractor. Without prejudice to the generality of the foregoing, such insurance shall cover:

- (a) any loss or damage to all assets used in Petroleum Operations;
- (b) pollution caused in the course of Petroleum Operations for which the Contractor or the Operator may be held responsible;
- (c) property loss or damage or bodily injury suffered by any third party in the course of Petroleum Operations for which the Contractor, the Operator, the State or the National Petroleum Agency may be held liable;
- (d) the cost of removing wrecks and cleaning up operations following an accident in course of Petroleum Operations; and
- (e) the Contractor's and/or the Operator's liability to its employees and other persons engaged in Petroleum Operations.

17.2 In case of any loss or damage to property, all amounts paid by an insurance company shall be received by the Contractor for the conduct of Petroleum Operations. The Contractor shall determine whether the lost or damaged property should be repaired, replaced or abandoned. If the decision is to repair or replace the property in question, the Contractor shall immediately take steps to replace or repair such lost or damaged property. Any excess cost of repair or replacement above the amount reimbursed by the insurance company shall be regarded as an Operating Cost. If the cost of repair is less than the amount reimbursed by the insurance company, the difference shall be deducted from Operating Costs. If the decision is to neither repair nor replace then the proceeds of any coverage shall be credited to Operating Costs. In the event that the

loss or damage is attributable to the Contractor's negligence or willful misconduct, the excess cost of replacement or repair shall not be reimbursed as an Operating Cost.

- 17.3 The Contractor shall obtain and maintain an insurance policy covering any and all damages caused to third parties as a direct or indirect result of Petroleum Operations under this Contract.
- 17.4 All insurance policies obtained and maintained pursuant to this Clause 17 shall be based upon Good Oil Field Practice and shall be taken out in Sao Tome and Principe except for those concerning risks for which the Contractor cannot obtain coverage, in which case it shall be taken out outside of the Territory of Sao Tome and Principe.
- 17.5 In entering into contracts with any sub-contractor or other Person for the performance of Petroleum Operations, the Contractor shall require such sub-contractor or other Person to take out adequate insurance in accordance with this Clause 17 and to properly indemnify the State and its organs and agencies and the Contractor for any damage done and to fully indemnify and hold the State and its organs and agencies and the Contractor harmless against claims from any third parties.
- 17.6 The Contractor shall also maintain all other insurance policies required under the laws of Sao Tome and Principe.

18. CONFIDENTIALITY AND PUBLIC ANNOUNCEMENTS

- 18.1 Subject to Clauses 18.4 and 18.5, the Contractor and the National Petroleum Agency shall keep information furnished to each other in connection with Petroleum Operations and all plans, maps, drawings, designs, data, scientific, technical and financial reports and other data and information of any kind or nature relating to Petroleum Operations, including any discovery of Petroleum, as strictly confidential and shall ensure that their entire or partial contents shall under no circumstances be disclosed in any announcement to the public or to any third party without the prior written consent of the other. With regard to data about aspects of geology, reservoir engineering or production engineering from reports or other material submitted to public authorities, the duty of secrecy shall have the following duration calculated from the time when the data became available to the Contractor:

- 2 years for data which are not commercially available, which are owned by the Contractor, and which originate from the Contract Area in question,

- 10 years for data, which have been commercially available, from the time when they became available to the Contractor,

- 5 years for other data.

The provisions of this Clause 18 shall not apply to disclosure to:

- (a) Affiliates;
- (b) sub-contractors, auditors, financial consultants or legal advisers, provided that such disclosures are required for the effective performances of the

aforementioned recipients' duties related to Petroleum Operations and provided further that they are under a similar undertaking of confidentiality as that contained in this Clause 18;

- (c) comply with statutory obligation or the requirements of any governmental agency or the rules of a stock exchange on which a Party's stock is publicly traded in which case the disclosing Party will notify the other Party of any information so disclosed prior to such disclosure;
- (d) financial institutions involved in the provision of finance for the Petroleum Operations hereunder provided, in all such cases, that the recipients of such data and information agree in writing to keep such data and information strictly confidential;
- (e) a third party purchaser, provided that the party receiving such information executes an undertaking similar to the undertaking contained in this Clause 18 to keep the information disclosed to it strictly confidential; and
- (f) in accordance with and as required by the Oil Revenue Law.

18.2 The Parties shall take necessary measures in order to make their Affiliates and advisers, directors, officers, employees, agents and representatives comply with the same obligation of confidentiality provided for in this Clause 18.

18.3 The provisions of this Clause 18 shall terminate five (5) years after the termination or expiration of this Contract.

18.4 The Contractor shall use best endeavors to ensure that it, its Affiliates and Associates and each of their respective directors, officers, servants, employees and agents shall not make any reference in public or publish any notes in newspapers, periodicals or books nor divulge, by any other means whatsoever, any information on the activities under the Petroleum Operations, or any reports, data or any facts and documents that may come to their knowledge by virtue of this Contract, without the prior written consent of the National Petroleum Agency.

18.5 No announcement of a Discovery or Commercial Discovery may be made by the Contractor otherwise than in accordance with this Clause 18 and unless and until the Government has made a prior announcement of such Discovery or Commercial Discovery in the national and international media.

19. ASSIGNMENT

19.1 Subject to Clause 19.5 and 19.7, the Contractor may not sell, assign, transfer, encumber, convey or otherwise dispose of part or all of its rights, interest and/or obligations under this Contract to any third party without the prior written consent of the National Petroleum Agency which consent shall not be unreasonably withheld or delayed.

19.2 All changes in Control of a Contractor Party shall be subject to the prior approval of the Government. Where a change in Control occurs without the prior approval of the

Government, the Government may terminate this Contract in respect of such Contractor Party. This Clause 19.2 does not apply if the change of Control is the direct result of an acquisition of shares or other securities of a publicly traded company on a recognized stock exchange. Change of Control includes a Person ceasing to be Controlled (whether or not another Person becomes in Control), and a Person obtaining Control (whether or not another Person was in Control).

- 19.3 When an assignment, transfer or other disposition of any rights under this Contract, other than a transfer pursuant to Clause 19.5, is anticipated, the assigning Contractor Party must notify in writing the National Petroleum Agency as soon as practicable. The Government, acting through the National Petroleum Agency or other nominee, shall then have the right, within sixty (60) days, to purchase the assigning Contractor Party's interest under this Contract proposed to be assigned, transferred or otherwise disposed of on the same terms and conditions as those offered to a bone fide transferee.
- 19.4 If the written consent by the National Petroleum Agency is granted, the assigning Contractor Party shall be relieved of its obligation and liabilities under this Contract to the extent that the assignee or transferee accepts the assumption of such obligations and liabilities under this Contract.
- 19.5 The Contractor may sell, assign, transfer, convey or otherwise dispose of part or all of its rights and interest under this Contract to an Affiliate with a prior written notice to the National Petroleum Agency, provided that the relevant Contractor Party and the Affiliate shall remain jointly and severally liable for all obligations and liabilities under this Contract notwithstanding such assignment, transfer, conveyance or other disposal. If the Affiliate shall cease at any time to be an Affiliate of the transferring Contractor Party, the Affiliate shall immediately re-assign or re-transfer to the original Contractor Party all rights and obligations transferred to it under this Contract. Transfers of interests to an Affiliate of a Contractor Party shall not change the nationality of the Contractor Party for the purpose of determining jurisdiction of any arbitration tribunal.
- 19.6 Any request for consent pursuant to Clause 19.1 made by the Contractor to the National Petroleum Agency shall include the deed of assignment and other relevant information relating to financial and corporate standing of the assignee, and its capability to contribute to the Petroleum Operations under this Contract as required under the Petroleum Law.
- 19.7 As long as strictly for the purposes of financing of Petroleum Operations, the Contractor may grant, as security, its rights under this Contract, provided that such transaction does not conflict with the interests and rights of the State of Sao Tome and Principe under this Contract and pursuant to the applicable legislation.

20. TERMINATION

- 20.1 The State, by decision of the Government, shall be entitled to terminate this Contract with the Contractor (or in respect of any Party making up the Contractor) if any of the following events occur:

- (a) the Contractor defaults in the performance of any of its obligations set forth in Clause 9;
- (b) the Contractor fails to execute the Minimum Work Obligations;
- (c) the Contractor assigns, transfers, conveys, encumbers or disposes of its rights, interests and/or obligations under this Contract otherwise than in accordance with Clause 19 and/or the Petroleum Law;
- (d) the Contractor is adjudged insolvent or bankrupt by a court of competent jurisdiction or acknowledges or claims that it is unable to pay its debts or makes an application for bankruptcy protection that is not discharged within thirty (30) days;
- (e) the Contractor ceases to carry on its business as carried on at the date of this Contract or liquidates or terminates its corporate existence;
- (f) the warranties made by the Contractor under Clause 24 are found to have been untrue when made;
- (g) the Contractor fails to make any payment to the State when due;
- (h) the Contractor fails to submit the performance bond or guarantee when due;
- (i) the Contractor fails to:
 - (i) initiate field development and production in accordance to the time schedule outlined in the approved Field Development Program (Clause 5.1 (e)); or
 - (ii) if after production of Petroleum is initiated in a Contract Area, production of Petroleum ceases for a period of more than four (4) months;
 in both (i) and (ii) for causes not attributable to Force Majeure or without the consent of the National Petroleum Agency always provided that such consent will not be unreasonably withheld if justified on technical or other grounds; and
- (j) the events provided for in the articles 34, 35 or 36 of the Petroleum Law.

20.2 If the cause for termination is an event specified in Clause 20.1(a), (b), (f), (g), (h), (i) and/or (j) above, the National Petroleum Agency shall give written notice thereof to the Contractor requiring it to remedy such default within a period not more than thirty (30) days of receipt of the National Petroleum Agency's notice or such additional days as the National Petroleum Agency deems appropriate in the circumstances in its sole discretion. If upon the expiration of the said period, such default has not been remedied or removed, the Government may, by written notice issued by the National Petroleum Agency to the Contractor, declare this Contract terminated.

20.3 Termination for any of the events specified in Clause 20.1(c), (d) and/or (e) above, shall be with immediate effect and the Government may, by written notice to the

Contractor issued by the National Petroleum Agency, declare this Contract terminated. Termination as to one Contractor Party shall not constitute termination as to the other Contractor Party(ies).

- 20.4 Where this Contract is terminated with respect to only one Contractor Party, the State shall have the option to assume the interests, rights and obligations of such defaulting Contractor Party under this Contract. If the State elects not to exercise this option, the interests, rights and obligations shall be assigned to the remaining Contractor Parties who shall be liable jointly and severally.
- 20.5 In the event that the other Contractor Party(ies) fail to meet any and all liabilities of the terminated Contractor Party as provided in Clause 20.4, the State reserves the right to terminate this Contract, in respect of all other Contractor Parties upon written notice.
- 20.6 Without prejudice to all other rights of the State, the Contractor shall upon the termination of this Contract permit inspection, copying and auditing of its accounts and records for the Petroleum Operations by the National Petroleum Agency and/or its agents.
- 20.7 The Contractor shall have the right, at its sole discretion, to relinquish its rights and to terminate this Contract without further obligations or liabilities, upon completion of the stipulated Minimum Work Obligations and Minimum Financial Commitment at the end of any phase of the Exploration Period, upon giving a thirty (30) day advance notice to the National Petroleum Agency. This Clause 20.7 shall not release the Contractor from any unfulfilled obligations incurred prior to the termination of this Contract, nor from any liabilities arising from acts or omissions taking place prior to the termination of this Contract.
- 20.8 This Contract shall automatically terminate if no Commercial Discovery is made in the Contract Area at the end of Exploration Period, as extended.

21. FORCE MAJEURE

- 21.1 Any failure or delay on the part of any Party in the performance of its obligations or duties (other than the obligation to pay money) under this Contract shall be excused to the extent attributable to Force Majeure. A Force Majeure situation includes delays, defaults or inability to perform under this Contract due to any event beyond the reasonable control of the Party claiming Force Majeure. Such event may be, but is not limited to, any act, event, happening or occurrence due to natural causes and acts or perils of navigation, fire, hostilities, war (whether declared or undeclared), blockade, labor disturbances, strikes riots, insurrection, civil commotion, quarantine restrictions, epidemics, storms, floods, earthquakes, accidents, blowouts and lightning.
- 21.2 Unlawful acts of Government are also considered to constitute Force Majeure.
- 21.3 If Petroleum Operations are delayed, curtailed or prevented by an event of Force Majeure, then the time for carrying out the obligation and duties thereby affected, and rights and obligations hereunder, shall be extended for a period equal to the period of such delay.

- 21.4 The Party who is unable to perform its obligations as a result of the Force Majeure shall promptly notify the other Parties not later than forty-eight (48) hours after the establishment of the commencement of the event of Force Majeure, stating the cause, and the Parties shall do all that is reasonably within their powers to remove such cause.
- 21.5 The Contractor's failure or inability to find Petroleum in commercial quantities for reasons other than as specified in Clause 21.1 shall not be deemed an event of Force Majeure.

22. LAWS AND REGULATIONS

- 22.1 This Contract shall be governed by and construed in accordance with the laws of the Democratic Republic of Sao Tome and Principe.
- 22.2 Subject to principles of public international law, no term of this Contract, including the agreement of the Parties to submit to arbitration hereunder, shall prevent or limit the State from exercising its sovereign rights.

23. NATURAL GAS

- 23.1 If the Contractor discovers a commercially viable quantity of Natural Gas, the Contractor shall have the right to develop, commercialize, recover the costs and share in the profits of a development of such Natural Gas under this Contract on terms to be mutually agreed. Such terms when agreed shall become an integral part of this Contract.
- 23.2 Notwithstanding Clause 23.1, the Contractor may utilize, at no cost, Natural Gas required as fuel for Petroleum Operations such as gas recycling, gas injection, gas lift or any other Crude Oil enhancing recovery schemes, stimulation of wells necessary for maximum Crude Oil recovery in the field discovered and developed by the Contractor and such usage shall be with prior written consent of the National Petroleum Agency, which consent shall not be unreasonably withheld. This shall be included in a Field Development Program.
- 23.3 The attainment of recovery of Crude Oil through an efficient, economic and technically acceptable method shall always be paramount in all decisions regarding Associated Natural Gas. However, prior to the commencement of Production of Crude Oil from the Contract Area, the Contractor shall submit to the National Petroleum Agency, a program for the utilization of any Associated Natural Gas that has been discovered in the Contract Area, which shall be subject to the approval of the National Petroleum Agency.
- 23.4 If the Contractor discovers sufficient volumes of Unassociated Natural Gas that could justify commercial development, the Contractor shall immediately report the volume of potentially recoverable Natural Gas to the National Petroleum Agency and shall promptly investigate and submit proposals to the National Petroleum Agency for the commercial development of such Natural Gas taking in consideration local strategic needs as may be identified by the National Petroleum Agency, within two (2) years of

the date of the relevant discovery. Any cost in respect of such proposals or investigation presented by the Contractor to the National Petroleum Agency shall be included in Operating Costs. The Contractor and the National Petroleum Agency will determine the plan and time needed, which shall be no more than five (5) years, unless otherwise agreed by the National Petroleum Agency, to progress a commercial development project, which shall include the terms for recovery of Operating Costs and sharing of Natural Gas production, which terms when agreed shall form an integral part of this Contract. If the Contractor fails to justify a commercial development within the agreed timeframe and if the National Petroleum Agency determines that a sufficient volume of Unassociated Natural Gas exists, the National Petroleum Agency shall have the right to propose to the Contractor a commercial development of such Natural Gas. The Contractor shall have the right to participate in the commercial development under terms pursuant to Clause 23.1. If the Contractor declines to participate in the commercial development of such Natural Gas as presented by the National Petroleum Agency and if the Field Development Program does not hinder or jeopardize current Petroleum Operations, the National Petroleum Agency may develop the Natural Gas in the manner presented to the Contractor.

24. REPRESENTATIONS AND WARRANTIES

24.1 In consideration of the State entering into this Contract, the Contractor hereby represents and warrants to the State as follows:

- (a) The Contractor has the power to enter into and perform this Contract and has taken all necessary action to execute, deliver and perform this Contract in accordance with the terms herein contained and has been granted all necessary concessions, licenses, permits and authorizations to initiate Petroleum Operations;
- (b) The execution, delivery and performance of this Contract by the Contractor will not contravene in any respect, any of the provisions of:
 - (i) any law or regulations or order of any governmental authority, agency or court applicable to or by which the Contractor may be bound; and
 - (ii) any mortgage, contract or other undertaking or instrument to which the Contractor is a party or which is binding upon it or any of its respective revenues or assets;
- (c) Full disclosure of all legal, technical and financial information as are materially necessary has been made to the National Petroleum Agency;
- (d) As of the Effective Date, all facts in relation to the Contractor and its financial condition and affairs are material and ought properly to be made known to the National Petroleum Agency and have been made so known in full;
- (e) The Contractor, together with its Affiliates, has sufficient funds both in foreign and local currencies to carry out Petroleum Operations under this Contract; and

- (f) The representations and warranties set out in this Clause 24 shall remain in full force and effect for the duration of this Contract.

25. CONCILIATION AND ARBITRATION

- 25.1 Should there be a difference or dispute between the Parties concerning the interpretation or performance of this Contract (a "**Dispute**") such that the Dispute cannot be resolved by mutual agreement, the Parties may refer the matter to an independent expert for an opinion to assist the Parties in reaching a mutual agreement.
- 25.2 Where an independent expert is used, the National Petroleum Agency and the Contractor shall furnish the expert with all written information which he may reasonably require. The cost of the services of the expert, if appointed, shall be shared equally between the National Petroleum Agency and each Contractor Party.
- 25.3 If the Dispute cannot be settled by amicable agreement or through an independent expert or if a Party does not agree to the use of an independent expert, then either the National Petroleum Agency or the Contractor may serve on the other a demand for arbitration in accordance with this Clause 25. The procedures set forth in this Clause 25 shall be the exclusive procedures for arbitration of any and all Disputes arising under or involving the interpretation of this Contract. No other arbitration tribunal under any other procedure, agreement or international treaty shall have jurisdiction over such Disputes between the Parties.
- 25.4 If the relevant Parties have not reached a mutual agreement after three (3) months of the date of a notice of a Dispute by one Party to another, unless the Parties to the Dispute mutually agree to an extension, any Party to the Dispute may refer the Dispute for resolution by final and binding arbitration to the International Centre for the Settlement of Investment Disputes (the "**Centre**") established by the Convention on the Settlement of Investment Disputes between States and Nationals of other States, done at Washington, March 18, 1965 (the "**ICSID Convention**"); or to the Additional Facility of the Centre, if the Centre is not available;

In the case that the arbitration is to be conducted under the Additional Facility of the Centre, the Parties hereby give their consent to jurisdiction of ICSID according to this Clause 25 and in Article 25 of the ICSID Convention. The Parties agree to submit an application to the Secretary General of the Centre for approval of access to the Additional Facility of the Centre.

25.5 Seat and Language of Arbitration

The seat of the arbitration shall be mutually agreed in good faith by the Parties, the law of the merits of the arbitration shall be the Sao-Tomean Law and the law governing the arbitration agreement shall be Sao-Tomean Law. The languages of the arbitration proceedings, and of all orders, decisions, and the award, shall be portuguese and english. Notwithstanding Clause 32.4 the portuguese version of this Contract signed by the Parties shall be used as the official version in arbitral proceedings.

25.6 **Number and Identity of Arbitrators**

The arbitral tribunal shall be constituted by three (3) arbitrators selected according to the following procedure:

- (i) The claimant and the respondent shall, within thirty (30) days from the day on which a request for arbitration has been submitted, appoint an arbitrator each (and if there is more than one claimant or more than one (1) respondent, then the claimants and/or the respondents collectively shall each appoint a single arbitrator), by giving notice in writing of such appointment to the Secretary-General of the Centre and the other Party or Parties to the Dispute.
- (ii) If either the claimant or the respondent fails to comply with the time limit in the preceding paragraph, the Chairman of the Administrative Council of the Centre shall appoint the arbitrator or arbitrators that have not yet been appointed, at the request of either the claimant or the respondent and after consulting with the claimant and the respondent as far as possible. The Chairman of the Administrative Council of the Centre shall give notice in writing of such appointment or appointments to the Secretary-General of the Centre and the claimant and the respondent.
- (iii) The two (2) arbitrators so appointed shall, within thirty (30) days of their appointment, agree upon the person to be appointed as the President of the tribunal, and give notice of such appointment to the Secretary-General of the Centre and the claimant and the respondent.
- (iv) If the two (2) arbitrators fail to agree upon the person to be the President of the tribunal, the Chairman of the Administrative Council of the Centre shall appoint the President, at the request of either the claimant or the respondent, and after consulting with the claimant and the respondent as far as possible. The Chairman of the Administrative Council of the Centre shall give notice in writing of such appointment to the Secretary-General of the Centre and the claimant and the respondent.
- (v) None of the arbitrators shall be a citizen of the countries of any of the Parties to the Dispute (or in the case where the Party is a company or another entity, any country or countries of nationality of such Party, including the country of its ultimate parent).

25.7 **Rules of Arbitration**

The arbitration procedures initiated under this Contract shall operate under the arbitration rules in effect for ICSID or the Additional Facility of the Centre, as the case may be, at the time of the filing of the request for arbitration, which rules are deemed to be incorporated herein by reference in this Clause 25.

25.8 **Binding Nature of Arbitration**

The arbitration award shall be final and binding on the Parties and shall be immediately enforceable, subject to the remedies provided for in the ICSID

Convention and Arbitration Rules or in the Arbitration Rules of the Additional Facility of the Centre, as appropriate. The Parties waive any right to refer any question of law, and any right of appeal on the law and/or merits to any court. It is expressly agreed that the arbitrators shall have no authority to award aggravated, exemplary or punitive damages.

25.9 Costs of Arbitration

The costs of arbitration shall be charged in accordance with the directions of the arbitration tribunal, failing which shall be borne proportionally by the Parties to the Dispute on a per capita basis. The costs of the Parties comprising the Contactor shall not be recoverable.

25.10 Payment of Awards

Any monetary award issued shall be expressed and payable in United States dollars.

26. EFFECTIVE DATE

26.1 This Contract shall come into force on the date of receipt by the State of the Contractor's deposit into the National Petroleum Account of the signature bonus specified in Clause 2.1 (the "Effective Date"), payable after the execution and delivery to the Contractor of an instrument of ratification of the Contract executed by the Prime-Minister on behalf of the Government Record of such receipt shall be annexed to this Contract as proof of the Effective Date.

26.2 Failure by the Contractor to meet its obligation to pay the signature bonus in accordance with the terms of Clause 2.1 shall mean that this Contract shall be null and void.

27. REVIEW / RE-NEGOTIATION OF CONTRACT AND FISCAL TERMS

27.1 The Parties agree that the commercial terms and conditions of this Contract have been negotiated and agreed having due regard to the existing fiscal terms in accordance with the provisions of the Petroleum Law and the Petroleum Taxation Law in force at the time of the Effective Date. If such fiscal terms are materially changed to the detriment of the Contractor, the Parties agree, subject to Clause 27.2, to review the terms and conditions of this Contract affected by such changes and to align such terms and conditions with the fiscal terms as at the Effective Date.

27.2 If at any time or from time to time, there is a change in legislation or regulations which materially affect the commercial benefit afforded to the Contractor under this Contract, the Parties will consult each other and shall agree to such amendments to this Contract as are necessary to restore as near as practicable such commercial benefits which existed under this Contract as of the Effective Date.

27.3 The terms, other than the terms that comprise the Biddable terms of this Contract, shall not be materially more burdensome to the Contractor than the terms of other current Production Sharing Contracts negotiated with other contractors for other blocks in the Exclusive Economic Zone of Sao Tome and Principe offered in the first licensing

round after the Effective Date of this Contract. If another contractor agrees such materially less burdensome terms with the State, then this Contract shall be amended to reflect the less burdensome terms agreed with the other contractor.

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

28. OPERATOR

28.1 Equator Exploration STP Block 12 Limited is hereby designated as the Operator under this Contract to execute, for and on behalf of the Contractor, all Petroleum Operations in the Contract Area pursuant to and in accordance with this Contract and the Petroleum Law.

28.3 The Operator, for and on behalf of the Contractor, shall have the exclusive control and administration of Petroleum Operations under this Contract. The Operator, for and on behalf of the Contractor, and within the limits defined by the National Petroleum Agency, this Contract and the Petroleum Law, shall have the authority to execute all contracts, incur expenses, make commitments, and implement other actions in connection with the Petroleum Operations.

29. CONFLICT OF INTERESTS

29.1 Each Party represents and warrants that it did not engage any person, firm or company as a commission agent for purposes of this Contract and that it has not given or offered to give nor will it give or offer to give (directly or indirectly) to any person any bribe, gift, gratuity, commission or other thing of significant value, as an inducement or reward for doing or forbearing to do any action or take any decision in relation to this Contract, or for showing or forbearing to show favor or disfavor to any person in relation thereto.

29.2 The Contractor further represents and warrants that no loan, reward, offer, advantage or benefit of any kind has been given to any Official or any person for the benefit of such Official or person or third parties, as consideration for an act or omission by such Official in connection with the performance of such person's duties or functions or to induce such Official to use his or her position to influence any act or decisions of the administration with respect to this Contract. Any breach of this representation shall cause this Contract to be invalid and voidable by the State administration.

30. NOTICES

30.1 Any notice or other communication required to be given by a Party to another shall be in writing (in portuguese and english) and shall be duly given by hand delivery in person, by courier, by facsimile or by electronic means of transmitting written communication, which provides written communication of receipt at the following addresses:

Agência Nacional do Petróleo de São Tomé e Príncipe (ANP-STP)
Avenida das Nações Unidas, 225

C.P.1048
Sao Tome, Sao Tome and Principe

Attention: Executive Director
Email: anp_geral@estome.net
Fax: +239-2226937
Tel: +239-2243350

THE CONTRACTOR

Equator Exploration STP Block 12 Limited

Address: Praia Lagarto, Agua Grande, São Tomé, São Tomé e Príncipe
Tel: +239-222 4387

Name: Managing Director/CEO
Address: 8th Floor, 2 Ajose Adeogun Street, Victoria Island, Lagos, Nigeria
E-mail: eezstp@oandoenergyresources.com
Cc: dadebiyi@oandoenergyresources.com
Tel: +234 1 270 2400

Name: Philip Dimmock
Address: 1st Floor, 50 Curzon Street, London, W1J 7UW, United Kingdom
E-mail: pdimmock@oandoenergyresources.com
Tel: +44 207 297 4280

- 30.2 All notices and other communications shall be deemed to have been duly delivered upon actual receipt by the intended recipient.
- 30.3 Each Party shall notify the other promptly of any change in the above address.

31. LIABILITY

Where the Contractor is comprised of more than one Party, the liabilities and obligations of such Parties under this Contact shall be joint and several.

32. MISCELLANEOUS

- 32.1 No supplement or modification of any provision of this Contract shall be binding unless executed in writing by all Parties.
- 32.2 No waiver by any Party of any breach of a provision of this Contract shall be binding unless made expressly in writing. Any such waiver shall relate only to the breach to which it expressly relates and shall not apply to any subsequent or other breach.

- 3 2 . 3 The validity and effectiveness of this Contract shall be subject to the full compliance with all applicable administrative procurement rules relating to State contracting.
- 3 2 . 4 This Contract is elaborated and filed in the portuguese and english languages, in case of non-conformity, the portuguese language version shall prevail.
- 32.5 This Contract shall be made public and a copy hereof shall be provided to the Public Registration and Information Office within ten (10) days from its execution.

IN WITNESS WHEREOF the Parties have caused this Contract to be executed the day and year first above written.

SIGNED AND DELIVERED for and on behalf of:

THE STATE represented by the **Agência Nacional do Petróleo de São Tomé e Príncipe**

By: /s/ Orlando Sousa Pontes

Name: ORLANDO SOUSA PONTES

Designation: EXECUTIVE DIRECTOR

In the presence of:

Name: ALVARO SILVA

Signature: /s/ Alvaro Silva

Designation: LEGAL AND ECONOMIC DIRECTOR

SIGNED AND DELIVERED for and on behalf of:

Equator Exploration STP Block 12 Limited

By: /s/ Olapade Durotoye

Name: OLAPADE DUROTOYE

Designation: DIRECTOR

In the presence of:

Name: EFUNTOMI AKPENEYE

Signature: /s/ Efuntomi Akpeneye

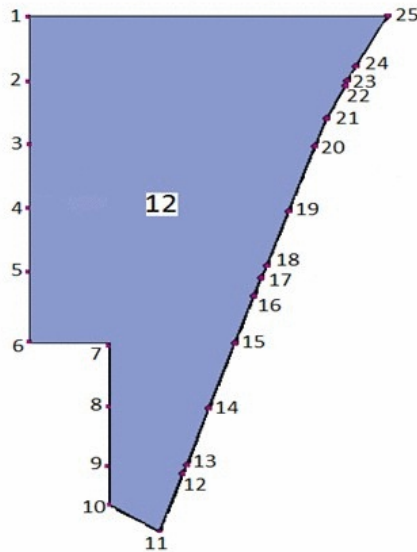
Designation: LEGAL ADVISOR

SCHEDULE 1
BLOCK 12 - CONTRACT AREA (7032.2 Km2)

Coordinates (DATUM: WGS84)

BLOCOS	PONTOS	ZONA	UTM X	UTM Y	DD Long	DD Lat
12	1	B	277405.51	-18432.98	7.000000	-0.166667
12	2	B	277408.31	-36865.96	7.000000	-0.333333
12	3	B	277413.00	-55298.95	7.000000	-0.500000
12	4	B	277419.55	-73731.94	7.000000	-0.666667
12	5	B	277427.97	-92164.95	7.000000	-0.833333
12	6	B	277438.27	-110597.97	7.000000	-1.000000
12	7	B	295991.74	-110587.13	7.166667	-1.000000
12	8	B	296002.90	-129018.37	7.166667	-1.166667
12	9	B	296015.77	-147449.62	7.166667	-1.333333
12	10	B	296022.68	-156455.01	7.166667	-1.414765
12	11	B	308085.47	-164150.96	7.275000	-1.484445
12	12	B	313609.92	-147437.07	7.324749	-1.333333
12	13	B	314318.42	-145293.55	7.331128	-1.313953
12	14	B	319702.68	-129003.81	7.379597	-1.166667
12	15	B	325795.07	-110571.70	7.434423	-1.000000
12	16	B	330150.89	-97393.44	7.473612	-0.880834
12	17	B	331960.57	-92140.64	7.489889	-0.833333
12	18	B	333084.69	-88877.76	7.500000	-0.803827
12	19	B	338310.04	-73710.58	7.546992	-0.666667
12	20	B	344659.16	-55281.54	7.604077	-0.500000
12	21	B	347357.43	-47449.50	7.628334	-0.429167
12	22	B	351622.56	-38024.47	7.666667	-0.343926
12	23	B	352152.54	-36853.32	7.67143	-0.333333
12	24	B	354126.14	-32492.08	7.689167	-0.293889
12	25	B	361481.23	-18426.04	7.75526	-0.166667

Map (for purposes of illustration only)



SCHEDULE 2

ACCOUNTING PROCEDURE

1. GENERAL PROVISIONS

1.1 Definitions

This Accounting Procedure attached to and forming a part of the Contract is to be followed and observed in the performance of the Parties' obligations hereunder. The defined terms appearing herein shall have the same meaning as is ascribed to them in the Contract.

1.2 Accounts and Statements

The Contractor's accounting records and books shall be kept as provided under Clause 15 of the Contract in accordance with generally accepted and internationally recognized accounting standards, consistent with modern petroleum industry practices and procedures and in accordance with Good Oil Field Practice. All original books of accounts together with original supporting documentation shall be kept and maintained at the office of the Contractor in Sao Tome and Principe.

1.3 In the event of a conflict between the terms of this Accounting Procedure and the Contract, the terms of the Contract shall apply.

1.4 This Accounting Procedure may be amended from time to time by the mutual agreement of the Parties.

2. Operating Costs

2.1 Operating Costs shall be defined as all costs, expenses paid and obligations incurred in carrying out Petroleum Operations and shall consist of:

- (a) Contract Area Non-capital Costs;
- (b) Contract Area Capital Costs;
- (c) Contract Area Non-Drilling Exploration Costs; and
- (d) Contract Area Unsuccessful Exploration and Appraisal Costs.

Operating Costs shall be recorded separately for each Development Area and calculated on the basis of a Contract Area.

2.2 Contract Area Non-capital Costs

Contract Area Non-capital Costs means those Operating Costs incurred that are chargeable to the current year's operations. Contract Area Non-capital Costs includes the following:

- (a) General office expenses - office, services and general administration services pertaining to Petroleum Operations including services of legal, financial,

purchasing, insurance, accounting, computer and the personnel department; communications, transportation, rental of specialized equipment, scholarships, charitable contributions and educational awards.

- (b) Labor and related costs - salaries and wages, including bonuses of employees of the Contractor who are directly engaged in the conduct of Petroleum Operations, whether temporarily or permanently assigned, irrespective of the location of such employee including the costs of employee benefits, customary allowance and personal expenses incurred under the Contractor's practice and policy, and amounts imposed by applicable governmental authorities which are applicable to such employees.

These costs and expenses shall include:

- (i) cost of established plans for employee group life insurance, hospitalization, pension, retirement, savings and other benefit plans;
 - (ii) cost of holidays, vacations, sickness and disability benefits;
 - (iii) cost of living, housing and other customary allowances;
 - (iv) reasonable personal expenses, which are reimbursable under the Contractor's standard personnel policies;
 - (v) obligations imposed by governmental authorities;
 - (vi) cost of transportation of employees, other than as provided in paragraph (c) below, as required in the conduct of Petroleum Operations; and
 - (vii) charges in respect of employees temporarily engaged in Petroleum Operations, which shall be calculated to reflect the actual costs thereto during the period or periods of such engagement.
- (c) Employee relocation costs - costs for relocation, transportation and transfer of employees of the Contractor engaged in Petroleum Operations, including the cost of freight and passenger service of such employees' families and their personal and household effects together with meals, hotel and other expenditures related to such transfer incurred with respect to:
- (i) employees of the Contractor within Sao Tome and Principe including expatriate employees engaged in Petroleum Operations;
 - (ii) transfer to Sao Tome and Principe for engagement in Petroleum Operations;
 - (iii) relocation costs and other expenses incurred in the final repatriation or transfer of the Contractor's expatriate employees and families in the case of such employees' retirement, or separation from the Contractor, or in case of such employees' relocation to the Contractor's point of

origin, provided that relocation costs incurred in moving an expatriate employee and his family beyond point of origin, established at the time of his transfer to Sao Tome and Principe, will not be recoverable as Operating Costs; and

- (iv) Sao-Tomean employees on training assignments outside the Contract Area.
- (d) Services provided by third parties - cost of professional, technical, consultation, utilities and other services procured from third party sources pursuant to any contract or other arrangements between such third parties and the Contractor for the purpose of Petroleum Operations.
- (e) Legal expenses - all costs or expenses of handling, investigating, asserting, defending, and settling litigation or claims arising out of or relating to Petroleum Operations or necessary to protect or recover property used in Petroleum Operations including, but not limited to, legal fees, court costs, arbitration costs, cost of investigation or procuring evidence and amount paid in settlement or satisfaction of any such litigation, arbitration or claims in accordance with the provisions hereof.
- (f) Head office overhead charge – parent company overhead in the amount specified in Clause 15.4 of the Contract.
- (g) Insurance premiums and settlements - premiums paid for insurance normally required to be carried for the Petroleum Operations together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including fees and deductibles relating to the Contractor's performance under the Contract.
- (h) Duties and taxes - all duties and taxes, fees and any Government assessments, including gas flare charges, license fees, custom duties, and any other than Royalty and Tax.
- (i) Operating expenses - labor, materials and services used in day to day oil well operations, oil field production facilities operations, secondary recovery operations, storage, transportation, delivering and marketing operations; and rtother operating activities, including repairs, well walkovers, maintenance and related leasing or rental of all materials, equipment and supplies.
- (j) Successful Exploration drilling - all expenditures incurred in connection with the drilling of any Exploration Well which results in a Commercial Discovery.
- (k) Successful Appraisal drilling – all expenditures incurred in connection with the drilling of Appraisal Wells on a Commercial Discovery.
- (l) Unsuccessful Development drilling - all expenditures incurred in connection with drilling of development wells which are dry, including costs incurred in respect of casing, well cement and well fixtures.

- (m) Successful Development drilling - all intangible expenditures incurred in connection with labor, fuel, repairs, maintenance, hauling, and supplies and materials (not including, casing and other well fixtures) which are for or incidental to drilling, cleaning, deepening or completion wells or the preparation thereof incurred in respect of:
 - (i) determination of well locations, geological, geophysical, topographical and geographical surveys for site evaluation preparatory to drilling including the determination of near surface and near sea bed hazards;
 - (ii) cleaning, draining and leveling land, road-building and the laying of foundations;
 - (iii) drilling, shooting, testing and cleaning wells; and
 - (iv) erection of rigs and tankage assembly and installation of pipelines and other plan and equipment required in the preparation or drilling of wells producing Crude Oil.
- (n) Decommissioning provisions - any deposits in a Decommissioning reserve fund set aside for the purposes of Decommissioning pursuant to Clause 13 of the Contract.
- (o) Affiliate services – professional, administrative, scientific and technical services provided by Affiliates of the Contractor for the direct benefit of Petroleum Operations including services provided by the Exploration, Production, legal, financial, purchasing, insurance, accounting and computer services departments of such Affiliates. Charges for providing these services shall reflect costs only, and must be consistent with international market practices and shall not include any element of profit.
- (p) Pre-production Contract Area Non-capital Costs – all recoverable Contract Area Non-capital Costs incurred before first production from the Contract Area are accumulated and treated as if they had been incurred on the first day of production from the Contract Area.

2.3 **Contract Area Capital Costs**

Contract Area Capital Costs mean those Operating Costs incurred that are subject to depreciation. Contract Area Capital costs include the following:

- (a) Plant expenditures – expenditures in connection with the design, construction, and installation of plant facilities (including machinery, fixtures, and appurtenances) associated with the production, treating, and processing of Crude Oil (except such costs properly allocable to intangible drilling costs) including offshore platforms, secondary or enhanced recovery systems, gas injection, water disposal, expenditures for equipment, machinery and fixtures purchased to conduct Petroleum Operations such as office furniture and fixtures, office equipment, barges, floating crafts, automotive equipment,

petroleum operational aircraft, construction equipment, miscellaneous equipment.

- (b) Pipeline and storage expenditure - expenditures in connection with the design, installation, and construction of pipeline, transportation, storage, and terminal facilities associated with Petroleum Operations including tanks, metering, and export lines.
- (c) Building expenditure - expenditures incurred in connection with the construction of building, structures or works of a permanent nature including workshops, warehouses, offices, roads, wharves, furniture and fixtures related to employee housing and recreational facilities and other tangible property incidental to construction.
- (d) Successful Development drilling - all tangible expenditures incurred in connection with drilling development wells such as casing, tubing, surface and sub-surface production equipment, flow lines and instruments.
- (e) Material inventory - cost of materials purchased and maintained as inventory items solely for Petroleum Operations subject to the following provisions:
 - (i) the Contractor shall supply or purchase any materials required for Petroleum Operations, including those required in the foreseeable future. Inventory stock levels shall take account of the time necessary to provide the replacement, emergency needs and similar considerations;
 - (ii) materials purchased by the Contractor for use in Petroleum Operations shall be valued so as to include invoice price (less prepayment discounts, cash discounts, and other discounts if any) plus freight and forwarding charges between point of supply and point of destination but not included in the invoice price, inspection costs, insurance, custom fees and taxes, on imported materials required for the Contract;
 - (iii) materials not available in Sao Tome and Principe supplied by the Contractor or from its Affiliates stocks shall be valued at the current competitive cost in the international market; and
 - (iv) the Contractor shall maintain physical and accounting controls of materials in stock in accordance with Good Oil Field Practice. The Contractor shall make a total inventory at least once a year to be observed by the National Petroleum Agency and its external auditors. The National Petroleum Agency may however carry out partial or total inventories at its own expenses, whenever it considers necessary, provided such exercise does not unreasonably disrupt Petroleum Operations.
- (f) Pre-production Contract Area Capital Costs – all recoverable Contract Area Capital Costs incurred before first production from the Contract Area are accumulated and treated as if they had been incurred on the first day of

production from the Contract Area.

2.4 **Contract Area Non-Drilling Exploration Costs**

Contract Area Non-Drilling Exploration Costs mean those Operating Costs incurred anywhere in the Contract Area in the Exploration Period or a related activity not directly connected with the drilling of an Exploration Well. Contract Area Non-Drilling Exploration Costs are chargeable to the current year's operations and may be added to the Operating Costs of any Contract Area. Contract Area Non-Drilling Exploration Costs include the following:

- (a) Geological and geophysical surveys - labor, materials and services used in aerial, geological, topographical, geophysical and seismic surveys incurred in connection with exploration excluding the purchase of data from the National Petroleum Agency.
- (b) Pre-Contract seismic costs – reasonable costs associated with the acquisition of seismic data covering the Contract Area, including third party processing but not interpretation of the data by the Contractor or its Affiliates, which were incurred prior to the Effective Date.
- (c) Annual scholarship payments as described under Clause 14 of the Contract.

2.5 **Contract Area Unsuccessful Exploration and Appraisal Costs**

Contract Area Unsuccessful Exploration and Appraisal Costs mean those Operating Costs incurred anywhere in the Contract Area in connection with the drilling of any Exploration Well or Appraisal Well in the Contract Area which does not result in a Commercial Discovery. Contract Area Unsuccessful Exploration and Appraisal Costs are subject to depreciation over a five (5) year period in equal installments of twenty percent (20%) per annum or the remaining life of the Contract Area(s) whichever is less, commencing with production. Unsuccessful Exploration and Appraisal Costs in any period shall be allocated to the Operating Costs of a Contract Area, subject to the following restrictions:

- (a) to the extent that the Contract Area has Available Cost Oil after recovering the Operating Costs (other than Unsuccessful Exploration and Appraisal Costs) related to that Contract Area; and
- (b) if there is insufficient Available Cost Oil in a Contract Area in any period to fully recover Unsuccessful Exploration and Appraisal Costs the unrecovered amount may be carried forward and included in the next period's Unsuccessful Exploration and Appraisal Costs account.

2.6 **Non-Recoverable Costs**

The following costs are explicitly not recoverable as Operating Costs:

- (a) bonuses and expenditure incurred by the Contractor in carrying out any obligation to fund social projects as defined in Clause 2 of the Contract;

- (b) interest incurred under loans taken to finance Petroleum Operations from either inter-Affiliate loans or loans from third parties; and
- (c) costs incurred in excess of five percent (5%) above costs budgeted for in a Work Program and Budget, unless such costs are approved in advance by the National Petroleum Agency.

3. Computation of Royalty and Tax

- 3.1 The Contractor shall compute the amount of Royalty and Tax payable to the State pursuant to and in accordance with the Contract. Such amounts shall be computed in the manner set forth in the Petroleum Law, the Petroleum Taxation Law and the provisions hereof as stated in Article 4 of this Schedule 2.
- 3.2 The Contractor shall compute the Royalty to be paid in cash or delivered in kind to the State in a given month based on the Realizable Price. Tax payments shall be calculated and remitted in accordance with the Petroleum Taxation Law.

4. Accounting Analyses

- 4.1 The Contractor and the National Petroleum Agency shall agree within three (3) months on a format for monthly accounting analysis reflecting the volumes lifted in terms of Royalty Oil, Cost Oil, and Profit Oil, and Proceeds received by each Party.
- 4.2 The Realizable Price and the quantities actually lifted by the Parties shall be used to compute the proceeds as reflected in the agreed monthly accounting analysis format in Article 4.1 above and the allocation of such Proceeds in the categories described under Clause 10 of the Contract shall be reflected.
- 4.3 The allocation of the quantity of Available Crude Oil to each Party pursuant to Clause 10 of the Contract shall be according to and governed by provisions of the Allocation and Lifting Procedure Principles.
- 4.4 The priority of allocation of the total proceeds for each period shall be as follows:
 - (a) Royalty Oil;
 - (b) Cost Oil; and
 - (c) Profit Oil.
- 4.5 The amount chargeable to and recoverable from Royalty Oil, and Cost Oil shall be determined as follows:
 - (a) Royalty Oil - The sum of royalties payable during such month.
 - (b) Cost Oil - The Operating Costs applicable to such month for the purposes of Cost Oil are as follows:
 - (i) Contract Area Non-Capital Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedure and shall be recoverable in full in the period incurred.
 - (ii) Contract Area Capital Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with

this Accounting Procedure and shall be recoverable over the depreciation period or the remaining life of the Contract, whichever is less.

(iii) Contract Area Non-Drilling Exploration Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedure and shall be recoverable in full in the period incurred.

(iv) Contract Area Unsuccessful Exploration and Appraisal Costs shall be the amount recorded in the books and accounts of the Contractor for such month in accordance with this Accounting Procedure and shall be recoverable over the depreciation period of five (5) years in equal installments of twenty percent (20%) per annum or the remaining life of the Contract Area whichever is less commencing with production from the Contract Area which costs are allocated to a Development Area in accordance with Article 2.5 of this Schedule 2.

(c) Any carryover from previous months as provided under Article 4.6 of this Schedule 2.

4.6 Any amounts chargeable and recoverable in excess of the allocation of Proceeds for the month to Royalty Oil and Cost Oil shall be carried forward to subsequent months. Carryovers shall be determined as follows:

(a) A Royalty Oil carryover results when the Proceeds for such month are insufficient for allocation of the Royalty Oil due for the month, as described in Clause 10 of the Contract.

(b) A Cost Oil carryover results when the Proceeds remaining after allocating a portion of the proceeds to Royalty Oil are insufficient for allocation of Cost Oil due for the month, as described in Clause 10 of the Contract.

4.7 Profit Oil is available where Proceeds remain after allocations to Royalty Oil and Cost Oil, pursuant to Articles 4.5 and 4.6 above, and Profit Oil shall be allocated as described in Clause 10 of the Contract.

5. Other Provisions

5.1 The Contractor shall open and keep bank accounts in United States dollars where all funds remitted from abroad shall be deposited for the purpose of meeting local expenditures. For purposes of keeping the books of accounts, any foreign currency remitted by the Contractor shall be converted at the monthly exchange rates published on the date of payment by the Central Bank of Sao Tome and Principe for Dobra, and the Financial Times of London for other currencies.

- 5.2 The Contractor shall prepare financial accounting and budget statements in accordance with the National Petroleum Agency's prescribed reporting format.
- 5.3 With respect to any agreed sum arising out of this Contract owing between the Parties that is past due, any set-off pursuant to Clause 12 of the Contract shall be exercised by giving the other Party written notice thereof accompanied by sufficient description of the offsetting sums to allow the Parties to properly account thereof.

The Contractor shall report on the cumulative production in the Contract Area in a format to be agreed with the National Petroleum Agency.

6. Depreciation Schedule

- 6.1 Any Operating Costs, which are to be depreciated, shall be depreciated according to the following schedule:

Year	Depreciation Rate (%)
1	20%
2	20%
3	20%
4	20%
5	20%

SCHEDULE 3

ALLOCATION AND LIFTING PROCEDURE PRINCIPLES

1. Application

- 1.1 This Allocation and Lifting Procedure attached to and forming part of the Contract sets out the methods for the allocation of available Crude Oil from the Contract Area and the Parties shall allocate all lifting of available Crude Oil in accordance with this Allocation and Lifting Procedure and the Contract.
- 1.2 In the event that the production of Available Crude Oil is segregated into two (2) or more types or grades, the provisions of this Allocation and Lifting Procedure shall apply separately to each such type or grade. To the extent that distribution on such a basis is impracticable, a separate method for the allocation of such Available Crude Oil shall be agreed upon by the Parties.
- 1.3 In the event of a conflict between the terms of this Allocation and Lifting Procedure and the Contract, the terms of the Contract shall apply.
- 1.4 This Allocation and Lifting Procedure may be amended from time to time by mutual agreement of the Parties.

2. Definitions

- 2.1 The words and expressions defined in the Contract when used herein shall have the meaning ascribed to them in the Contract. In addition, the following words shall have the meaning set forth below:
 - (a) "**Current Quarter**" means the calendar quarter within which the relevant schedules are prepared and submitted;
 - (b) "**Forecast Quarter**" means the first calendar quarter succeeding the Current Quarter;
 - (c) "**Lifting Allocation**" means the quantity of Available Crude Oil, which each Party has the right to take in kind, lift and dispose of in accordance with Clause 10 of the Contract;
 - (d) "**Primary Nominations**" means a written statement issued by each Party to the other at least twenty-five (25) days prior to the commencement of each quarter declaring the volume by grade of its estimated Lifting Allocation which the Party desires to lift during the Forecast Quarter;
 - (e) "**Proceeds**" means the amount in United States dollars determined by multiplying the Realizable Price by the number of Barrels of Available Crude Oil lifted by a Party; and

- (f) **"Proceeds Imbalance"** means the difference between each Party's Proceeds to which it is entitled and the Proceeds that each Party has received.

3. Lifting Allocation

- 3.1 On or before September 30 of every Calendar Year, the Operator shall advise the Parties of its forecast of the Available Crude Oil to be produced by grades during each month of the first six (6) months of the next ensuing Calendar Year.
- 3.2 On or before March 31 of every Calendar Year, the Contractor shall advise the National Petroleum Agency of its forecast of Available Crude Oil to be produced by grades during each month of the six (6) months commencing July 1 of the Calendar Year.
- 3.3 Thirty-five (35) days before the commencement of production from the Contract Area and thereafter thirty-five (35) days prior to the beginning of the Forecast Quarter, the Contractor, through the Operator, shall notify the National Petroleum Agency of the estimated Lifting Allocation which can be produced and made available for disposal during the Forecast Quarter. Such estimated Lifting Allocation shall take into account any Proceeds Imbalance for the quarter first preceding the Current Quarter and any estimated Proceeds Imbalance for the Current Quarter computed in accordance with Article 4 of this Schedule 3. Such notice shall indicate the estimated quantities of Royalty Oil, Cost Oil and Profit Oil, each Party's estimated Lifting Allocation and the estimated Realizable Price used to prepare such estimated Lifting Allocations.
- 3.4 Twenty-five (25) days before the commencement of production from the Contract Area and thereafter not later than twenty-five (25) days before the beginning of the Forecast Quarter, each Party shall notify the other of its Primary Nomination of Available Crude Oil which it intends to lift during the Forecast Quarter which shall not exceed its estimated Lifting Allocation.
- 3.5 The estimated Realizable Price to be used by the Contractor to prepare the Estimated Quarterly Lifting Allocation shall be the Realizable Price of the first month of the Current Quarter.
- 3.6 Each Party shall be obliged to lift its own Lifting Allocation. In the event that one Party lifts the other Party's Lifting Allocation, pursuant to Clause 10 of the Contract, the lifting Party shall pay to the non-lifting Party the applicable Proceeds pursuant to Clause 10 of the Contract. In such case, the non-lifting Party shall be treated, for all other purpose under the Contract, as though it had made such lifting itself.

4. Adjustments of Lifting Allocations

- 4.1 On or before thirty five (35) days prior to the last day of the Current Quarter, the Lifting Allocation for the first preceding quarter thereto shall be computed and the Proceeds Imbalance determined and agreed to by the National Petroleum Agency.
- 4.2 On or before thirty five (35) days prior to the last day of the Current Quarter, the Proceeds Imbalance for the Current Quarter shall be estimated, taking into account the

actual Proceeds Imbalance computed for the first preceding quarter under Article 4.1 above.

4.3 The Proceeds Imbalance for the first preceding quarter computed under Article 4.1 above and the estimated Proceed Imbalance for the Current Quarter computed under Article 4.2 above shall be taken into account by the Parties by debiting or crediting such Proceeds Imbalances to each Party's share of the estimated Lifting Allocation for the Forecast Quarter filed by dividing the respective Proceeds Imbalance by the Realizable Price applicable for the period in question.

4.4 The Contractor shall keep complete records of all liftings. At the end of each quarter, the Parties will meet to reconcile the Lifting Allocations and the actual lifting with a view to making adjustments as appropriate. If any disagreement arises with respect to such reconciliation, the area of disagreement shall be mutually resolved by the Parties, in accordance with the official records of the National Petroleum Agency.

4.5 All Lifting Allocations and actual lifting shall be audited at the end of each Calendar Year by a mutually acceptable independent auditor.

5. Scheduling Details

5.1 Scheduling Notification

At least twenty-five (25) days prior to the beginning of a calendar month, the National Petroleum Agency shall notify the Contractor of its proposed tanker schedule for that calendar month specifying the following:

- (a) a loading date range of ten (10) days for each tanker lifting;
- (b) the desired parcel size for each lifting in Barrels, subject always to change within a range of plus or minus five percent (5%) by the Party so nominating;
- (c) the tanker's name or To Be Named (TBN) for each tanker lifting. Tanker nomination made as TBN shall be replaced at least five (5) working days prior to the accepted date range, unless a shorter time is acceptable to the Contractor; and
- (d) documentation instructions shall be given for each lifting not later than four (4) days prior to the first day of the accepted date range for the tanker in question.

5.2 Tanker Substitution

A Party may substitute another tanker to lift its nominated volume of Crude Oil, provided such substituted tanker has the same arrival date range as the originally scheduled tanker and all other provisions of this Allocation and Lifting Procedure are complied with.

5.3 Overlapping Date Ranges

In the event the combined lifting schedule contains overlapping accepted date ranges,

the tanker which gives its Notice of Readiness (NOR) has provided all documentation and obtained clearances first within such accepted date ranges shall be loaded first, unless urgent operational requirements dictate otherwise in which case, demurrage shall be borne by Petroleum Operations and charged to Operating Costs.

5.4 Confirmation of Lifting Schedules

At least fifteen (15) days prior to the beginning of a calendar month, the Contractor shall either confirm the feasibility of the proposed monthly lifting schedules or, alternatively, advise of necessary modifications to such schedules. Such confirmation which shall be in the form of a combined lifting schedule should include a loading date range of three (3) days for each lifting, the first day being the earliest date of arrival and the third day being the latest date of arrival.

5.5 Operational Delays

The Parties recognize that occasionally environmental and technical problems in the Contract Area may cause delays and/or disruptions in the combined lifting schedule. The Contractor shall promptly notify the National Petroleum Agency of such delays and/or disruptions, the projected termination of each of such delays and/or disruptions and advise the National Petroleum Agency of the revised combined lifting schedule. In the event such notification does not allow for a revised combined lifting schedule on the part of the National Petroleum Agency, then any resultant costs will be charged to Operating Costs.

5.6 Estimated Delayed Arrival of a Tanker

Whenever it becomes apparent that a tanker will not be available as scheduled or will be delayed, the Party utilizing such tanker shall notify the other Party(ies) of the circumstances and expected duration of the delay. Upon assessing the impact that the Delay will have upon the combined lifting schedule and production during the current and/or next month, the Contractor shall make appropriate revision(s) to the combined lifting schedule to avoid disruption in production. In the event that any Party fails to lift its nominated share of production in any month/quarter due to circumstances beyond the Party's control or difficulties in maintaining the lifting schedule, that Party shall have the right during the following quarter/month to lift the unlifted quantities.

5.7 Tanker Standards

All tankers nominated for lifting by any Party shall conform to the international regulations and standards concerning size, equipment, safety, maintenance and the like adopted by the Contractor for the terminal in question and by the appropriate authority. Failure of a tanker to meet such standards shall not excuse the nominating Party from the applicable consequences provided in the Contract.

5.8 Destination of Crude Oil

The Contractor shall at all times disclose the destination of the Crude Oil lifted under the Contract.

SCHEDULE 4

PROCUREMENT AND PROJECT IMPLEMENTATION PROCEDURES

1. Application

- 1.1 These Procurement Procedures form part of the Contract and shall be followed and observed in the performance of a Party's obligations under the Contract.
- 1.2 These Procurement Procedures shall be applicable to all contracts and purchase orders whose values exceed the respective limits set forth in Article 1.5 below and which, pursuant thereto, require the prior approval of the National Petroleum Agency.
- 1.3 In the event of a conflict between the terms of these Procurement Procedures and the Contract, the terms of the Contract shall prevail.
- 1.4 These Procurement Procedures may be amended from time to time by the mutual agreement of the Parties.
- 1.5 The Contractor shall have the authority to enter into any contract or place any purchase order in its own name for the performance of services or the procurement of facilities, equipment, materials or supplies, provided that:
 - (a) prior approval of the National Petroleum Agency shall be obtained for all foreign contracts and foreign purchase orders awarded to third parties where the cost exceeds Two Hundred Thousand United States Dollars (U.S.\$200,000) or in another currency equivalent during the Exploration Period and Three Hundred Thousand United States Dollars (U.S.\$300,000) or in another currency equivalent during the Production Period;
 - (b) prior approval of the National Petroleum Agency shall be obtained for all local contracts and purchase orders where the cost exceeds Two Hundred Thousand United States Dollars (U.S.\$200,000) or in other currency equivalent in utilization at the location of the contract or purchase;
 - (c) the amount set forth in paragraphs (a), (b) and (h) of this Article 1.5 will be reviewed by the National Petroleum Agency whenever it becomes apparent to a Party that such limits create unreasonable constraints on Petroleum Operations or are no longer appropriate. In the event of a significant change in the exchange rate of local currencies to United States dollars compared to that which existed on the Effective Date, the National Petroleum Agency shall review the limits set forth in paragraphs (a), (b) and (h) of this Article 1.5;
 - (d) such contracts shall be entered into and such purchase orders shall be placed with third parties which in the Contractor's opinion are technically and financially able to properly perform their obligations;
 - (e) procedures customary in the oil industry for securing competitive prices shall be utilized at all times;

- (f) the Contractor shall give preferences to sub-contractors that are companies organized under the laws of Sao Tome and Principe to the maximum extent possible and in accordance with the Petroleum Law;
- (g) the Contractor shall give preference to such goods which are manufactured or produced in Sao Tome and Principe or services rendered by nationals of Sao Tome and Principe in accordance with the Petroleum Law; and
- (h) the above limits and these procedures shall not apply to purchases made for warehouse replenishment stock not exceeding One Hundred Thousand United States Dollars (U.S\$100,000) or in another currency equivalent nor shall they apply to the purchase of tubulars of less than One Hundred Thousand United States Dollars (U.S\$100,000) or in another currency equivalent made in furtherance of planned drilling programs. Where there are multiple currencies used to make such purchases the total shall not exceed the equivalent of One Hundred Thousand United States Dollars (U.S\$100,000).

2. Project Implementation Procedure

2.1 The Contractor, realizing the need for a project or contract to which these Procurement Procedures apply pursuant to Article 1.5, shall introduce it as part of the proposed Work Program and Budgets to be developed and submitted by the Contractor to the National Petroleum Agency pursuant to Clause 7 of the Contract.

- (a) The Contractor shall provide full information with respect to a project including the following:
 - (i) a clear definition of the necessity and objectives of the project;
 - (ii) the scope of the project; and
 - (iii) the cost estimate thereof.
- (b) The Contractor shall transmit the project proposal along with all related documentation to the National Petroleum Agency for consideration.
- (c) The National Petroleum Agency shall consider the proposal and the recommendation of the Contractor and shall finally determine the matter. If the National Petroleum Agency does not object to the project or any part thereof within thirty (30) days of the submission of the project, the project, as proposed by the Contractor, shall be deemed to have been approved.

2.2 The project, as approved pursuant to Article 2.1, shall form part of the Work Program and Budget for Petroleum Operations. Such approval shall also constitute all authorizations by the National Petroleum Agency to the Contractor to initiate contracts and purchase orders relevant to the project proposal, subject to the provisions of Articles 1.5 and 3 of this Schedule 4.

2.3 The resources for the project design, supervision, and management shall first be drawn from the Contractor's available in-house expertise. If the National Petroleum Agency

approves the foregoing, it may be performed by the Contractor under the approved budget for the project. Competent Sao-Tomean engineering and design companies shall be given priority over other third parties by the Contractor for such projects in accordance with the Petroleum Law. Staff of the National Petroleum Agency who shall be seconded pursuant to Clause 14 of the Contract shall be fully involved in the project design, supervision and management.

2.4 After approval of the project and its budget, the Contractor shall prepare and transmit to the National Petroleum Agency complete details of the project including the following:

- (a) project definition;
- (b) project specification;
- (b) flow diagrams;
- (d) project implementation schedule showing all phases of the project including engineering design, material and equipment procurement, inspection, transportation, fabrication, construction, installation, testing and commissioning;
- (e) major equipment specifications;
- (f) cost estimate of the project;
- (g) an activity status report; and
- (h) copies of all approved authorizations for expenditure (AFEs).

3. **Contract Tender Procedure**

3.1 The following tender procedure shall apply to works contracts and contracts for the supply of services and supply contracts not directly undertaken by the Contractor or an Affiliate:

- (a) The Contractor shall maintain a list of approved sub-contractors for the purpose of contracts for Petroleum Operations, (the "**Approved Contractors' List**"). The National Petroleum Agency shall have the right to nominate sub-contractors to be included in or deleted from the list. The National Petroleum Agency and the Contractor shall be responsible for pre-qualifying any sub-contractor to be included in the Approved Contractors' List.
- (b) Sub-contractors included in the Approved Contractors' List shall be both local and/or overseas sub-contractors and entities. Where required by law, they shall be registered with the National Petroleum Agency.
- (c) When a contract is to be bid, the Contractor shall present a list of proposed bidders to the National Petroleum Agency for concurrence not less than fifteen (15) working days before the issuance of invitations to bid to prospective sub-

contractors. The National Petroleum Agency may propose additional names to be included in the list of proposed bidders or the deletion of anyone thereof. Contract specifications shall be in portuguese or english and in a recognized format used in the international petroleum industry.

- (d) If the National Petroleum Agency has not responded within fifteen (15) working days from the date of the official receipt following the presentation of the list of proposed bidders as aforesaid, the list shall be deemed to have been approved.

3.2 The Contractor shall, within its limits set forth in Article 1.5, establish a Tender Committee who shall be responsible for pre-qualifying bidders, sending out bid invitations, receiving and evaluating bids and determining successful bidders to whom contracts shall be awarded.

3.3 The Contractor shall send analysis and recommendations of bids received and opened by the Tender Committee to the National Petroleum Agency for approval before a contract is signed within thirty (30) working days from the date of the official receipt by the National Petroleum Agency. Approval of the Contractor's recommendations shall be deemed to have been given if the National Petroleum Agency has not responded within such period.

3.4 Prospective vendors and/or sub-contractors for work estimated in excess of One Hundred Thousand United States Dollars (U.S.\$100,000) for the Exploration Period and Two Hundred Thousand United States Dollars (U.S.\$200,000) for the Production Period or their equivalent shall submit the commercial summary of their bids to the Contractor in two (2) properly sealed envelopes, one addressed to the Contractor and one addressed to the National Petroleum Agency. The Contractor shall retain one and send one to the National Petroleum Agency properly enveloped, sealed and addressed to the National Petroleum Agency.

3.5 In all cases, the Contractor shall make full disclosure to the National Petroleum Agency of its relationship, if any, with any sub-contractors.

3.6 These Procurement Procedures may be waived and the Contractor may negotiate directly with a sub-contractor:

- (a) in emergency situations provided that it promptly informs the National Petroleum Agency of the outcome of such negotiations; and
- (b) in work requiring unusually specialized skills or when special circumstances warrant, upon the approval of the National Petroleum Agency, which approval shall not be unreasonably withheld.

4. General Conditions of Contracts

4.1 The payment terms shall provide that:

- (a) unless the Parties agree otherwise, a minimum of ten percent (10%) of the contract price shall be held as a retention fee until after the end of a guarantee

period agreed with the sub-contractor which shall vary between six (6) months and twelve (12) months, depending upon the contract, with the exception of drilling and seismic data acquisition, well surveys and other such services provided that, a sub-contractor may be given the option to provide another guarantee equivalent to the ten percent (10%) retention such as an irrevocable stand-by letter of credit or performance bond; and

(b) a provision shall be made for appropriate withholding tax as may be applicable.

4.2 The governing law of all agreements signed with sub-contractors shall be, to the extent feasible, Sao-Tomean law and if not the laws of England and Wales.

4.3 Sao-Tomean law shall apply to all sub-contractors performing work in the Territory of Sao Tome and Principe. In as far as practicable, they shall use Sao-Tomean resources, both human and material, in accordance with the Petroleum Law.

4.4 Each contract shall provide for early termination, where necessary, and the Contractor shall use all reasonable endeavors to obtain a termination provision with minimal penalty.

4.5 Sub-contractors shall provide, in the case of a foreign sub-contractor, that the local part of the work, in all cases, shall be performed by the sub-contractor's local subsidiary whenever possible.

5. Materials and Equipment Procurement

5.1 The Contractor may, through itself or its Affiliates, procure materials and equipment subject to conditions set forth in this Article 5 and these Procurement Procedures.

5.2 The provisions of this Article 5 shall not apply to lump sum or turnkey contracts/projects.

5.3 In ordering the equipment or materials, the Contractor shall obtain from vendors / manufacturers, such rebates and discounts and such warranties and guarantees that such discounts, guarantees and all other grants and responsibilities shall be for the benefit of Petroleum Operations.

5.4 The Contractor shall:

- (a) by means of established policies and procedures ensure that its procurement efforts provide the best total value, with proper consideration of quality, services, price, delivery and Operating Costs to the benefit of Petroleum Operations;
- (b) maintain appropriate records, which shall be kept up to date, clearly documenting procurement activities;
- (c) provide quarterly and annual inventory of materials and equipment in stock;

- (d) provide a quarterly listing of excess materials and equipment in its stock list to the National Petroleum Agency; and
- (e) check the excess materials and equipment listings from other companies operating in the Territory of Sao Tome and Principe to identify materials available in the country prior to initiating any foreign purchase order.

5.5 The Contractor shall initiate and maintain policies and practices, which provide a competitive environment and climate amongst local and overseas suppliers. Competitive quotation processes shall be employed for all local procurement where the estimated value exceeds the equivalent of One Hundred Thousand United States Dollars (U.S \$100 000) as follows:

- (a) fabrication, wherever practicable, shall be done locally. To this effect, the Petroleum Operations recognize and shall accommodate local offers at a premium not exceeding ten percent (10%); and
- (b) subject to Article 3.1, the Contractor shall give preferences to Sao-Tomean indigenous sub-contractors in the award of contracts. Contracts within the agreed financial limit of the Contractor shall be awarded to only competent Sao-Tomean indigenous sub-contractors possessing the required skill/capability for the execution of such contracts and the Contractor shall notify the National Petroleum Agency accordingly.

5.6 Analysis and recommendation of competitive quotations of a value exceeding the limits established in Article 1.5 shall be transmitted to the National Petroleum Agency for approval before a purchase order is issued to the selected vendor/manufacturer. Approval shall be deemed to have been given if a response has not been received from the National Petroleum Agency within thirty (30) days of receipt by the National Petroleum Agency of the said analysis and recommendations.

5.7 Pre-inspection of the rig, equipment and stock materials of reasonable value shall be jointly carried out at the factory site and/or quay before shipment at the request of either Party.

6. Project Monitoring

6.1 The Contractor shall provide a project report to the National Petroleum Agency.

6.2 For major projects exceeding One Million United States Dollars (U.S \$1,000,000) or its equivalent, the Contractor shall provide to the National Petroleum Agency a detailed quarterly report which shall include:

- (a) the approved budget total for each project;
- (b) the expenditure on each project;
- (c) the variance and explanations;
- (d) the number and value of construction change orders;

- (e) a bar chart of schedules showing work in progress and work already completed and schedule of mile-stones and significant events; and
- (f) a summary of progress during the reporting period, a summary of existing problems, if any, and the proposed remedial action, anticipated problems, and percentage of completion,

provided that the National Petroleum Agency shall have the right to send its own representatives to assess the project based on the report.

- 6.3 In the case of an increase in cost in excess of five percent (5%) of the project, the Contractor shall promptly notify the National Petroleum Agency and obtain necessary budget approval.
- 6.4 Not later than six (6) months following the physical completion of any major project whose cost exceeds One Million United States Dollars (U.S \$1,000,000) or its equivalent, the Contractor shall prepare and deliver to the National Petroleum Agency a project completion report which shall include the following:
 - (a) a cost performance of the project in accordance with the work breakdown at the commencement of the project;
 - (b) the significant variation in any item or sub-item;
 - (c) a summary of problems and expected events encountered during the project; and
 - (d) a list of excess materials.

SCHEDULE 5

SALE OF ASSETS PROCEDURE

Upon the agreement of the National Petroleum Agency that certain identified assets are to be sold, the following procedure shall apply:

1. The Contractor shall call for a bid duly advertised in a minimum of one (1) national newspaper, national radio station and national television station for all assets whose book values are One Hundred Thousand United States dollars (U.S \$100,000) or more, irrespective of length of ownership of such assets.
2. All assets with book values between One Hundred Thousand United States dollars (U.S \$100,000) or more shall be sold with proof of the highest bid from a minimum of three (3) bidders, subject to the highest bidder not being related to the Contractor.
3. A sale of assets to the Contractor's Affiliate shall be brought to the express attention of the National Petroleum Agency and shall take place only with the written consent given by the National Petroleum Agency.
4. The Contractor may dispose of all assets with book values less than One Hundred Thousand United States dollars (U.S \$100,000) in the best manner available to the Contractor on the basis of the highest price available.

SCHEDULE 6

FORM OF PARENTAL GUARANTEE

THIS GUARANTEE is made on this [INSERT DAY] of [INSERT MONTH AND YEAR]

BETWEEN:

- (1) [THE GUARANTOR], a company organized and existing under the laws of [*insert* JURISDICTION], and having its registered office at [INSERT ADDRESS] (the Guarantor); and
- (2) **THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE** (the "State"), represented for the purposes of this Guarantee by the National Petroleum Agency.

WHEREAS, the Guarantor is the parent entity of [INSERT NAME OF COMPANY] organized and existing under the laws of [INSERT JURISDICTION], and having its registered office at [INSERT ADDRESS] (the "**Company**");

WHEREAS, the Company has entered into a production sharing contract (the **Contract**) with, among others, the State in respect of the Contract Area;

WHEREAS, the State desires that the execution and performance of the Contract by the Company be guaranteed by the Guarantor and the Guarantor desires to furnish this Guarantee as an inducement to the State to enter into the Contract and in consideration of the rights and benefits inuring to the Company hereunder; and

WHEREAS, the Guarantor accepts that it fully understands and assumes the contractual obligations under the Contract of the Company.

NOW THEREFORE, it is hereby agreed as follows:

1. **Definitions and Interpretation**

All capitalized words and expressions in this Guarantee have the same meaning as in the Contract, unless otherwise specified to herein.

2. **Scope of this Guarantee**

The Guarantor hereby guarantees to the State the timely payment and performance of any and all indebtedness and obligations whatsoever of the Company to the State arising under or in relation to the Contract, including the payment of any amounts required to be paid by the Company to the State when the same become due and payable, provided that, the obligations of the Guarantor to the State under this instrument will not exceed the lesser of:

- (a) the liabilities of the Company to the State;
- (b) US\$10,000,000 (ten million United States Dollars) during the Exploration

Period, as may be extended in accordance with the Contract; and US\$250,000,000 (two hundred and fifty million United States Dollars) during the Production Period.

3. **Waiver of Notice, Agreement to All Modifications**

The Guarantor hereby waives notice of the acceptance of this Guarantee and of the state of indebtedness of the Company at any time, and expressly agrees to any extensions, renewals, modifications or acceleration of sums due to the State under the Contract or any of the terms of the Contract, all without relieving the Guarantor of any liability under this Guarantee.

4. **Absolute and Unconditional Guarantee**

The obligations of the Guarantor shall be an absolute, unconditional and (except for the provisions of Article 2 above) unlimited guarantee of payment and performance to be performed strictly in accordance with the terms hereof, and without respect to such defences as might be available to the Company.

5. **No Discharge of Guarantor**

The obligations of the Guarantor hereunder shall not in any way be released or otherwise affected by: a release or surrender by the Company of any collateral or other security it may hold or hereafter acquire for payment of any obligation hereby guaranteed; by any change, exchange or alteration of such collateral or other security; by the taking of or the failure to take any action with respect thereto either against the Company or against the Guarantor; or by any other circumstance which might otherwise constitute a legal or equitable discharge or defence of a guarantor.

6. **No Prior Action Required**

The State shall not be required to make demand for payment or performance first against the Company or any other Person or to proceed against any collateral or other security which might be held by the State or otherwise to take any action before resorting to the Guarantor hereunder.

7. **Cumulative Rights**

All rights, powers and remedies of the State hereunder shall be cumulative and not alternative, and shall be in addition to all rights, powers and remedies given to the State by law or otherwise.

8. **Continuing Guarantee**

This Guarantee is intended to be and shall be considered as a continuing guarantee of payment and performance and shall remain in full force and effect for so long as the Contract and any amendments thereto shall remain outstanding or there shall exist any liability of the Company to the State hereunder.

9. **Notice of Demand**

Upon default in the performance of any of the obligations of the Company guaranteed hereunder, the State or its duly authorized attorney may give written notice to the Guarantor at its principle office in [INSERT JURISDICTION] of the amount due, and the Guarantor, within a period of ten (10) business days, will make, or cause to be made, payment of such amount as notified, in United States dollars, at such bank or other place in [*insert jurisdiction*] as the State shall designate and without set-off or reduction whatsoever of such payment in respect of any claim the Parent Company or the Company may then have or thereafter might have.

10. **Assignment**

The Guarantor shall not in any way effect, or cause or permit to be effected, the assignment or transfer of any of its obligations hereunder without the express written consent of the State.

11. **Subrogation**

Until all indebtedness hereby guaranteed has been paid in full, the Guarantor shall have no right of subrogation to any security, collateral or other rights which may be held by the State.

12. **Payment of Expenses**

The Guarantor shall pay to the State all reasonable costs and expenses, including attorney's fees, incurred by it in collecting or compromising any indebtedness of the Company hereby guaranteed or in enforcing the Contract or this Guarantee.

13. **Governing Law and Arbitration**

This Guarantee shall be governed by and interpreted in accordance with the laws of the State.

All disputes or claims arising out of or relating to this Guarantee shall be finally settled by arbitration, in accordance with the procedure set forth in the Contract; however, if in addition to the arbitration hereunder an arbitration has also been commenced under the Contract with respect to obligations hereby guaranteed, the arbitration commenced hereunder shall be consolidated with the arbitration commenced under the Contract and the arbitral body appointed hereunder shall be the same arbitral body appointed pursuant to the Contract. The arbitration shall be conducted in the portuguese and english languages and the decision shall be final and binding on the parties.

14. **Severability of Provisions**

In the event that for any reason any provision hereof may prove illegal, unenforceable or invalid, the validity or enforceability of the remaining provisions hereof shall not be affected.

15. **Confidentiality**

The Guarantor agrees to treat this Guarantee and the Contract as confidential and shall not disclose, willingly or unwillingly, to any third party, except to the extent required

by law, the terms and conditions hereof or thereof without the prior written consent of the State.

IN WITNESS WHEREOF, the Guarantor and the Company execute this Guarantee this [INSERT DAY] day of [INSERT MONTH AND YEAR].

[GUARANTOR]

By: _____
Title: _____

**THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE REPRESENTED
BY AGÊNCIA NACIONAL DO PETRÓLEO DE SÃO TOMÉ E PRÍNCIPE**

By: _____
Title: _____

DEED OF ASSIGNMENT
(PRODUCTION SHARING CONTRACT – BLOCK 12 EEZ)

The present deed of assignment is concluded between:

THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE , represented by the Agência Nacional do Petróleo de São Tomé e Príncipe, hereinafter referred to as “**ANP-STP**”;

and

EQUATOR EXPLORATION STP BLOCK 12 LIMITED, a company existing under the laws of the Commonwealth of The Bahamas whose registered office is at Lyford Manor (West Bldg), Western Road, Lyford Cay, P. O. Box CB-13007, Nassau, The Bahamas with a branch registered in Sao Tome and Principe with the *Guiché Único* under nº 5541/2016 at Avenida da Independência nº 392, Sao Tome, hereinafter referred to as “**EQUATOR**”;

and

KOSMOS ENERGY SAO TOME AND PRINCIPE, a company existing under the laws of the Cayman Islands, registered in the Commercial Registry of the Cayman Islands with the number WT-301785, with registered offices in 4th Floor, Century Yard, Cricket Square, Hutchins Drive, Elgin Avenue, George Town, Grand Cayman KY1-1209, Cayman Islands with a branch registered in Sao Tome and Principe with the *Guiché Único* under nº 5492/2016 at Rua Soldado Paulo Ferreira, Edificio Francisco Cabral, 1º Andar CP. 410 São Tomé, hereinafter referred to as “**KOSMOS**”.

ANP-STP, EQUATOR and KOSMOS may collectively be referred to as the “**Parties**”

WHEREAS

A. THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE represented by the Agência Nacional do Petróleo de São Tomé e Príncipe, (“**ANP-STP**”) and **EQUATOR** are parties to the Production Sharing Contract signed with the Democratic Republic of Sao Tome and Principe on 19 February, 2016 (the “**Contract**”), in pursuance of which they have obtained the exclusive right to undertake petroleum operations in Block 12 within the territory of Sao Tome and Principe;

B. EQUATOR has an eighty seven and a half percent (87.5%) participating interest in the

Contract, which for the purpose of the Assignment Equator has divided it in two parts, one of sixty five percent (65%) and another of twenty two and a half percent (22.5%). Equator agreed to assign and transfer to KOSMOS, which agreed to receive, the above referred sixty five percent (65%) participating interest (the “**Assignment**”);

C. Article 19 of the Contract permits the parties to the Contract comprising the Contractor to assign and transfer in whole or in part their participating interest in the Contract with the respective rights, interests and obligations;

D. Under article 19 of the Contract, ANP-STP, by its letter dated 30th of March 2016, with the Ref N°.057/ANP/GM/2016, authorized the Assignment and made known that it does not intend to exercise any preferential rights in relation to the Assignment;

E. The Parties agree to the Assignment.

In witness whereof, the Parties have agreed the following between themselves in consideration of the obligations set out in the present deed of assignment:

Article 1

The Assignment shall be effective on the date this Deed of Assignment is signed by all Parties (the “**Effective Date**”).

Article 2

By virtue of this Deed of Assignment, EQUATOR assigns and transfers to KOSMOS, and KOSMOS receives, the sixty five percent (65%) participating interest referred to in Recital B, with all rights, interests and obligations (the “**Assigned Interest**”), so that the percentage interest held by the parties in the Contract as of the Effective Date shall be as follows:

ANP-STP	twelve and a half percent (12.5%);
EQUATOR	twenty two and a half percent (22.5 %);
KOSMOS	sixty five percent (65%).

ANP-STP and EQUATOR agree that KOSMOS shall be named as Operator under the Contract.

Article 3

KOSMOS acknowledges and accepts that it shall assume and fulfil all the obligations, responsibilities and duties from the Effective Date, under the Contract that may arise after this date related to the Assigned Interest.

KOSMOS undertakes to indemnify and hold each of ANP-STP and EQUATOR harmless from and against all such obligations, liabilities, duties, costs and expenses arising out of operations relating to the Contract which accrue after the Effective Date to the extent they are related to the Assigned Interest.

Article 4

EQUATOR declares and warrants that it has not transferred, assigned or pledged the Assigned Interest and EQUATOR undertakes to indemnify and shall hold ANP-STP and KOSMOS harmless from all direct claims, losses or damages that ANP-STP and KOSMOS may suffer or incur owing to a violation of the above declaration and warranty.

EQUATOR herein undertakes to indemnify and hold KOSMOS harmless from all direct responsibilities and obligations relating to the Assigned Interest which accrue before the Effective Date.

Article 5

The Parties shall sign all other documents and shall carry out all other requirements that may be necessary or desirable in order to confirm and record the assignment of the Assigned Interest to make the Assignment effective in accordance with the laws of the Democratic Republic of Sao Tome and Principe.

Article 6

All the terms used in the present Deed of Assignment, which are not expressly defined herein, will have the same definition as that indicated in the Contract.

In witness whereof, the Parties have duly signed this deed of assignment in three (3) originals in the Portuguese language and in three (3) originals in the English language. The Portuguese version will prevail in case of discrepancy.

EQUATOR EXPLORATION STP BLOCK 12 LIMITED

Signature: /s/ Olapade Durotoye
Name: OLAPADE DUROTOYE
Position: DIRECTOR
Date: MARCH 31, 2016

KOSMOS ENERGY SAO TOME AND PRINCIPE

Signature: /s/ Scott Davis
Name: SCOTT DAVIS
Position: DIRECTOR BUSINESS DEVELOPMENT
(POWER OF ATTORNEY)
Date: MARCH 31, 2016

By its agreement to this Deed of Assignment, the Agência Nacional do Petróleo de São Tomé e Príncipe, representing THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE and as a party in the Contract, confirms the authorization to the above referred Assignment of the Assigned Interest and that it will not exercise any preferential rights in relation to the Assignment. It further expresses its agreement to the Assignment.

Signature: /s/ Orlando Sousa Pontes
Name: ORLANDO SOUSA PONTES
Position: EXECUTIVE DIRECTOR
Date: MARCH 31, 2016

**FIRST AMENDMENT TO THE
PRODUCTION SHARING CONTRACT**

BY AND AMONG

**THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE
REPRESENTED BY THE
AGÊNCIA NACIONAL DO PETRÓLEO DE SÃO TOMÉ E PRÍNCIPE**

EQUATOR EXPLORATION STP BLOCK 12 LIMITED

AND

KOSMOS ENERGY SAO TOME AND PRINCIPE

**FOR
BLOCK 12**

Amendment Executed on the 31st day of March 2016

THIS FIRST AMENDMENT TO THE PRODUCTION SHARING CONTRACT is entered into the 31st day of March 2016 among:

- (1) THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE (the “State”)** represented by the Agência Nacional do Petróleo de São Tomé e Príncipe, (“ANP-STP”);
- (2) EQUATOR EXPLORATION STP BLOCK 12 LIMITED**, a company existing under the laws of the Commonwealth of The Bahamas whose registered office is at Lyford Manor (West Bldg), Western Road, Lyford Cay, P. O. Box CB-13007, Nassau, The Bahamas with a branch registered in Sao Tome and Principe with the *Guiché Único* under n° 5541/2016 at Avenida da Independência n° 392, São Tomé, hereinafter referred to as “**Equator**”;

AND

- (3) KOSMOS ENERGY SAO TOME AND PRINCIPE**, a company existing under the laws of the Cayman Islands, registered in the Commercial Registry of the Cayman Islands with the number WT-301785, with registered offices in 4th Floor, Century Yard, Cricket Square, Hutchins Drive, Elgin Avenue, George Town, Grand Cayman KY1-1209, Cayman Islands with a branch registered in Sao Tome and Principe with the *Guiché Único* under n° 5492/2016 at Rua Soldado Paulo Ferreira, Edificio Francisco Cabral, 1º Andar CP. 410 São Tomé, hereinafter referred to as “**Kosmos**”..

WHEREAS:

- A.** ANP-STP and Equator are parties to the Production Sharing Contract, signed with the State on 19 February 2016 and made effective on 23 February 2016, (the “**Contract**”), in pursuance of which Equator has obtained the exclusive right to undertake petroleum operations in Block 12 within the Exclusive Economic Zone of Sao Tome and Principe;
- B.** Pursuant to article 19 of the Contract, ANP-STP, Equator and Kosmos executed on 31st day of March 2016, the Deed of Assignment by way of which (i) Equator

assigned to Kosmos a sixty-five percent (65%) participating interest in the Contract; (ii) ANP-STP duly authorized the above-mentioned assignment; (iii) ANP-STP waived any preferential rights it has under the Contract or under applicable Laws to pre-empt the transaction contemplated by the Deed of Assignment. Consequently the participating interests held by the Parties in the Contract shall be the following as of that date:

ANP-STP – twelve and a half per cent (12.5%);

KOSMOS – sixty-five per cent (65%);

EQUATOR – twenty two and a half per cent (22.5%).

- C. ANP-STP, Equator and Kosmos (hereinafter collectively identified as the “**Parties**”) hereby execute this First Amendment to the Contract (the “**Amendment**”).

THEREFORE, the Parties agree as follows:

1. By virtue and as consequence of the assignment of the participation interest referred in recital B above, the Parties agree to amend the Contract, effective on the date of execution of the Deed of Assignment identified in recital B and, as of such date, all references in the Contract to the Contractor (as defined in the Contract) shall be understood as being made also to Kosmos to the extent of its participation in the Contract.
2. To the extent and where applicable, as of the same date, all references in the Contract to Party or Parties shall include Kosmos.
3. As of the date of execution of the Deed of Assignment identified in recital B, the form of Parental Guarantee provided in Schedule 6 of the Contract is hereby replaced with the form of Parental Guarantee provided in the Schedule to this Amendment. Equator and Kosmos shall submit their respective Parental Guarantees in the form provided in the Schedule this Amendment.
4. As a consequence of this Amendment, as of the date of execution of the Deed of Assignment identified in recital B, the Parties agree that, pursuant to clauses 27.4 and 32.1 of the Contract, the following clauses of the Contract are changed as follows:

4.1. Clause 28.1

“28.1. KOSMOS ENERGY SAO TOME E PRINCIPE is hereby designated as the Operator under this Contract to execute, for and on behalf of the Contractor, all Petroleum Operations in the Contract Area pursuant to and in accordance with this Contract and the Petroleum Law.”

4.2. Clause 30

“30.1 Any notice or other communication required to be given by a Party to another shall be in writing (in Portuguese and in English) and shall be considered as duly delivered if given by hand delivery in person, by courier, by facsimile, or by electronic means of transmitting written communication, which provides written communication of receipt at the following addresses:

AGÊNCIA NACIONAL DO PETRÓLEO (ANP-STP)

*Address: Avenida das Nações Unidas, 225
C.P.1048
Sao Tome, Sao Tome and Principe
Name: Executive Director
Fax: +239-2226937 Tel: +239-2243350
Email: anp_geral@cstome.net*

EQUATOR EXPLORATION STP BLOCK 12 LIMITED

*Address: Praia Lagarto, Agua Grande, Sao Tome, Sao Tome and Principe
Tel: +239-222 4387
Name: Managing Director/CEO
Address: 8th Floor, 2 Ajose Adeogun Street, Victoria Island, Lagos, Nigeria
E-mail: eezstp@oandoenergyresources.com
Cc: dadebiyi@oandoenergyresources.com
Tel: +234 1 270 2400*

Name: Philip Dimmock
Address: 1st Floor, 50 Curzon Street, London, W1J 7UW, United Kingdom
E-mail: pdimmock@oandoenergyresources.com
Tel: +44 207 297 4280

KOSMOS ENERGY SAO TOME AND PRINCIPE
4th Floor, Century Yard, Cricket Square,
Hutchins Drive, Elgin Avenue,
George Town, Grand Cayman KY1-1209, Cayman Islands
Attention: License Manager
Fax: +1 214 445 9705
Tel: +1 214 445 9600
Email: SaoTomeLicenseManager@KosmosEnergy.com
Cc: KosmosGeneralCounsel@KosmosEnergy.com "

5. All the remaining provisions of the Contract, which are not expressly modified by this Amendment, shall remain in full force and effect in their precise original terms.
6. Capitalized terms in this Amendment not specifically defined herein shall have the same meaning as defined in the Contract.

Signed and executed on 31st day of March 2016, in three originals, being each one of them held by each one of the Parties hereto.

IN WITNESS WHEREOF the Parties have caused this Amendment to be executed the date above written.

SIGNED AND DELIVERED for and on behalf of THE STATE represented by the Agência Nacional do Petróleo of Sao Tome and Principe

Signature: /s/ Orlando Sousa Pontes

Name: ORLANDO SOUSA PONTES

Designation: EXECUTIVE DIRECTOR

In the presence of:

Signature: /s/ Alvaro Silva

Name: ALVARO SILVA

Designation: LEGAL AND ECONOMIC DIRECTOR

SIGNED AND DELIVERED for and on behalf of EQUATOR EXPLORATION STP BLOCK 12 LIMITED

Signature: /s/ Olapade Durotoye

Name: OLAPADE DUROTOYE

Designation: DIRECTOR

In the presence of:

Signature: /s/ Efuntomi Akpeneye

Name: EFUNTOMI AKPENEYE

Designation: LEGAL ADVISOR

SIGNED AND DELIVERED for and on behalf of KOSMOS ENERGY SAO TOME AND PRINCIPE

Signature: /s/ Scott Davis

Name: SCOTT DAVIS

Designation: DIRECTOR BUSINESS DEVELOPMENT

(POWER OF ATTORNEY)

In the presence of:

Signature: /s/ Joao Nuno Barrocas

Name: JOAO NUNO BARROCAS

Designation: LEGAL ADVISOR

SCHEDULE

SCHEDULE 6

FORM OF PARENTAL COMPANY GUARANTEE

THIS GUARANTEE is made on this [INSERT DAY] of [INSERT MONTH AND YEAR]

BETWEEN:

- (1) **[THE GUARANTOR]**, a company organized and existing under the laws of [insert JURISDICTION], and having its registered office at [INSERT ADDRESS] (the Guarantor); and
- (2) **THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE** (the "State"), represented for the purposes of this Guarantee by the National Petroleum Agency.

WHEREAS, the Guarantor is the parent entity of [INSERT NAME OF COMPANY] organized and existing under the laws of [INSERT JURISDICTION], and having its registered office at [INSERT ADDRESS] (the "**Company**");

WHEREAS, the Company has entered into a production sharing contract (the **Contract**) with, among others, the State in respect of the Contract Area;

WHEREAS, the State desires that the execution and performance of the Contract by the Company be guaranteed by the Guarantor and the Guarantor desires to furnish this Guarantee as an inducement to the State to enter into the Contract and in consideration of the rights and benefits inuring to the Company thereunder; and

WHEREAS, the Guarantor accepts that it fully understands and assumes the contractual obligations under the Contract of the Company.

NOW THEREFORE, it is hereby agreed as follows:

1. Definitions and Interpretation

All capitalized words and expressions in this Guarantee have the same meaning as in the Contract, unless otherwise specified to herein.

2. Scope of this Guarantee

The Guarantor hereby guarantees to the State the timely payment and performance of any and all indebtedness and obligations whatsoever of the Company to the State arising under or in relation to the Contract, including the payment of any amounts required to be paid by the Company to the State when the same become due and payable; provided, however, that the liability of the Guarantor to the State hereunder shall not exceed the lesser of:

- a. the liabilities of the Company to the State;
- b. Guarantor's proportionate share based on the Company's participating interest in the Contract of Ten Million US Dollars (US\$10,000,000) during the Exploration Period, as may be extended in accordance with the Contract, but subject to 2(c) below; and
- c. Guarantor's proportionate share based on the Company's participating interest in the Contract of Two-Hundred Fifty Million US Dollars (US\$250,000,000) during the Production Period.

3. Waiver of Notice, Agreement to All Modifications

The Guarantor hereby waives notice of the acceptance of this Guarantee and of the state of indebtedness of the Company at any time, and expressly agrees to any extensions, renewals, modifications or acceleration of sums due to the State under the Contract or any of the terms of the Contract, all without relieving the Guarantor of any liability under this Guarantee.

4. Absolute and Unconditional Guarantee

The obligations of the Guarantor shall be an absolute, unconditional and (except as provided in Article 2 above) unlimited guarantee of payment and performance to be performed strictly in accordance with the terms hereof, and without respect to such defenses as might be available to the Company.

5. No Discharge of Guarantor

The obligations of the Guarantor hereunder shall not in any way be released or otherwise affected by: a release or surrender by the Company of any collateral or other security it may hold or hereafter acquire for payment of any obligation hereby guaranteed; by any change, exchange or alteration of such collateral or other security; by the taking of or the failure to take any action with respect thereto either against the Company or against the Guarantor; or by any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor.

6. No Prior Action Required

The State shall not be required to make demand for payment or performance first against the Company or any other Person or to proceed against any collateral or other security which might be held by the State or otherwise to take any action before resorting to the Guarantor hereunder.

7. Cumulative Rights

All rights, powers and remedies of the State hereunder shall be cumulative and not alternative, and shall be in addition to all rights, powers and remedies given to the State by law or otherwise.

8. Continuing Guarantee

This Guarantee is intended to be and shall be considered as a continuing guarantee of payment and performance and shall remain in full force and effect for so long as the Contract and any amendments thereto shall remain outstanding or there shall exist any liability of the Company to the State thereunder.

9. Notice of Demand

Upon default in the performance of any of the obligations of the Company guaranteed hereunder, the State or its duly authorized attorney may give written notice to the Guarantor at its principle office in [INSERT JURISDICTION] of the amount due, and the Guarantor, within a period of ten (10) business days, will make, or cause to be made, payment of such amount as notified, in United States dollars, at such bank or other place in [insert jurisdiction] as the State shall designate and without set-off or reduction whatsoever of such payment in respect of any claim the Guarantor or the Company may then have or thereafter might have.

10. Assignment

The Guarantor shall not in any way effect, or cause or permit to be effected, the assignment or transfer of any of its obligations hereunder without the express written consent of the State.

11. Subrogation

Until all indebtedness hereby guaranteed has been paid in full, the Guarantor shall have no right of subrogation to any security, collateral or other rights which may be held by the State.

12. Payment of Expenses

The Guarantor shall pay to the State all reasonable costs and expenses, including attorney's fees, incurred by it in collecting or compromising any indebtedness of the Company hereby guaranteed or in enforcing the Contract or this Guarantee.

13. Governing Law and Arbitration

This Guarantee shall be governed by and interpreted in accordance with the laws of the State.

All disputes or claims arising out of or relating to this Guarantee shall be finally settled by arbitration, in accordance with the procedure set forth in the Contract; however, if in addition to the arbitration hereunder an arbitration has also been commenced under the

Contract with respect to obligations hereby guaranteed, the arbitration commenced hereunder shall be consolidated with the arbitration commenced under the Contract and the arbitral body appointed hereunder shall be the same arbitral body appointed pursuant to the Contract. The arbitration shall be conducted in the Portuguese and English languages and the decision shall be final and binding on the parties.

14. Severability of Provisions

In the event that for any reason any provision hereof may prove illegal, unenforceable or invalid, the validity or enforceability of the remaining provisions hereof shall not be affected.

15. Confidentiality

The Guarantor agrees to treat this Guarantee and the Contract as confidential and shall not disclose, willingly or unwillingly, to any third party, except to the extent required by law, the terms and conditions hereof or thereof without the prior written consent of the State.

IN WITNESS WHEREOF, the Guarantor and the State execute this Guarantee this [INSERT DAY] day of [INSERT MONTH AND YEAR].

[GUARANTOR]

By: _____

Title: _____

THE DEMOCRATIC REPUBLIC OF SAO TOME AND PRINCIPE REPRESENTED BY THE [INSERT ENTITY]

By: _____

Title: _____

Certification of Chief Executive Officer

I, Andrew G. Inglis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kosmos Energy Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2016

/s/ ANDREW G. INGLIS

Andrew G. Inglis
Chairman of the Board of Directors and Chief Executive
Officer
(Principal Executive Officer)

Certification of Chief Financial Officer

I, Thomas P. Chambers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kosmos Energy Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2016

/s/ THOMAS P. CHAMBERS

Thomas P. Chambers
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

**Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the accompanying quarterly report of Kosmos Energy Ltd. (the "Company") on Form 10-Q for the quarter ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew G. Inglis, Chairman of the Board of Directors and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2016

/s/ ANDREW G. INGLIS
Andrew G. Inglis
*Chairman of the Board of Directors and Chief Executive
Officer
(Principal Executive Officer)*

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the accompanying quarterly report of Kosmos Energy Ltd. (the "Company") on Form 10-Q for the quarter ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas P. Chambers, Senior Vice President and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2016

/s/ THOMAS P. CHAMBERS

Thomas P. Chambers

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
