

**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 June 30, 2018

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(Do not check if a smaller reporting company)	Emerging growth company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 1, 2018
Common Shares, \$0.01 par value	398,403,309

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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 wholly owned 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.

“2D seismic data”	Two-dimensional seismic data, serving as interpretive data that allows a view of a vertical cross-section beneath a prospective area.
“3D seismic data”	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.
“API”	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.
“ASC”	Financial Accounting Standards Board Accounting Standards Codification.
“ASU”	Financial Accounting Standards Board Accounting Standards Update.
“Barrel” or “Bbl”	A standard measure of volume for petroleum corresponding to approximately 42 gallons at 60 degrees Fahrenheit.
“BBbl”	Billion barrels of oil.
“BBoe”	Billion barrels of oil equivalent.
“Bcf”	Billion cubic feet.
“Boe”	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.
“Boepd”	Barrels of oil equivalent per day.
“Bopd”	Barrels of oil per day.
“Bwpd”	Barrels of water per day.
“Debt cover ratio”	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.
“Developed acreage”	The number of acres that are allocated or assignable to productive wells or wells capable of production.
“Development”	The phase in which an oil or natural gas field is brought into production by drilling development wells and installing appropriate production systems.

“Dry hole”	A well that has not encountered a hydrocarbon bearing reservoir expected to produce in commercial quantities.
“EBITDAX”	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. The Facility EBITDAX definition includes 50% of the EBITDAX adjustments of Kosmos-Trident International Petroleum Inc.
“E&P”	Exploration and production.
“FASB”	Financial Accounting Standards Board.
“Farm-in”	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.
“Farm-out”	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.
“Field life cover ratio”	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 depletion plus the net present value of the forecast of certain capital expenditures incurred in relation to the Ghana and Equatorial Guinea assets, to (y) the aggregate loan amounts outstanding under the Facility.
“FPSO”	Floating production, storage and offloading vessel.
“Interest cover ratio”	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.
“Loan life cover ratio”	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 Ghana and Equatorial Guinea assets, to (y) the aggregate loan amounts outstanding under the Facility.

“MBbl”	Thousand barrels of oil.
“Mcf”	Thousand cubic feet of natural gas.
“Mcfpd”	Thousand cubic feet per day of natural gas.
“MMBbl”	Million barrels of oil.
“MMBoe”	Million barrels of oil equivalent.
“MMcf”	Million cubic feet of natural gas.
“MMcfd”	Million cubic feet per day of natural gas.
“Natural gas liquid” or “NGL”	Components of natural gas that are separated from the gas state in the form of liquids. These include propane, butane, and ethane, among others.
“Petroleum contract”	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.
“Petroleum system”	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.
“Plan of development” or “PoD”	A written document outlining the steps planned to be undertaken to develop a field.
“Productive well”	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.
“Prospect(s)”	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.
“Proved reserves”	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).
“Proved developed reserves”	Those proved reserves that can be expected to be recovered through existing wells and facilities and by existing operating methods.
“Proved undeveloped reserves”	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>“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)

	June 30, 2018	December 31, 2017
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 116,941	\$ 233,412
Restricted cash	20,377	56,380
Receivables:		
Joint interest billings, net	68,006	134,565
Oil sales	73,700	—
Related party	2,610	780
Other	13,501	25,616
Inventories	71,085	71,861
Prepaid expenses and other	33,638	9,306
Derivatives	18,053	1,682
Total current assets	417,911	533,602
Property and equipment:		
Oil and gas properties, net	2,253,815	2,310,973
Other property, net	9,249	6,855
Property and equipment, net	2,263,064	2,317,828
Other assets:		
Equity method investment	151,310	236,514
Restricted cash	9,168	15,194
Long-term receivables - joint interest billings	28,981	34,941
Deferred financing costs, net of accumulated amortization of \$15,320 and \$13,951 at June 30, 2018 and December 31, 2017, respectively	1,141	2,510
Deferred tax assets	20,763	22,517
Derivatives	10,421	39
Other	684	29,458
Total assets	\$ 2,903,443	\$ 3,192,603
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 128,471	\$ 141,787
Accrued liabilities	145,600	219,412
Derivatives	162,329	67,531
Total current liabilities	436,400	428,730
Long-term liabilities:		
Long-term debt, net	1,167,775	1,282,797
Derivatives	83,733	30,209
Asset retirement obligations	70,122	66,595
Deferred tax liabilities	392,918	476,548
Other long-term liabilities	8,364	10,612
Total long-term liabilities	1,722,912	1,866,761
Shareholders' equity:		
Preference shares, \$0.01 par value; 200,000,000 authorized shares; zero issued at June 30, 2018 and December 31, 2017	—	—
Common shares, \$0.01 par value; 2,000,000,000 authorized shares; 407,557,090 and 398,599,457 issued at June 30, 2018 and December 31, 2017, respectively	4,076	3,986
Additional paid-in capital	2,015,463	2,014,525
Accumulated deficit	(1,226,701)	(1,073,202)
Treasury stock, at cost, 9,263,269 and 9,188,819 shares at June 30, 2018 and December 31, 2017, respectively	(48,707)	(48,197)
Total shareholders' equity	744,131	897,112
Total liabilities and shareholders' equity	\$ 2,903,443	\$ 3,192,603

See accompanying notes.

KOSMOS ENERGY LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenues and other income:				
Oil and gas revenue	\$ 215,191	\$ 136,363	\$ 342,387	\$ 239,795
Other income, net	282	10,161	263	58,695
Total revenues and other income	215,473	146,524	342,650	298,490
Costs and expenses:				
Oil and gas production	49,815	21,604	96,583	41,490
Facilities insurance modifications, net	1,029	(2)	9,478	2,572
Exploration expenses	77,481	19,982	98,674	125,696
General and administrative	17,497	14,739	39,380	30,526
Depletion and depreciation	74,289	72,441	128,566	107,419
Interest and other financing costs, net	18,870	19,465	44,564	36,251
Derivatives, net	140,272	(25,411)	178,750	(63,268)
(Gain) loss on equity method investments, net	(16,100)	6,426	(34,796)	6,426
Other expenses, net	938	2,008	4,643	2,770
Total costs and expenses	364,091	131,252	565,842	289,882
Income (loss) before income taxes	(148,618)	15,272	(223,192)	8,608
Income tax expense (benefit)	(45,345)	23,739	(69,693)	45,916
Net loss	\$ (103,273)	\$ (8,467)	\$ (153,499)	\$ (37,308)
Net loss per share:				
Basic	\$ (0.26)	\$ (0.02)	\$ (0.39)	\$ (0.10)
Diluted	\$ (0.26)	\$ (0.02)	\$ (0.39)	\$ (0.10)
Weighted average number of shares used to compute net loss per share:				
Basic	396,826	387,952	396,218	387,634
Diluted	396,826	387,952	396,218	387,634

See accompanying notes.

KOSMOS ENERGY LTD.**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY****(In thousands)****(Unaudited)**

	<u>Common Shares</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Treasury</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u> <u>Capital</u>	<u>Deficit</u>	<u>Stock</u>	
Balance as of December 31, 2017	398,599	\$ 3,986	\$ 2,014,525	\$ (1,073,202)	\$ (48,197)	\$ 897,112
Equity-based compensation	—	—	18,213	—	—	18,213
Restricted stock awards and units	8,958	90	(90)	—	—	—
Purchase of treasury stock / tax withholdings	—	—	(17,185)	—	(510)	(17,695)
Net loss	—	—	—	(153,499)	—	(153,499)
Balance as of June 30, 2018	<u>407,557</u>	<u>\$ 4,076</u>	<u>\$ 2,015,463</u>	<u>\$ (1,226,701)</u>	<u>\$ (48,707)</u>	<u>\$ 744,131</u>

See accompanying notes.

KOSMOS ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Operating activities		
Net loss	\$ (153,499)	\$ (37,308)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depletion, depreciation and amortization	133,289	112,521
Deferred income taxes	(81,876)	41,017
Unsuccessful well costs	44,654	3,605
Change in fair value of derivatives	177,790	(58,944)
Cash settlements on derivatives, net (including \$(57.3) million and \$24.3 million on commodity hedges during 2018 and 2017)	(56,221)	19,417
Equity-based compensation	17,085	20,329
Loss on extinguishment of debt	4,056	—
Distributions in excess of equity in earnings	5,234	6,426
Other	449	2,514
Changes in assets and liabilities:		
(Increase) decrease in receivables	10,067	(28,251)
(Increase) decrease in inventories	800	(6,038)
(Increase) decrease in prepaid expenses and other	4,888	(17,459)
Decrease in accounts payable	(13,316)	(131,480)
Increase (decrease) in accrued liabilities	(92,967)	56,137
Net cash provided by (used in) operating activities	433	(17,514)
Investing activities		
Oil and gas assets	(92,650)	(42,805)
Other property	(2,815)	(1,454)
Return of investment from KTIPI	79,970	—
Proceeds on sale of assets	—	222,068
Net cash provided by (used in) investing activities	(15,495)	177,809
Financing activities		
Payments on long-term debt	(100,000)	(200,000)
Purchase of treasury stock / tax withholdings	(17,695)	(1,945)
Deferred financing costs	(25,743)	—
Net cash used in financing activities	(143,438)	(201,945)
Net decrease in cash, cash equivalents and restricted cash	(158,500)	(41,650)
Cash, cash equivalents and restricted cash at beginning of period	304,986	273,195
Cash, cash equivalents and restricted cash at end of period	\$ 146,486	\$ 231,545
Supplemental cash flow information		
Cash paid for:		
Interest	\$ 47,845	\$ 24,944
Income taxes	\$ 22,596	\$ 27,199
Non-cash activity:		
Contribution to equity method investment	\$ —	\$ 133,893

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 pure play deepwater oil and gas company with growing production, a pipeline of development opportunities and a balanced exploration portfolio along the Atlantic Margins. Our assets include growing production offshore Ghana and Equatorial Guinea, a competitively positioned Tortue gas project in Mauritania and Senegal and a sustainable exploration program balanced between proven basins (Equatorial Guinea), emerging basins (Mauritania, Senegal and Suriname) and frontier basins (Cote d'Ivoire and Sao Tome and Principe). Kosmos is listed on the New York Stock Exchange and London 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 all of our product sales are related to production located offshore Ghana. We also have an equity method investment generating revenues with operations offshore Equatorial Guinea.

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 June 30, 2018, the changes in the consolidated statements of shareholders' equity for the six months ended June 30, 2018, the consolidated results of operations for the three and six months ended June 30, 2018 and 2017, and the consolidated cash flows for the six months ended June 30, 2018 and 2017. 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, 2017, included in our annual report on Form 10-K.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current presentation. Such reclassifications had no impact on our reported net loss, current assets, total assets, current liabilities, total liabilities, shareholders' equity or cash flows.

Cash, Cash Equivalents and Restricted Cash

	June 30, 2018	December 31, 2017
	(In thousands)	
Cash and cash equivalents	\$ 116,941	\$ 233,412
Restricted cash - current	20,377	56,380
Restricted cash - long-term	9,168	15,194
Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows	<u>\$ 146,486</u>	<u>\$ 304,986</u>

Cash and cash equivalents include demand deposits and funds invested in highly liquid instruments with original maturities of three months or less at the date of purchase.

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 June 30, 2018 and December 31, 2017, we had \$20.4 million and \$31.6 million, respectively, of current restricted cash and \$8.9 million and \$15.2 million, respectively, of long-term restricted cash used to collateralize performance guarantees related to our petroleum contracts. As of June 30, 2018, we also had \$0.3 million in other long-term restricted cash.

In addition, prior to our reserves based debt facility (the "Facility") being amended and restated in February 2018, we were required to maintain a restricted cash balance that was 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 was greater. As of December 31, 2017, we had \$24.8 million in current restricted cash to meet this requirement. Under the amended and restated Facility, we are no longer required to maintain a restricted cash balance provided we are compliant with certain financial covenant ratios.

Inventories

Inventories consisted of \$65.1 million and \$63.5 million of materials and supplies and \$6.0 million and \$8.4 million of hydrocarbons as of June 30, 2018 and December 31, 2017, 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.

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.

Revenue Recognition

We use the sales method of accounting for oil and gas revenues. Under this method, we recognize revenues on the volumes sold. The volumes sold may be more or less than the volumes to which we are entitled based on our ownership interest in the property. These differences result in a condition known in the industry as a production imbalance. A receivable or liability is recognized only to the extent that we have an imbalance on a specific property greater than the expected remaining proved reserves on such property. As of June 30, 2018 and December 31, 2017, we had no oil and gas imbalances recorded in our consolidated financial statements.

Our oil and gas revenues are recognized based on the product that has transferred to the customer during the lifting process as of a point in time when control has transferred, usually over a 24 hour period, and generally based on provisional price contracts which contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from oil sales at the spot price on the date of sale. The embedded derivative, which is not designated as a hedge, is marked to market through oil and gas revenue each period until the final settlement occurs, which generally is limited to the month after the sale.

Oil and gas revenue is composed of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Revenue from contracts with customers - Ghana	\$ 213,841	\$ 140,915	\$ 341,878	\$ 244,355
Provisional oil sales contracts	1,350	(4,552)	509	(4,560)
Oil and gas revenue	<u>\$ 215,191</u>	<u>\$ 136,363</u>	<u>342,387</u>	<u>239,795</u>

Recent Accounting Standards

Recently Adopted

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition," and most industry-specific guidance. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB ASC. The new guidance is effective for annual reporting periods beginning after December 15, 2017 for public companies. Entities have the option of using either a full retrospective or modified retrospective approach to adopt ASU 2014-09. The Company adopted the new standard during the first quarter of 2018 using the modified retrospective approach and there is no impact to our previously recorded revenue under the new standard.

In March 2018, the FASB issued ASU 2018-05, "Income Taxes (Topic 740)." ASU 2018-05 was issued to include amendments to SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 118 ("SAB 118") and addresses certain circumstances that may arise for registrants in accounting for the income tax effects of the Tax Cut and Jobs Act (the "Tax Reform Act"), including when certain income tax effects of the Tax Reform Act are incomplete by the time the financial statements are issued.

Not Yet Adopted

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 new leasing standard requires the modified retrospective adoption method. The Company is in the process of evaluating its contract population to determine the impact of this accounting standard on its consolidated financial statements.

3. Acquisitions and Divestitures

2018 Transactions

In March 2018, as part of our alliance with BP, we entered into petroleum contracts covering Blocks 10 and 13 with the Democratic Republic of Sao Tome and Principe. We presently have a 35% participating interest in the blocks and the operator, BP, holds a 50% participating interest. The national petroleum agency, Agencia Nacional Do Petroleo De Sao Tome E Principe ("ANP STP") has a 15% carried interest in the blocks through exploration. The petroleum contracts cover approximately 13,600 square kilometers, with a first exploration period of four years from the effective date (March 2018). The exploration period can be extended an additional four years at our election subject to fulfilling specific work obligations. The first exploration period work program includes a 13,500 square kilometer 3D seismic acquisition requirement across the two blocks.

In June 2018, we closed a farm-in agreement with a subsidiary of Ophir Energy plc ("Ophir") for Block EG-24, offshore Equatorial Guinea, whereby we acquired a 40% non-operated participating interest. As part of the agreement, we reimbursed a portion of Ophir's previously incurred exploration costs and will fully carry Ophir's share of the costs of a planned 3D seismic program as well as pay a disproportionate share of the well commitment should we enter the second exploration sub-period. The petroleum contracts cover approximately 3,500 square kilometers, with a first exploration period of three years from the effective date (March 2018) which can be extended up to four additional years at our election subject to fulfilling specific work obligations. The first exploration period work program includes a 3,000 square kilometer 3D seismic acquisition requirement.

In August 2018, we entered into an agreement to acquire Deep Gulf Energy (together with its subsidiaries "DGE"), a deepwater company operating in the Gulf of Mexico, from First Reserve Corporation and other shareholders for a total consideration of \$1.225 billion, comprised of \$925 million in cash and \$300 million in Kosmos common stock, subject to post-closing adjustments. We intend to fund the cash portion of the purchase price with borrowings under our existing credit facilities. We also received \$200 million of additional firm commitments under the Facility, which provides further liquidity to the Company. The acquisition is expected to close around the end of the third quarter 2018, subject to receipt of regulatory approval and the satisfaction of customary closing conditions.

2017 Transactions

In the fourth quarter of 2017, through a joint venture with an affiliate of Trident Energy ("Trident"), we acquired all of the equity interest of Hess International Petroleum Inc., a subsidiary of Hess Corporation ("Hess"), which held an 85% paying interest (80.75% revenue interest) in the Ceiba Field and Okume Complex assets located in Block G offshore Equatorial Guinea. Under the terms of the agreement, Kosmos and Trident each own 50% of Hess International Petroleum Inc, which was subsequently renamed Kosmos-Trident International Petroleum Inc. ("KTIPI"). Kosmos is primarily responsible for exploration and subsurface evaluation while Trident is primarily responsible for production operations and optimization. The gross acquisition price was \$650 million effective as of January 1, 2017. After purchase price adjustments, Kosmos paid net cash consideration of approximately \$231 million at close with a combination of cash on hand and amounts borrowed under the Facility. The transaction is accounted for as an equity method investment.

In October 2017, we entered into petroleum contracts covering Blocks EG-21, S, and W with the Republic of Equatorial Guinea. In May 2018, we signed a farm-out agreement with Trident, subject to final government approval, whereby they acquired a 40% participating interest. After giving effect to the farm-out agreement, we hold a 40% participating interest and are the operator in all three blocks. The Equatorial Guinean national oil company, Guinea Equatorial De Petroleos ("GEPetrol"), has a 20% carried participating interest during the exploration period. Should a commercial discovery be made, GEPetrol's 20% carried interest will convert to a 20% participating interest. The petroleum contracts cover approximately 6,000 square kilometers, with a first exploration period of five years from the effective date (March 2018). The first exploration period consists of two sub-periods of three and two years, respectively. The first exploration sub-period work program includes a 6,000 square kilometer 3D seismic acquisition requirement across the three blocks.

In December 2017, as part of our alliance with BP, we entered into petroleum contracts covering Blocks CI-526, CI-602, CI-603, CI-707 and CI-708 with the Government of Cote d'Ivoire. We have a 45% participating interest and are the operator in all five blocks. BP has a 45% participating interest in the blocks and the Cote d'Ivoire national oil company, PETROCI Holding ("PETROCI"), currently has a 10% carried interest. The petroleum contracts cover approximately 17,000 square kilometers, with a first exploration period of three years. The first exploration period work program includes a 12,000 square kilometer 3D seismic acquisition across the five blocks.

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 of its request for the contractor group to pay GNPC's 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. As of June 30, 2018 and December 31, 2017, the current portion of the joint interest billing receivables due from GNPC for the TEN fields development costs were \$14.0 million and \$15.2 million, respectively, and the long-term portion were \$29.0 million and \$31.6 million, respectively.

5. Property and Equipment

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

	June 30, 2018	December 31, 2017
(In thousands)		
Oil and gas properties:		
Proved properties	\$ 1,676,732	\$ 1,653,616
Unproved properties	492,468	465,109
Support equipment and facilities	1,442,325	1,427,054
Total oil and gas properties	3,611,525	3,545,779
Accumulated depletion	(1,357,710)	(1,234,806)
Oil and gas properties, net	2,253,815	2,310,973
Other property	43,906	39,405
Accumulated depreciation	(34,657)	(32,550)
Other property, net	9,249	6,855
Property and equipment, net	\$ 2,263,064	\$ 2,317,828

We recorded depletion expense of \$71.3 million and \$69.9 million for the three months ended June 30, 2018 and 2017, respectively, and \$122.9 million and \$102.4 million for the six months ended June 30, 2018 and 2017, respectively.

6. Suspended Well Costs

The following table reflects the Company's capitalized exploratory well costs on completed wells as of and during the six months ended June 30, 2018. The table excludes \$43.8 million in costs that were capitalized and subsequently expensed during the same period.

	June 30, 2018
(In thousands)	
Beginning balance	\$ 410,113
Additions to capitalized exploratory well costs pending the determination of proved reserves	6,619
Reclassification due to determination of proved reserves	—
Capitalized exploratory well costs charged to expense	(796)
Ending balance	\$ 415,936

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:

	June 30, 2018	December 31, 2017
	(In thousands, except well counts)	
Exploratory well costs capitalized for a period of one year or less	\$ 35,513	\$ 67,159
Exploratory well costs capitalized for a period of one to two years	258,998	291,252
Exploratory well costs capitalized for a period of three to six years	121,425	51,702
Ending balance	\$ 415,936	\$ 410,113
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	5	5

As of June 30, 2018, the projects with exploratory well costs capitalized for more than one year since the completion of drilling are related to the Akasa discovery in the West Cape Three Points ("WCTP") Block and the Wawa discovery in the DT Block, which are all located offshore Ghana, the Greater Tortue discovery which crosses the Mauritania and Senegal maritime border, the BirAllah discovery (formerly known as the Marsouin discovery) in Block C8 offshore Mauritania and the Yakaar and Teranga discoveries in the Cayar Offshore Profond block offshore Senegal.

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 Energy, as required under the WCTP petroleum contract. We expect that the Akasa discovery will be discussed in detail with the partnership group during our third quarter partner meetings in October 2018.

Wawa Discovery — We are currently in discussions with the Ministry of Energy with respect to conducting further subsurface and development concept evaluation in an effort to enlarge the TEN development and production area to capture the resource accumulation located in the Wawa Discovery Area for a potential future integrated development with the TEN fields. We expect that the Wawa discovery will be further discussed with the partnership group during our third quarter partner meetings in October 2018.

Greater Tortue Discovery — In May 2015, we completed the Tortue-1 exploration well in Block C8 offshore Mauritania, which encountered hydrocarbon pay. Two additional wells have been drilled in the Greater Tortue Discovery area, Ahmeyim-2 in Mauritania and Guembeul-1 in Senegal. We completed a drill stem test on the Tortue-1 well in August 2017, which confirmed the production capabilities of the Greater Tortue Discovery. Data acquired from the drill stem test will be used to further optimize field development and to refine process design parameters critical to the Front End Engineering Design ("FEED") process. Following additional evaluation, a decision regarding commerciality will be made.

BirAllah Discovery — In November 2015, we completed the Marsouin-1 exploration well (renamed BirAllah) in the northern part of Block C8 offshore Mauritania which encountered hydrocarbon pay. Following additional evaluation, a decision regarding commerciality will be made.

Yakaar and Teranga Discoveries — In May 2016, we completed the Teranga-1 exploration well in the Cayar Offshore Profond block offshore Senegal which encountered hydrocarbon pay. In June 2017, we completed the Yakaar-1 exploration well in the Cayar Offshore Profond block offshore Senegal which encountered hydrocarbon pay. In November 2017, an integrated Yakaar-Teranga appraisal plan was submitted. Following additional evaluation, a decision regarding commerciality will be made.

7. Equity Method Investments

Kosmos BP Senegal Limited ("KBSL")

As part of our transaction in Senegal with BP in February 2017, our participating interests in the Cayar Offshore Profond and Saint Louis Offshore Profond blocks (the "Senegal Blocks") were contributed to KBSL, a corporate joint venture entity in which we owned a 50.01% interest which was accounted for under the equity method of accounting.

In October 2017, KBSL transferred a 30% participating interest in the Senegal Blocks to BP Senegal Investments Limited in exchange for its outstanding shares of KBSL. As a result, KBSL became a wholly-owned subsidiary of Kosmos, and no longer is accounted for under the equity method of accounting. After the transfer, KBSL has a 30% participating interest in the Senegal Blocks.

During the three and six month periods ended June 30, 2017 we recognized \$6.4 million related to our share of losses in KBSL. Our initial contribution to KBSL was \$133.9 million, which was recorded at our carrying costs.

Equatorial Guinea

As part of our acquisition of KTIPI, a corporate joint venture entity in which we own a 50% interest, we acquired an indirect participating interest in Block G offshore Equatorial Guinea. The objective of this transaction was to acquire the Ceiba Field and Okume Complex with the intent to optimize production and increase reserves. Below is a summary of financial information for KTIPI presented on a 100% basis.

	June 30, 2018	December 31, 2017
(In thousands)		
Assets		
Total current assets	\$ 164,997	\$ 179,070
Property and equipment, net	311,138	345,611
Other assets	544	567
Total assets	<u>\$ 476,679</u>	<u>\$ 525,248</u>
Liabilities and shareholders' equity		
Total current liabilities	\$ 132,096	\$ 106,769
Total long-term liabilities	548,434	565,591
Shareholders' equity:		
Total shareholders' equity	(203,851)	(147,112)
Total liabilities and shareholders' equity	<u>\$ 476,679</u>	<u>\$ 525,248</u>

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
(In thousands)		
Revenues and other income:		
Oil and gas revenue	\$ 138,395	\$ 384,749
Other income	(170)	117
Total revenues and other income	138,225	384,866
Costs and expenses:		
Oil and gas production	23,332	75,033
Depletion and depreciation	21,881	75,951
Other expenses, net	(73)	(152)
Total costs and expenses	45,140	150,832
Income before income taxes	93,085	234,034
Income tax expense	33,620	83,251
Net income	\$ 59,465	\$ 150,783
Kosmos' share of net income	\$ 29,733	\$ 75,392
Basis difference amortization(1)	13,633	40,596
Equity in earnings - KTIPI	\$ 16,100	\$ 34,796

- (1) The basis difference, which is associated with oil and gas properties and subject to amortization, has been allocated to the Ceiba Field and Okume Complex. We amortize the basis difference using the unit-of-production method.

When evaluating our equity method investments for impairment, we review our ability to recover the carrying amount of such investments or the entity's ability to sustain earnings that justify its carrying amount. As of June 30, 2018, we determined that we had the ability to recover the carrying amount of our equity method investment in KTIPI. As such, no impairment has been recorded. Our initial investment has been increased for our net share of equity in earnings as adjusted for our basis differential and reduced by cash dividends received. During the six months ended June 30, 2018, we received \$120.0 million of cash dividends from KTIPI, and we received an additional \$27.5 million of cash dividends in July 2018.

8. Debt

	June 30, 2018	December 31, 2017
(In thousands)		
Outstanding debt principal balances:		
Facility	\$ 700,000	\$ 800,000
Senior Notes	525,000	525,000
Total	1,225,000	1,325,000
Unamortized deferred financing costs and discounts(1)	(57,225)	(42,203)
Long-term debt, net	\$ 1,167,775	\$ 1,282,797

- (1) Includes \$40.9 million and \$23.6 million of unamortized deferred financing costs related to the Facility and \$16.3 million and \$18.6 million of unamortized deferred financing costs and discounts related to the Senior Notes as of June 30, 2018 and December 31, 2017, respectively.

Facility

In February 2018, the Company amended and restated the Facility with a total commitment of \$1.5 billion from a number of financial institutions with additional commitments up to \$0.5 billion being available if the existing financial institutions increase their commitments or if commitments from new financial institutions are added. In August 2018, the Company entered into letter agreements with two existing financial institutions, which obligate the two financial institutions to provide the Company, upon the Company's election, with an additional commitment of \$200 million in the aggregate under the Facility. The borrowing base calculation includes value related to the Jubilee, TEN, Ceiba and Okume fields. The Facility supports our oil and gas exploration, appraisal and development programs and corporate activities. As part of the debt refinancing in February 2018, the repayment of borrowings under the existing facility attributable to financial institutions that did not participate in the amended Facility was accounted for as an extinguishment of debt, and \$4.1 million of existing unamortized debt issuance costs and deferred interest attributable to those participants was expensed in interest and other financing costs, net in the first quarter of 2018. As of June 30, 2018, we have \$40.9 million of unamortized issuance costs related to the Facility, which will be amortized over the remaining term of the Facility. As of June 30, 2018, borrowings under the Facility totaled \$700.0 million and the undrawn availability under the Facility was \$800.0 million.

During the second quarter of 2018, the Company voluntarily repaid \$100.0 million of outstanding borrowings under the Facility, bringing the outstanding borrowings to \$700.0 million. As of June 30, 2018, the borrowing availability was \$1.5 billion.

The Facility provides a revolving credit and letter of credit facility. The availability period for the revolving credit facility, as amended in February 2018 expires 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, 2022, outstanding borrowings will be constrained by an amortization schedule. The Facility has a final maturity date of March 31, 2025. As of June 30, 2018, 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, 2018 (the most recent assessment date). The Facility contains customary cross default provisions.

Corporate Revolver

In August 2018, we amended and restated the Corporate Revolver from a number of financial institutions, maintaining the borrowing capacity at \$400.0 million, extending the maturity date from November 2018 to May 2022 and lowering the margin 100 basis points to 5%. This results in lower commitment fees on the undrawn portion of the total commitments which is 30% per annum of the respective margin. The Corporate Revolver is available for all subsidiaries for general corporate purposes and for oil and gas exploration, appraisal and development programs.

As of June 30, 2018, there were no outstanding borrowings under the Corporate Revolver. We were in compliance with the financial covenants contained in the Corporate Revolver as of March 31, 2018 (the most recent assessment date). The Corporate Revolver contains customary cross default provisions.

Revolving Letter of Credit Facility

We have a revolving letter of credit facility agreement ("LC Facility"), which matures in July 2019. In July 2018, the LC Facility size was voluntarily reduced to \$40.0 million based on the maturation of several large outstanding letters of credit. As of June 30, 2018, there were nine outstanding letters of credit totaling \$36.9 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 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.

At June 30, 2018, the estimated repayments of debt during the five fiscal year periods and thereafter are as follows:

	Payments Due by Year						
	Total	2018(2)	2019	2020	2021	2022	Thereafter
	(In thousands)						
Principal debt repayments(1)	\$ 1,225,000	\$ —	\$ —	\$ —	\$ 525,000	\$ —	\$ 700,000

(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, as of June 30, 2018, our level of borrowings and our estimated future available borrowing base commitment levels in future periods. 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 June 30, 2018, there were no borrowings under the Corporate Revolver.

(2) Represents payments for the period July 1, 2018 through December 31, 2018.

Interest and other financing costs, net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Interest expense	\$ 24,912	\$ 22,792	\$ 49,804	\$ 45,973
Amortization—deferred financing costs	2,283	2,551	4,723	5,102
Loss on extinguishment of debt	—	—	4,056	—
Capitalized interest	(9,292)	(7,376)	(14,112)	(16,935)
Deferred interest	166	634	(1,090)	949
Interest income	(843)	(760)	(1,791)	(1,740)
Other, net	1,644	1,624	2,974	2,902
Interest and other financing costs, net	\$ 18,870	\$ 19,465	\$ 44,564	\$ 36,251

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 June 30, 2018. Volumes and weighted average prices are net of any offsetting derivative contracts entered into.

Term	Type of Contract	MBbl	Weighted Average Dated Brent Price per Bbl							
			Net Deferred Premium Payable/(Receivable)	Swap	Sold Put	Floor	Ceiling	Call		
2018:										
July — December	Swap with puts	3,000	\$ —	\$ 56.75	\$ 43.33	\$ —	\$ —	\$ —	\$ —	\$ —
July — December	Three-way collars	1,466	0.74	—	41.57	56.57	65.91	—	—	—
July — December	Four-way collars	1,503	1.06	—	40.00	50.00	61.33	70.00	—	—
July — December	Sold calls(1)	1,006	—	—	—	—	65.00	—	—	—
July — December	Purchased Calls	1,000	1.88	—	—	—	—	—	70.00	—
2019:										
January — December	Three-way collars	10,500	\$ 0.61	\$ —	\$ 43.81	\$ 53.33	\$ 69.77	\$ —	\$ —	\$ —
January — December	Sold calls(1)	913	—	—	—	—	80.00	—	—	—
2020:										
January — December	Sold calls(1)	4,000	\$ —	\$ —	\$ —	\$ —	\$ 80.00	\$ —	\$ —	\$ —

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

In July 2018, we entered into call option contracts for 3.5 MMBbl from January 2019 through December 2019 with a purchased call price of \$65.00 per barrel and a sold call price of \$75.00 per barrel with a deferred premium payable of \$1.46 per barrel. In addition, we sold 3.5 MMBbl of calls from January 2020 through December 2020 with a strike price of \$80.00 per barrel and used the proceeds to increase the upside exposure on the 2019 calls. The contracts are indexed to Dated Brent prices.

Interest Rate Derivative Contracts

The following table summarizes 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 June 30, 2018:

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

The following tables disclose the Company's derivative instruments as of June 30, 2018 and December 31, 2017 and gain/(loss) from derivatives during the three and six months ended June 30, 2018 and 2017, respectively:

Type of Contract	Balance Sheet Location	Estimated Fair Value	
		Asset	(Liability)
		June 30, 2018	December 31, 2017
(In thousands)			
Derivatives not designated as hedging instruments:			
Derivative assets:			
Commodity(1)	Derivatives assets—current	\$ 17,119	\$ 665
Interest rate	Derivatives assets—current	934	1,017
Commodity(2)	Derivatives assets—long-term	10,421	39
Derivative liabilities:			
Commodity(3)	Derivatives liabilities—current	(162,329)	(67,531)
Commodity(4)	Derivatives liabilities—long-term	(83,733)	(30,209)
Total derivatives not designated as hedging instruments		<u>\$ (217,588)</u>	<u>\$ (96,019)</u>

- Includes net deferred premiums payable of \$2.1 million and net deferred premiums receivable of \$0.8 million related to commodity derivative contracts as of June 30, 2018 and December 31, 2017, respectively.
- Includes net deferred premiums payable of \$0.9 million and net deferred premiums receivable of \$0.1 million related to commodity derivative contracts as of June 30, 2018 and December 31, 2017, respectively.
- Includes net deferred premiums payable of \$5.1 million and \$5.6 million related to commodity derivative contracts as of June 30, 2018 and December 31, 2017, respectively.
- Includes net deferred premiums payable of \$2.8 million and \$4.8 million related to commodity derivative contracts as of June 30, 2018 and December 31, 2017, respectively.

Type of Contract	Location of Gain/(Loss)	Amount of Gain/(Loss)		Amount of Gain/(Loss)	
		Three Months Ended		Six Months Ended	
		June 30,		June 30,	
		2018	2017	2018	2017
(In thousands)					
Derivatives not designated as hedging instruments:					
Commodity(1)	Oil and gas revenue	\$ 1,350	\$ (4,552)	\$ 509	\$ (4,560)
Commodity	Derivatives, net	(140,272)	25,411	(178,750)	63,268
Interest rate	Interest expense	98	(92)	451	236
Total derivatives not designated as hedging instruments		<u>\$ (138,824)</u>	<u>\$ 20,767</u>	<u>\$ (177,790)</u>	<u>\$ 58,944</u>

- 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 June 30, 2018 and December 31, 2017, 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.

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 June 30, 2018 and December 31, 2017, for each fair value hierarchy level:

	Fair Value Measurements Using:				Total
	Quoted Prices in	Significant Other	Significant		
	Active Markets for	Observable Inputs	Unobservable Inputs		
	Identical Assets	(Level 2)	(Level 3)		
	(Level 1)				
(In thousands)					
June 30, 2018					
Assets:					
Commodity derivatives	\$ —	\$ 27,540	\$ —	\$ 27,540	
Interest rate derivatives	—	934	—	934	
Liabilities:					
Commodity derivatives	—	(246,062)	—	(246,062)	
Total	\$ —	\$ (217,588)	\$ —	\$ (217,588)	
December 31, 2017					
Assets:					
Commodity derivatives	\$ —	\$ 704	\$ —	\$ 704	
Interest rate derivatives	—	1,017	—	1,017	
Liabilities:					
Commodity derivatives	—	(97,740)	—	(97,740)	
Total	\$ —	\$ (96,019)	\$ —	\$ (96,019)	

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 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 provisional oil sales derivatives 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

Our interest rate derivatives consist of interest rate swaps, whereby the Company pays a fixed rate of interest and the counterparty pays a variable LIBOR-based rate, and 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 at June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Senior Notes	\$ 509,685	\$ 535,264	\$ 507,600	\$ 542,472
Facility	700,000	700,000	800,000	800,000
Total	\$ 1,209,685	\$ 1,235,264	\$ 1,307,600	\$ 1,342,472

The carrying value of our Senior Notes represents the principal amounts outstanding less unamortized discounts. The fair value of our Senior Notes is based on quoted market prices, which results in a Level 1 fair value measurement. 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.

11. Equity-based Compensation

Restricted Stock Awards and Restricted Stock Units

We record equity-based 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 \$9.1 million and \$10.5 million during the three months ended June 30, 2018 and 2017, respectively, and \$17.1 million and \$20.3 million during the six months ended June 30, 2018 and 2017, respectively. The total tax benefit for the three months ended June 30, 2018 and 2017 was \$1.8 million and \$3.5 million, respectively, and \$3.4 million and \$6.8 million during the six months ended June 30, 2018 and 2017, respectively. Additionally, we recorded a net tax shortfall (windfall) related to equity-based compensation of \$0.4 million and \$3.0 million for the three months ended June 30, 2018 and 2017, respectively, and \$(0.3) million and \$2.8 million during the six months ended June 30, 2018 and 2017, respectively. The fair value of awards vested during the three months ended June 30, 2018 and 2017 was approximately \$25.4 million and \$10.5 million, respectively, and \$82.0 million and \$19.3 million during the six months ended June 30, 2018 and 2017, respectively. The Company 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 vesting 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 June 30, 2018:

	Service Vesting Restricted Stock Awards	Weighted- Average Grant-Date Fair Value
	(In thousands)	
Outstanding at December 31, 2017	220	\$ 8.64
Granted	—	—
Forfeited	—	—
Vested	(220)	8.64
Outstanding at June 30, 2018	—	—

The following table reflects the outstanding restricted stock units as of June 30, 2018:

	Service Vesting Restricted Stock Units	Weighted- Average Grant-Date Fair Value	Market / Service Vesting Restricted Stock Units	Weighted- Average Grant-Date Fair Value
	(In thousands)		(In thousands)	
Outstanding at December 31, 2017	4,183	\$ 6.39	8,452	\$ 11.26
Granted(1)	2,125	6.92	7,439	12.35
Forfeited	(63)	6.73	(37)	10.04
Vested	(2,062)	6.93	(9,350)	13.75
Outstanding at June 30, 2018	4,183	6.33	6,504	8.91

- (1) The restricted stock units with a combination of market and service vesting criteria include 4.9 million shares granted as a result of the 2014 and 2015 awards achieving 200% of their respective market performance conditions.

As of June 30, 2018, total equity-based compensation to be recognized on unvested restricted stock units is \$43.4 million over a weighted average period of 2.24 years. In January 2018, the board of directors approved an amendment to the plan to add 11.0 million shares to the plan which was approved at the Annual General Meeting in June 2018. The LTIP provides for the issuance of 50.5 million shares pursuant to awards under the plan. At June 30, 2018, the Company had approximately 16.0 million shares that remain available for issuance under the LTIP.

For 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 200% of the awards granted. The grant date fair value ranged from \$4.83 to \$15.71 per award. 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 44.0% to 53.0%. 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 0.7% to 2.2%.

12. Income Taxes

We evaluate our estimated annual effective income tax rate based on current and forecasted business results and enacted tax laws on a quarterly basis and apply this tax rate to our ordinary income or loss to calculate our estimated tax expense or benefit. The Company excludes zero tax rate and tax-exempt jurisdictions from our evaluation of the estimated annual effective income tax rate. The tax effect of discrete items are recognized in the period in which they occur at the applicable statutory tax rate.

On December 22, 2017, the President of the United States signed P.L. 115-97, the Tax Reform Act into law. SAB 118 was issued in January 2018 to address situations where certain aspects of the Jobs Act are unclear at issuance of a registrant's financial statements for the reporting period in which the Jobs Act became law. SAB 118 allows us to record provisional amounts during a one-year measurement period. We are analyzing certain aspects of the Jobs Act which could affect the measurement of deferred tax balances or potentially give rise to new deferred tax amounts.

The income tax provision consists of United States and Ghanaian income and Texas margin taxes. Our operations in other foreign jurisdictions have a 0% effective tax rate because they reside in countries with a 0% statutory rate or we have incurred losses in those countries and have full valuation allowances against the corresponding net deferred tax assets.

Income (loss) before income taxes is composed of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Bermuda	\$ (15,890)	\$ (16,759)	\$ (31,961)	\$ (32,940)
United States	1,682	1,382	3,315	2,794
Foreign—other	(134,410)	30,649	(194,546)	38,754
Income (loss) before income taxes	\$ (148,618)	\$ 15,272	\$ (223,192)	\$ 8,608

Our effective tax rate for the three months ended June 30, 2018 and 2017 is 31% and 155%, respectively. For the six months ended, June 30, 2018 and 2017, our effective tax rate was 31% and 533%, respectively. For the periods ended June 30, 2018 and 2017 our overall effective tax rates were impacted by non-deductible and non-taxable items associated with our U.S. and Ghanaian operations and other losses and expenses, primarily related to exploration operations in tax-exempt jurisdictions or in taxable jurisdictions where we have valuation allowances against our deferred tax assets, and therefore, we do not realize any tax benefit on such expenses or losses.

The Company files income tax returns in all jurisdictions where such requirements exist, however, our primary tax jurisdictions are Ghana and the United States. The Company is open to Ghanaian federal income tax examinations for tax years 2014 through 2017 and in the United States, to federal income tax examinations for tax years 2014 through 2017.

As of June 30, 2018, the Company had no material uncertain tax positions. The Company's policy is to recognize potential interest and penalties related to income tax matters in income tax expense.

13. Net Loss Per Share

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Numerator:				
Net loss	\$ (103,273)	\$ (8,467)	\$ (153,499)	\$ (37,308)
Basic income allocable to participating securities(1)	—	—	—	—
Basic net loss allocable to common shareholders	(103,273)	(8,467)	(153,499)	(37,308)
Diluted adjustments to income allocable to participating securities(1)	—	—	—	—
Diluted net loss allocable to common shareholders	\$ (103,273)	\$ (8,467)	\$ (153,499)	\$ (37,308)
Denominator:				
Weighted average number of shares outstanding:				
Basic	396,826	387,952	396,218	387,634
Restricted stock awards and units(1)(2)	—	—	—	—
Diluted	396,826	387,952	396,218	387,634
Net loss per share:				
Basic	\$ (0.26)	\$ (0.02)	\$ (0.39)	\$ (0.10)
Diluted	\$ (0.26)	\$ (0.02)	\$ (0.39)	\$ (0.10)

(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 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 loss per common share calculation in periods we are in a net loss position.

(2) We excluded outstanding restricted stock awards and units of 11.4 million and 13.0 million for the three months ended June 30, 2018 and 2017, respectively, and 11.9 million and 13.0 million for the six months ended June 30, 2018 and 2017, respectively, from the computations of diluted net loss 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.

We currently have a commitment to drill one exploration well in both Mauritania and Suriname. In Mauritania, our partner is obligated to fund our share of the cost of the exploration wells, subject to the remaining exploration and appraisal carry covering both our Mauritania and Senegal blocks. In Equatorial Guinea and Sao Tome and Principe, we have 3D seismic requirements of approximately 9,000 square kilometers and 13,500 square kilometers, respectively.

Future minimum rental commitments under our leases at June 30, 2018, are as follows:

	Payments Due By Year(1)						
	Total	2018(2)	2019	2020	2021	2022	Thereafter
	(In thousands)						
Operating leases(3)	\$ 11,930	\$ 2,521	\$ 5,251	\$ 1,366	\$ 419	\$ 419	\$ 1,954

(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 July 1, 2018 through December 31, 2018.
- (3) Primarily relates to corporate office and foreign office leases.

15. Additional Financial Information

Accrued Liabilities

Accrued liabilities consisted of the following:

	June 30, 2018	December 31, 2017
(In thousands)		
Accrued liabilities:		
Exploration, development and production	\$ 85,079	\$ 144,717
General and administrative expenses	20,178	31,124
Interest	20,331	20,457
Income taxes	2,539	17,423
Taxes other than income	3,906	3,270
Derivatives	12,394	825
Other	1,173	1,596
	\$ 145,600	\$ 219,412

Other Income, Net

Other income, net consisted of zero and \$10.2 million of Loss of Production Income (“LOPI”) proceeds, net related to the turret bearing issue on the Jubilee FPSO for the three months ended June 30, 2018 and 2017, respectively and zero and \$58.7 million for the six months ended June 30, 2018 and 2017, respectively. Our LOPI coverage for this incident ended in May 2017.

Oil and Gas Production

Oil and gas production expense included insurance recoveries related to our increased cost of working covered by our LOPI policy of zero and \$13.7 million for the three months ended June 30, 2018 and 2017, respectively and zero and \$17.1 million for the six months ended June 30, 2018 and 2017, respectively.

Facilities Insurance Modifications, Net

Facilities insurance modifications, net consists of costs associated with the long-term solution to convert the Jubilee FPSO to a permanently spread moored facility which we expect to recover from our insurance policy net of any insurance reimbursements.

Other Expenses, Net

Other expenses, net incurred during the period is comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(In thousands)				
(Gain) loss on disposal of inventory	\$ (24)	\$ 547	\$ (24)	\$ 547
Gain on insurance settlements	—	—	—	(461)
Disputed charges and related costs	626	1,209	2,961	2,439
Other, net	336	252	1,706	245
Other expenses, net	\$ 938	\$ 2,008	\$ 4,643	\$ 2,770

The disputed charges and related costs are expenditures arising from Tullow Ghana Limited's contract with Seadrill for use of the West Leo drilling rig once partner-approved 2016 work program objectives were concluded. Tullow has charged such expenditures to the Deepwater Tano ("DT") joint account. Kosmos disputed through arbitration that these expenditures were chargeable to the DT joint account on the basis that the Seadrill West Leo drilling rig contract was not approved by the DT operating committee pursuant to the DT Joint Operating Agreement. In July 2018, the International Chamber of Commerce ("ICC") issued its Final Award in the arbitration in favor of Kosmos. As a result, we expect to recover from Tullow Ghana Limited the disputed charges, which include amounts previously paid under protest as well as certain costs and fees of pursuing the arbitration, estimated at approximately \$14 million plus interest.

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, 2017, 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 pure play deepwater oil and gas company with growing production, a pipeline of development opportunities and a balanced exploration portfolio along the Atlantic Margins. Our assets include growing production offshore Ghana and Equatorial Guinea, a competitively positioned Tortue gas project in Mauritania and Senegal and a sustainable exploration program balanced between proven basins (Equatorial Guinea), emerging basins (Mauritania, Senegal and Suriname) and frontier basins (Cote d'Ivoire and Sao Tome and Principe).

Recent Developments

Deep Gulf Energy Acquisition

In August 2018, we entered into an agreement to acquire Deep Gulf Energy (together with its subsidiaries "DGE"), a deepwater company operating in the Gulf of Mexico, from First Reserve Corporation and other shareholders for a total consideration of \$1.225 billion, comprised of \$925 million in cash and \$300 million in Kosmos common stock, subject to post-closing adjustments. We intend to fund the cash portion of the purchase price with borrowings under our existing credit facilities. We also received \$200 million of additional firm commitments under the Facility, which provides further liquidity to the Company. The acquisition is expected to close around the end of the third quarter 2018, subject to receipt of regulatory approval and the satisfaction of customary closing conditions.

Corporate

In August 2018, we amended and restated the Corporate Revolver from a number of financial institutions, maintaining the borrowing capacity at \$400.0 million, extending the maturity date from November 2018 to May 2022 and lowering the margin 100 basis points to 5%. This results in lower commitment fees on the undrawn portion of the total commitments which is 30% per annum of the respective margin. The Corporate Revolver is available for all subsidiaries for general corporate purposes and for oil and gas exploration, appraisal and development programs

Our revolving letter of credit facility agreement ("LC Facility") has flexibility that allows us to increase or decrease the available amount as needed if the existing lender increases its commitment or if commitments from new financial institutions are added. In July 2018, the LC Facility size was voluntarily reduced to \$40.0 million based on the maturation of several large outstanding letters of credit.

Ghana

Jubilee

The Jubilee turret remediation work is progressing as planned as the second phase was completed during the second quarter of 2018. We expect rotation of the vessel to take place around the end of 2018 with minimal impact to production in 2018.

The financial impact of lower Jubilee production, as well as the additional expenditures associated with the damage to the turret bearing, is mitigated through a combination of the comprehensive Hull and Machinery insurance ("H&M"), procured by the operator, Tullow, on behalf of the Jubilee Unit partners, and through May 2017, the corporate Loss of Production Income ("LOPI") insurance procured by Kosmos.

Tweneboa, Enyenra and Ntomme ("TEN")

The Ntomme-5 well is expected to be completed and brought online in early August 2018 and is expected to increase production towards FPSO capacity of 80,000 bopd.

Other

Kosmos and its partners have decided to add a second rig, the Stena Forth, in Ghana beginning in October 2018, which should allow drilling and completion operations to be accelerated. There will be no impact to the 2018 capital budget as the savings from the later arrival of the first rig will offset the costs of the second rig.

In June 2016, Kosmos Energy Ghana HC filed a Request for Arbitration with the International Chamber of Commerce against Tullow Ghana Limited in connection with a dispute arising under the DT Joint Operating Agreement. At dispute was Kosmos Energy Ghana HC's responsibility for expenditures arising from Tullow Ghana Limited's contract with Seadrill for use of the West Leo drilling rig once partner-approved 2016 work program objectives were concluded. Tullow sought to charge such expenditures to the DT joint account. Kosmos disputed that these expenditures were chargeable to the DT joint account on the basis that the Seadrill West Leo drilling rig contract was not approved by the DT operating committee pursuant to the DT Joint Operating Agreement and that the Seadrill West Leo drilling rig contract had not been entered into in connection with joint operations.

In July 2018, the International Chamber of Commerce ("ICC") issued its Final Award in the arbitration in favor of Kosmos. As a result, we expect to recover from Tullow Ghana Limited the disputed charges, which include amounts previously paid under protest as well as certain costs and fees of pursuing the arbitration, estimated at approximately \$14 million plus interest. Additionally, we are not required to fund a portion, estimated by Tullow to be approximately \$50.8 million, of Tullow's liability to Seadrill.

Mauritania

In June 2018, we completed a 9,400 square kilometer survey over Block C18 offshore Mauritania.

Senegal

In July 2018, we entered into the second renewal of the exploration period for the Senegal Blocks Contract Areas, which lasts for two and one half years. In the event of commercial success, we have the right to develop and produce oil and/or gas for a period of 25 years from the grant of an exploitation authorization from the government, which may be extended for at least one additional period of 10 years under certain circumstances.

Equatorial Guinea

In June 2018, we closed a farm-in agreement with a subsidiary of Ophir Energy plc ("Ophir") for Block EG-24, offshore Equatorial Guinea, whereby we acquired a 40% non-operated participating interest. As part of the agreement, we reimbursed a portion of Ophir's previously incurred exploration costs and will fully carry Ophir's share of the costs of a planned 3D seismic program as well as pay a disproportionate share of the well commitment should we enter the second exploration sub-period. The petroleum contracts cover approximately 3,500 square kilometers, with a first exploration period of three years from the effective date (March 2018) which can be extended up to four additional years at our election subject to fulfilling specific work obligations. The first exploration period work program includes a 3,000 square kilometer 3D seismic acquisition requirement.

In May 2018, we began a 3D seismic survey of approximately 10,100 square kilometers over blocks EG-21, EG-24, S and W offshore Equatorial Guinea, and approximately 200 square kilometers over Block G which is operated by our equity method investment in Kosmos-Trident International Petroleum Inc. ("KTIPI").

In May 2018, we signed a farm-out agreement with a subsidiary of Trident Energy ("Trident"), subject to final government approval, covering blocks S, W and EG21 offshore Equatorial Guinea. Under the terms of the agreement, Trident acquired a 40% non-operated participating interest in the blocks and Kosmos remains the operator.

Cote d'Ivoire

In May 2018, we completed a 3D seismic survey covering approximately 12,000 square kilometers over blocks CI-526, CI-602, CI-603, CI-707 and CI-708 offshore Cote d'Ivoire.

Suriname

In June 2018, the Anapai-1A exploration well was drilled to a total depth of approximately 4,600 meters and was designed to test lower Cretaceous reservoirs in a structural trap on the flank of the basin. The prospect was fully tested, encountering high quality reservoirs in the targeted zones, but did not find hydrocarbons. The well has been plugged and abandoned.

In July 2018, we entered into the second exploration phase in blocks 42 and 45. The second phase carries a one well commitment per block. This commitment has been met for Block 45 through the Anapai well and will be satisfied for Block 42 with the Pontoenoe exploration well which we plan to spud during the third quarter of 2018.

Results of Operations

All of our results, as presented in the table below, represent operations from Jubilee and TEN fields in Ghana and our equity method investment offshore Equatorial Guinea. Certain operating results and statistics for the three and six months ended June 30, 2018 and 2017 are included in the following tables:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Kosmos	Equity Method Investment - Equatorial Guinea(1)	Total	Kosmos	Equity Method Investment Equatorial Guinea	Total
(In thousands, except per barrel data)						
Sales volumes (MBbl):						
Jubilee	1,900	—	1,900	2,897	—	2,897
TEN	995	—	995	1,932	—	1,932
Ceiba / Okume	—	950	950	—	2,830	2,830
	2,895	950	3,845	4,829	2,830	7,659
Revenues:						
Oil and gas sales	\$ 215,191	\$ 69,198	\$ 284,389	\$ 342,387	\$ 192,375	\$ 534,762
Average sales price per Boe	74.32	72.84	73.96	70.90	67.98	69.82
Costs:						
Oil and gas production, excluding workovers	\$ 51,894	\$ 11,666	\$ 63,560	\$ 94,154	\$ 37,516	\$ 131,670
Oil and gas production, workovers	(2,079)	—	(2,079)	2,429	—	2,429
Total oil and gas production costs	\$ 49,815	\$ 11,666	\$ 61,481	\$ 96,583	\$ 37,516	\$ 134,099
Depletion and depreciation	\$ 74,289	\$ 24,574	\$ 98,863	\$ 128,566	\$ 78,572	\$ 207,138
Average cost per Boe:						
Oil and gas production, excluding workovers	\$ 17.93	\$ 12.28	\$ 16.53	\$ 19.51	\$ 13.26	\$ 17.19
Oil and gas production, workovers	(0.72)	—	(0.54)	0.50	—	0.32
Total oil production costs	17.21	12.28	15.99	20.01	13.26	17.51
Depletion and depreciation	25.66	25.87	25.71	26.61	27.76	27.05
Oil and gas production cost and depletion costs	\$ 42.87	\$ 38.15	\$ 41.70	\$ 46.62	\$ 41.02	\$ 44.56

- (1) For the three and six months ended June 30, 2018, we have presented our 50% share of the results of operations, including our basis difference which is reflected in depletion and depreciation. Under the equity method of accounting, we only recognize our share of the net income of KTIPI, which is recorded in (gain) loss on equity method investments, net in the consolidated statement of operations.

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
(In thousands, except per barrel data)		
Sales volumes (MBbl):		
Jubilee	1,919	3,895
TEN	996	996
	2,915	4,891
Revenues:		
Oil and gas sales	\$ 136,363	\$ 239,795
Average sales price per Boe	46.78	49.03
Costs:		
Oil and gas production, excluding workovers	\$ 21,045	\$ 40,992
Oil and gas production, workovers	559	498
Total oil and gas production costs	\$ 21,604	\$ 41,490
Depletion and depreciation	\$ 72,441	\$ 107,419
Average cost per Boe:		
Oil and gas production, excluding workovers	\$ 7.22	\$ 8.38
Oil and gas production, workovers	0.19	0.10
Total oil production costs	7.41	8.48
Depletion and depreciation	24.85	21.96
Oil and gas production cost and depletion costs	\$ 32.26	\$ 30.44

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 June 30, 2018:

	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	—	—	—	—	—	—	11	2.65
West Cape Three Points	—	—	—	—	2	0.62	—	—
TEN	—	—	1	0.17	—	—	5	0.85
Deepwater Tano	—	—	—	—	1	0.18	—	—
Mauritania								
C8	—	—	—	—	3	0.84	—	—
Senegal								
Saint Louis Offshore Profond	—	—	—	—	1	0.30	—	—
Cayar Profond	—	—	—	—	2	0.60	—	—
Total	—	—	1	0.17	9	2.54	16	3.50

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 June 30, 2018 compared to three months ended June 30, 2017

	Three Months Ended		
	June 30,		Increase
	2018	2017	(Decrease)
(In thousands)			
Revenues and other income:			
Oil and gas revenue	\$ 215,191	\$ 136,363	\$ 78,828
Other income, net	282	10,161	(9,879)
Total revenues and other income	215,473	146,524	68,949
Costs and expenses:			
Oil and gas production	49,815	21,604	28,211
Facilities insurance modifications, net	1,029	(2)	1,031
Exploration expenses	77,481	19,982	57,499
General and administrative	17,497	14,739	2,758
Depletion and depreciation	74,289	72,441	1,848
Interest and other financing costs, net	18,870	19,465	(595)
Derivatives, net	140,272	(25,411)	165,683
(Gain) loss on equity method investment, net	(16,100)	6,426	(22,526)
Other expenses, net	938	2,008	(1,070)
Total costs and expenses	364,091	131,252	232,839
Income (loss) before income taxes	(148,618)	15,272	(163,890)
Income tax expense (benefit)	(45,345)	23,739	(69,084)
Net loss	\$ (103,273)	\$ (8,467)	\$ (94,806)

Oil and gas revenue. Oil and gas revenue increased by \$78.8 million as a result of higher oil prices during the three months ended June 30, 2018, compared to the three months ended June 30, 2017. We lifted and sold 2,895 MBo at an average

realized price per barrel of \$74.32 during the three months ended June 30, 2018 and 2,915 MBbl at an average realized price per barrel of \$46.78 during the three months ended June 30, 2017.

Other income, net. Other income, net decreased by \$9.9 million as we recognized \$10.2 million of LOPI proceeds, net during the three months ended June 30, 2017 related to the turret bearing issue on the Jubilee FPSO. The LOPI claim was finalized in June 2017.

Oil and gas production. Oil and gas production costs increased by \$28.2 million during the three months ended June 30, 2018, as compared to the three months ended June 30, 2017. This is a result of insurance proceeds recognized related to Jubilee turret operating costs as well as credit accrual adjustments from the operator of the Jubilee and TEN fields operator during the three months ended June 30, 2017.

Facilities insurance modifications, net. During the three months ended June 30, 2018, we incurred \$9.4 million of facilities insurance modifications costs associated with the long-term solution to the Jubilee turret bearing issue. These costs were offset by \$8.4 million of hull and machinery insurance proceeds received during the three months ended June 30, 2018 resulting in a net charge of \$1.0 million. During the three months ended June 30, 2017, we incurred \$2.7 million of facilities insurance modifications costs associated with the long-term solution to the Jubilee turret bearing issue. These costs were offset by \$2.7 million of hull and machinery insurance proceeds received during the three months ended June 30, 2017.

Exploration expenses. Exploration expenses increased by \$57.5 million during the three months ended June 30, 2018, as compared to the three months ended June 30, 2017. The increase is primarily a result of \$44.5 million of unsuccessful well costs for the Suriname Anapai-1 and 1A exploration wells and an increase in seismic and G&G costs for the three months ended June 30, 2018.

General and administrative. General and administrative costs increased by \$2.8 million during the three months ended June 30, 2018, as compared with the three months ended June 30, 2017. The increase is driven by the loss of our ability to charge out certain costs associated with the transfer of operatorship of the Tortue development project and WCTP Block to BP and Tullow, respectively.

Depletion and depreciation. Depletion and depreciation increased \$1.8 million during the three months ended June 30, 2018, as compared with the three months ended June 30, 2017. The increase is primarily a result of a higher depletion rate for the Jubilee Field as a result of costs associated with the Mahogany and Teak discovery areas moving into the Jubilee Field's depletable cost basis in the fourth quarter of 2017.

Derivatives, net. During the three months ended June 30, 2018 and 2017, we recorded a loss of \$140.3 million and a gain of \$25.4 million, respectively, on our outstanding hedge positions. The gain and loss recorded were a result of changes in the forward curve of oil prices during the respective periods.

(Gain) loss on equity method investment, net. (Gain) loss on equity method investment, net resulted in a \$22.5 million positive impact compared to 2017 as a result of a \$16.1 million gain on our equity method investment in KTIPI in 2018, compared to a \$6.4 million loss recognized on our equity method investment in Kosmos BP Senegal Limited ("KBSL") in 2017.

Other expenses, net. Other expenses, net decreased \$1.1 million primarily related to a certain inventory write-offs and higher disputed charges and related costs in 2017.

Income tax expense (benefit). For the three months ended June 30, 2018, the Company recognized a net tax benefit because of pre-tax losses related to our Ghanaian operations. For the periods ended June 30, 2018 and 2017 our overall effective tax rates were impacted by non-deductible and non-taxable items associated with our U.S. and Ghanaian operations and other losses and expenses, primarily related to exploration operations in tax-exempt jurisdictions or in taxable jurisdictions where we have valuation allowances against our deferred tax assets, and therefore, we do not realize any tax benefit on such expenses or losses.

Six months ended June 30, 2018 compared to six months ended June 30, 2017

	Six Months Ended		Increase (Decrease)
	June 30,		
	2018	2017	
(In thousands)			
Revenues and other income:			
Oil and gas revenue	\$ 342,387	\$ 239,795	\$ 102,592
Other income, net	263	58,695	(58,432)
Total revenues and other income	342,650	298,490	44,160
Costs and expenses:			
Oil and gas production	96,583	41,490	55,093
Facilities insurance modifications, net	9,478	2,572	6,906
Exploration expenses	98,674	125,696	(27,022)
General and administrative	39,380	30,526	8,854
Depletion and depreciation	128,566	107,419	21,147
Interest and other financing costs, net	44,564	36,251	8,313
Derivatives, net	178,750	(63,268)	242,018
(Gain) loss on equity method investment, net	(34,796)	6,426	(41,222)
Other expenses, net	4,643	2,770	1,873
Total costs and expenses	565,842	289,882	275,960
Income (loss) before income taxes	(223,192)	8,608	(231,800)
Income tax expense (benefit)	(69,693)	45,916	(115,609)
Net loss	\$ (153,499)	\$ (37,308)	\$ (116,191)

Oil and gas revenue. Oil and gas revenue increased by \$102.6 million as a result of higher oil prices during the six months ended June 30, 2018, compared to the six months ended June 30, 2017. We lifted and sold 4,829 MBbl at an average realized price per barrel of \$70.90 during the six months ended June 30, 2018 and 4,891 MBbl at an average realized price per barrel of \$49.03 during the six months ended June 30, 2017.

Other income, net. Other income, net decreased by \$58.4 million as we recognized \$58.7 million of LOPI proceeds, net during the six months ended June 30, 2017 related to the turret bearing issue on the Jubilee FPSO. The LOPI claim was finalized in June 2017.

Oil and gas production. Oil and gas production costs increased by \$55.1 million during the six months ended June 30, 2018, as compared to the six months ended June 30, 2017 primarily as a result of finalized LOPI claim insurance proceeds recognized related to increased costs due to turret issues as well as credit accrual adjustments from the operator of the Jubilee and TEN fields operator recognized during the six months ended June 30, 2017.

Facilities insurance modifications, net. During the six months ended June 30, 2018, we incurred \$19.2 million of facilities insurance modifications costs associated with the long-term solution to the Jubilee turret bearing issue. These costs were offset by \$9.7 million of hull and machinery insurance proceeds received during the six months ended June 30, 2018, resulting in a net charge of \$9.5 million. During the six months ended June 30, 2017, we incurred \$10.2 million of facilities insurance modifications costs associated with the long-term solution to the Jubilee turret bearing issue. These costs were offset by \$7.6 million of insurance proceeds received during the six months ended June 30, 2017 resulting in a net charge of \$2.6 million.

Exploration expenses. Exploration expenses decreased by \$27.0 million during the six months ended June 30, 2018, as compared to the six months ended June 30, 2017. The change is primarily a result of \$42.1 million of stacked rig costs associated with the ENSCO DS-12 (formerly the Atwood Achiever) and a \$48.1 million cancellation payment related to the exercise of our election to cancel the fourth year option of the ENSCO DS-12 drilling rig contract, both recorded during the six months ended June 30, 2017. These decreases were partially offset by \$44.5 million of unsuccessful well costs for the Suriname Anapai-1 and 1A exploration wells and increases in seismic and geological and geophysical costs.

General and administrative. General and administrative costs increased by \$8.9 million during the six months ended June 30, 2018, as compared with the six months ended June 30, 2017. The increase is driven by the loss of our ability to charge out certain costs associated with the transfer of operatorship of the Tortue development project and WCTP Block to BP and Tullow, respectively.

Depletion and depreciation. Depletion and depreciation increased \$21.1 million during the six months ended June 30, 2018, as compared with the six months ended June 30, 2017. The increase is primarily a result of a higher depletion rate for the TEN fields as 2018 had three Jubilee and two TEN liftings compared to four Jubilee and one TEN lifting in 2017. Additionally, the Jubilee Field depletion increased as a result of costs associated with the Mahogany and Teak discovery areas moving into the Jubilee Field's depletable cost basis in the fourth quarter of 2017.

Interest and other financing costs, net. Interest and other financing costs, net increased \$8.3 million primarily a result of expensing \$4.1 million of existing unamortized debt issuance costs and deferred interest in connection with amending the Facility in first quarter 2018 and a \$4.2 million increase in interest related to a higher average interest rate and outstanding debt balance.

Derivatives, net. During the six months ended June 30, 2018 and 2017, we recorded a loss of \$178.8 million and a gain of \$63.3 million, respectively, on our outstanding hedge positions. The gain and loss recorded were a result of changes in the forward curve of oil prices during the respective periods.

(Gain) loss on equity method investment, net. (Gain) loss on equity method investment, net resulted in a \$34.8 million gain on our equity method investment in KTIPI in 2018, compared to a \$6.4 million loss recognized on our equity method investment in KBSL in 2017.

Other expenses, net. Other expenses, net increased \$1.9 million primarily related to an increase in disputed charges and related costs.

Income tax expense (benefit). For the six months ended June 30, 2018, the Company recognized a net tax benefit because of pre-tax losses related to our Ghanaian operations. For the periods ended June 30, 2018 and 2017 our overall effective tax rates were impacted by non-deductible and non-taxable items associated with our U.S. and Ghanaian operations and other losses and expenses, primarily related to exploration operations in tax-exempt jurisdictions or in taxable jurisdictions where we have valuation allowances against our deferred tax assets, and therefore, we do not realize any tax benefit on such expenses or losses.

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 Margins. 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 as well as partner carries.

While we are presently in a strong financial position, commodity prices are volatile and could negatively impact our ability to generate sufficient operating cash flows to meet our funding requirements. To partially mitigate this price volatility, we maintain a hedging program. Our investment decisions are based on longer-term commodity prices based on the long-term nature of our projects and development plans. Also, BP has agreed to partially carry our exploration, appraisal and development program in Mauritania and Senegal. Current commodity prices, combined with our hedging program, partner carries and our current liquidity position support our capital program for 2018.

Sources and Uses of Cash

The following table presents the sources and uses of our cash and cash equivalents for the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30,	
	2018	2017
(In thousands)		
Sources of cash, cash equivalents and restricted cash:		
Net cash provided by (used in) operating activities	\$ 433	\$ (17,514)
Return of investment from KTIPI	79,970	—
Proceeds on sale of assets	—	222,068
	80,403	204,554
Uses of cash, cash equivalents and restricted cash:		
Oil and gas assets	92,650	42,805
Other property	2,815	1,454
Payments on long-term debt	100,000	200,000
Purchase of treasury stock	17,695	1,945
Deferred financing costs	25,743	—
	238,903	246,204
Decrease in cash, cash equivalents and restricted cash	\$ (158,500)	\$ (41,650)

Net cash provided by (used in) operating activities. Net cash provided by operating activities for the six months ended June 30, 2018 was \$0.4 million compared with net cash used in operating activities for the six months ended June 30, 2017 of \$17.5 million. The increase in cash provided by operating activities in the six months ended June 30, 2018 when compared to the same period in 2017 is primarily a result of an increase in oil and gas revenue and a decrease in exploration expenses related to the stacked rig costs and rig option cancellation payment, both recorded during the six months ended June 30, 2017 partially offset by a decrease in LOPI proceeds, net and an increase in payments related to derivative cash settlements.

The following table presents our net debt and liquidity as of June 30, 2018:

	June 30, 2018
	(In thousands)
Cash and cash equivalents	\$ 116,941
Restricted cash	29,545
Senior Notes at par	525,000
Drawings under the Facility	700,000
Net debt	\$ 1,078,514
Availability under the Facility	\$ 800,000
Availability under the Corporate Revolver	\$ 400,000
Available borrowings plus cash and cash equivalents	\$ 1,316,941

Capital Expenditures and Investments

We expect to incur capital costs as we:

- drill additional wells in the Jubilee and TEN Fields;
- fund asset integrity projects at Jubilee;
- execute exploration and appraisal activities in a number of our exploration license areas, including drilling one exploration well in Suriname; and
- acquire and analyze seismic on existing licenses, pursue new ventures and manage our rig activities.

We have relied on a number of assumptions in budgeting for our future activities. We also evaluate potential corporate and asset acquisition opportunities to support and expand our asset portfolio, which may impact our budget assumptions. 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.

2018 Capital Program

We estimate we will spend approximately \$300 million of capital, net of carry amounts related to the Mauritania and Senegal transactions with BP, for the year ending December 31, 2018. However, the ultimate amount of capital we will spend may vary or fluctuate materially based on market conditions and the success of our drilling results among other factors. Through June 30, 2018, we have spent approximately \$154.8 million.

Significant Sources of Capital

Facility

In February 2018, the Company amended and restated the Facility with a total commitment of \$1.5 billion from a number of financial institutions with additional commitments up to \$0.5 billion being available if the existing financial institutions increase their commitments or if commitments from new financial institutions are added. In August 2018, the Company entered into letter agreements with two existing financial institutions, which obligate the two financial institutions to provide the Company, upon the Company's election, with an additional commitment of \$200 million in the aggregate under the Facility. The borrowing base calculation includes value related to the Jubilee, TEN, Ceiba and Okume fields. The Facility supports our oil and gas exploration, appraisal and development programs and corporate activities. As part of the debt refinancing in February 2018, the repayment of borrowings under the existing facility attributable to financial institutions that did not participate in the amended Facility was accounted for as an extinguishment of debt, and \$4.1 million of existing unamortized debt issuance costs and deferred interest attributable to those participants was expensed in interest and other financing costs, net in the first quarter of 2018. As of June 30, 2018, we have \$40.9 million of unamortized issuance costs related to the Facility, which will be amortized over the remaining term of the Facility.

The Facility provides a revolving credit and letter of credit facility. The availability period for the revolving credit facility, as amended in February 2018 expires 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, 2022, outstanding borrowings will be constrained by an amortization schedule. The Facility has a final maturity date of March 31, 2025. As of June 30, 2018, 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, 2018 (the most recent assessment date). The Facility contains customary cross default provisions.

Corporate Revolver

In August 2018, we amended and restated the Corporate Revolver from a number of financial institutions, maintaining the borrowing capacity at \$400.0 million, extending the maturity date from November 2018 to May 2022 and lowering the margin 100 basis points to 5%. This results in lower commitment fees on the undrawn portion of the total commitments which is 30% per annum of the respective margin. The Corporate Revolver is available for all subsidiaries for general corporate purposes and for oil and gas exploration, appraisal and development programs.

As of June 30, 2018, there were no outstanding borrowings under the Corporate Revolver. We were in compliance with the financial covenants contained in the Corporate Revolver as of March 31, 2018 (the most recent assessment date). The Corporate Revolver contains customary cross default provisions.

Revolving Letter of Credit Facility

We have a revolving letter of credit facility agreement (“LC Facility”), which matures in July 2019. In July 2018, the LC Facility size was voluntarily reduced to \$40.0 million based on the maturation of several large outstanding letters of credit. As of June 30, 2018, there were nine outstanding letters of credit totaling \$36.9 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 June 30, 2018:

	Payments Due By Year(4)						
	Total	2018(5)	2019	2020	2021	2022	Thereafter
	(In thousands)						
Principal debt repayments(1)	\$ 1,225,000	\$ —	\$ —	\$ —	\$ 525,000	\$ —	\$ 700,000
Interest payments on long-term debt(2)	462,831	47,060	91,272	92,280	91,776	52,603	87,840
Operating leases(3)	11,930	2,521	5,251	1,366	419	419	1,954

- (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 June 30, 2018. 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.

- (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) 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 and seismic obligations, in our petroleum contracts.
- (5) Represents the period from July 1, 2018 through December 31, 2018.

We currently have a commitment to drill one exploration well in both Mauritania and Suriname. In Mauritania, our partner is obligated to fund our share of the cost of the exploration wells, subject to the remaining exploration and appraisal carry covering both our Mauritania and Senegal blocks. In Equatorial Guinea and Sao Tome and Principe, we have 3D seismic requirements of approximately 9,000 square kilometers and 13,500 square kilometers, respectively.

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 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 our Corporate Revolver, as there were no borrowings as of June 30, 2018, nor does it include amortization of deferred financing costs.

	Years Ending December 31,						Asset (Liability) Fair Value at June 30, 2018
	2018(5)	2019	2020	2021	2022	Thereafter	
	(In thousands, except percentages)						
Fixed rate debt:							
Senior Notes	\$ —	\$ —	\$ —	\$ 525,000	\$ —	\$ —	\$ (535,264)
Fixed interest rate	7.88%	7.88%	7.88%	7.88%	—	—	
Variable rate debt:							
Facility(1)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 700,000	\$ (700,000)
Weighted average interest rate(2)	5.45%	5.92%	6.07%	6.12%	6.46%	6.75%	
Capped interest rate swaps:							
Notional debt amount (\$200,000)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 934
Cap	3.00%	—	—	—	—	—	
Average fixed rate payable(3)	1.23%	—	—	—	—	—	
Variable rate receivable(4)	2.22%	—	—	—	—	—	

- (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 June 30, 2018. 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 June 30, 2018, 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) 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.
- (4) Based on implied forward rates in the yield curve at the reporting date.
- (5) Represents the period July 1, 2018 through December 31, 2018.

Off-Balance Sheet Arrangements

We may enter into off-balance sheet arrangements and transactions that can give rise to material off-balance sheet obligations. As of June 30, 2018, 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. There have been no changes to our critical accounting policies which 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, 2017.

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 the countries in which we operate (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;
- environmental liabilities;
- geological, geophysical and other technical and operations problems, including drilling and oil and gas production and processing;
- 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 and whether our insurers comply with their obligations under our coverage agreements;

- 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, letters of credit and other secured debt;
- the result of any legal proceedings, arbitrations, or investigations we may be subject to or involved in;
- 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 six months ended June 30, 2018:

	Derivative Contracts Assets (Liabilities)		
	Commodities	Interest Rates	Total
	(In thousands)		
Fair value of contracts outstanding as of December 31, 2017	\$ (97,036)	\$ 1,017	\$ (96,019)
Changes in contract fair value	(178,241)	451	(177,790)
Contract maturities	56,755	(534)	56,221
Fair value of contracts outstanding as of June 30, 2018	\$ (218,522)	\$ 934	\$ (217,588)

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; prices during the six months ended June 30, 2018 ranged between \$61.52 and \$80.29.

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 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 June 30, 2018. Volumes and weighted average prices are net of any offsetting derivatives entered into.

Term	Type of Contract	MBbl	Weighted Average Dated Brent Price per Bbl						Asset (Liability)
			Net Deferred Premium Payable/(Receivable)	Swap	Sold Put	Floor	Ceiling	Call	Fair Value at June 30, 2018(2)
(In thousands)									
2018:									
July — December	Swap with puts	3,000	\$ —	\$ 56.75	\$ 43.33	\$ —	\$ —	\$ —	\$ (60,845)
July — December	Three-way collars	1,466	0.74	—	41.57	56.57	65.91	—	(19,443)
July — December	Four-way collars	1,503	1.06	—	40.00	50.00	61.33	70.00	(12,697)
July — December	Sold calls(1)	1,006	—	—	—	—	65.00	—	(12,854)
July — December	Purchased Calls	1,000	1.88	—	—	—	—	70.00	6,898
2019:									
January — December	Three-way collars	10,500	\$ 0.61	\$ —	\$ 43.81	\$ 53.33	\$ 69.77	\$ —	\$ (97,212)
January — December	Sold calls(1)	913	—	—	—	—	80.00	—	(4,172)
2020:									
January — December	Sold calls(1)	4,000	—	—	—	—	80.00	—	(18,197)

(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 June 30, 2018 which by year are: 2018 — \$78.01; 2019 — \$74.05 and 2020 — \$69.28. These fair values are subject to changes in the underlying commodity price. The average forward Dated Brent oil prices based on August 1, 2018 market quotes by year are: 2018 — \$72.20; 2019 — \$70.83 and 2020 — \$67.87.

In July 2018, we entered into call option contracts for 3.5 MMBbl from January 2019 through December 2019 with a purchased call price of \$65.00 per barrel and a sold call price of \$75.00 per barrel with a deferred premium payable of \$1.46 per barrel. In addition, we sold 3.5 MMBbl of calls from January 2020 through December 2020 with a strike price of \$80.00 per barrel and used the proceeds to increase the upside exposure on the 2019 calls. The contracts are indexed to Dated Brent prices.

At June 30, 2018, our open commodity derivative instruments were in a net liability position of \$218.5 million. As of June 30, 2018, a hypothetical 10% price increase in the commodity futures price curves would decrease future pre-tax earnings by approximately \$101.7 million. Similarly, a hypothetical 10% price decrease would increase future pre-tax earnings by approximately \$103.3 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 June 30, 2018, we had indebtedness outstanding under the Facility of \$700.0 million, of which \$500.0 million bore interest at floating rates after consideration of our fixed rate interest rate hedges. The interest rate on this indebtedness as of June 30, 2018 was approximately 5.2%. If LIBOR increased by 10% at this level of floating rate debt, we would pay an additional \$1.0 million in interest expense per year on the Facility. We pay commitment fees on the undrawn availability and unavailable commitments under the Facility and on the undrawn availability under the Corporate Revolver, which are not subject to changes in interest rates.

As of June 30, 2018, the fair market value of our interest rate swaps was a net asset of approximately \$0.9 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 June 30, 2018, 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.

In June 2016, Kosmos Energy Ghana HC filed a Request for Arbitration with the International Chamber of Commerce against Tullow Ghana Limited in connection with a dispute arising under the DT Joint Operating Agreement. At dispute was Kosmos Energy Ghana HC’s responsibility for expenditures arising from Tullow Ghana Limited’s contract with Seadrill for use of the West Leo drilling rig once partner-approved 2016 work program objectives were concluded. Tullow sought to charge such expenditures to the DT joint account. Kosmos disputed that these expenditures were chargeable to the DT joint account on the basis that the Seadrill West Leo drilling rig contract was not approved by the DT operating committee pursuant to the DT Joint Operating Agreement and that the Seadrill West Leo drilling rig contract had not been entered into in connection with joint operations.

In July 2018, the International Chamber of Commerce (“ICC”) issued its Final Award in the arbitration in favor of Kosmos. As a result, we expect to recover from Tullow Ghana Limited the disputed charges, which include amounts previously paid under protest as well as certain costs and fees of pursuing the arbitration, estimated at approximately \$14 million plus interest.

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, 2017.

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 restricted shares to our employees. On the date that these restricted shares vest, we provide such employees the option to sell shares to cover their tax liability, via a net exercise provision pursuant to our applicable restricted share award agreements and the LTIP, at either 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 or up to the maximum statutory tax liability for such grantee. The Company may repurchase the restricted shares sold by the grantees to settle their tax liability. The repurchased shares are reallocated to the number of shares available for issuance under the LTIP. The following table outlines the total number of shares purchased during the six months ended June 30, 2018 and the average price paid per share.

	Total Number of Shares Purchased	Average Price Paid per Share
	(In thousands)	
January 1, 2018—January 31, 2018	74	\$ 6.85
February 1, 2018—February 28, 2018	—	—
March 1, 2018—March 31, 2018	—	—
April 1, 2018—April 30, 2018	—	—
May 1, 2018—May 31, 2018	—	—
June 1, 2018—June 30, 2018	—	—
Total	74	6.85

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.

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 August 6, 2018

/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
<u>10.01**</u>	<u>Production Sharing Contract relating to Block EG-24 Offshore Equatorial Guinea between the Republic of Equatorial Guinea, Guinea Ecuatorial de Petroleos and Ophir Equatorial Guinea (EG-24) Limited dated October 2017.</u>
<u>10.02**</u>	<u>Deed of Assignment relating to Block EG-24 Offshore Equatorial Guinea between the Republic of Equatorial Guinea, Ophir Equatorial Guinea (EG-24) Limited and Kosmos Energy Equatorial Guinea dated June 12, 2018.</u>
<u>31.1*</u>	<u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2*</u>	<u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1**</u>	<u>Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2**</u>	<u>Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
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 REPUBLIC OF
EQUATORIAL GUINEA**

AND

GUINEA ECUATORIAL DE PETROLEOS

AND

OPHIR EQUATORIAL GUINEA (EG-24) LIMITED

FOR

BLOCK EG-24

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THIS PRODUCTION SHARING CONTRACT is dated the ____ of _____, 2017.

BETWEEN:

- (1) THE REPUBLIC OF EQUATORIAL GUINEA (hereinafter referred to as the "State"), represented for the purposes of this Contract by the Ministry of Mines and Hydrocarbons (hereinafter referred to as the "Ministry"), represented for purposes of its execution by His Excellency Gabriel Mbagu OBIANG LIMA, in his capacity as Minister of Mines and Hydrocarbons.
- (2) GUINEA ECUATORIAL DE PETRÓLEOS (hereinafter referred to as the "National Company"), acting in exercise of its authority and in its own name for the purposes of this Contract and represented for purposes of its execution by Antonio OBURU ONDO, in his capacity as Director General; and
- (3) OPHIR EQUATORIAL GUINEA (EG-24) LIMITED (hereinafter referred to as the "Ophir Energy"), a company organized and existing under the laws of the British Virgin Islands under commercial registry number 1958060, with its registered office at Jayla Place, Wickhams Cay 1, Road Town, Tortola, VG1110, British Virgin Islands.

The State, Ophir Energy, and the National Company, including their transferees as approved under the law and this Contract, may be referred to individually as "Party" and collectively as "Parties."

PREAMBLE

- (A) WHEREAS, all Hydrocarbons existing within the territory of the Republic of Equatorial Guinea, as stated in the Hydrocarbons Law, are national resources owned exclusively by the State;
- (B) WHEREAS, the State wishes to promote the development of Hydrocarbon deposits within the Contract Area and the Contractor desires to associate itself with the State with a view to accelerating the Development and Production of Hydrocarbons within the Contract Area;
- (C) WHEREAS, the Contractor has the technical and financial ability, as well as the professional skills necessary to carry out Petroleum Operations in accordance with this Contract and good practices of the international petroleum industry; and
- (D) WHEREAS the Parties wish to enter into this Contract in accordance with the Hydrocarbons Law, which allows for agreements to be entered into between the State and foreign investors in the form of a production sharing contract, through direct negotiation or by international public bidding,

NOW THEREFORE, in consideration of the commitments and mutual agreements expressed in this document, the Parties agree as follows:

ARTICLE 1
SCOPE AND DEFINITIONS

1.1 Definitions

Except where the context dictates another meaning, or as defined in the Hydrocarbons Law or Petroleum Regulations, the following words and expressions will have the following meanings:

- 1.1.1 **Joint Operating Agreement** or **JOA** means the joint operating agreement that rules the internal relations of the Parties making up the Contractor in carrying out Petroleum Operations in the Contract Area.
- 1.1.2 **Calendar Year** or **Year** means a period of twelve (12) months beginning 1 January and ending 31 December of the same year according to the Gregorian Calendar.
- 1.1.3 **Contractual Year** means a period of twelve (12) consecutive months according to the Gregorian Calendar from the Effective Date of this Contract or from the anniversary of the Effective Date.
- 1.1.4 **Contract Area** or **Area** means the geographic area within the territory of Equatorial Guinea, which is the object of this Contract. This Contract Area will be described in Annex A and illustrated in Annex B, as it may be changed by relinquishments of the Contractor in accordance with this Contract.
- 1.1.5 **Development and Production Area** means an area within the Contract Area encompassing the geographical extent of a Commercial Discovery that is subject to a Development and Production plan and corresponding budget in accordance with Article 5.5.
- 1.1.6 **Evaluation Area** means an area within the Contract Area encompassing the geographical extent of a Discovery subject to an Evaluation work program and corresponding budget in accordance with Article 5.2.
- 1.1.7 **Barrel** means a quantity or unit of measure 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.
- 1.1.8 **BEAC** means the Bank of Central African States.
- 1.1.9 **Change in the Law** means, with respect to Article 25, any change in the laws, decrees, regulations, or standards of Equatorial Guinea and any Relevant Authority Law in force on the Effective Date, including those pertaining to any fiscal matters, taxes, customs, or currency control, any change in the interpretation or application of, or in the customs and practices related to these laws (the stipulations of this agreement are considered to conform with such interpretation and application from the date this Contract is signed), decrees, regulations, or standards of Equatorial Guinea and excludes those laws, decrees, regulations, or standards that are (i) related to health, safety, work, and the environment, (ii) consistent with international oil and gas industry standards and practices, and (iii) applied in a non-discriminatory manner.
- 1.1.10 **Field** means a Discovery or set of Discoveries established as a Field in accordance with Article 5 and can be developed commercially, taking into account all pertinent operational, economic and financial information collected in carrying out the Evaluation work program or otherwise, in accordance with generally accepted practices of the international petroleum industry. A Field may consist of a Hydrocarbon deposit or multiple Hydrocarbon deposits grouped in or related to the same

individual geological structural or stratigraphic conditions, or unrelated deposits that are developed using a Development and Production Plan. All deposits superimposed, adjacent to, or underlying a Field in the Contract Area will form part of that Field.

- 1.1.11 **CIF** has the meaning established in the publication of the International Chamber of Commerce, INCOTERMS 2000.
- 1.1.12 **Affiliated Company** or **Affiliate** of any specific Person means any other Person directly or indirectly Controlling or Controlled by or under the direct or indirect common Control of such Person.
- 1.1.13 **The National Company**, for the purposes of this Contract, means Guinea Ecuatorial de Petr6leos (GEPetrol), as the national petroleum company of Equatorial Guinea, or whatever successor state company.
- 1.1.14 **Contractor** means Ophir Energy and the National Company and will include the entities to which a Participation Interest under the Contract is legitimately transferred.
- 1.1.15 **Contract** means this production sharing contract, including its Preamble and Annexes.
- 1.1.16 **Material Contract** means a contract having a value over five hundred thousand Dollars (\$500,000) with respect to Exploration Operations, or a million Dollars (\$1M) with respect to Exploration Operations or Production Operations with (i) an Affiliate of the Technical Operator, when the contract has not previously and specifically been approved in an Annual Budget as a contract that should be carried out by an Affiliate, or (ii) a non-Affiliate of the Technical Operator. If law or regulation establishes a greater limit than that stipulated in this definition for the supervision of contracts by the State, this definition will be amended to reflect that limit.
- 1.1.7 **Control**, when used with respect to a specified Person, means the power to direct, administer, and dictate the policies of such Person through ownership of a percentage of such Person's equity sufficient to hold a majority of voting rights in an ordinary shareholders meeting. The terms **Controller** and **Controlled** have meanings that correlate to the foregoing.
- 1.1.18 **Development and Production Costs** means all costs, expenses, and obligations incurred by the Contractor in connection with Development and Production Operations in a Development and Production Area, excluding all Exploration Costs incurred in the Development and Production Area before any Field is established, and that are determined to be in accordance with this Contract and the Hydrocarbons Law.
- 1.1.19 **Exploration Costs** means all costs, expenses, and other obligations that are non-recoverable costs incurred by the Contractor in connection with Exploration Operations in the Contract Area, including those identified in the Accounting Procedure, and that are determined to be in accordance with this Contract and the Hydrocarbons Law.
- 1.1.20 **Petroleum Operations Costs** means Exploration Costs and/or Development and Production Costs (depending on the context) incurred by the Contractor in carrying out Petroleum Operations, as determined in accordance with this Contract and the Accounting Procedure.
- 1.1.21 **Argus Crude** means the report published by the Argus company on the international crude oil market, including evaluation of the Crude Oil deposit located in the Contract Area.
- 1.1.22 **Discovery** means a finding of Hydrocarbons by the Contractor whose existence within the Contract Area was unknown prior to the Effective Date, or Hydrocarbons within the Contract Area that had

not been declared a Commercial Discovery prior to the Effective Date and that are measurable by generally accepted international petroleum industry practices.

- 1.1.23 **Commercial Discovery** means a Discovery that the Contractor considers economically viable and in the interest of which submits for the approval of the Ministry a Development and Production Plan of the Discovery.
- 1.1.24 **Days** means the days on which the offices of the Ministry are open to the public.
- 1.1.25 **Working Day** means a day on which the banks of Malabo, Equatorial Guinea, and New York, USA, generally conduct commercial activities.
- 1.1.26 **Dollars** or **\$** means the legal tender of the United States of America.
- 1.1.27 **Member State of CEMAC** means the country is a member of the Economic and Monetary Community of Central Africa.
- 1.1.28 **Member State of OHADA** means the country is a member of the Organization for the Harmonization of Business Law in Africa.
- 1.1.29 **Effective Date** means the date the Contractor receives ratification of this Contract, totally signed by the State, in accordance with the provisions of Article 31.
- 1.1.30 **Brent Closing** means the quote published daily in the Platts Bulletin of the Crude Oil Market that reflects the price of a shipment of Brent North Sea mixed crude oil for a set period.
- 1.1.31 **FOB** has the meaning stipulated in the publication of the International Chamber of Commerce, INCOTERMS 2000.
- 1.1.32 **Reserve Fund** has the meaning attributed to it by Article 24.3.1.
- 1.1.33 **Natural Gas** means those Hydrocarbons that at atmospheric conditions of temperature and pressure, are in a gaseous state, including dry gas, wet gas, and residual gas remaining after extraction, treatment, processing, or separation of liquid Hydrocarbons from wet gas, as well as gas or gases produced in association with liquid or gaseous Hydrocarbons.
- 1.1.34 **Associated Natural Gas** means all Natural Gas produced from a deposit the predominant content of which is Crude Oil and that has been separated from Crude Oil in accordance with generally accepted practices of the international petroleum industry, including free gas cap, but excluding any liquid Hydrocarbons extracted from such gas either by normal field separation, dehydration, or in a gas plant
- 1.1.35 **Net Natural Gas** has the meaning attributed to it by Article 13.3.5.
- 1.1.36 **Non-Associated Natural Gas** means all gaseous Hydrocarbons extracted from Natural Gas deposits, and includes wet gas, dry gas, and residual gas remaining after the extraction of liquid Hydrocarbons from wet gas.
- 1.1.37 **Equatorial Guinea** means the Republic of Equatorial Guinea.
- 1.1.38 **Hydrocarbons** means all natural organic substances composed of carbon and hydrogen, including Crude Oil and Natural Gas that may be found and produced, or otherwise extracted and saved from the Contract Area.

- 1.1.39 **Income Tax** means that tax levied on the each of the Parties making up the Contractor and all other pertinent Persons in accordance with the Tax Law.
- 1.1.40 **Gross Revenues** means total income from sales of Total Disposable Production plus the equivalent monetary value of any other disposal of Total Disposable Production from the Contract Area during any Calendar Year.
- 1.1.41 **Participation Interest** means for each Party constituting the Contractor, the undivided percentage share of such Party in the rights and obligations under this Contract, as specified in Article 1.3.
- 1.1.42 **Participation Interest of the National Company** means the Participation Interest of the National Company as established in Article 1.3.
- 1.1.43 **Hydrocarbons Law** means Law No. 8/2006 dated 3 November 2006 of Equatorial Guinea.
- 1.1.44 **Relevant Authority Law** means any laws, codes, decrees, instruments or subordinate legislation, by-laws, regulations, declarations, rules, orders, statute, ordinances, normative acts and administrative acts of:
- (a) the Organisation for the Harmonization of African Business Law (OHADA);
 - (b) the Interafrican Conference of Insurance Markets;
 - (c) COBAC;
 - (d) BEAC;
 - (e) CEMAC; and
 - (f) any other regional laws, codes, decrees, instruments or subordinate legislation, by-laws, regulations, declarations, rules, orders, statute, ordinances, normative acts and administrative acts (whether current or future and excluding Equatoguinean Law) applicable to the Parties in relation to the Project,
- and shall also include the OHADA Accounting System;
- 1.1.45 **Environmental Law** means Law No. 7/2003 of 27 November of Equatorial Guinea and any law that amends or replaces it, including the International Treaties signed and ratified by the Republic of Equatorial Guinea.
- 1.1.46 **Tax Law** means Law No. 4/2004 of 28 October 2004 of Equatorial Guinea, and any law that amends it or replaces it.
- 1.1.47 **LIBOR** means the interest rate at which Dollar deposits of six (6) months' duration are offered in the London InterBank Market, as published in the Financial Times of London. The applicable LIBOR interest rate applicable for each month or part of the month within an interest period will be the interest rate published in the Financial Times of London on the last Working 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 Working Days, another rate (for example, the rate of exchange quoted in the Wall Street Journal) chosen by mutual agreement between the Ministry and the Contractor will apply.
- 1.1.48 **Month of Commercialization of the Shipment** means the month that initiates two (2) calendar months before the month scheduled for the embarkation of a Crude Oil shipment.

- 1.1.49 **Ministry** means the Ministry of Mines and Hydrocarbons of Equatorial Guinea, the entity responsible for supervising Petroleum Operations in coordination with other Government bodies within their respective areas of competence, and any successor.
- 1.1.50 **Negligence** means any act or omission of an act by a person or entity (acting alone, together with another, or simultaneously) with the intention of causing harmful consequences, or with reckless imprudence or indifference to the harmful consequences that such person or entity knew or should have known would result for the safety, property, or interests of another person or entity from such an act or failure. Provided they satisfy the above parameters, such acts or omissions can include substantial deviations from the standards of behavior of a reasonable man, or of a prudent operator, guided by the standard practices of the industry and by those considerations that normally rule the conduct of human affairs, acting in the circumstances of the presumed bad behavior.
- 1.1.51 **Dispute Notification** has the meaning attributed to it in Article 26.1.1.
- 1.1.52 **Notification of Exploration Well** has the meaning attributed to it in Article 3.1.2.
- 1.1.53 **Development and Production Operations** means all operations, other than Exploration Operations that are engaged in to facilitate the Development and Production of Hydrocarbons from the Contract Area to the Delivery Point, but excluding refining and distribution of Hydrocarbon products.
- 1.1.54 **Exploration Operations** include geological and geophysical studies, aerial mapping, investigations relating to subsurface geology, stratigraphic test drilling, Exploration Wells, Evaluation Wells and related activities such as drill site preparation, surveying and all connected work carried out in relation to the Exploration for Hydrocarbon deposits in the Contract Area and their Evaluation until the Ministry approves a Development and Production Plan.
- 1.1.55 **Petroleum Operations** means all operations related to Exploration, Development, Production, transportation, storage, conservation, dismantling, sale and/or other disposal of Hydrocarbons from the Contract Area to the Delivery Point and any other work or activities necessary or complementary to such operations; these operations and activities will be carried out in accordance with this Contract and the Hydrocarbons Law and will not include transport outside Equatorial Guinea.
- 1.1.56 **Administrative Operator** means the National Company so designated in the Joint Operation Agreement.
- 1.1.57 **The Technical Operator** will be Ophir Energy, as approved by the Ministry and so designated in the Joint Operation Agreement.
- 1.1.58 **Party** or **Parties** means the party or parties to this Contract, as the context dictates.
- 1.1.59 **Paying Party** or **Parties** will have the significance attributed to it (them) in Article 8.2.1.
- 1.1.60 **Participation of the National Company Carried Forward** means the Participation Interest of twenty percent (20%) of the National Company that will be carried forward by the Contractor during the Exploration Period(s) in accordance with provisions of Articles 1.3 and 8.2 of this Contract.
- 1.1.61 **Development and Production Period** means the period defined in Article 5.10.
- 1.1.62 **Initial Exploration Period** means a period of four (4) Contract Years from the Effective Date, subdivided into two sub-periods of two (2) Contract Years within the First Exploration Sub-Period and two (2) Contract Years within the Second Sub-Period.

- 1.1.63 **Extension Period** means the First Extension Period and the Second Extension Period, separately or together, as the context dictates. Each of these Extension Periods will be for a period of one (1) Contract Year.
- 1.1.64 **Exploration Periods** means the Initial Exploration Period, an Extension Period, and any further extensions of them.
- 1.1.65 **Person** means any individual, firm, company, corporation, society, trust, foundation, government, state or state agency, or any association or grouping (whether or not having a separate legal personality) or two or more of these.
- 1.1.66 **Crude Oil** means Hydrocarbons produced at the wellhead in a liquid state at atmospheric pressure including asphalt and ozokerites, and the liquid Hydrocarbons known as condensates and/or Natural Gas liquids obtained from Natural Gas by condensation or extraction through field separation units.
- 1.1.67 **Net Crude Oil** has the meaning attributed to it by Article 7.3.
- 1.1.68 **Cost-Recovery Oil** has the meaning attributed to it in Article 7.2.1.
- 1.1.69 **Development and Production Plan** has the meaning attributed to it in Article 5.5.1.
- 1.1.70 **Platts** or **Platts Crude Oil Market Bulletin** refers to the daily publication of crude oil quotes that are customarily adopted by the petroleum industry to determine crude oil prices.
- 1.1.71 **Well** means any opening in the ground or seabed made or being made by drilling or boring, or in any other manner, for the purpose of exploring and/or discovering, evaluating, or producing Crude Oil or Natural Gas, or for the injection of any fluid or gas into an underground formation other than a seismic hole.
- 1.1.72 **Development Well** means a Well, other than an Exploration Well or an Evaluation Well, drilled with the purpose of producing or improving the Production of Hydrocarbons, including Exploration Wells and Evaluation Wells completed as production or injection Wells.
- 1.1.73 **Evaluation Well** means a Well drilled after a Discovery, with the objective of delimiting and mapping the deposit, as well as to estimate the quantity of recoverable Hydrocarbons.
- 1.1.74 **Exploration Well** means any Well whose sole objective is to verify the existence of Hydrocarbons or to study all the necessary elements that could lead to a Discovery.
- 1.1.75 **Market Price** means the FOB price for Crude Oil calculated in accordance with Article 10.
- 1.1.76 **Annual Budget** means the Contractor's approved expenditures with respect to an Annual Work Program.
- 1.1.77 **First Extension Period** means the period of one (1) Contract Year beginning immediately after the conclusion of the First Exploration Sub-Period
- 1.1.78 **First Exploration Sub-Period** means the first three (3) Contract Years of the Initial Exploration Period.
- 1.1.79 **Accounting Procedure** means the accounting procedure contained in Annex C.

- 1.1.80 **Total Disposable Production** means all Hydrocarbons produced and saved from a Development and Production Area minus the quantities used for fuel and transport in Petroleum Operations under Article 6.10.
- 1.1.81 **Annual Work Program** means an itemized statement of the Petroleum Operations to be carried out in the Contract Area during a Calendar Year.
- 1.1.82 **End Point of the Carry-Forward** has the meaning attributed to it by Article 1.3.1.
- 1.1.83 **Delivery Point** means the point located within the jurisdiction of Equatorial Guinea at which Hydrocarbons reach (i) the inlet flange at the FOB export vessel, (ii) the loading facility metering station of a pipeline, or (iii) any other point within the jurisdiction of Equatorial Guinea as may be agreed to by the Parties.
- 1.1.84 **Royalties** means a right of the State to Hydrocarbons extracted and saved from the Contract Area, and not utilized in Petroleum Operations for fuel or transport, in accordance with Article 6.10, based on percentages calculated as a function of the daily rate of the Total Disposable Production in accordance with Article 7.1.
- 1.1.85 **Petroleum Operations** means all regulations promulgated by the Ministry observing and in accordance with the Hydrocarbons Law under Ministerial Order 4/2013 of 20 June 2013, and any regulations that may amend or replace them.
- 1.1.86 **Minimum Retention** means the Technical Operator and its Affiliates will maintain a minimum balance on deposit in one or more of the banks that are operating in Equatorial Guinea selected by the operator, measured annually for each Calendar Year, in the following amounts:
- (a) Before the year following approval of the first Development and Production Plan, a deposit balance equal to ten percent (10%) of the current Annual Budget applicable to the Calendar Year;
 - (b) After the year following approval of the first Development and Production Plan, and during each year that the development activities continue that were foreseen in that Development and Production Plan, a deposit balance equal to zero point five percent (0.5%) of the Annual Budget (excluding capital expenditure) applicable to the Calendar Year;
 - (c) After the year following the year in which the development operations cease that were foreseen in the first Development and Production Plan, a deposit balance equal to five percent (5%) of the Annual Budget (excluding capital expenditure) applicable to the Calendar Year;
 - (d) If at any time a subsequent Development and Production Plan is approved that requires a development operation, the required balance of the deposit will return to zero point five per cent (0.5%) of the Annual Budget (excluding capital expenditure) applicable to that Calendar Year, up to the year following the year during which the development operations foreseen in that Development and Production Plan cease;
- 1.1.87 **Second Extension Period** means the period of one (1) Contract Year beginning immediately after the end of the Second Exploration Sub-Period.
- 1.1.88 **Second Exploration Sub-Period** means the final two (2) Contract Year(s) of the Initial Exploration Period.
- 1.1.89 **Maximum Efficient Production Rate** means the maximum efficient production rate of Hydrocarbons from a Field that does not damage deposit formations and does not cause excessive decline or loss of deposit pressure in accordance with good practices of the international oil industry, and as agreed in accordance with Article 6.4.

1.1.90 **Tax and Taxes** means the coercive pecuniary contributions stipulated by Law, that the State, local entities and other public entities levy in exercise of their sovereign power.

1.1.91 **Quarter** means a period of three (3) consecutive months beginning 1 January, 1 April, 1 July, or 1 October and ending 31 March, 30 June, 30 September, or 31 December, respectively.

1.2 Scope

1.2.1 This Contract is a production sharing contract awarded pursuant to Chapter IV of the Hydrocarbons Law. In accordance with the provisions of this Contract and the Hydrocarbons Law, the Ministry will be responsible for supervising Petroleum Operations in the Contract Area.

1.2.2 The State grants the Contractor the sole and exclusive right to carry out all Petroleum Operations in the Contract Area during the term of this Contract. In consideration of the above, the Contractor commits itself to:

- (a) be responsible to the State, in the capacity of independent contractor, for execution of the Petroleum Operations in accordance with this Contract, the Hydrocarbons Law, and the Petroleum Regulations;
- (b) provide all funds, machinery, equipment, technology, and personnel that are prudent and necessary to execute the Petroleum Operations; and
- (c) diligently, with due attention to good practices of the international petroleum industry execute at its exclusive responsibility and risk, all investments and contractual obligations necessary for carrying out the Petroleum Operations in accordance with this Contract.

1.2.3 All Costs of the Petroleum Operations will be recoverable and/or deductible for tax purposes in the manner established in this Contract and the Hydrocarbon Law.

1.2.4 During the term of this Contract, all Production obtained as a consequence of the Petroleum Operations will be shared between the parties in accordance with Article 7.

1.3 Participation Interests

1.3.1 On the Effective Date, the Participation Interests of the Parties making up the Contractor are as follows:

Ophir Energy	80%
The National Company	20% ("Carry Participation of the National Company")
Total	100%

The Participation Interest of the National Company is for compliance with Chapter XVIII of the Hydrocarbon Law. The abovementioned Carry Participation of the National Company of twenty percent (20%) will be carried by the Contractor (with the exception of the National Company) until the State approves the Development and Production Plan (Carry Termination Point). The Carry Participation of the National Company will remain subject to all the responsibilities and obligations of the Contractor. The costs attributable to the Carry Participation of the National Company will be paid, subject to Article 8.2, by the entities that make up the Contractor, with the exception of the National Company, and recoverable as specified in Articles 8.2.2 and 8.2.3.

1.3.2 The National Company will have the option of acquiring an additional Participation Interest of ten percent (10%) if there is a Commercial Discovery in the Contract Area. This option will expire if it is not chosen to acquire this extra ten percent within ninety (90) days of the date when the State approves the first Development and Production Plan for that Commercial Discovery. If this option is selected, the National Company will acquire from the Contractor (not including the National Company) the additional Participation Interest, and all the past costs associated with that Participation Interest will be recoverable by the Contractor (not including the National Company) of the Cost-Recovery Oil attributable to that additional Participation Interest. That additional interest acquired by the National Company will be an interest with all the payment obligations, in that the National Company will pay its portion of the future costs attributable to such interest from the date of its selection and the revised Participation Interest of each Party will be as follows from that date.

Ophir Energy	70%
The National Company	30% (20% + 10% additional) Participation Interest of Full
Payment Total	100%

Article 2 PERIOD OF EXPLORATION AND RELINQUISHMENTS OF AREAS

2.1 Initial Exploration Period

From the Effective Date, the Contractor will be authorized to carry out Exploration Operations in the Contract Area during the initial Exploration Period of four (4) years, as established in Article 1.1.60. Within 60 days from the Effective Date, the Contractor will initiate study and evaluation work.

2.2 Extension periods

2.2.1 The Contractor may ask for up to two (2) extensions: the first is an extension of one (1) year to the First Sub-Period, and the second is an extension of one (1) year to the Second Sub-Period, .

2.2.2 For each Extension Period, the Contractor will present a request to the Ministry at least two (2) months before the expiration of the First Sub-Period, or as the case may be, the Second Sub-Period. The Ministry will not unreasonably deny or delay the granting of this extension, provided the Contractor has complied with all of its obligations in the Initial Exploration Period and the First Extension Period, as the case may be, and is in no way noncompliant with this Contract.

2.2.3 A map will be attached to each request for an extension, delineating the Contract Area the Contractor proposes to retain, as well as a report that specifies the work realized in the areas proposed for relinquishment since the Effective Date, and the results obtained from them.

2.2.4 If on the expiration of the Initial Exploration Period or any Extension Period, an Evaluation work program is under way, the Contractor will be entitled to the grant of an additional extension of the current Exploration Period necessary to complete the work in progress. Additionally, if Evaluation work has not been completed by the Contractor at the time a relinquishment comes due, as stipulated in Article 2.4, the obligation to relinquish will be suspended until the Contractor has completed the work, the commerciality is decided, and if applicable, establishment of a Field has been approved or denied. Any additional extension granted in accordance with this Article will not exceed one (1) Contract Year or a longer period that may be approved by the Ministry, plus the necessary period of time established under Article 5 for the evaluation of a Development and Production Plan and the Ministry's response.

2.2.5 In the previous case, the Contractor will ask the Ministry for an additional extension at least two (2) months before expiration of the Initial Exploration Period or the Extension Period in force at the time, as applicable.

2.3 Termination

If the Contractor decides:

- (a) not to enter the Second Sub-Period;
- (b) not to extend the Initial Exploration Period and no Field has been established during that period; or
- (c) to extend the Initial Exploration Period and no Field has been established during the Extension Period or any extension of it; or
- (d) to relinquish all its rights with respect to the entire Contract Area in accordance with what is established in Article 2.5,

this Contract will be automatically terminated.

2.4 Obligatory relinquishments

2.4.1 The Contractor must relinquish to the State forty percent (40%) of the initial surface area of the Contract Area on finalization of the Initial Exploration Period, twenty-five percent (25%) of the remaining area on finalization of the Second Extension Period, or if the Contractor does not ask for additional extensions, on finalization of the Initial Exploration Period or First Extension Period. To decide the area or areas the Contractor will relinquish, the following areas will be excluded for the purposes of the calculation:

- (a) areas designated as Evaluation Areas;
- (b) Development and Production Areas;
- (c) areas for which approval of a Development and Production Plan is pending, until a final decision is made;
- (d) the area of any Field, including those Fields that may be subject to unitization in accordance with Article 22; and
- (e) any area reserved for a possible Unassociated Natural Gas Evaluation with respect to which the Contractor is negotiating with the Ministry in accordance with the terms of Article 13.1.

2.4.2 On expiration of the final applicable extension period stipulated in accordance with Article 2.2, and subject to the provisions of Article 2.2.4, the Contractor will relinquish the rest of the Contract Area, with the exception of:

- (a) Development and Production Areas;
- (b) areas for which approval of a Development and Production Plan is pending, until a final decision is made;
- (c) the area of any Field, including those Fields that may be subject to unitization in accordance with Article 22; and

(d) any area reserved for a possible Unassociated Natural Gas Evaluation with respect to which the Contractor is negotiating with the Ministry in accordance with the terms of Article 13.1.

2.5 Voluntary relinquishments

2.5.1 Subject to the Contractor's obligations established in Article 24 and the Hydrocarbons Law, the Contractor may at any time notify the Ministry with three (3) months' advance notice that it relinquishes all of its rights over all or any part of the Contract Area.

2.5.2 In no event will voluntary relinquishment of rights over all or any part of the Contract Area reduce the Contractor's obligations of Exploration established in Article 3.

2.6 Involuntary relinquishments

2.6.1 If the Contractor, during the First Exploration Sub-Period, fails to succeed in (i) acquiring, processing, and interpreting three thousand (3000) square kilometers of new 3D seismic data in accordance with Article 3.1.1(a), or (ii) acquiring existing 2D data and reprocessing it in accordance with Article 3.1.1(b), the Contractor will then relinquish all of its rights over the entire Contract Area at the end of the First Exploration Sub-Period.

2.6.2 If the Contractor, during the First Exploration Sub-Period:

does not succeed in drilling an Exploratory Well in accordance with Article 3.1.2, the Contractor will then relinquish all of its rights over the entire Contract Area at the end of the Second Exploration Sub-Period.

2.6.3 This involuntary relinquishment will in no way exempt the Contractor from any of the obligations it may have under Article 24 of the Hydrocarbons Law.

2.7 Relinquishments in General

2.7.1 No relinquishment made by virtue of Articles 2.4 or 2.5 will relieve the Contractor of its obligation to pay accrued surface rentals, or to make due and payable payments incurred during Petroleum Operations executed up to the date of the relinquishment.

2.7.2 The Contractor will, in accordance with good oil field practice, put forward the geographical location of the part of the Contract Area that it proposes to retain. This area will have one or more continuous geometric forms that extend North to South and East to West and will be delimited at a minimum by one (1) minute of latitude or longitude or natural boundaries; moreover, this area will also be subject to the Ministry's approval.

ARTICLE 3 EXPLORATION WORK OBLIGATIONS

3.1 Minimum Work Program

During the Exploration Period, the Contractor commits itself to executing the following program of minimum work:

3.1.1 During the First Exploration Sub-Period, the Contractor must:

- (a) acquire, process, and interpret three thousand (3000) square kilometers of new 3D seismic information; and
- (b) buy all existing seismic data to combine with the new data acquired to generate models of the deposit, and shall pay for such data as follows:
 - (i) \$750,000 (seven hundred and fifty thousand US dollars) on signature of this Contract
 - (ii) \$1,000,000 (one million US dollars) on completion of any farm-in by the Contractor to this Contract; and
 - (iii) \$1,798,355 (one million seven hundred and ninety eight thousand three hundred and fifty five US dollars) on date of approval to entry into the Second Sub-period,

and, for the avoidance of doubt, all such existing seismic data will be provided to the Contractor on the payment of the amount set out in Article 3.1.1(b)(i),

All costs of acquisition and reprocessing of information (including escalation fees) will be recoverable. The minimum expenditure for this period will be five million Dollars (\$5MM).

- 3.1.2 If the Contractor completely fulfills all the obligations of the First Sub-Period, then it may, at its sole discretion, opt to enter into a Second Exploration Sub-Period. During the Second Sub-Period, the Contractor will drill one (1) Exploratory Well to a minimum depth reaching the farthest of the objectives below the mud line of the sea floor. The minimum expenditure for this period will be twenty five million Dollars (\$25MM).
 - 3.1.3 If the Contractor decides to undertake the First Extension Period, it must conduct the seismic and geological studies. The minimum expenditure for the First Exploration Sub-Period and First Extension Period combined will be five million Dollars (\$5MM).
 - 3.1.4 The minimum expenditure for the Second Exploration Sub-Period and Second Extension Period combined will be twenty five million Dollars (\$25MM).
 - 3.1.5 If the Contractor has drilled more than the minimum number of Exploratory Wells demanded of it in either of Articles 3.1.2 or 3.1.4, then the surplus that exceeds the obligatory amount at the end of the period in question will be transferred and considered part of the obligations of the next guaranteed period(s).
 - 3.1.6 Subject to Article 31 of the Petroleum Regulations, when the work demanded under this Article 3 has been realized, observing good practices of the international petroleum industry, the obligation of minimum expenditure associated with that work will be considered fulfilled, irrespective of whether the actual cost of such work has represented more, less, or the same as the amount of the minimum expenditure obligation.
- 3.2 Minimum Depth of the Wells
- 3.2.1 Each of these Exploratory Wells must be drilled to the minimum depth specified above or to a lesser depth if the Ministry so authorizes in accordance with this Article, or if interrupting drilling is justified by one of the following reasons:
 - (a) the economic basement is reached at a lesser depth than the minimum depth specified in the Contract;

- (b) further drilling is clearly dangerous because of abnormal pressure in the formation or for another reason;
- (c) rocky formations are encountered whose hardness makes it impracticable to continue drilling with appropriate equipment; or
- (d) hydrocarbon-bearing formations are encountered that require the installation of casings that exclude reaching the minimum contractual depth.

3.2.2 For purposes of Article 3.2.1, economic basement in and beneath which the geological structure or the physical sequence of the rocks do not have the necessary properties to accumulate hydrocarbons in commercial quantities and that moreover, reflects the maximum depth at which accumulations of this type can reasonably be expected to occur.

3.3 Cessation of drilling

With respect to Article 3.2.1(a), and to the extent practicable, if a prudent operator would immediately cease drilling operations, the Contractor will notify the Ministry immediately of its decision, and obtain the Ministry's approval before removing any drilling platform from the area. The Ministry will respond to this request for approval as soon as practicable, but in any case within three (3) Business Days of receiving such a request. Approval may not be unreasonably denied or delayed without reasonable justification, provided that the Ministry has sufficient information to make an informed decision.

3.4 Substitute Wells

If any obligatory Exploratory Well is abandoned due to insurmountable technical problems as set out in Article 3.2.1, items (b), (c) and (d) and, at the time of abandonment, the Exploration Costs for that Well equal or exceed twenty five million Dollars (\$25MM), for all purposes of this Contract, the Contractor will be considered to have fulfilled its minimum work obligations for the period in question. If any obligatory Exploratory Well is abandoned due to insurmountable technical problems and if, at the time of abandonment, the Exploration Costs for that Well are less than twenty five million Dollars (\$25MM), the Contractor will choose between the following options:

- (a) drill a substitute Exploratory Well in the same or a different site to be agreed on with the Ministry: or
- (b) pay the Ministry an amount equal to the difference between twenty five million dollars (\$25MM) and the amount of Exploration Costs effectively spent in connection with this Exploratory Well, which will be treated as if it were the finalization of the well, thus fulfilling the minimum work obligations with this Well.

3.5 Provision of Guarantees

3.5.1 On or before the Effective Date, each of the Parties making up the Contractor (other than the National Company) will provide to the State, guarantee acceptable to the Ministry, either (i) an Affiliate Company guarantee in the form stipulated in Annex D from an Affiliate Company or (ii) an irrevocable *standby* letter of credit from a first-class international financial institution in up to the amount of five million Dollars (\$5MM), which corresponds to the minimum expenditure obligations of the Contractor under this Contract for the First Exploration Sub-Period, and which will remain valid until the Contractor has complied with this obligation of minimum expenditures. In any case, the amount of the guarantee will be reduced as a function of sums expended that are related to the work obligations carried out to the degree that they are complete. If the Parties that make up the

Contractor (except the National Company) do not provide the Ministry with the guarantees demanded by the date established under this Article 3.5.1, this Contract will be considered null and void, if the Contractor does not succeed in remediating the noncompliance within thirty (30) days of being notified of it.

3.5.2 Thirty (30) days before initiating drilling of the Exploratory Well demandable in the Second Exploration Sub-Period, the Contractor will provide the State, a guarantee acceptable to the Ministry either (i) an Affiliate Company guarantee in the form stipulated in Annex D from an Affiliate Company; or (ii) an irrevocable *standby* letter of credit from a first-class international financial institution up to the amount of twenty five million Dollars (\$25MM), which corresponds to the minimum expenditure obligations of the Contractor under this Contract for the Second Exploration Sub-Period, and which will remain valid until the Contractor has complied with this obligation of minimum expenditures.

3.6.1 Participation Interest of the National Company

For purposes of Article 3.5, any expenditure of the Paying Parties under Article 8.2 will not be considered an expenditure for the purpose of satisfying the minimum expenditure requirements established in this Article.

ARTICLE 4 ANNUAL WORK PROGRAMS AND BUDGETS

4.1 Presentation of Annual Work Program

No later than ninety (90) days before the beginning of each Calendar Year, or for the first Calendar Year, no later than sixty (60) days after the Effective Date, the Contractor will prepare and present for approval by the Ministry a detailed Annual Work Program divided into Quarters, together with the corresponding Annual Budget for the Contract Area explaining the Petroleum Operations the Contractor proposes to carry out during the Calendar Year. The Annual Budget will be presented in the Ministry's official format.

4.2 Form and Approval of the Annual Work Program

Each Annual Work Program and corresponding Annual Budget will be broken down into the various Exploration Operations and, as applicable, according to the evaluation operations for each Evaluation Area, and the Development and Production Operations for each Development and Production Area. If no response is received within ninety (90) days of the reception of the Annual Work Program and corresponding Annual Budget, these will be considered approved. The Ministry may propose amendments or modifications to the Annual Work Program and corresponding Annual Budget, by giving notice to the Contractor and including reasons for the amendments or modifications, within sixty (60) days of receiving the Annual Work Program and Annual Budget. In such event, the Ministry and the Contractor will meet as soon as possible to review the amendments or modifications proposed by the Ministry and establish the Annual Work Program and corresponding Annual Budget by mutual agreement. The parts of the Annual Work Program for which the Ministry does not require amendment or modification will be considered approved and the Contractor must implement them within the stated time period, provided they can be undertaken on an individual basis, or with respect to an approved activity that depends technically or financially on an activity that is not approved. With respect to the parts of the Annual Work Program for which the Ministry proposes any amendment

or modification, the date of approval of the Annual Work Program and corresponding Annual Budget will be the date on which the Ministry and the Contractor reach mutual agreement on them. If the Ministry and the Contractor do not reach an agreement about the amendments and modifications proposed by the Ministry before the end of the Calendar Year in which the Annual Work Plan and corresponding Annual Budget are submitted, the Contractor will continue operating in accordance with the most recent Annual Work Plan and corresponding Annual Budget approved by the Ministry until agreement is reached.

4.3 Execution of Petroleum Operations

The Contractor will perform each operation included in an approved Annual Work Program correctly and diligently, in accordance with the terms of this Contract, the Hydrocarbons Law, and the good practices of the international petroleum industry.

4.4 Unbudgeted expenses

4.4.1 The Ministry and the Contractor recognize that the technical results acquired as work progresses, or certain unforeseen changes in circumstances, may justify modifying the approved Annual Work Program and corresponding Annual Budget. In such circumstances, the Contractor will promptly notify the Ministry of the proposed modifications. The Ministry will study these modifications and decide whether to approve them within a period of sixty (60) days of receiving the notification. If the Ministry neither approves nor rejects the proposed modifications within this sixty- (60-) day period the proposed modifications will be considered approved. Notwithstanding the foregoing, the Contractor will not in any case incur any expenditure that exceeds the approved Annual Budget by more than five percent (5%) without the prior approval of the Ministry. Expenditures exceeding the five percent (5%) tolerance will not be recoverable as a Petroleum Operations Cost or deductible for tax purposes. Where such approval is requested in connection with ongoing operations, the date of any approval will be considered to be prior to expenditure if the Ministry is aware of the excess and the continuation of operations after the time of that cost is verbally approved by the Ministry. In relation to emergencies or accidents, Articles 78.3 and 79 of the Regulations will apply.

4.4.2 At the time the Contractor reasonably believes that the limits of the Annual Budget will be exceeded, the Contractor will promptly notify the Ministry and provide the Ministry with full details of such excess expenditures, including the reasons for them.

4.4.3 The limitations stipulated in Article 4.4 will not affect the Contractor's right to make expenditures in the event of an emergency or accident requiring urgent action in accordance with what is stipulated in Article 4.5.

4.4.4 Except as otherwise provided in Article 4.5, if the Contractor incurs any expenditure whose program and budget has not been approved within an Annual Work Program and corresponding Annual Budget or any amendment to them approved by the Ministry, then this expenditure will not be recoverable by the Contractor as a Petroleum Operations Cost.

4.5 Emergency or Accident

4.5.1 In the event of an emergency or accident requiring urgent action, the Contractor will follow all steps and take the measures as may be prudent and necessary in accordance with good practices of the international petroleum industry to protect its interests and those of the State and the property, life, and health of other Persons, the environment, and the safety of the Petroleum Operations. The Contractor will promptly inform the Ministry of such emergency or accident.

- 4.5.2 All of the related costs incurred by the Contractor in accordance with Article 4.5 will be recoverable as Petroleum Operations Costs in accordance with this Contract. Nevertheless, costs incurred by the Contractor in cleaning up pollution or damage to the environment, if caused by the negligence or willful misconduct of the Contractor, its subcontractors or any Person acting on its or their behalf, will not be recoverable as a Petroleum Operations Costs.

ARTICLE 5 EVALUATION OF A DISCOVERY AND PRODUCTION PERIOD

5.1 Notification of Discovery

If the Contractor discovers Hydrocarbons in the Contract Area it will notify the Ministry as soon as possible, but not later than thirty (30) days after the date of the Discovery. This notice will include all relevant information in accordance with the good practices of the international petroleum industry, including the details of any production testing program that the Contractor has carried out or proposes to carry out during drilling operations.

5.2 Evaluation Work Program

- 5.2.1 If the Contractor considers that the Discovery merits Evaluation it will diligently submit to the Ministry a detailed evaluation work program and corresponding budget no later than six (6) months following the date on which the Discovery was reported in accordance with Article 5.1. The evaluation work program, corresponding budget and designated Evaluation Area are subject to the review and approval of the Ministry in accordance with the procedures established in Article 4.

- 5.2.2 The rough draft of the evaluation work program will specify the estimated size of the Hydrocarbon reserves of the Discovery, the area to be designated as the Evaluation Area and will include all seismic, drilling, testing and evaluation operations necessary to carry out an appropriate evaluation of the Discovery. The Contractor will diligently undertake the approved evaluation work program, it being understood that the provisions of Article 4.4 will apply to the program.

- 5.2.3 The duration of the evaluation work program will not exceed twenty-four (24) months for Crude Oil and in the case of Natural Gas, the duration of the evaluation work program will be determined in accordance with the provisions of Article 13, unless otherwise approved by the Ministry. The Ministry's approval of the request will not be denied or delayed without reasonable justification.

5.3 Presentation of the Evaluation Report

- 5.3.1 Within six (6) months following completion of the evaluation work program and in any case, no later than thirty (30) days before expiration of the Initial Exploration Period, or the First Extension Period or the Second Extension Period, including all additional extensions in accordance with the provisions of Article 2.2, as the case may be, the Contractor will present a detailed report to the Ministry giving all the technical and economic information associated with the evaluated Discovery and that confirms, in the Contractor's judgment, whether such Discovery is a Commercial Discovery.

- 5.3.2 This report will include geological and petrophysical characteristics of the Discovery, estimated geographical extent of the Discovery, results of the production tests obtained from the formation, and a preliminary economic study with respect to exploitation of the Discovery.

5.4 Determination of Commerciality

For the purposes of Article 5.3, the Contractor will determine whether it considers that a Discovery or set of Discoveries can be developed commercially. The commercial viability of the Discovery or set of Discoveries will be determined after consideration of all operating, economic, and financial information gathered during performance of the evaluation work program and other sources, including recoverable reserves of Crude Oil and Natural Gas, sustainable Production levels and all other relevant economic factors, according to the good practices of the international petroleum industry.

5.5 Presentation and Approval of the Development and Production Plan

5.5.1 If the Contractor considers the Discovery or set of Discoveries to be a Field, it will submit for the approval of the Ministry a development and production plan (the "Development and Production Plan") for that Discovery or set of Discoveries within twelve (12) months following delivery of the report referred to in Article 5.3

5.5.2 The Ministry may propose amendments or modifications to the aforementioned Development and Production Plan, and also to the Development and Production Area that is the object of this Development and Production Plan, giving notice to the Contractor within ninety (90) days following receipt of the plan. Such notification will explain the reasons for the amendments or modifications proposed by the Ministry. In such case, the Ministry and the Contractor will meet as soon as possible to review the proposed amendments or modifications of the Ministry and establish the Development and Production Plan by mutual agreement.

5.5.3 If the Contractor and the Ministry do not reach a written agreement within one hundred eighty (180) days following the submission of amendments and modifications by the Ministry, or the Ministry notifies the Contractor that it does not approve the establishment of a Field, the Field will not be established and any extension granted under Article 2.2.4 with respect to the Discovery or set of Discoveries in question will be deliberated and decided by an internationally recognized expert named by the International Chamber of Commerce in accordance with its Rules for Expertise (ICC Expertise Rules). The decision of the expert will be restricted to whether the rejection by the Ministry of the establishment of a Field or the amendments and modifications to the Development and Production Plan by the Ministry are reasonable and customary and prudent in accordance with generally accepted practice of the international petroleum industry. The decision of the expert will be final and binding on the Parties, and if it cannot be enforced in accordance with the legislation of Equatorial Guinea, the only recourse will be to arbitration under Article 26 to arrive at a definitive and binding decision. The expert will determine the above within twenty (20) days from the date of his designation. The costs and expenses of the expert will be paid proportionately by the Parties.

5.6 Modifications to the Development and Production Plan

5.6.1 When the results obtained during Development and Production Operations require certain modifications to the Development and Production Plan, the plan may be modified using the same procedure provided for its initial approval. Subject to the provisions of Article 4.4, the Contractor may not incur any expenditure that exceeds the approved Development and Production Plan without prior approval of the Ministry; if prior approval is not obtained, such excess expenditures will not be recoverable by the Contractor as Petroleum Operations Costs or deductible for tax purposes.

5.6.2 During the period of Development and Production, the Contractor may propose to the Ministry revisions to the Development and Production Plan at any time that additional Development and Production Operations are under consideration. Such revisions will be submitted for the Ministry's approval using the same procedure provided for the initial approval.

5.7 Number of Fields

If the Contractor discovers more than one (1) Field in the Contract Area that are not overlying, adjacent to, or underlying an existing Field, each will be the object of a separate Development and Production Plan, unless the Ministry agrees that the Fields would be better developed with a single Development and Production Plan.

5.8 Extension of the Field beyond the Contract Area

5.8.1 If, during work performed after approval of a Development and Production Plan, it appears that the geographical extent of a Field is larger than the Development and Production Area designated in accordance with Article 5.5, this will be so reported to the Ministry for enlargement of the Field by the Contractor to the additional area, provided that it is included in the Contract Area in effect at that time, and provided that the Contractor provides supporting evidence of the existence of the additional area for which it is applying.

5.8.2 If a Field extends beyond the boundaries of the Contract Area as delimited at any particular time, the Ministry may require the Contractor to exploit such Field in association with the contractor of the adjacent area in accordance with Article 22 of the Hydrocarbons Law and good practices of the international petroleum industry

5.8.3 When the area proposed to be unitized is not subject to any production sharing contract, such area will be the subject of new negotiations between the Parties to achieve an amendment to this Contract, it being understood that any award of an additional area must be in accordance with the Hydrocarbons Law.

5.9 Commencement and Execution of Development and Production Operations

5.9.1 The Contractor will commence Development and Production Operations within six (6) months of the approval date of the Development and Production Plan and will conduct these operations diligently.

5.9.2 The Contractor commits itself to conducting all Development and Production Operations in accordance with good practices of the international petroleum industry, this Contract, and the Hydrocarbons Law.

5.10 Duration of the Operations

5.10 The duration of the Development and Production period during which the Contractor is authorized to exploit a Field is twenty-five (25) Years from the date of approval of the Development and Production Plan for the Field.

5.10.2 The Development and Production period defined above may be extended for an additional period of five (5) Years with prior approval of the Ministry, which approval will not be denied or delayed without reasonable justification, if the Contractor presents a request to this effect to the Ministry at least one (1) Year prior to its expiration and on the condition that the Contractor has fulfilled all of its obligations under this Contract and that it can demonstrate that commercial Production from the Field is still possible after expiration of the initial Development and Production Period. The Contract can be extended for additional periods in accordance with the Hydrocarbons Law and Petroleum Regulations at the sole discretion of the Ministry.

5.11 The Contractor's Expenses and Financial Risks

The Contractor commits itself to assuming the expenses and financial risks of all Petroleum Operations required to bring a Field into Production in accordance with the approved Development and Production Plan.

5.12 Mandatory Relinquishment

During the Initial Exploration Period, the Extension Periods, and any additional extensions, the Ministry may, provided it gives at least six (6) months' notice, require the Contractor to promptly relinquish, without any compensation or indemnification, all of its rights to the area encompassing a Discovery, including any rights to Hydrocarbons that may be produced from such Discovery, if the Contractor:

- (a) has not presented, in accordance with Article 5.2, an evaluation work program and corresponding budget with respect to the Discovery within six (6) months of the date on which the Discovery has been reported to the Ministry; or
- (b) subject to the provisions of Article 13.1 with respect to Unassociated Natural Gas, does not establish the Discovery as a Field within one (1) Year after completion of evaluation work with respect to the Discovery.

5.13 Future Operations

In the event of a relinquishment under Article 5.12, the Ministry may perform or cause to be performed any Petroleum Operations with respect to any Discovery so relinquished without any compensation or indemnification to the Contractor, provided, however, that it will not interfere with the Petroleum Operations undertaken by the Contractor in the part of the Contract Area retained by the Contractor, if any. The Ministry will be permitted to use (free of charge) all facilities and equipment of the Contractor that are not used for continuing Petroleum Operations. If so requested by the Ministry, the Contractor will take charge of all continuing operations on terms and for a fee to be agreed between the Ministry and the Contractor.

ARTICLE 6 CONDUCT OF PETROLEUM OPERATIONS

6.1 Obligations of the Contractor

In accordance with the good practices of the international petroleum industry and the Hydrocarbons Law, the Contractor will provide all funds necessary to manage Petroleum Operations in the Contract Area, including buying or leasing all facilities, equipment, materials, and other goods required to carry out such Petroleum Operations. It will also supply all technical and operational expertise, including the use of foreign and national personnel required to implement Annual Work Programs. The Contractor will be responsible for the preparation and implementation of all Annual Work Programs, which will be carried out in accordance with this Contract, the Hydrocarbons Law and good practices of the international petroleum industry.

6.2 Joint Operating Agreement

The contractor will provide the Ministry with a copy of the draft Joint Operating Agreement (JOA) no later than one hundred eighty (180) days after the Effective Date, linking the entities making up the Contractor group, and naming the entities designated the Technical Operator and Administrative Operator.

6.3 Management of Petroleum Operations

The Contractor will diligently manage Petroleum Operations in accordance with this Contract, the Hydrocarbons Law and the good practices of the international petroleum industry.

6.4 Maximum Efficient Production Rate

The Contractor and the Ministry will agree on the Production programs before Production begins in any Field and establish at that time the Maximum Efficient Production Rate for the Field, and will decide the dates on which the levels will be reexamined and potentially revised.

6.5 Working conditions

The Contractor will provide acceptable working conditions and access to medical attention and nursing care for all of its local and international personnel and those of its subcontractors that are working offshore and on land during Petroleum Operations. The Contractor will also provide living quarters for national or international personnel based on offshore installations and an additional housing allowance in the remuneration of land-based personnel.

6.6 Discovery of other minerals

The Contractor will promptly notify the Ministry of the discovery of other minerals or substances in the Contract Area. If any Persons are granted a permit or license within the Contract Area for the exploration and exploitation of any minerals or substances other than Hydrocarbons, the Ministry will take all reasonable measures to ensure that the operations of such Persons do not obstruct the Contractor's Petroleum Operations. The Contractor will use all reasonable efforts to avoid obstructing the operations of such permit holders or licensees.

6.7 Awarding of Contracts

6.7.1 The Contractor will award all contracts in accordance with the National Content Regulation promulgated by the Ministry in Ministerial Order No. 1/2014 of 26 September 2014, to the best qualified subcontractor or other Person, including Affiliates of the Contractor, as determined by cost and ability to comply with the provisions of the contract, provided the Contractor complies with Article 23.1.

In all Material Contracts, the Contractor will:

- (a) call for bidding on the contract;
- (b) give preference to national companies the Contractor considers qualified;
- (c) before awarding a Material Contract, send a notification to the Ministry reporting that the Contractor intends to present an offer for the contract;
- (d) include the national companies on a list supplied by the Ministry and that the Contractor considers competent, on the list of bidders for the Material Contract;
- (e) add any Persons to the list so requested by the Ministry;
- (f) complete the bidding process within a reasonable time;

- (g) consider and analyze the details of the bids received;
- (h) prepare a competitive bid analysis and present to the Ministry stating the Contractor's recommendation as to the Person to whom the contract should be awarded, the reasons, and the technical, commercial, and contractual terms to be agreed upon;
- (i) obtain the approval of the Ministry that will be considered as conceded if there is no response to a request for approval thirty (30) Days after receipt of a written request; and
- (j) provide the Ministry with a copy of the final executed contract.

All amendments and/or variations to a Material Contract will require the prior approval of the Ministry, approval that will be considered as conceded if there is no response to a request for approval thirty (30) Days after receipt of a written request.

6.7.2 To the extent that the Contractor imports and/or uses any services, materials, equipment, consumables, and other goods from outside Equatorial Guinea in conscious contravention of this Article or Article 23.1, or otherwise enters into a contract in contravention of these Articles, the costs will not be Petroleum Operations Costs and will not be costs that the Contractor can recover.

6.7.3 Together with the Annual Work Program, the Contractor will submit to the Ministry a list of the types of contracts or agreements for services that the Contractor foresees entering into during that Year, as well as details of those entered into in the previous Year. This list will include the value of those contracts, as well as the names, addresses, and telephone numbers where all the subcontractors of the Contractor and other Persons who have entered into these contracts. In addition, the Contractor will present to the Ministry quarterly a detailed list, including the names, addresses, and telephone contacts of the Contractor's subcontractors and other Persons who have provided goods or services to the Contractor for the conduct of Petroleum Operations during the relevant Quarter.

6.8 Inspection of Petroleum Operations

6.8.1 All Petroleum Operations may be inspected and audited by the Ministry at such intervals as the Ministry considers necessary; nevertheless, only in exceptional cases will this be done outside regular working hours. The duly commissioned representatives of the Ministry will have the right, among others, to monitor Petroleum Operations and inspect all equipment, facilities, and materials relating to Petroleum Operations, provided that any such inspection will not unduly delay or impede Petroleum Operations, nor demand the use of housing necessary for operating personnel. The representatives of the Ministry inspecting and monitoring Petroleum Operations will comply with the safety standards of the Contractor, and whenever possible, will do so without incurring extra expenses for the Contractor.

6.8.2 For purposes of allowing exercise of the rights mentioned in the paragraph above, the Contractor will provide reasonable assistance to the representatives of the Ministry, including transportation and accommodation, when these are under the control of the Contractor. The Ministry will pay all expenses of transportation and housing of third parties, with the exception of what is established in Article 6.8.3,

6.8.3 In accordance with the Petroleum Regulations, all reasonable costs directly related to the technical inspection, verification, and audit of Petroleum Operations, or related to the exercise of the Ministry's rights under this Contract or the performance of the Contractor's obligations will be at the expense of the Contractor under tariffs that will be published and are applicable in general to all companies

in the Hydrocarbon extraction sector in Equatorial Guinea. Payments under this Article 6.8.3 will be made to the State and are recoverable as Petroleum Operations Costs in accordance with this Contract, including:

- (a) outbound and return travel expenses for trips outside Equatorial Guinea;
- (b) local public transportation, when transportation in accordance with Article 6.8.2 is not available;
- (c) housing, when this is necessary to carry out official tasks and is not supplied under Article 6.8.2; and
- (d) per diems, which will be adjusted in accordance with the amounts assigned to the classification of each agent of the Ministry and published in the general budget law of the State approved for the corresponding Calendar Year, applicable to all companies in the Hydrocarbons extraction sector of Equatorial Guinea.

6.9 Supply of information to the Ministry:

6.9.1 The Contractor will keep the Ministry fully informed of the performance and status of Petroleum Operations, supplying information at reasonable intervals and as required under this Contract, and about all accidents or emergencies that may have occurred during these operations. Furthermore, the Contractor will provide the Ministry with all documentation and information that is required to be provided under this Contract and the Hydrocarbons Law and that may be requested by the Ministry from time to time.

6.9.2 The Contractor will keep the Ministry informed on a daily basis of the volumes of Hydrocarbons produced in the Contract Area.

6.10 Production of energy for own use

If the national power grid is available to the Contractor for its onshore Petroleum Operations, the Contractor will connect to that network and will not produce any energy for its own use except to the extent that national production or transmission of energy is insufficient or not sufficiently reliable for the Contractor's needs to carry out Petroleum Operations. In such case, the energy produced will not be sold to any Person. The Contractor may utilize the quantities of Crude Oil and/or Natural Gas as fuel in its offshore Petroleum Operations or for the transport of Hydrocarbons to an onshore location.

6.11 Equipment standards

The Contractor will ensure that all equipment, plants, installations, and materials it uses comply with the Hydrocarbons Law and generally accepted engineering standards, and that they have been duly constructed and are maintained in good condition.

6.12 Contractor's care and the environment

6.12.1 The Contractor will take all necessary and prudent steps in accordance with good practices of the international petroleum industry, the Hydrocarbons Law, and this Contract to:

- (a) prevent pollution and protect the environment and living resources;
- (b) ensure that any Hydrocarbons discovered or produced in the Contract Area are handled in a safe manner for the environment;

- (c) avoid causing damage to overlying, adjacent, and/or underlying formations that contain Hydrocarbon deposits;
- (d) prevent the ingress of water via Wells into strata that contain Hydrocarbons that are not specified in an approved Development and Production Plan;
- (e) avoid causing damage to overlying, adjacent, and/or underlying aquifers;
- (f) ensure that Petroleum Operations are carried out in accordance with this Contract, the Hydrocarbons Law, and all other laws of Equatorial Guinea;
- (g) take the precautions necessary to protect maritime transportation and the fishing industry, and to avoid contamination of the ocean and rivers;
- (h) drill and exploit each Field in a manner consistent with the approved Development and Production Plan for protection of the interests of Equatorial Guinea; and
- (i) ensure that damages caused by Petroleum Operations to Persons and property are promptly, fairly, and fully compensated.

6.12.2 If the Contractor's actions result in any pollution or damage to the environment, any Person, living resources, property or other type of damage, the Contractor will immediately take all prudent and necessary measures to remedy such damages and its effects and/or those measures the Ministry may order. If the pollution or damage is caused as a result of the negligence or willful misconduct of the Contractor, its subcontractors, or any Persons acting on its or their behalf, all costs related to that pollution or damage will not be recoverable as Petroleum Operations Costs. If the Contractor does not act promptly to control or clean up any pollution or repair any damage caused, the Ministry may, after giving the Contractor reasonable notice in the circumstances, carry out the actions that are prudent or necessary in accordance with this Article and Article 4.5 and all reasonable costs and expenses of those measures will be at the expense of the Contractor and will not be recoverable as Petroleum Operations Costs.

6.12.3 If the Ministry determines that any works or installations built by the Contractor or any activity undertaken by the Contractor threatens the safety of any Persons or property or causes pollution or harm to the environment, the Ministry will promptly advise the Contractor of its determination, and may require the Contractor to take all appropriate mitigating measures, consistent with generally accepted practices of the international petroleum industry, to repair any damage caused by the Contractor's conduct or activities. Furthermore, if the Ministry considers it necessary, it may demand that the Contractor suspend the affected Petroleum Operations totally or partially until the Contractor has taken the appropriate mitigating measures or repaired any damage.

6.12.4 The Contractor will undertake comprehensive environmental impact assessment studies before, during, and after major drilling operations. The Contractor will assume the costs of these studies and the costs will be recoverable. This requirement is mandatory and the first study will be presented to the Ministry before drilling starts on the first Well in the Contract Area. However, an environmental impact assessment must also be completed before any seismic work in especially sensitive areas environmentally specified by the State.

6.13 Reinjection and Natural Gas Flaring

The Natural Gas that the Contractor does not develop in accordance with this Contract and the Hydrocarbons Law or use in its own operations within the Contract Area will be reinjected into the structure of the subsoil. All costs of the reinjection will be recoverable as Petroleum Operations

Costs. Notwithstanding the foregoing, the Ministry may authorize the combustion of Natural Gas for short periods of time in accordance with the Hydrocarbons Law. The Contractor will compensate the State for unauthorized volumes of gas flared. All such Natural Gas not used in Petroleum Operations by the Contractor or not developed in accordance with this Contract and the Hydrocarbons Law will remain the sole property of the State.

6.14 Design and identification of Wells

6.14.1 The Contractor will conform to the practices generally accepted in the international petroleum industry in the design and drilling of Wells, including their casing and cementation.

6.14.2 Each Well will be identified by a name or number agreed on with the Ministry, which will be indicated on all maps, plans and other similar records produced by or on behalf of the Contractor.

6.15 Vertical Projection Wells

No Well may be drilled to an objective outside the vertical projection of the boundaries of the Contract Area. Directional Wells drilled within the Contract Area from adjacent terrain not covered by this Contract will be considered for all purposes of this Contract as Wells drilled from territory included in the Contract Area, and whose drilling may only be undertaken with the prior approval of the Ministry, and on the terms and conditions the Ministry may establish. No part of this Article intends or may be interpreted as conceding a right of lease, license, servitude or any other right that the Contractor must obtain from the Ministry or other Persons.

6.16 Notification of Drilling Commencement

The Contractor will notify the Ministry at least ten (10) Working Days before drilling any Well established in an approved Annual Work Program and corresponding Annual Budget, or before resuming work on any Well where work has been suspended for more than six (6) months.

6.17 Construction of installations

The Contractor will build and maintain all installations necessary to properly comply with this Contract and carry out Petroleum Operations. The Contractor will request authorization from the Ministry and/or other applicable governmental authorities to occupy land necessary for the exercise of corresponding rights and obligations in accordance with this Contract. This authorization will be ruled by the provisions of Article 6.19, the Hydrocarbons Law, and other applicable laws of Equatorial Guinea. The Contractor will repair all damages caused by such circumstances.

6.18 Occupation of Land

6.18.1 In order to carry out Petroleum Operations, the Contractor will have the right to:

- (a) subject to the provisions of Articles 6.17 and 6.18.2, occupy the land necessary to carry out Petroleum Operations and connected activities, as stipulated in items (b) and (c) of this Article, including housing of personnel;
- (b) undertake or procure the undertaking of any infrastructure work necessary in normal technical and economic conditions for the carrying out of Petroleum Operations and associated activities such as transport, storage of equipment, materials and extracted substances, establishment of telecommunications equipment and communication lines necessary to carrying out Petroleum Operations at installations located both offshore and on land;

- (c) realize or ensure realization of the work necessary to supply water for personnel and installations in accordance with water supply regulations; and
- (d) extract and use or ensure the extraction and utilization of resources (other than Hydrocarbons) from the subsoil necessary for the activities stipulated in paragraphs (a), (b) and (c) above in accordance with applicable regulations.

6.18.2 Occupation of land as mentioned in Article 6.18.1 will become effective after the Ministry or other appropriate governmental authority approves the request submitted by the Contractor indicating and detailing the location of such land and how the Contractor plans to use it, taking the following into consideration:

- (a) if the land belongs to the State, the State will grant it to the Contractor for occupation and to build its fixed or temporary installations during the term of this Contract for a fee and on terms to be agreed and this amount will be considered a Petroleum Operations Cost;
- (b) if the land is private property by traditional or local right according to the Property Registry, then (i) if the occupation is merely temporary or transitory, or for right of way, the Contractor will reach an agreement with the relevant property owner and the property owner will reach an agreement with any occupant, tenant, or possessor with respect to the rental to be paid, and the resulting amounts will be considered recoverable Petroleum Operations Costs, or (ii) if the occupation is permanent, the Contractor will reach an agreement on matters related to the property's acquisition with the owner in question, and such amounts will be considered Petroleum Operations Costs;
- (c) if the Contractor and the relevant property owner or occupant, tenant, or possessor do not reach an agreement about the matters mentioned in paragraph (b) above, the Ministry will act as mediator between them, and if mediation fails to produce resolution of the case, the dispute will be resolved by the courts of Equatorial Guinea, unless recourse is had to the procedure described in paragraph (d) below;
- (d) the State may expropriate the land, subject to prior publication of a decree of compulsory expropriation followed by a fair and reasonable appraisal of the land by an expert appraiser. In such event, the Contractor will compensate the expropriated property owner in accordance with the value determined by the expert appraiser if the State has not done so; such amounts will be considered recoverable Petroleum Operations Costs;
- (e) relinquishment, in whole or in part, of the Contract Area, will not affect the Contractor's rights under Article 6.18.1 to carry out building work and construction of installations, provided that such work and installations are directly related to other activities of the Contractor in the remainder of the Contract Area, as in the case of partial relinquishment, and covered by other production sharing contracts.

6.19 Residence of personnel

No restrictions will be imposed on the entry, residence, free circulation, employment, and repatriation of the Contractor's personnel and those of its subcontractors, the family of such personnel, or the belongings of such personnel and their families, provided the Contractor and its subcontractors comply with all applicable laws, including, among others, the labor and social legislation of Equatorial Guinea. The State commits to expediting without delay the entry, work, or residence permits or other permits or authorizations that may be required by the personnel of the Contractor or any subcontractor in accordance with the Laws of Equatorial Guinea.

6.20 Collaboration of the Ministry

The Ministry will collaborate with the Contractor and its subcontractors in obtaining all administrative authorizations and licenses as may reasonably be necessary for proper execution of Petroleum Operations under this Contract.

6.21 Opening a branch.

In accordance with Article 20 of the Hydrocarbons Law, the Contractor (with the exception of the National Company) will, to the extent that it has not already done so, open a branch of a local or foreign company in Equatorial Guinea within six (6) months following the Effective Date, which will continue as a foreign or local company as each member of the Contractor (with the exception of the National Company) chooses, with its presence established in Equatorial Guinea during the entire term of this Contract. This branch office will always be staffed by at least one (1) representative having sufficient authority to make decisions on behalf of the Contractor.

6.22 Offices

After approval of the first Development and Production Plan, the Technical Operator, at the expense and responsibility of the Contractor (with the exception of the National Company) will, to the extent that it has not already done so, construct a prestigious building for its offices in Equatorial Guinea using modern and permanent materials and of an appropriate size and design, as approved by the Ministry. All costs related to such construction will be recoverable as Petroleum Operation Costs under this Contract. Once construction costs have been recovered by the Contractor, the property will be owned solely by the State and the Contractor will have the right to continue to use it for offices during the term of this Contract. When the Contractor has recovered the costs of constructing the building, it will negotiate renting the building with the State. This rent will be market price.

ARTICLE 7

ROYALTIES, RECOVERY OF PETROLEUM OPERATION COSTS, AND DISTRIBUTION OF PRODUCTION

7.1 Royalties

7.1.1 The Contractor will pay Royalties to the State from the first day of Production based on the daily Total Disposable Production from a Development and Production Area. The calculation will be determined according to the following table applicable for each tranche:

Daily Total Disposable Production (Barrels per day)	Royalty (%)
0 to 40,000	13%
40,000 to 80,000	14%
80,000 to 120,000	15%
More than 120,000	16%

- 7.1.2 The percentage that corresponds to the level of Production will be applied directly. Thus, for example, for a Production level of seventy-five thousand (75,000) Barrels per day, fourteen percent (14%) would be paid, and the Royalty would be twelve thousand seven hundred fifty (12,750) Barrels.
- 7.2 Cost-Recovery Petroleum
- 7.2.1 After deducting Royalties, the Contractor will be entitled to up to sixty-five percent (65%) of the Total Disposable Production remaining in any Calendar Year for recovery of its Petroleum Operations Costs (Cost Recovery Oil).
- 7.2.2 The value of the portion of Total Disposable Production assigned to the Contractor's recovered Petroleum Operations Costs will be determined in accordance with Article 10.
- 7.2.3 If, during any Calendar Year, the Petroleum Operations Costs not yet recovered by the Contractor in accordance with this Contract exceed the value of the maximum amount of available Cost Recovery Oil, the portion of Petroleum Operations Costs not recovered in the Year will be carried forward to the following Calendar Year for recovery purposes.
- 7.3 Net Crude Oil

The quantity of Total Disposable Production remaining every Year after deduction of Royalties and Cost Recovery Oil will hereinafter be referred to as Net Crude Oil, which will be shared between the State and the Contractor in the following proportions:

<i>Total Accumulated Production (Million Barrels)</i>	<i>State Participation (%)</i>	<i>Participation of the Contractor</i>
Less than or equal to 90	20%	80%
More than 90 and less than or equal to 200	30%	70%
More than 200 and less than or equal to 300	40%	60%
More than 300 and less than or equal to 400	50%	50%
More than 400	60%	40%

7.4 Delivery of State's Participation

The share of the Crude Oil belonging to the State, in accordance with Articles 7.1 and 7.3, will be delivered to and accepted by the State or the Person it designates at the Delivery Point. The Contractor will be free from all responsibility with respect to this Crude Oil from the time it has been delivered. However, the State may require the Contractor to purchase all or part of the State's share of Total Disposable Production, subject to the provisions of Article 7.5

7.5 Price Obtained by the Contractor

- 7.5.1 If, in accordance with Article 7.4, the State requires the Contractor to purchase its share of Crude Oil, the State will advise the Contractor of its next scheduled shipment at least three (3) months in advance, and the Ministry and the Contractor will mutually agree on the terms and conditions of the

sale. If three (3) months' advance notice is not given, or agreement is not reached on the terms and conditions of the sale, the Contractor will not be obligated to buy the Crude Oil

7.5.2 The Ministry will have the right to compare the price for its Crude Oil obtained from the Contractor with quotations from similar markets. If it is shown that the price obtained from the Contractor differs substantially from the quotations in similar markets, the Ministry will have the right to evaluate the Contractor's sales and marketing operations, and if justified, to cancel any contract of sale between the State and the Contractor with respect to sales after the date on which it becomes aware of the situation, as well as also having the right to market Crude Oil on its own, without prejudice to any right that the State has against the Contractor.

7.6 Export of the Contractor's Share

Subject to Article 12 and the Hydrocarbons Law, each Party making up the Contractor has the right to take, receive, and freely export its share of Net Crude Oil and Cost Recovery Oil, provided it uses the services of an Equatoguinean Crude Oil maritime transport company, an international company associated with the National Company or any other local business that is able to provide the services under conditions that are internationally competitive in terms of price, quality, terms of payment, and availability. If such enterprises do not exist, or cannot offer competitive terms with respect to price, quality, terms of payment, and availability, each of the Parties making up the Contractor will have the right to freely take, receive, and export its share of the Net Crude Oil and Cost-Recovery Petroleum through internationally available suppliers.

7.7 Transfer of Ownership

Ownership of the Contractor's portion of Net Crude Oil and Cost Recovery Oil will pass to the Contractor at the Delivery Point.

ARTICLE 8 PARTICIPATION INTERESTS

8.1 Responsibility for Petroleum Operations Costs

Subject to Article 8.2, the Parties making up the Contractor will fund, pay, and carry all costs and expenses for Petroleum Operations under this Contract and the Joint Operating Agreement in the proportions established in Article 1.3. Each of the Parties that constitute the Contractor will be represented on the operating committee under the JOA, and will have voting rights as the Agreement provides.

8.2 Participation Interest of the State through the National Company under Chapter XVIII of the Hydrocarbons Law.

8.2.1 The National Company's Carried-Over Interest will be carried and paid in its totality by the Parties that make up the Contractor, with the exception of the National Company, ("Paying Partners") in accordance with the provisions of Article 1.3.1. After the Carry-Over Termination Point, the National Company will totally pay all costs and obligations that arise after the Carry-Over Termination Point that are attributable to its Participation Interest, the same as other members of the Contractor.

8.2.2 The costs, expenses, and obligations contracted by each Paying Party in relation to its payments and obligations for the Carried-Over Participation of the National Company will be recoverable by

the Paying Parties by virtue of this Contract and the Hydrocarbons Law. The Paying Parties will recover the costs and expenses associated with the Carried-Over Participation of the National Company only from fifty percent (50%) of the Cost-Recovery Petroleum. The National Company is entitled to fifty percent (50%) of the Cost-Recovery Petroleum until the Paying Partners have been completely reimbursed for the cost of the Carried-Over Participation of the National Company.

8.2.3 In accordance with the provision of 8.2.2, such costs will also include: travel, stay, and maintenance of the delegation designated by the National Company.

ARTICLE 9 TAXES

9.1 Payment of Taxes

Except as otherwise provided in this Contract, the Contractor, its subcontractors, and their respective employees, agents, consultants, and other personnel will be subject to the Tax Law and all regulations passed in accordance with it, as well as CEMAC (Central African Economic and Monetary Community) and tax and customs laws of Equatorial Guinea.

ARTICLE 10 VALUATION OF CRUDE OIL

10.1 Calculation of Market Price

10.1.1 The selling price per unit of Crude Oil under this Contract will be the FOB Market Price at the Delivery Point, expressed in Dollars per Barrel and calculated in accordance with this Article 10.1. A Market Price will be established for each type of Crude Oil or Crude Oil blend, according to this Article 10.1.

10.1.2 The Market Price applicable to all liftings of Crude Oil sold to third parties in market conditions during a Quarter will be the agreed-to sales price, adjusted, if necessary, to reflect differences in the quality, gravity, delivery conditions, and terms of payment.

10.1.3 Before the period when Argus Crude quotes a price for the Field from which the Crude Oil is sold, the market price applicable to all liftings of crude oil sold to a Contractor's Affiliate and subsequently sold to a third party will be the value received under the contract in market conditions with that third party, adjusted, if necessary, to reflect differences in the quality, gravity, delivery conditions, and terms of payment. If there is no Argus Quote for the Crude Oil produced, the Contractor and the Ministry will meet to establish a differential related to a marker of crude quoted in Argus to reflect the difference in quality and the commercial differences. The meeting will take place six months after the introduction onto the market, and all Persons constituting the Contractor who participate in the commercialization of the Crude Oil during this six-month period will participate in the meeting with the Ministry.

10.1.4 The market price applicable to all Crude Oil liftings sold to a Contractor's Affiliate after a quoted price has been established for one Quarter will be calculated by adding the average of the high and low Dated Brent quotes according to publication in five (5) consecutive editions of the Platts Bulletin of the crude oil market (including all corrections) after the date of the shipment's bill of lading to the average differential between Crude Oil sold and Dated Brent quotes that are published in Argus

Crude for the period beginning the fifteenth (15th) day and ending the last day of the Month of the Cargo's Marketing (inclusive). This is expressed in the following Formula:

Price = A + B, where:

A = average of the high and low Dated Brent quotes, according to publication in five (5) consecutive editions of the Platts Bulletin of the Crude Oil Market (including all corrections) after the date of the bill of lading.

B = average differential between the quality of crude oil sold and Dated Brent quotes published in Argus Crude for the period beginning the fifteenth (15th) day and ending the last day of the month of the Cargo's Marketing (inclusive).

If the qualities of crude oil produced from the field do not correspond, within tolerable limits, a 'C' adjustment will be created that takes into account the differences associated with those qualities that do not coincide with A and B. In this case, the Market Price formula will be amended as follows:

Price = A + B + C

If the Crude Oil used to calculate the Market Price is no longer quoted, the Ministry and the Contractor will agree on which Crude Oil is closest to the Crude Oil that is no longer quoted, in order to calculate the Market Price.

10.1.5 The Market Price applicable to all liftings of Crude Oil for one Quarter equals the weighted average of the prices obtained by the Parties constituting the Contractor, with the exception of the National Company, for Crude Oil sold and valued in accordance with Articles 10.1.2, 10.1.3, and 10.1.4

10.1.6 The following transactions will be excluded from calculation of the Market Price:

- (a) sales between the providers of Crude Oil and the local market; and
- (b) sales for consideration other than payment in a freely convertible currency and sales wholly or partially made for reasons different from the usual economic incentives involved in Crude Oil sales on the international market (such as exchange contracts).

10.2 Disagreements about the Market Price

10.2.1 The Contractor and the Ministry will agree on the Market Price in accordance with this Article 10; if they are unable to agree on any matter concerning the Market Price of Crude Oil, either the Contractor or the Ministry may serve the other with a dispute notice. Within seven (7) days of the date of the dispute notice, the Ministry will establish a committee of two (2) Persons of which the Minister of Mines and Hydrocarbons or his delegate will be the President, and the other committee member will be a representative designated by the Contractor to represent it. The committee will meet and make a decision resolving any dispute under this Article 10 within thirty (30) days of the date of the dispute notice. The committee will decide the controversy unanimously.

10.2.2 If the committee has not reached a unanimous decision within the aforementioned thirty- (30-) day period, the dispute will be decided by an internationally recognized expert named by the International Chamber of Commerce in accordance with its Rules for Expertise (ICC Expertise Rules). The decision of the expert will be final and binding on the Parties, and if it cannot be enforced in accordance with the legislation of Equatorial Guinea, the only recourse will be to arbitration under Article 26 to arrive at a definitive and binding decision. The expert will determine the Market Price in accordance with the provisions of this Article 10 within twenty (20) days from the date of his

designation. The costs and expenses of the expert will be paid proportionately by the Parties on a per capita basis and the Contractor's share will not be cost recoverable

10.2.3 While the determination of the Market Price for a Quarter is pending, the Market Price provisionally applicable to a Quarter will be the Market Price of the preceding Quarter. Any necessary adjustment will be made no later than thirty (30) days after determination of the Market Price for the Quarter in question

10.3 Period for payment of the Market Price to the State if the Contractor commercializes the State's Crude Oil.

Subject to Article 7.5, when the Contractor markets Crude Oil belonging to the State for the State and the period of payment is not individually established in a Crude Marketing Agreement with the State, within ten (10) days of each shipment, the Contractor will provide the Ministry with full details of the prices obtained from the sale of each shipment of State Crude Oil and will forward to the State all amounts of such sales within fourteen (14) days of receiving them.

10.4 Auditing the Market Price

The Ministry will have the right to audit and verify that the price obtained by the Contractor for each shipment of Crude Oil has been the price determined in accordance with this Contract. The Ministry will have the right to evaluate the marketing practices of the Contractor during a period of two (2) Years from the transaction date, and require the Contractor to pay the State for the difference between the price actually obtained and the Market Price determined in accordance with this Article 10. Differences with respect to the Market Price will be resolved as established in Article 10.2.

ARTICLE 11 BONUSES AND SURFACE LEASES

11.1 Contract signing bonus

The Contractor will pay the State a signing bonus of two million five hundred thousand Dollars (\$2.5MM) within thirty (30) days of the Effective Date.

11.2 Discovery Bonus

On the date the Contractor notifies the Ministry for the first time that it considers a Discovery to be a Commercial Discovery in compliance with the provisions of Article 5.4, the Contractor will pay the State the sum of five million Dollars (\$5MM).

11.3 Production Bonuses

The Contractor will pay the State the following amounts as Production Bonuses:

- (a) three million Dollars (\$3MM) on the date Production of Crude Oil begins from a Development and Production Area;
- (b) three million Dollars (\$3MM) when daily Production from a Development and Production Area first averages twenty thousand (20,000) Barrels per day for a period of sixty (60) consecutive days;

- (c) five million Dollars (\$5MM) when daily Production from a Development and Production Area first averages forty thousand (40,000) Barrels per day for a period of sixty (60) consecutive days;
- (d) five million Dollars (\$5MM) when daily Production from a Development and Production Area first averages sixty thousand (60,000) Barrels per day for a period of sixty (60) consecutive days;
- (e) five million Dollars (\$5MM) when daily Production from a Development and Production Area first averages one hundred twenty thousand (120,000) Barrels per day for a period of sixty (60) consecutive days; and

These payments will be made within thirty (30) days of the date that the obligation is generated.

11.4 Surface leasing

11.4.1 The Contractor will pay the State the following annual surface lease amounts:

- (a) one Dollar fifty cents (\$1.50) annually per hectare of the Contract Area, or part thereof, during the Initial Exploration Period, the Extension Periods, or any extension of them; or
- (b) two Dollars (\$2.00) annually per hectare for each Development and Production Area, for each Calendar Year or part thereof, during the term of the relevant Development and Production Period.

11.4.2 For the Year in which this Contract is signed, the surface lease payment established in Article 11.4.1(a) will be prorated from the Effective Date through 31 December of such Year and will be paid within thirty (30) days after the Effective Date. For succeeding Years, the surface lease payments established in Article 11.4.1(a) and (b) will be paid in advance not less than thirty (30) days before the beginning of each Calendar Year.

For the Calendar Year in which any Development and Production Area is granted, the surface lease payment established in Article 11.4.1(a) and (b) will be prorated from the date on which such Development and Production Plan is approved to 31 December of that Calendar Year, and the additional sum will be paid within thirty (30) days after the approval of the Development and Production Area. For succeeding Calendar Years the surface lease payment established in Article 11.4.1(b) will be paid within thirty (30) calendar days after the beginning of each Calendar Year.

11.4.3 Surface lease payments will be calculated based on the surface of the Contract Area, and where applicable, of a Development and Production Area occupied by the Contractor on the date these surface leases are paid. To avoid doubt, this will exclude the surface of any relinquished areas. In the event of relinquishments made during a Calendar Year, the Contractor will have no right to be reimbursed for the surface lease payments already made.

ARTICLE 12 OBLIGATIONS TO SUPPLY THE NATIONAL MARKET

12.1 Obligation to supply

In accordance with the Hydrocarbons Law, the Contractor will make meeting the needs of domestic Hydrocarbon consumption in Equatorial Guinea a priority without the obligation to assume oil

investment to produce a progressive increase in production for domestic consumption. . For this purpose, and in accordance with the provisions of Articles 86 and 87 of the Hydrocarbons Law, if the State so requests, the Parties constituting the Contractor (other than the National Company) will sell a portion of their Net Crude Oil and/or Net Natural Gas to the State at the Delivery Point for internal consumption in the country. The price of Natural Gas for internal consumption under Articles 86 and 87 of the Hydrocarbons Law will be established in accordance with Article 49 of the Hydrocarbons Law.

12.2 Ministry Notification

No later than the first day of October of each Calendar Year, the Ministry will notify the Parties constituting the Contractor (other than the National Company) of the quantities of Crude Oil and/or Natural Gas that it wishes to purchase under this Article 12 for the subsequent Calendar Year, when this right has not been waived to ensure exportation of Natural Gas. The Crude Oil and/or Natural Gas will be delivered to the State or to the beneficiary designated by the State during that Calendar Year, according to procedures to be agreed on between the Ministry and the Contractor.

12.3 Conditions under which the rights under Article 12.1 can be waived

Before submission of a Development and Production Plan under Article 5.5, the Contractor will prepare an evaluation of reserves to determine the range of proved and certified Natural Gas reserves in the Development and Production Area.

In cases where long term Natural Gas sales contracts are necessary to finance the project that is the object of the Development and Production Plan, the Government will evaluate and report if it waives Article 12.1 with respect to whether the reserves are sufficient to obtain this financing, The Contractor will have no obligation to carry out the Natural Gas Development or Production Operations if this waiver is not conceded.

ARTICLE 13 NATURAL GAS

13.1 Non-Associated Natural Gas

13.1.1 In the event of a Non-Associated Natural Gas Discovery, the Contractor will comply with the provisions of Article 5.2. However, if the Evaluation work program presented by the Contractor following the Discovery of Non-Associated Natural Gas has a duration exceeding that of the Initial Exploration Period or any of its extensions, the Contractor may request from the Ministry an extension of the relevant Exploration Period with respect to the Evaluation Area related to such Discovery for a period of up to four (4) Years starting from the expiration of the Initial Exploration Period or any of its Extension Periods, as appropriate. The Contractor will request the aforementioned extension at least sixty (60) days before the expiration of the period in question.

13.1.2 If the Contractor considers that the Non-Associated Natural Gas Discovery does not warrant Evaluation or further Evaluation, in conformity with the provisions of Article 5.12, the Ministry may, with ninety (90) days' advance notice, require the Contractor to waive all of its rights over the Evaluation Area where the Discovery is located.

13.1.3 If after finishing the Evaluation work the Contractor does not notify the Ministry within thirty (30) days that the Non-Associated Natural Gas Discovery is not a Commercial Discovery, whether (i) as an autonomous discovery, or (ii) together with potential but undrilled accumulations in the Contract

Area during the Extended Exploration Period, or (iii) together with Natural Gas discovered but not developed in a nearby area, the Ministry may, with ninety (90) days' advance notice, require the Contractor to waive all of its rights over the Evaluation Area. In case of a Commercial Discovery, the Contractor will be obligated to comply with the provisions of Article 5.5 and those of Article 73 of the Hydrocarbons Law.

13.1.4 If the Contractor is required to waive its rights under Article 13.1.2 or Article 13.1.3, it will be understood that the Contractor waives all its rights to the Hydrocarbons that this Non-Associated Natural Gas Discovery may produce, and the State will be empowered to carry out or have carried out all the Petroleum Operations relating to this Discovery, without compensation or indemnification to the Contractor, provided, however, that such work will not prejudice execution of the Contractor's other Petroleum Operations.

13.2 Associated Natural Gas

13.2.1 In the event that a Discovery of Crude Oil is considered to be a Commercial Discovery, the Contractor will state in the report referred to in Article 5.3 whether it considers that the Production of Associated Natural Gas is likely to exceed the quantities necessary for the requirements of Petroleum Operations relating to the Production of Crude Oil (including reinjection operations), and whether it considers that such excess is capable of being produced in commercial quantities. If the Contractor has informed the Ministry of the excess, the Ministry and the Contractor will jointly assess the possible markets and uses for this excess Associated Natural Gas.

13.2.2 In the event the Contractor should decide that Development of the excess Associated Natural Gas is justified, the Contractor will indicate all additional facilities necessary for the Development and Production of the excess in the Development and Production Plan, and its estimate of the related costs. The Contractor will then proceed with Development and Production of the excess in accordance with the Development and Production Plan presented to and approved by the Ministry under Article 5.5. A similar procedure will be applied if the sale or marketing of Associated Natural Gas is agreed on during the Production of a Field.

13.2.3 If the Contractor does not consider exploitation of the excess Associated Natural Gas justified and if the State at any time wishes to utilize it, the Ministry will notify the Contractor of the State's wish, in which event:

- (a) the Contractor will put all or part of the excess Associated Natural Gas that the State wishes to ship at the State's disposal free of charge at the outlet of the separation facilities of Crude Oil and Associated Natural Gas.
- (b) the State will be responsible for the resulting costs, responsibilities, and operations in all the additional installations of Crude Oil and Associated Natural Gas that are not included in the Contractor's Development and Production Plan or all the additional installations and those already existing, including additional installations for the gathering, treatment, compression and transport; and
- (c) construction of the installations mentioned in item (b), together with the recuperation of this excess on the part of the State, will be carried out in accordance with generally accepted practices of the international petroleum industry, without holding back or reducing the Contractor's uncompensated production under the approved Development and Production Plan.

13.2.4 In no case may the operations carried out by the State with this Associated Natural Gas interfere with the Contractor's Petroleum Operations.

- 13.1.5 Any excess Associated Natural Gas that is not used in accordance with Articles 13.2.1, 13.2.2, and 13.2.3 will be reinjected by the Contractor in accordance with Article 6.14. Flaring of this Associated Natural Gas will be permitted only in accordance with the Hydrocarbons Act and will be subject to the approval of the Ministry. The Contractor may flare Associated Natural Gas without the approval of the Ministry in an emergency, provided all necessary efforts are made to reduce and extinguish the flaring of this Natural Gas as soon as it is commercially practical. Except in the case of gas flaring in an emergency or in connection with a short-term test, the Ministry has the right to collect (“offtake”), free of charge, in the wellhead or in the gas and oil separator all Natural Gas that would otherwise be flared or reinjected by the Contractor, being that the State will pay the costs resulting from such collection (“Offtake”) under the terms of Article 13.2.3.
- 13.3 Provisions common to Associated and Non-Associated Natural Gas
- 13.3.1 Each Party that makes up the Contractor will take, receive, and dispose of its right to the production of Natural Gas in accordance with the provisions of this Contract and the Hydrocarbons Law. Under the Hydrocarbons Law, the Ministry and the Contractor agree that in the case of Natural Gas Production, they will negotiate and agree separately on the sale and commercialization of Natural Gas.
- 13.3.2 The sales price of any Natural Gas to be sold on the domestic market will be determined by the Ministry in accordance with the Hydrocarbons Law. The sales price of any Natural Gas to be sold outside the national market will be that agreed between the Ministry and the Contractor to the extent permitted by applicable competition or antitrust laws. If required, the Ministry and the Contractor will proceed in good faith to negotiate a gas sales contract,
- 13.3.3 For the purposes of Articles 7.3 and 11.3, the quantities of Natural Gas available after deducting the quantities reinjected, flared, or necessary for the execution of oil operations will be expressed in number of barrels of Crude Oil, based on the equivalent energy content in BTU adjusted monthly by a commercially appropriate factor relating the price of Natural Gas to the price of Crude Oil in accordance with the provisions of Article 10.1, unless the Ministry and the Contractor reach a different agreement.
- 13.3.4 The provisions of Article 7.2 with respect to cost recovery will be applied with the necessary adjustments to the production of Natural Gas.
- 13.3.5 The amount of Natural Gas produced and retained in the Contract Area that is surplus after the Contractor has taken the portion corresponding to Petroleum Operations Cost Recovery in accordance with Article 13.3.4 will be known as Net Natural Gas.
- 13.3.6 The stipulations of this Contract applicable to Crude Oil will apply to Natural Gas, with the necessary adjustments, except where this Contract provides otherwise, including the [Parties'] right to freely withdraw, receive, and export their portion of Natural Gas and Natural Gas withdrawn as Petroleum Operations Cost Recovery, subject to Articles 12.1 and 13.3.4. To avoid doubt, the provisions of Article 13.3 will prevail when there is some kind of contradiction with other terms of this Contract.
- 13.3.7 Notwithstanding other provisions in this Article 13, in the case of a Natural Gas Discovery that is not commercial under the terms established in this Contract, the Contractor and the Ministry will reasonably undertake to agree on terms applicable to the development of the Natural Gas Discovery including Royalty percentages, cost recovery, and benefit-sharing that allow the Contractor to develop the Natural Gas Discovery in a commercially reasonable and viable manner.

ARTICLE 14
CUSTOMS REGULATIONS

14.1 Customs exemptions provided in this Contract

14.1.1 In tandem with Articles 63 and 64 of the Hydrocarbons Law, the Contractor will be permitted to import, re-export, and export, subject to Article 14.5, all goods, materials, machinery, equipment, and consumer goods directly necessary to properly carry out Petroleum Operations in its own name or in the name of its subcontractors or other Persons acting on its behalf, freely and exempt from all Customs duties, taxes, and fees that are not charges for the necessary services to administer Customs regulations.

14.1.2 For purposes of this Contract, the advantages the Contractor will enjoy under this Contract include, among others, the following exemptions:

- (a) All materials, products, machinery, equipment, and tools destined exclusively and effectively dedicated directly to Petroleum Operations and intended to be re-exported at the end of their use will be treated as imported under the conditions provided in the CEMAC Customs Code, as implemented by the Customs legislation of Equatorial Guinea. Importation in compliance with the standards governing Temporary Admission (TA) or Temporary Importation (TI) will be whichever is the case for the Contractor, when importation is for the Contractor or its subcontractors and Persons acting on their behalf, and any authorization necessary for those ends will be immediately conceded and extended by the corresponding Customs authorities;
- (b) Admission with exemption from all taxes and/or Customs duties of all material, products, machinery, equipment, and tools totally used and consumed in Equatorial Guinea, exclusively and effectively dedicated to the Operations of prospecting, Exploration, Development, and Production of Hydrocarbons under this Contract.

This exemption applies to imports made directly by the Contractor, its subcontractors, and Persons acting on their behalf, on condition that a certificate of end use is issued.

14.1.3 Except for the exemptions established in the preceding paragraphs of this Article 14, and the items referred to in Article 14.1.4 that are exemptions the Government can concede under the law, all goods, material, products, machinery, tools, and equipment imported or exported by the Contractor are subject to taxes and/or Customs duties, in accordance with provisions of the Customs legislation in force in Equatorial Guinea.

14.1.4 The Contractor will follow procedures for obtaining those exemptions provided in Decree 134/2015 of 2 November 2015. The Government will concede these exemptions as the law allows for purposes of importing all goods, materials, machinery, equipment, and consumer goods directly necessary to carry out Petroleum Operations in the Contractor's name or in the name of its subcontractors or other Persons acting on behalf of the Contractor or its subcontractors, in such a way that the importation of those items is free and exempt from all Customs duties, taxes, and fees that are not charges for the necessary services to administer Customs regulations.

14.2 Petroleum export rights

Subject to the provisions of Article 12, the Contractor, its clients, and its transporters will have the right to export at any time the quantities of Cost Recovery Petroleum and Net Crude Oil belonging to the Contractor from the Delivery Point selected for those purposes free and clear of any Customs

duties, taxes, and fees that are not charges for the necessary services to administer Customs regulations.

The Parties shall meet to analyze and agree the application of the new obligations deriving from CEMAC regulations regarding customs tax of Hydrocarbons exportation.

14.3 Export of goods and materials that were not transferred to the State

In compliance with the Customs obligations established in this Contract and regulations in force, the Contractor, its subcontractors and Persons acting on their behalf may re-export, free of taxes, import duties, and fees that are not charges for the necessary services to administer Customs regulations, goods imported within the framework of this Contract when they are no longer necessary for Petroleum Operations, provided their ownership has not been transferred to the State in accordance with the terms of this Contract

14.4 Customs documentation

All imports, exports and re-exports carried out under this Contract will be subject to the formalities required by the Customs Authorities with respect to documentation.

14.5 Exclusion of penalties and fines from Petroleum Operations Costs

If the Contractor, or its subcontractors, representatives, or agents are considered responsible for payment of fines, penalties, or other legal obligations for any failure to comply with the laws that address the use and enjoyment by the Contractor of the advantages stated in this Article 14, the fines, penalties, and other legal obligations will be excluded from the Contractor's Petroleum Operations Costs.

14.6 Imports and exports by foreign personnel

Subject to Article 14.5, foreign personnel assigned to work in Equatorial Guinea on behalf of the Contractor or its subcontractors, and their families, will be allowed to import their personal effects and domestic articles in bulk shipments free of any kind of Customs encumbrance, tax and fee that are not charges for the necessary services to administer Customs regulations during the first year of their initial entry into Equatorial Guinea, and afterward, every two years. Shipments for later resale are not considered personal effects. Personal effects and domestic articles that have been exempted from Customs duties on importation and fees will also be exempt from Customs duties on exportation and fees when subsequently exported.

ARTICLE 15 CURRENCIES

15.1 Exchange control laws

The Contractor and the Ministry mutually recognize that the applicable exchange control laws in force in Equatorial Guinea have the purpose of guaranteeing that the companies and personnel who work in the country, within the periods provided, comply with their obligations to pay taxes and other local payment commitments, and the Contractor, its subcontractors and all Persons acting on their behalf must comply with all exchange control laws of Equatorial Guinea that apply to them. However, so long as they meet their respective payment and tax obligations under this Contract and

the laws of Equatorial Guinea, they will have the following rights and benefits with respect to the Petroleum Operations during the term of this Contract:

- (a) subject to compliance with the Retention Minimum, to collect, retain, or dispose of any proceeds outside Equatorial Guinea and the territory of another CEMAC Member State, including any proceeds from the sale of its or their share of Hydrocarbons to entities that are resident or not, including payment required by the State for Production, to be made in foreign currency and into bank accounts outside the territory of the CEMAC Member States;
- (b) to pay foreign subcontractors and expatriate employees of the Contractor outside of Equatorial Guinea, after deduction of the relevant taxes in Equatorial Guinea. For this purpose, the Contractor may freely open and use bank accounts in Dollars or in other currencies in banks of its choice in Equatorial Guinea and abroad. Notwithstanding the foregoing, while this Contract is in force the Contractor and each of its subcontractors carrying out Petroleum Operations in Equatorial Guinea will open and maintain one or more bank accounts in a banking institution authorized to operate in Equatorial Guinea the minimum balance of which will be, in the case of the Contractor, an amount equivalent to the Retention Minimum, and in the case of the subcontractors, the minimum amount set by the Ministry from time to time for all subcontractors working in Equatorial Guinea;
- (c) subject to compliance with the Retention Minimum, to transfer to accounts domiciled abroad those funds the Contractor or its subcontractors have imported into Equatorial Guinea, those the Petroleum Operations have generated, or that the sale or lease of goods or performance of services have provided under this Contract, including all surplus funds from their accounts domiciled in Equatorial Guinea;
- (d) to obtain loans abroad and perform whatever capital operations are necessary to carry out the activities that are the objects of this Contract, including the Affiliates, under reasonable market conditions, including the rate of interest and terms of repayment, that must be reported to the Ministry;
- (e) to collect and maintain abroad all the funds acquired or borrowed abroad, and to freely dispose of them, limited to the amounts that exceed the requirement of funds for their operations in Equatorial Guinea;
- (f) subject to compliance with the Retention Minimum, transfer any profits, dividends, or income resulting from their investment obtained and deposited in any bank account in Equatorial Guinea, as well as all surplus funds from the accounts domiciled in Equatorial Guinea to the bank accounts outside the territory of the CEMAC Member States; and
- (g) subject to compliance with the Retention Minimum, free movement of funds they own, according to the laws of Equatorial Guinea.

15.2 Freedom of exchange

The expatriate employees of the Contractor and its subcontractors will be free to exchange and transfer to their country of origin, in accordance with the regulations in force in Equatorial Guinea, the savings that result from their salaries as well as any contribution to their retirement or social services paid for or to these employees, provided they have complied with their tax obligations in Equatorial Guinea.

15.3 Notifications

The Contractor and its subcontractors will deliver to a report to the Ministry of Finance and Budgets, within forty-five (45) days of the end of each Quarter, detailing all foreign currency transactions made during the preceding Quarter, including any transactions directly related to Petroleum Operations in accounts opened abroad, and realized in accordance with the provisions of Article 15.1.

ARTICLE 16 BOOKS, ACCOUNTS, AUDITS, AND PAYMENTS

16.1 Maintaining Records and Books

16.1.1 The Contractor will at all times maintain at its offices in Equatorial Guinea the original records and books of Petroleum Operations in accordance with all applicable regulations and the Accounting Procedure.

16.1.2 All records and books will be maintained in the Spanish and English languages and be denominated in Dollars. They will be backed up by detailed documents that show the receipts and expenses of the Contractor under this Contract. These records and books will be used to determine the Contractor's Gross Revenues, Petroleum Operations Costs and net profits, and to establish the Contractor's Income Tax and other payment obligations. The records and books will also include the Contractor's accounts showing sales of Hydrocarbons.

16.2 Presentation of accounts

Within ninety (90) days after the end of a Calendar Year, the Contractor will present detailed accounts to the Ministry showing the Petroleum Operations Costs that the Contractor has incurred during the Calendar Year. The Contractor may request the approval of the Ministry for an additional extension of up to thirty (30) days; this approval will not be unreasonably denied or delayed. The accounts will be certified by an independent external auditor acceptable to the Ministry and the Contractor. The expenses of the auditor will be paid by the Contractor and will be considered Petroleum Operating Costs.

16.3 Auditing by the Ministry

16.3.1 After notifying the Contractor, the Ministry may have experts of its choice or its own agents examine and audit any records and books relating to Petroleum Operations. The Ministry has a period of three (3) years from the date the Contractor presents its records and books to the Ministry in accordance with Article 16.2, to conduct examinations or audits with respect to that Calendar Year and submit its objections to the Contractor for any contradictions or errors found during the examinations or audits.

16.3.2 The Contractor will provide to the Persons designated by the Ministry any necessary assistance for the foregoing purpose and facilitate the performance of his or her duties. The Contractor will pay all reasonable costs incurred during these reviews and audits, and these will be recoverable as Petroleum Operations Costs. However, any costs incurred for the audit and inspection of accounting books and records outside of Equatorial Guinea due to the Contractor's non-compliance with this Article 16 will be at the expense of the Contractor and will not be recoverable as a Petroleum Operations Cost or deductible for tax purposes.

16.3.3 In case of disagreement between the Ministry and the Contractor about the results of any examination or audit, the dispute will be determined by an internationally recognized expert appointed by the

International Chamber of Commerce in accordance with its Rules for Expertise (ICC Expertise Rules). The decision of the expert will be final and binding on the Parties, and if it cannot be enforced in accordance with the legislation of Equatorial Guinea, the only recourse will be to arbitration under Article 26 to arrive at a definitive and binding decision.. Unless otherwise determined by the expert, the costs and expenses of the expert will be met proportionately by the Parties on a per capita basis and the Contractor's share will not be a Petroleum Operations Cost.

16.4 Application of Article 16 to other audits

The provisions of Article 16 will apply to Income Tax, Royalty payments, and to any other obligation established in this Contract.

16.5 Currency and accounts for payments

16.5.1 Unless the Contract stipulates otherwise, all payments between the Parties will be made in Dollars. Subject to Article 16.4.2, when the Party receiving the payment is the State, payments will be made to the General Treasury of the State, and when the receiving Party is the Contractor, payments will be made to the bank account designated by the Contractor and reported to the Ministry.

16.5.2 All amounts paid to the Ministry in accordance with the Law and this Contract will be deposited in the accounts belonging wholly to the State and will be reported to the Contractor.

16.6 Coordination of payments and late payments

Unless decided otherwise, all payments in accordance with this Contract will be made within thirty (30) days following the date on which the obligation to make the payment arises. In case of default, the amount owed will accrue interest compounded monthly at the rate of LIBOR plus two percent (2%) per annum.

ARTICLE 17 TRANSFERS, ASSIGNMENTS, AND CHANGES OF CONTROL

17.1 Transfer to an Equatoguinean Affiliate

Within two (2) Calendar Years following the Effective Date, to the extent that they have not already done so, each of the Parties comprising the Contractor (other than the National Company), will, comply with Article 120 of OHADA and Equatorial Guinea law applicable to the Hydrocarbons sector and will incorporate an Affiliate under the laws of Equatorial Guinea and will assign all of its rights and obligations in and under this Contract, the Joint Operating Agreement and any other agreement relating to Petroleum Operations to this Affiliate. After this transfer, all of the rights and obligations of the Parties that constitute the Contractor under this Contract, the Joint Operating Agreement, and any other agreements relating to Petroleum Operations will be assumed by the Affiliate(s). Any assignment or transfer under this Article 17.1 will not be subject to the provisions of Articles 17.2, 17.3, and 17.5. The aforementioned assignment or transfer will not affect any parent company or bank guarantee provided in accordance with this Contract.

Notwithstanding the obligation of the Contractor to incorporate an Affiliate in accordance with the paragraph above which carries as a consequence the obligation to pay dividend tax, the Parties agree to grant a tax exemption on dividend tax for 3 years beginning on the date on which the Contractor has fully recovered all of its historical costs.

17.2 Assignment, Transfer, Change of Control

17.2.1 The assignment, transfer, encumbrance, or other disposition of the rights and/or obligations of a Party constituting the Contractor will require the prior consent of the Ministry. Any request for authorization will be accompanied by all information related to the assignment, transfer, encumbrance, or other disposition, including all legal instruments, in final draft form, to be used to carry out the proposed transaction, the identity of all parties to the transaction, the estimated value of the transaction, and whether the consideration is payable in kind, securities, cash, or other form. Such assignment, transfer, encumbrance, or other disposition, except those addressed in Article 17.2.4 (a), (b), or (c), will be subject to the payment of a non-recoverable, non-deductible fee and compliance with other reasonable requirements established in the authorization granted by the Ministry. The assignee and the assignor will be jointly and severally liable for the payment of such fee and for meeting any other requirements. The fee will be mutually agreed upon by the Parties and the Ministry. The assignment, transfer, encumbrance, or other disposition of the rights and/or obligations of a Party constituting the Contractor in accordance with Articles 17.2.4 (a) and 17.2.4 (c) will not be liable to any Tax.

17.2.2 All assignees must:

- (i) have the technical and financial capacity to comply with its obligations in accordance with this Contract;
- (ii) in relation to the interest assigned, accept and assume all of the terms and conditions of this Contract, the Joint Operating Agreement, and any other agreements relating to Petroleum Operations; and
- (iii) be an entity that the Ministry and each of the Parties constituting the Contractor can legally do business with, and be incorporated in Equatorial Guinea.

17.2.3 All profits resulting from any assignment, transfer, or other disposition of any rights and/or obligations under this Contract, regardless of the type and location of the transaction, will be subject to taxation in accordance with the Tax Law of Equatorial Guinea.

17.2.4 In accordance with Article 104 of the Hydrocarbons Law and Article 168 of the Petroleum Regulations, each of the Parties that constitute the Contractor will have the right to sell, concede, transfer, assign, or in any other way dispose of all or part of its rights and interests in the Contract:

- (a) to a wholly owned Affiliate;
- (b) to the beneficiary provided in Article 17.1;
- (c) to any of the partners only constituting the Contractor, with the prior consent in writing of the Ministry that cannot be denied or delayed without justification; or
- (d) to third parties, subject to the prior consent in writing of the Ministry that cannot be denied or delayed without justification.

17.3 Change of Control

For the purposes of this Article 17, the transfer of ownership of more than fifty percent (50%) of the net equity of any Party constituting the Contractor (other than the National Company) or a similar transfer that results in a change of Control will be considered an assignment of contractual rights under this Contract and consequently, subject to the terms and conditions of this Article 17, except in cases of transferring ownership of the shares of a wholly owned Affiliate by any Party constituting the Contractor (except the National Company), in which case there is no change of Control.

17.4 Third-party financing

As established in Article 106 of the Hydrocarbons Law, recourse by any Party constituting the Contractor to third-party funding that involves assignment of the rights that Party has to its portion of the Hydrocarbons under this Contract is not permitted without the prior consent of the Ministry, which will be notified of the terms of that financing. Financing by an Affiliate will not be considered third-party financing.

17.5 The National Company's first right of refusal

When any assignment, transfer, or other disposition of any right under this Contract is anticipated that is not to a wholly owned Affiliate, the transferring Party will notify the National Company in writing as soon as possible. The National Company will then have the right to buy the participation under this Contract from the transferring Party that has been offered for the assignment, transfer, or disposition on the same terms and conditions that have been offered in good faith to the transferee. Lack of affirmative response within forty-five (45) days after reception of the notification will be interpreted as the decision not to make the buy, and will terminate the right with respect to the transaction that is the object of the notification. This right exists in addition to any first right of refusal conceded to the National Company under the terms of the Joint Operating Agreement.

ARTICLE 18 INDEMNIFICATION, LIABILITY, AND INSURANCE

18.1 Liability and indemnification

18.1.1 The Contractor will be responsible to third parties under the legislation of Equatorial Guinea and other jurisdictions in which it operates for damages caused by the Contractor, its Affiliates, its subcontractors, and their respective directors, officers, employees, and any other Person who acts on their behalf in carrying out Petroleum Operations. The Contractor will indemnify, hold harmless, and compensate any Person, including the State, for any damage or loss that the Contractor, its Affiliates, its subcontractors and their respective directors, officers, employees, agents, or consultants, and any other Person acting on their behalf may cause to such Person or their property in carrying out Petroleum Operations. All costs incurred under this Article 18.1 caused by the negligence or willful misconduct of the Contractor, its Affiliates, its subcontractors or their respective directors, officers, employees, agents or consultants or any other Persons acting on their behalf will not be cost recoverable as Petroleum Operations Costs. All costs not generated by Negligence or willful misconduct will be recoverable as Petroleum Operations Costs and that recovery will be understood as being consistent with the interpretation and application of the Petroleum Regulations.

18.1.2 The Contractor will assume all liability, and exempt the State from any liability, in respect of any and all claims, obligations, losses, expenses (including attorneys' fees), damages or costs of any nature resulting from the violation of any intellectual property rights of any kind caused by the Contractor, its Affiliates, or subcontractors as a result of or in relation to carrying out Petroleum Operations, regardless of the nature of the violation or of the way in which it may occur.

18.1.3 The State accepts that the Contractor will not be responsible to the State for losses or reduction of benefits, taxes, liens, fees, or other revenues as a result of carrying out Petroleum Operations, unless it is shown that the loss or reduction was the necessary consequence of an action or omission by the Contractor noncompliant with the Contract or the applicable legislation, owing to the Contractor's negligence or willful misconduct, and that the generation of that loss or reduction should have been foreseen at the time of that action or omission,

18.2 Joint and several liability

Where the Contractor is constituted of more than one Person, the liabilities and obligations of such Persons under this Contract will be joint and several, except for their obligations and liabilities in relation to all taxation levied on their income.

18.3 Insurance

18.3.1 Every Person that constitutes the Contractor will obtain and during the term of this Contract, maintain in full force and effect, insurance for Petroleum Operations of such type and in such amount as is customary and prudent in accordance with generally accepted practice of the international petroleum industry, and whose terms and conditions of coverage will be communicated to the Ministry within thirty (30) days after the Effective Date. Without prejudice to the generality of the foregoing provisions, this insurance will cover:

- (a) any damage or loss to the assets used in Petroleum Operations;
- (b) pollution caused in the course of Petroleum Operations;
- (c) damages or losses to the property, or damage, bodily injury, or death suffered by any Person in the course of Petroleum Operations;
- (d) the cost of clean-up operations and salvage following an accident or upon dismantlement; and
- (e) the Contractor's liability for its employees involved in Petroleum Operations.

The members of the Contractor, with the exception of the National Company, will pay the insurance costs with respect to any interests or insured assets associated with a Contract Area subject to the Participation Interests of the National Company only during the period in which the Participation Interest is paid by the members of the Contractor.

18.3.2 The Contractor will require its subcontractors to carry insurance of the type and amount of coverage consistent with the generally accepted practices of the international petroleum industry.

18.3.3 The Contractor will place the insurance required under this Article 18.3.1 in accordance with Decree 56/2007 addressing insurance in the petroleum industry, provided the Equatoguinean insurance brokers and insurance companies that the Contractor uses in accordance with Decree 56/2007 are considered competent according to its criteria that they have the same financial solidity as the insurance brokers and companies available on the international market and that offer coverage at comparable prices.

ARTICLE 19 TITLE TO GOODS, EQUIPMENT, AND DATA

19.1 Title to and use of the installations

19.1.1 All installations, facilities, goods, equipment, materials, or land acquired by the Contractor for Petroleum Operations will become property of the State from the point at which their costs are fully recovered by the Contractor. Nevertheless, the Contractor may continue using these installations, facilities, goods, equipment, materials, or land to carry out Petroleum Operations for the duration of this Contract and in accordance with the Hydrocarbons Law by a payment agreement negotiated and decided between the Contractor and the Ministry, if the Ministry does not waive the payment agreement for the Contractor. This payment will not be considered a Petroleum Operations Cost. The Contractor and the Ministry will agree on the mode and conditions of the installation, goods, equipment, materials, or land, the Contractor retaining the responsibility of ensuring that maintenance

in good condition and good working order is guaranteed for use by the Contractor, normal wear and tear excepted. In any case, upon termination, rescission, or cancellation of this Contract, for any reason whatsoever, in relation to all or part of the Contract Area, the ownership of said installations, facilities, goods, equipment, materials, or land, and including those whose costs have not been fully recovered, and any other items acquired and used for Petroleum Operations will become the sole property of the State and will be conveyed directly to it. With respect to tax deductibility, the change in property will not be taken into account for taxation purposes until the goods are fully amortized or until termination of the contract.

- 19.1.2 Regardless whether the Contractor has recovered the relevant costs in accordance with this Contract, the State has the right to use the facilities, goods, equipment, materials, or land for its own purposes, provided that such use does not interfere with the Contractor's Petroleum Operations.
- 19.1.3 The Contractor will not sell, assign, transfer, or otherwise dispose of these facilities, goods, equipment, materials, or land to any other Persons without prior approval from the Ministry.
- 19.1.4 The provisions of this Article 19.1 will not apply to any leased equipment, or to the Contractor's equipment that is not charged to Petroleum Operations as a Petroleum Operations Cost.
- 19.1.5 If the Ministry does not wish to use any of the facilities, goods, equipment and materials referred to in this Article 19.1, it has the right to ask the Contractor to remove them at the Contractor's own expense, and the Contractor will carry out any dismantling operations of these facilities, goods, equipment, and materials in accordance with this Contract and the Hydrocarbons Law, and based on the time established and conditions specified in the approved dismantling plan. When a Reserve Fund has been created, the Contractor will use it to pay for dismantling the installation. When a Reserve Fund has not been created, the cost of dismantling will be subject to tax deduction and recoverable as a Petroleum Operations Cost.

19.2 Ownership of Information

All data, technical information, and interpretations obtained, acquired, or derived as a result of Petroleum Operations will be the sole property of the State. However, the Contractor may retain copies of all these materials while this Contract is in force only, including, among others, geological, geophysical, petrophysical and engineering reports, Well reports, termination reports, samples, and any other information that the Contractor may have obtained or compiled during the term of this Contract. The Contractor will forward the data, technical information, and interpretations to the Ministry as soon as they are acquired, derived, or compiled and will also provide the Ministry on an annual basis with a report that itemizes all data, technical information, and interpretations that have been assembled during the Year. Unless previously provided, at the termination of this Contract or at any time of relinquishment, the Contractor will return to the Ministry all original data, technical information and interpretations relating to the areas relinquished and will remove all copies from the Contractor's files, archives, computers, and data storage mechanisms.

ARTICLE 20 CONFIDENTIALITY

20.1 Disclosure of confidential information

- 20.1.1 The Parties agree that while this Contract is in force, all information relating to this Contract and the Petroleum Operations will be kept strictly confidential and may not be divulged by any of the Parties without mutual consent, except:

- (a) to an Affiliated Company;
- (b) to a governmental agency designated by the State or other entities or consultants of the Ministry;
- (c) to the degree that the data and information are required to be supplied in compliance with any applicable laws or regulations;
- (d) in conformity with the requirements of any stock exchange having jurisdiction over a Party or its Affiliate Controlled Company ;
- (e) where any data or information forms part of the public domain, unless this occurs as the result of noncompliance with this Contract; and
- (f) to employees, directors, officers, agents, advisors, consultants, or subcontractors of a Party constituting the Contractor or an Affiliate; and
- (g) to potential beneficiaries of a transfer or good-faith buyers.

provided that the disclosing Party is responsible for any violation of this Article by those Persons, and on condition that all disclosures to the Persons referred to in items (f) and (g) mentioned above will be limited to those Persons who are under an obligation of confidentiality similar to that contained in this Article 20.1.

20.1.2 During an additional period of two (2) years after termination of this Contract, only the Contractor will be obligated to comply with the above provisions.

20.2 Patents and intellectual property rights of the Contractor

The State will not reveal to any third parties information pertinent to the Contractor's proprietary technology that is protected by patents or contractual agreements, or which the State has received under license for a period of two (2) Years after termination of this Contract.

20.3 Continuation of obligations

Any Party ceasing to own a Participation Interest in this Contract during the term of this Contract will nonetheless remain bound by the obligations of confidentiality stipulated in this Article 20.

20.4 Disclosure of confidential information by the State and the Ministry

In order to explore and exploit areas adjoining or related to the Contract Area, the State and the Ministry may, notwithstanding what is stated in this Article 20, disclose to any third parties all data and information relating to part or parts of the Contract Area and Petroleum Operations under this Contract.

ARTICLE 21 TERMINATION

21.1 Termination by the State

In addition to any other actions contemplated here, this Contract may be terminated without compensation to the Contractor on any of the following grounds:

- (a) substantial noncompliance by the Contractor (not attributable to any act or omission of the State or to any Person representing the State) with any of the provisions of this Contract or the Hydrocarbons Law;

- (b) delay by the Contractor (not attributable to any act or omission of the State or to any Person representing the State) in making any payment to the State over two hundred thousand Dollars (\$200,000) that exceeds three (3) months, provided that the State has delivered written notice to the Contractor in the week before the expiry of such three (3) month period and that within thirty (30) days of such written notice such payment by the Contractor remains outstanding;
- (c) suspension of Development Operations on a Field for six (6) consecutive months, except when that suspension (i) has been approved by the Ministry in advance, or (ii) is due to an act or omission on the part of the State or of any Person representing the State, or (iii) results from Force Majeure;
- (d) if, after beginning Production of a Field, its exploitation is suspended for at least three (3) consecutive months, without prior authorization from the Ministry, except when such suspension (i) is due to an act or omission on the part of the State or of a Person representing the State, or (ii) results from Force Majeure;
- (e) when the Contractor fails to comply within the prescribed time period with an arbitration award in accordance with the provisions of Article 26, and the failure to comply is not attributable to any act or omission of the State or to any Person representing the State;
- (f) when a Well is drilled to an objective beyond the vertical planes of the limits of the Contract Area without the prior consent of the Ministry;
- (g) serious noncompliance with this Contract stemming from activities that are illegal or contrary to national or international law (not attributable to any act or omission of the State or to any Person representing the State);
- (h) in accordance with Article 2.3; or
- (i) with respect to one or more members of the Contractor, when that member of the Contractor, for reasons different from any action of the government that does not allow proper funding for this member, is declared bankrupt, or in liquidation as a result of financial insolvency, or enters into judicial or financial arrangements of insolvency with its creditors generally, except when the Contractor can provide the State with a new financial guarantee that is acceptable to the Ministry, at its sole discretion, and that guarantees the capacity of that Party to fulfill its obligations under this Contract. In this case, the other members of the Contractor may continue to constitute part of the Contract.

21.2 Notification of termination and grace period

21.2.1 The Ministry may declare this Contract terminated only after having served the Contractor with formal notice by registered mail, asking it to remedy the situation or noncompliance in question, and if the situation or noncompliance in question can be remedied, asking that the Contractor remedy it within thirty (30) Working Days from receipt of notice regarding payments due under Article 21.1(b) or within ninety (90) Working Days from receipt of such notice for all other remediable situations or violation. Otherwise, the effective termination date of this Contract will be the date the Contractor receives the abovementioned notice.

21.2.2 If the Contractor fails to comply with the notice within the period prescribed by Article 21.2.1 or fails to show within this period that it has begun to remedy the situation or noncompliance in question, and is promptly and diligently continuing to do so, the Ministry may pronounce ipso jure the termination of this Contract.

21.3 Termination against one Party

The Ministry may terminate this Contract for one of the Parties constituting the Contractor, if the circumstances established in Article 21.1 apply only to that Party in the manner established in Article 21.2.

21.4 In cases of termination of the Contract decided by Article 21.1 c, d, e, or i, the National Company will have the option of continuing the Petroleum Operations in the Contract Area for a period of one (1) Year, presenting the corresponding Work and Budget Program. At the end of this period, the Ministry will be informed of its decision whether to continue the Petroleum Operations; if not, it will relinquish the Block and deliver it to the State. For purposes of this Article, the Technical Operator will deliver to the National Company all technical information about the block, including testimony, files, seismic information, data and reservoir studies, reports and information about all the Wells.

ARTICLE 22 UNITIZATION

22.1 Obligation to unitize

If a Hydrocarbons deposit located within the Contract Area extends beyond that area, the Contractor must carry out all Development and Production of this Hydrocarbons deposit, in accordance with the Hydrocarbons Law. The Contractor will exert all reasonable efforts to reach a mutually acceptable unitization agreement and program with all other affected Persons.

22.1 Suspension of obligations

If the Petroleum Operations that are the object of this Contract are suspended for negotiations arising over a unitization situation for a specific Discovery, the provisions of Article 5.3 for this Discovery will be extended for a period of time equal to the duration of the suspension.

ARTICLE 23 NATIONAL CONTENT AND SOCIAL PROGRAMS

23.1 National content regulations

The Contractor will comply with the National Content Regulations promulgated by the Ministry in Ministerial Order 1/2014 of 26 September 2014, complying with the obligations established in this Article 23. For all nonmaterial contracts, the Contractor, without the obligation to bid and without obtaining the approval of the Ministry (whose approval is considered granted by the Hydrocarbons Law):

- a) before awarding a services contract, the Contractor will notify the Ministry of its need for these services;
- b) The Ministry will provide a list of national companies to the Contractor; The Contractor will support the Ministry by including the national companies on the list among those the Contractor considers competent in the biddings required in the framework of this Contract;

- c) in awarding the contracts, the Contractor will give preference to the national companies identified on the list that the Ministry delivers in accordance with Article 23.1(b), as specified in Decree 127/2004. If the Contractor does not consider these companies competent, the contract may be awarded to a foreign company, in accordance with Articles 12 and 13 of Ministerial Order 1/2014. The Contractor will notify the Ministry of the disqualification of any of the national companies, if necessary, describing the procedure that resulted in the disqualification.
- d) the foreign company winning the bid for the services contract will be notified by the Contractor of the conditions specified in Article 23.1(c).
- e) the Contractor will deliver to the Ministry at the end of July and January of each calendar Year a list of subcontractors who have delivered services in Equatorial Guinea during the previous period;
- f) in the contracts that imply delivery of services or supply of goods in Equatorial Guinea, the Contractor will include clauses that obligate the subcontractors to comply with the provisions of Ministerial Order 1/2014;
- g) the Contractor will organize workshops to raise awareness in the national companies about the requirements of the Technical Operator in service provision matters;
- h) the Contractor will notify the Ministry, which will inform all the other competent authorities, about the job vacancies and new positions for the execution of works in Equatorial Guinea;
- i) at the beginning of Development and Production Operations, the Contractor will submit to the Ministry and agree to a plan to hire national employees and train them, which includes assignments for their professional development in the offices of the Technical Operator with the possibility of joining the Technical Operations Team of Equatorial Guinea to achieve reasonable and feasible nationalization goals, and sending updated information to the Ministry on the implementation of that plan at the end of July and January of each subsequent year; and
- j) the Contractor will send the Ministry a description of the mechanisms used to evaluate the national employees.

23.2 Employment and training of Equatoguineans

23.2.1 At the beginning of Development and Production Operations in Block EG-24, the Technical Operator will ensure priority of employment for qualified Equatoguinean personnel at all levels of its organization, according to the following table and according to the aptitudes of the employees. For the purposes of the employment obligations under this Article, technicians nominated by the National Company will be employed as secondees to the Technical Operator provided that they have the required capacity and experience. The Technical Operator will train or contribute to the training of this personnel so that they can meet the requirements of any available position related to Petroleum Operations, including supervisory positions. Nevertheless, the Technical Operator will only have to employ the number of personnel necessary to carry out Petroleum Operations in a prudent and profitable manner.

POSITIONS	Percentage of national employees	Percentage of expatriate employees
Total number of employees	70%	30%
Technical and professional positions(Geologists and Engineers, Legal, Financial, Safety, Health, and Environment)	60%	40%
Supervisory and management positions	50%	50%
Technicians who work offshore (including Safety, Health, and Environment)	85%	15%
Support and administrative services	100%	0%

23.2.2 During the period in force of this Contract, the Parties comprising the Contractor (other than the National Company) will spend (i) a minimum of one hundred fifty thousand Dollars (\$150,000) per Calendar Year during the Exploration Period; and (ii) a minimum of three hundred thousand Dollars (\$300,000) per Calendar Year during the Development and Production Period, to provide a mutually agreed number of Ministry and National Company personnel with practical training at institutions abroad, chosen by the Ministry, that include training in the areas of earth sciences, engineering, technology, accounting, economics and other related fields of oil and gas exploration and exploitation.

Additionally, during the term of this Contract, the Parties constituting the Contractor will transfer to the Ministry (i) two hundred thousand Dollars (\$200,000) per Calendar Year during the Exploration Period, and (ii) three hundred and fifty thousand Dollars (\$350,000) per Calendar Year during the Development and Production Period; the Ministry will use these sums at its sole discretion to educate and train Equatoguinean personnel selected by the Ministry at universities, colleges, or other training institutions selected by the Ministry and for other general training and educational purposes.

Moreover, once the Development and Production Plan is approved, the Contractor will provide continuous training for periods of 12 months in the form of service commissions to professional technicians of the Ministry in the installations of the Technical Operator in Malabo and London (UK) (two technicians in each location). Procedures and remuneration for the service commissions or Internships will be subject to an agreement between the Technical Operator and the Ministry.

23.2.3 If the Contractor funds any social projects outside those approved in an Annual Budget, the costs will not be recoverable as Petroleum Operations Costs.

23.2.4 Given that Equatoguinean civil society is a part of the National Content in oil and gas contracts, the Contractor will contribute to and cooperate with nongovernmental organizations in beneficial works of social development, sports activities, and health programs to fight and prevent disease, as well as other non-profit activities. The type of projects the Contractor contributes to, and the amounts the Contractor contributes, will be at the sole discretion of the Contractor. When these

contributions have been separately approved beforehand by the Ministry, they will be recoverable as Petroleum Operations Costs.

National Technology Institute, or its successor entity

23.3.1 During the period in force of this Contract, the Contractor will give the National Institute of Technology:

- a) one hundred and fifty thousand Dollars (\$150,000.00) per Calendar Year during the Exploration Period; and
- b) three hundred thousand Dollars (\$300,000.00) per Calendar Year during the period in which the Contractor is producing Hydrocarbons in a Development and Production Area.

23.3.2 During the period in which the Contractor is producing Hydrocarbons in a Development and Production Area, the Contractor will provide all reasonable assistance as may be requested by the Ministry from time to time with the implementation and development of the National Technology Institute to train and develop mid- and upper-level personnel in the petroleum industry of Equatorial Guinea, in accordance with the Hydrocarbons Law, and to the degree permitted by the laws applicable to the members of the Contractor or its Affiliates.

23.4 Social Programs

23.4.1 During the period in force of this Contract, the Contractor will spend on Social Programs in Equatorial Guinea:

- (a) one hundred and fifty thousand dollars (\$150,000.00) per Calendar Year during the Period of Exploration; and
- (b) two hundred and fifty thousand Dollars (\$250,000.00) per Calendar Year during the Development and Production Period.

23.4.2 Support for the Creation of a Ministry of Mines and Hydrocarbons Database

During the period in force of this Contract, the Contractor will spend on creation of a Ministry of Mines and Hydrocarbons Database:

- A) one hundred fifty thousand Dollars (\$150,000) per Calendar Year during the Period of Exploration;
- B) three hundred thousand dollars (\$300,000) per Calendar Year during the Development and Production Period.

23.5 All of the preceding costs under this Article 23 are recoverable as Petroleum Operations Costs in accordance with the provisions of this Contract, except the costs referred to in Article 23.2.3.

23.6 Costs and Travel Expenses

Ophir Energy will cover all Costs and Expenses including technicians' honoraria and travel expenses (as here defined) of the Technical and Legal Assessments identified by the State in writing (the State's consultants) and any value added tax and any other applicable tax to be paid for the services provided by the State's consultants in relation to this Contract. Travel expenses mean the reasonable and good-faith expenses of the Ministry's representatives and State consultants, including airline tickets, accommodation, maintenance and other travel-related expenses.

The Ministry will have the consultants send all invoices to the Ministry for review and approval. In turn, the Ministry will send the approved invoices to the company for payment. The Parties agree that all approved and paid invoices will be recoverable costs under this Contract as Petroleum Operations Costs.

ARTICLE 24 DISMANTLING

24.1 Relinquishment or dismantlement

24.1.1 Subject to the provisions of Article 2.5.2, the Contractor may, at any time, relinquish and/or abandon any part of the Contract Area or any well not included in a Field, provided that the Ministry has been given at least three (3) months' notice, so long as the Contractor has complied with all of its obligations under this Contract and has provided the Ministry, in a detailed manner, all information on the condition of any deposit, facilities, and equipment in that area, as well as any plan for the disposal or dismantling of those facilities and equipment, including all technical and financial information. All dismantling operations will be carried out in accordance with the Hydrocarbons Law.

24.1.2 The dismantling of a Field by the Contractor and the corresponding dismantling plan will require prior authorization from the Ministry in accordance with the Hydrocarbons Law. The Contractor will prepare and deliver to the Ministry a plan for the dismantling of all Wells, facilities, and equipment, the rehabilitation of the landscape and the continuation of oil operations, if applicable, in accordance with the Hydrocarbons Law.

24.1.3 Unless the Ministry decides to maintain the facilities and equipment in order to continue Petroleum Operations in accordance with Article 24.3.3, the Contractor is obligated to completely dismantle all Fields located in the Contract Area at the time of Contract termination or when a Field ceases to produce for more than one year.

24.2 Right of the Ministry

On receiving the Ministry's notice referred to in Article 24.1.1 or by dismantling any Field, the Ministry will have the right to take control of any Discovery or Field whose dismantling the Contractor proposes. If the Ministry does not communicate its desire to take over the oil operations within three (3) months of receiving the relevant notice, the Ministry will be considered to have chosen not to assume the operations.

24.3 Reserve Fund

24.3.1 During the term of this Contract, the Contractor in accordance with the generally accepted standards of the oil industry, will be responsible for carrying out all necessary work with respect to abandonment (including removal, appropriate disposal, recycling in an alternative or novel manner, or salvage) of any of the Petroleum Operations' installations, including but not limited to platforms, artificial structures, wellhead equipment, casing, and flow lines that are considered by the Ministry to be usable or are no longer required for future operations. The Contractor will submit detailed plans of work for such removal, disposal, or salvage to the Ministry for approval. Any costs incurred by the Contractor to remove, dispose of, or save these installations will be recoverable. For the purpose of establishing a financial mechanism to recover such costs in advance for the life of the Field, the Contractor and the Ministry will agree on the mechanism and modality to set aside a reserve in the Contractor's books as part of the disbursement for Petroleum Operations that would be considered

as recoverable cost and used for such removal, disposal, and salvage operations before more than two (2) years passes since the beginning of the initial commercial production of the Field.

For the purpose of dismantling a Field, the Contractor will contribute to a reserve fund for the estimated dismantling costs (the Reserve Fund), in accordance with the Hydrocarbons Law and the approved dismantling plan. The Ministry and the Contractor will establish the form for the commencement of contributions and the institution that will keep these contributions. The contributions will be held by an international bank having at least a Standard and Poor's qualification. All the contributions mentioned will be deductible for tax purposes and will be considered as a Cost of Petroleum Operations in the year in which they were provided.

24.3.2 If the total amount of the Reserve Fund is greater than the real dismantling cost, the balance of the account will be attributed to the State, since the Contractor has received Cost-Recovery Oil corresponding to the account balance. Whatever portion of the balance for which the Contractor has not received the corresponding Cost-Recovery Oil will be distributed to the Contractor. If the balance of the Reserve Fund is less than the actual cost of the dismantling operations, the Contractor will be responsible for the missing amount and may impute such costs as Petroleum Operations Costs to future production in the Contract Area, if any.

24.3.3 If the Ministry decides to maintain the installations and equipment in order to continue with the Petroleum Operations after withdrawal of the Contractor, the reserve fund that is constituted in this way, together with the corresponding interest, will be made available to the Ministry to cover the subsequent dismantling. The Contractor will be exempt from any additional liability for dismantling with respect to these installations and equipment.

24.4 Continuation of the Operations

The State commits itself not to interfere with the carrying out of Petroleum Operations in the Contract Area that the Contractor retains if the State chooses to take over a Discovery or Field in accordance with the provisions of Article 24.2. If the Ministry asks the Contractor and the Contractor has ongoing Petroleum Operations under this Contract in the area of State operations under Article 2.4.2, the Contractor will be responsible for continuing all operations for a fee and under terms that the Ministry and the Contractor agree on

24.5 Protection of the Environment

The Contractor will duly cap all Wells and dismantle all installations and equipment to prevent pollution and damage to the environment, as well as possible damage to the deposit, in accordance with the Hydrocarbons Law, the other laws of Equatorial Guinea, and with generally accepted practices of the international petroleum industry.

ARTICLE 25 APPLICABLE LAW AND STABILITY

25.1 This Contract and the Petroleum Operations carried out under this Contract will be governed by and interpreted in accordance with the laws and regulations of Equatorial Guinea, including the Hydrocarbons Law and the Petroleum Regulations.

25.2 In case of a Change in the Law and if, as a result of its implementation, the Change in the Law causes a significant reduction in economic rights or a significant increase in the economic obligations contained in or resulting from this Contract to the detriment of the Contractor or its shareholders,

the Parties will meet and take appropriate measures to achieve the necessary economic balance, based on the principle that the Contractor will be substantially restored to the same economic condition as if no change had occurred. This restoration of the Contractor will not exceed the benefits received by the State and by other third parties benefiting from the Change in the Law as a result of the change.

This rule will never be construed as meaning that the Contractor is denied the advantages from which it may benefit as a result of any new law, Decree, standard, order, or regulation approved by the State.

ARTICLE 26 RESOLUTION OF CONFLICTS AND ARBITRATION

26.1 Resolution of disputes and notification

26.1.1 If any dispute, claim, conflict or controversy (a "Dispute") between any of the Parties should arise from this Contract, or in relation to it, including any question regarding noncompliance, or its existence, validity, or termination, the Parties will take all reasonable measures to resolve the Dispute amicably. A Dispute will be understood to have arisen if one of the Parties notifies the other Parties, describing the nature of the Dispute and asking for a resolution ("Notification of Dispute").

26.1.2 If the Parties in question have not reached an amicable agreement within ninety (90) days of the date of the Notification of Dispute, unless all Parties extend the deadline, either of the Parties to the Dispute may submit the Dispute to resolution by final and binding arbitration by means of a notification of arbitration, and the arbitration will take place in accordance with the rules of the International Chamber of Commerce (ICC).

26.2 Headquarters and language of arbitration

The headquarters of arbitration will be New York, USA. The languages of the arbitration proceedings, and of all orders, decisions, and the award, will be Spanish and English. All of the arbitrators will be fluent in Spanish as well as English.

26.3 Number and identity of the arbitrators

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

- (a) The claimant and respondent will each designate one arbitrator within thirty (30) days of the date on which the request for arbitration was submitted. If there is more than one claimant or more than one (1) respondent, then the claimants and/or the respondents collectively will each appoint a single arbitrator, by giving notice in writing of this designation to the other Party or Parties to the Dispute and ICC.
- (b) If either the claimant or the respondent fails to comply with the time limit in the preceding paragraph, ICC will 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 so far as possible. ICC will give notice in writing of such designation or designations to the claimant and the respondent.

- (c) The two (2) arbitrators so designated will, within thirty (30) days of their nomination agree on the person to be named as the President of the tribunal, and give notice of the designation to the claimant and the respondent, and ICC.
- (d) If the two (2) arbitrators fail to agree on the person of the President of the tribunal, ICC will name the President, at the request of either the claimant or the respondent, and after consulting the claimant and the respondent as much as possible. ICC, will give notice in writing of the nomination to the claimant and the respondent.

None of the arbitrators will be a citizen of the countries of origin 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 the Party, including the country of its ultimate parent).

26.4 Rules of arbitration

The arbitration procedures initiated under this Contract will be realized under the arbitration rules in effect for ICC on the filing date of the request for arbitration, which rules are considered to be incorporated by reference in this Article 26.

26.5 Binding nature of the arbitration

The arbitration award will be final and binding on the Parties and will be immediately enforceable, subject to the remedies provided in the arbitration rules of ICC. The Parties waive any right they may have, in any court, to refer any question of law, and/or based on the merits. It is expressly agreed that the arbitrators will have no authority to award aggravated, exemplary or punitive damages

26.6 Costs of the arbitration

The costs of arbitration will be charged in accordance with the directions of the arbitration tribunal, and failing that, will be distributed per capita among the Parties to the Dispute. The costs of the Parties constituting the Contactor will not be Petroleum Operations Costs, and therefore, not recoverable.

26.7 Payment of the award

Any monetary award issued will be expressed and payable in Dollars.

26.8 The arbitrators will apply Article 25.1.

ARTICLE 27
FORCE MAJEURE

27.1 Noncompliance with obligations

Any obligation or condition arising or derived from this Contract that any Party is unable to meet, whether in whole or in part, will not be considered a violation of or noncompliance of its obligations under this Contract if the violation or noncompliance is caused by an event of Force Majeure, provided that there is a direct cause-and-effect relationship between the noncompliance and the event of Force Majeure. Notwithstanding the foregoing, all payment obligations owed by any Party to another must be satisfied when due.

27.2 Definition of Force Majeure

For the purposes of this Contract, an event will be considered an event of Force Majeure if it meets the following conditions:

- (a) it temporarily or permanently prevents a Party from meeting its obligations under this Contract;
- (b) it is unforeseeable, unavoidable and beyond the control of the Party that declares Force Majeure; and
- (c) it does not result from the negligence or willful misconduct of the Party that declares Force Majeure.

Such an event will include acts of God, earthquakes, inclement weather, strikes, riots, insurrections, civil unrest, blockades, sabotage, and acts of war (whether declared or not). The Parties agree that the term of Force Majeure will be interpreted in accordance with the principles and practices of the international petroleum industry.

27.3 Notice of Force Majeure

If one of the Parties is unable to comply with any obligation or condition stipulated in this Contract due to Force Majeure, it will notify the other Parties in writing as soon as possible, and in any event no later than fourteen (14) days after the event in question, giving the reason for its noncompliance and the details of the Force Majeure, as well as the affected obligation or condition. The Party affected by the Force Majeure will exert all reasonable efforts to remove the cause, keep the other Parties fully informed of the situation and the current evolution of the Force Majeure event, and will promptly notify the other Parties as soon as the Force Majeure event is over and no longer prevents it from complying with its obligations or conditions under this Contract.

27.4 Continuation of obligations

All obligations, other than those affected by the event of Force Majeure, will continue to be met in accordance with this Contract

27.5 Cessation of Force Majeure

On cessation of the Force Majeure event, the relevant Party will undertake and complete, as soon as practicable and within a time frame mutually agreed on by the Parties, all obligations suspended because of the Force Majeure.

27.6 Continuation of Force Majeure

When a Force Majeure situation lasts more than ninety (90) days, the Parties will consult to examine the situation and implications for Petroleum Operations, in order to establish the appropriate course of action to comply with contractual obligations in the circumstances of the Force Majeure. In such case, the period of this Contract will be extended by the same amount of time that the Force Majeure has lasted.

ARTICLE 28 ASSISTANCE AND NOTIFICATIONS

28.1 Assistance of the Ministry

28.1.1 The Ministry will facilitate, within the limits of its authority, and in accordance with the rules and procedures in effect in Equatorial Guinea, the performance of the Contractor's activities by granting it all permits, licenses, and access rights that are reasonably necessary for the purposes of Petroleum Operations, and by making available to it all necessary services with respect to Petroleum Operations in Equatorial Guinea.

28.1.2 The Ministry will also facilitate and assist the Contractor, within its authority, and in accordance with the rules and procedures in effect in Equatorial Guinea, in obtaining all permits, licenses, or rights not directly related to Petroleum Operations, but that the Contractor may reasonably require for the purposes of meeting its obligations under this Contract.

28.2 Notifications and other communications

All notices, approvals, or other communications authorized or required between the Parties by any of the provisions of this Contract will be in writing (in Spanish and English), addressed to the Parties and delivered in person by courier service or by any electronic means of transmitting written communications that provides written confirmation of complete transmission. For purposes of this Contract, oral communication does not constitute notice or approval, and e-mail addresses and telephone numbers for the Parties are listed below as a matter of convenience only. A notification or approval given under any provision of this Contract will be considered delivered only when actually received by the Party to whom such notice or approval is directed, and the time for such Party to deliver any communication in response to such originating notice or approval will run from the date the originating notice or approval is received. Each Party will have the right to change its address at any time and/or designate another Person or address that copies of all such notifications or approvals be directed to by notification in writing of this change to all other Parties.

For the State:

MINISTRY OF MINES AND HYDROCARBONS

Carretera Autovía Malabo II

Malabo, Bioko Norte

República de Guinea Ecuatorial

To the attention of: His Excellency, the Minister of Mines and Hydrocarbons

Copy to the attention of: Director General of Hydrocarbons

Telephone: + (240) 09-3567, 09-3405

Fax: + (240) 09-3353

For the National Company:

GUINEA ECUATORIAL DE PETRÓLEOS

Calle

Apartado Postal 965

Malabo

Guinea Ecuatorial

To the attention of the Director General

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For Ophir Equatorial Guinea (EG-24) Limited

OPHIR EQUATORIAL GUINEA (EG-24) LIMITED
123 Victoria Street
London, SW1E 6DE
UK
To the attention of the General Counsel
Telephone: +(44) 20 7811 2400
Fax: +(44) 20 7811 2421

ARTICLE 29
MISCELLANEOUS

29.1 Amendments

This Contract may only be amended in writing and by mutual agreement between the Parties; any amendments made in contravention of this provision will not be valid.

29.2 No Association

This Contract will not be interpreted to create an association, joint venture, or partnership between the Parties or to impose any partnership obligations or responsibilities of association on the Parties.

29.3 Entirety of agreement

With respect to the subjects it addresses, this Contract (i) constitutes the entire agreement of the Parties and (ii) supersedes all previous agreements and negotiations between the Parties.

29.4 Exemptions or waivers

If one Party exonerates any other Party from one or several instances of noncompliance with the stipulations of this Contract, such exoneration will not be interpreted or have the effect of exonerating the same Party from past or future noncompliance, whether similar or different. Unless expressly provided otherwise in this Contract, no Party will be considered to have waived, eliminated, or modified any of its rights under this Contract unless the Party has expressly stated, in writing, that it waives, eliminates, or modifies that right.

29.5 Conflict of interest

29.5.1 Each of the Parties constituting the Contractor commits itself to avoiding any conflict of interest between its own interests (including the interests of Affiliates) and the interests of the other Parties in connection with activities contemplated under this Contract.

29.5.2 In the event of any conflict between the principal document of this Contract and its Annexes, the principal document will prevail. In the event of any conflict between this Contract and the Hydrocarbons Law, the Hydrocarbons Law will prevail.

29.6 Commercial transaction

This Contract is entered into by the State as a commercial transaction, and is of a commercial nature.

ARTICLE 30
INTERPRETATION

- 30.1 The table of contents, headings, and subheadings used in this Contract are for convenience only and should not be interpreted as having any substantive significance or as indicating that all of the provisions of this Contract relating to any topic are to be found in any particular Article.
- 30.2 Any reference to the singular implies reference to the plural, and vice versa.
- 30.3 Any reference to the masculine gender includes a reference to the feminine gender, and vice versa.
- 30.4 Unless otherwise stipulated, reference to an Article or an Annex means an Article or Annex of this Contract.
- 30.5 The words *includes* and *including* mean includes and including without limiting the generality of the description preceding the term and are used in an illustrative and not limiting sense.
- 30.6 Any reference to a Person will be interpreted as including a reference to its successors, authorized transferees, and authorized transferors.
- 30.7 Any reference to a law or standard will be interpreted as a reference to such law or standard as it may have been or may be amended or repromulgated from time to time, or any subordinate legislation made or standard created, or may from time to time be created, under such law or standard.
- 30.8 Reference to this Contract or part thereof or any other document will be interpreted as a reference to it as it may be amended, supplemented, renewed, or replaced from time to time.

ARTICLE 31
EFFECTIVE DATE

The State will immediately take all necessary measures to formalize approval of this Contract by means of an Act by which it will have legal validity equivalent to a Law and establishing that this Contract has the force of law. This Contract will become effective on the date the Contractor receives notification in writing of its ratification by the President of Equatorial Guinea.

IN WITNESS WHEREOF, the Parties have signed this Contract in __ (_____) originals in Spanish, and __ (_____) originals in English. In case of any conflict, the text in Spanish will prevail.

**THE REPUBLIC OF EQUATORIAL GUINEA
THE MINISTER OF MINES AND HYDROCARBONS**

Signature: /s/ Gabriel Mbagu Obiang Lima
Name: His Excellency Gabriel Mbagu Obiang Lima
Position: Minister of Mines and Hydrocarbons Minister of Mines and Hydrocarbons

GUINEA ECUATORIAL DE PETRÓLEOS

Signature: /s/ Antonio Oburu Ondo
Name: Antonio Oburu Ondo
Title: Director General Director General

OPHIR EQUATORIAL GUINEA (EG-24) LIMITED

Signature: /s/ Nick Cooper
Name: Nick Cooper
Title: Chief Executive Officer Director

**ANNEX A
CONTRACT AREA**

This Annex is an integral part of this Contract between the Republic of Equatorial Guinea and the Contractor.

On the Effective Date, the initial Contract Area covered an estimated area of 3,537 (three thousand five hundred and thirty seven) square kilometers (km)² or 353,700 (three hundred fifty three thousand seven hundred)) hectares for the purposes of Article 11.4.

The Contract Area is described on the map provided in Annex B. The points indicated on that map are defined below, by reference to the Greenwich meridian and their geographic coordinates:

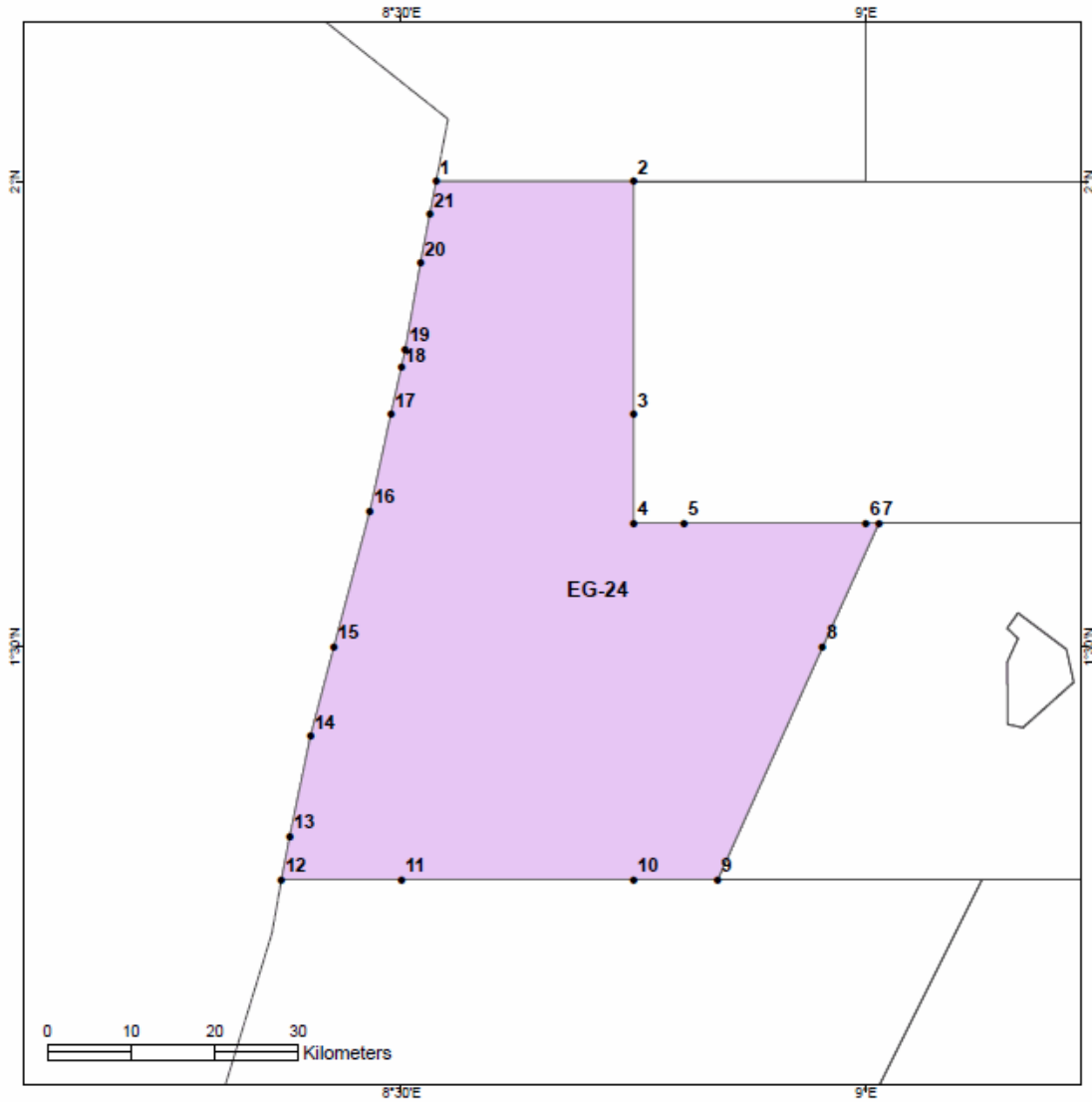
Point	X (UTM)	Y (UTM)	Lat (DD)	Long (DD)	Lat (DMS)	Long (DMS)
1	448556.76	221068.24	2.000000	8.537418	2° 0' 0" N	8° 32' 14.704" E
2	472198.00	221063.11	2.000000	8.750000	2° 0' 0" N	8° 45' 0" E
3	472194.05	193430.04	1.750000	8.750000	1° 45' 0" N	8° 45' 0" E
4	472192.40	180534.63	1.633333	8.750000	1° 38' 0" N	8° 45' 0" E
5	478226.13	180534.25	1.633336	8.804245	1° 38' 0" N	8° 48' 15.282" E
6	500000.00	180532.90	1.633333	9.000000	1° 38' 0" N	9° 0' 0" E
7	501544.86	180532.90	1.633333	9.013889	1° 38' 0" N	9° 0' 50" E
8	494827.74	165795.50	1.500000	8.953502	1° 30' 0" N	8° 57' 12.609" E
9	482231.09	138163.32	1.250000	8.840278	1° 15' 0" N	8° 50' 25" E
10	472187.74	138164.10	1.250000	8.750000	1° 15' 0" N	8° 45' 0" E
11	444374.96	138168.07	1.250000	8.500000	1° 15' 0" N	8° 30' 0" E
12	430041.20	138171.15	1.250000	8.371162	1° 15' 0" N	8° 22' 16.183" E
13	431025.72	143329.35	1.296667	8.380000	1° 17' 48" N	8° 22' 48" E
14	433501.01	155180.73	1.403889	8.402223	1° 24' 14" N	8° 24' 8.003" E
15	436327.01	165803.78	1.500000	8.427602	1° 30' 0" N	8° 25' 39.366" E
16	440615.00	181922.45	1.645833	8.466111	1° 38' 45" N	8° 27' 58" E
17	443157.90	193435.93	1.750000	8.488944	1° 45' 0" N	8° 29' 20.2" E
18	444389.09	199010.41	1.800435	8.500000	1° 48' 1.565" N	8° 30' 0" E
19	444853.14	201111.48	1.819444	8.504167	1° 49' 10" N	8° 30' 15" E
20	446709.59	211396.94	1.912500	8.520833	1° 54' 45" N	8° 31' 15" E
21	447810.88	217163.09	1.964669	8.530721	1° 57' 52.807" N	8° 31' 50.595" E

ANNEX B
MAP OF THE CONTRACT AREA

This Annex is attached to this Contract between the Republic of Equatorial Guinea and the Contractor and forms an integral part of it.

This map is included for illustrative purposes only and in the event of any discrepancy or conflict, the Contract Area will be defined by the geographical co-ordinates specified in Annex A.

BLOCK EG-24



ANNEX C
ACCOUNTING PROCEDURE

This Annex forms an integral part of the Contract between the Republic of Equatorial Guinea and the Contractor. Annex C follows this page.

ARTICLE 1
GENERAL PROVISIONS

1.1 OBJECT

The object of this Accounting Procedure is to establish equitable criteria and methods of calculation and accounting applicable to the provisions of the Contract, and in particular, to:

- (a) classify and define Petroleum Operations Costs; and
- (b) prescribe the form for preparing and submitting the financial statements of the Contractor in accordance with accounting principles in effect in Equatorial Guinea.

1.2 INTERPRETATION

For purposes of this Accounting Procedure, the terms used here and defined in the Contract will have the same meaning when used in this Accounting Procedure. In the event of any discrepancy or conflict between the provisions of this Accounting Procedure and any other provisions of the Contract, the provisions of the Contract will prevail.

1.3 ACCOUNTING RECORDS AND FORMS

1.3.1 In accordance with the provisions of Article 16.1 of the Contract, the Contractor will maintain in its office in Equatorial Guinea original, complete, true, and correct accounts, books, and records of the Production and disposition of Hydrocarbons, and all costs and expenses under the Contract, as well as all other records and data necessary or proper for the settlement of accounts in accordance with the laws of Equatorial Guinea, generally accepted accounting procedures, and generally accepted practices in the international petroleum industry and in accordance with the chart of accounts agreed to in conformance with Article 1.3.2 below

1.3.2 Within sixty (60) days from the Effective Date, the Contractor will submit to and discuss with the Ministry a proposed outline for the chart of accounts and the books, records, and reports in accordance with generally accepted standards and consistent with normal petroleum industry procedures and practices.

Within sixty (60) days of receiving the above proposal, the Ministry will either provide notification of its approval of the proposal, or request in writing that revisions be made.

Within one hundred eighty (180) days after the Effective Date, the Contractor and the Ministry will agree on the scheme for the chart of accounts, books, records, and reports that will describe the basis of the procedures and accounting system to be developed and used in accordance with this Accounting Procedure. Following the agreement, the Contractor will immediately prepare and provide the Ministry with formal copies of the detailed and complete chart of accounts and manuals related to the procedures, and a list of the records and information to be posted, recorded, reported, and that will be monitored under the Contract

1.3.3 In addition to the generality of the foregoing, the Contractor will submit to the Ministry, at regular intervals, statements relating to the Petroleum Operations, including, but not limited to, the following:

- (a) monthly Production statement;

- (b) quarterly statement of Production value and prices;
- (c) statement of Petroleum Operations Costs;
- (d) annual statement of Petroleum Operations Cost not yet recovered;
- (e) Production participation statement;
- (f) annual end-of-year statement;
- (g) Annual Budget quarterly tracking statement;
- (h) statement of tangible goods subject to depreciation, and
- (i) quarterly statement of goods, materials, and property whose ownership is expected to be transferred to the State within three (3) months following the report, owing to total recuperation of their cost.

1.3.4 All reports and statements will be prepared in accordance with the Contract, the laws of Equatorial Guinea and any approved regulations conforming to them, and in accordance with generally accepted practices of the international petroleum industry.

Within forty-five days of the close of the economic year, the Contractor will present to the Ministry the budget implementation as well as the annual accounts (the balance sheet, the cash flow statement, and the income statement). The internal audit report will be attached for the trustworthiness of the information.

1.4 LANGUAGE AND UNIT OF ACCOUNT

Unless otherwise agreed, all accounts, records, books and reports will be prepared and maintained in Spanish and English and will be expressed in Dollars. Additionally, Contractor may maintain accounts and records in other languages and currencies for information purposes only.

1.5 VERIFICATION AND AUDIT RIGHTS OF THE STATE

1.5.1 When the Ministry exercises its audit right under Article 16.3 of the Contract, it will provide notice to the Contractor at least sixty (60) days in advance of that audit, which will take place during regular business hours. The Contractor will make available to the Ministry all accounts, books, records, invoices, cash vouchers, debit notes, price lists, or any other documentation referring to Petroleum Operations. Furthermore, the auditors will have the right, in connection with such audit, to visit and inspect, at reasonable times, any of the Contractor's sites, plants, facilities, warehouses, and offices that affect Petroleum Operations directly or indirectly, and to interview personnel associated with those Operations.

The Contractor will make every effort to provide records and accounts from any of its Affiliates or other Persons necessary to support their charges.

For charges made based on units of time, the Contractor will see that its Affiliate(s) present a report of an internationally recognized independent accounting firm certifying that the charges invoiced by the Affiliate represent a reasonable assignment, complete and accurate charges to Petroleum Operations, excluding any element of profit and duplication of costs, and that apply consistently to all activities of the Affiliate. If the Ministry does not conduct an audit within the time stipulated in accordance with Article 16.3 of the Contract, the Contractor's accounts, books and records will be considered correct and final.

- 1.5.2 Any audit exceptions will be made in writing and reported to the Contractor within ninety (90) days of completion of the corresponding audit. Failure to give such exception by the Ministry will be considered an acknowledgement of the accuracy of the Contractor's books and accounts.
- 1.5.3 If the Contractor fails to respond to any notice of exception under Article 1.5.2 within ninety (90) days of receipt of such notice, the results of the audit will be considered valid and accepted by the Contractor. After that period of time, the Ministry's exception will prevail.
- 1.5.4 Any adjustments resulting from an audit will be promptly applied to the Contractor's accounts; any adjustments to payments due will also be effected promptly.
- 1.5.5 If the Contractor and the Ministry are unable to reach final agreement on the proposed audit adjustments they will resolve the dispute in accordance with the provisions of Article 16.3.3 of this Contract.

While audit-related issues are still outstanding, the Contractor will preserve any relevant documents and allow the Ministry access to them until the issue is finally resolved.

1.6 CURRENCY EXCHANGE RATES

The exchange rate will be determined monthly, based on the arithmetic average of the closing buy and sell rates for the Dollar against the CFA (Communauté Financière Africaine, or African Financial Community) currency unit for the month, as published by the Bank of Central African States (BEAC).

The exchange rate of the preceding calendar month will be used for exchange transactions and for the purpose of determining the counter value of Dollars in the Equatoguinean currency unit for the next month.

1.7 ACCOUNTING BASIS

All books and accounts will be prepared on an accrual accounting basis. Revenues will be posted to the accounting period in which they were earned, without any need to recognize whether a given transaction results in a disbursement or cash receipt. Expenses and costs will be regarded as incurred, in the case of physical items, during the accounting period in which the relevant title is transferred to the Contractor and in the case of services, during the accounting period in which the services are provided. Nevertheless, allocation of accountable revenues and expenditures will be carried out according to the Accrual Accounting Principle contemplated in the General Accounting Plan of Equatorial Guinea, within the framework of OHADA.

1.8 REVIEW OF ACCOUNTING PROCEDURE

By mutual agreement, the Ministry and the Contractor may periodically review this Accounting Procedure at the request of one of the Parties.

ARTICLE 2 GENERAL CLASSIFICATION OF PETROLEUM COSTS

All costs related to Petroleum Operations will be classified in accordance with their end use Classification criteria will be included in the approved Annual Work Program and Annual Budget for the Calendar Year in which the expenditure is made. All Petroleum Operations Costs will be classified, defined, and allocated as stated below.

2.1 EXPLORATION COSTS

Any and all direct, general, and administrative costs incurred during Hydrocarbon Exploration and Appraisal activities in an area that is part of the Contract Area, including but not limited to:

- (a) surveys and aerial, geophysical, geochemical, paleontological, geological, topographical, and seismic studies and their interpretation;
- (b) core hole drilling;
- (c) any labor, materials, supplies, and services used in drilling Exploration Wells and Evaluation Wells;
- (d) any facilities used solely in support of the purposes described in paragraphs (a), (b), and (c) above, including access roads and acquired geological and geophysical data, all separately identified; and
- (e) any other cost incurred in the Exploration and Evaluation of Hydrocarbons after the Effective Date but prior to the date of approval of a Development and Production Plan with respect to the relevant Field and not covered under Articles 2.2, 2.3, and 2.4 below.

2.2 DEVELOPMENT AND PRODUCTION COSTS

Development and Production Costs are all approved direct, general, and administrative costs incurred during Development and Production activities, including, among others, the following:

- (a) drilling Wells defined as Development Wells for purposes of producing from a Commercial Field, whether these Wells turn out to be dry or productive by nature, and drilling Wells for the injection of water or gas to enhance Hydrocarbon recovery;
- (b) completing Wells by way of installation of casing or equipment or otherwise after a Well has been drilled for the purpose of bringing the Well into use as a Development Well or a Well for the injection of water or gas to enhance Hydrocarbon recovery;
- (c) transportation and installation of tank storage facilities, pipelines, flow lines, production and treatment units, wellhead equipment, subsurface equipment, enhanced recovery systems, offshore platforms, export terminals and piers, harbors, and related facilities, and access roads for development activities; and
- (d) engineering and design studies for facilities referred to in item (c).

2.3 OPERATIONS OR PRODUCTION COSTS

Any general, administrative and service costs, and any other Petroleum Operations Costs incurred from the approval date of any relevant Development and Production Plan, and from the beginning of depositing funds for the Reserve Fund.

2.4 COMMERCIALIZATION COSTS

Any costs incurred to export Hydrocarbons to the Delivery Point.

2.5 ASSIGNMENT OF GENERAL AND ADMINISTRATIVE COSTS

With the exception of general and administration costs incurred in Equatorial Guinea that can be directly assigned to the Annual Budget, the general and administration expenditures incurred by the Contractor outside the national territory with respect to Petroleum Operations will be determined in

accordance with the sliding scale set out below, based on total Petroleum Operations Costs actually incurred during the Year and duly justified by the Contractor and approved by the Ministry:

(a) Before commercial Production:

Up to five million Dollars	\$ 5,000,000	4.0%
Next seven million Dollars	\$ 7,000,000	2.0%
Next ten million Dollars	\$ 10,000,000	1.0%
Remaining balance		0.5%

(b) From commercial Production:

All Petroleum Operations Costs

Up to five million Dollars	\$ 5,000,000	2.0%
Next seven million Dollars	\$ 7,000,000	1.0%
Next ten million Dollars	\$ 10,000,000	0.5%
Remaining balance		0.25%

2.6 Except as provided otherwise in the Contract, approved Petroleum Operation Costs described in Articles 2.1 to 2.5 of this Accounting Procedure will be recoverable by the Contractor in accordance with Article 7.2 of the Contract.

2.7 RECOVERY OF INTEREST

Subject to and in accordance with the Hydrocarbons Law, any interest on loans obtained by the Contractor from Affiliated Companies will not be recoverable as a Petroleum Operations Cost, nor will it be deductible for tax purposes when estimating any Income Tax liabilities of the Contractor, unless that interest has been approved by the Ministry. Any interest on loans obtained by the Contractor from Persons other than Affiliated Companies for investments in Petroleum Operations will not be recoverable as a Petroleum Operations Cost but will be deductible for tax purposes when estimating any Income Tax liabilities of the Contractor, provided that the rate of interest and the terms of repayment have been approved by the Ministry in advance.

2.8 NONRECOVERABLE COSTS

Costs that are not recoverable as Petroleum Operations Costs will include the following:

- (a) signing bonus paid by the Contractor;
- (b) all Discovery bonuses paid by the Contractor;
- (c) all Production bonuses paid by the Contractor;
- (d) surface leases paid to the State;
- (e) interest on loans as provided by Article 2.7 of this Accounting Procedure;
- (f) any unapproved cost overruns exceeding the limits of Article 4.4 of this Contract;
- (g) all payments made to the State for failure to meet minimum Exploration work obligations in accordance with Article 3 of the Contract;
- (h) all fines and sanctions incurred for violating the laws and regulations of Equatorial Guinea;
- (i) all donations to the State or other similar expenses, unless otherwise agreed;

- (j) the State's audit and inspection expenses incurred as a result of the failure to keep original documents in the Contractor's offices in Equatorial Guinea;
- (k) all sanctions imposed on the Contractor under the Hydrocarbons Law or otherwise; and
- (l) costs related to assignments made by the Contractor to any of its Affiliates or other Persons.
- (m) Income tax and minimum rates charged for government services, other than Customs fees or the cost of charges for services such as costs paid by the Contractor under Article 6.8;
- (n) costs incurred to remediate damages, including pollution, caused by the Negligence or willful misconduct of the Contractor; and
- (o) costs incurred by the Contractor before signing the Contract, except those costs associated with negotiating the Contract, that will be considered historical costs and recoverable in accordance with the present Contract.

2.9 INSURANCE AND CLAIMS

Petroleum Operations Costs will include premiums paid for required and approved insurance in accordance with the Contract. All expenses incurred and paid by the Contractor for any insurance claim, minus any costs recovered by the Contractor by means of insurance claims, will be included and recoverable as Petroleum Operations Costs.

These Petroleum Operations Costs will be recoverable and deductible as tax expenses provided the Contractor has duly withheld withholding tax at source.

2.10 INVENTORY ACCOUNTING

All costs of articles bought for inventory will be recoverable from the Calendar Year in which the materials and equipment were used in Petroleum Operations in the Contract Area.

ARTICLE 3 OTHER CLASSIFICATION OF COSTS AND EXPENDITURES

(Accounting methods to estimate Income Tax liability)

During any Calendar Year in which Oil Operations occur, the Costs of Oil Operations will include the following:

3.1 CAPITAL COSTS

All capital costs for the current Calendar Year will be classified as Tangible (subject to depreciation) and Intangible.

3.1.1 TANGIBLE CAPITAL COSTS

Tangible Capital Costs are those which are not intangible capital costs incurred to make the purchase of any asset related to Oil Operations that usually have a working life of more than one (1) Year; these assets will be subject to annual depreciation in accordance with the provisions stipulated in these Accounting Procedures. Tangible Capital Costs include the following:

- (a) for Development Wells: the costs of material and equipment employed in the culmination process (equipment for the well bottom, fixed production pipes, production packagers, valves, wellhead equipment, subsoil machinery for elevation, pumping rods, surface pumps,

discharge cables, collection equipment, delivery pipes, fixed Christmas tree with its valves, oil pipes and gas pipes, fixed material and equipment, docks, anchors, buoys, facilities and equipment for processing of hydrocarbons, secondary recovery systems, reinjection compressors, water pumps and their pipes);

- (b) for all purchase of goods and equipment: the real cost of the asset (excluding transport), the construction cost of platforms outside of the Contract Area, the cost of power generation equipment and the cost of facilities on land;
- (c) for the purchase of movable goods: automotive machinery (vehicles, tractors, tugs, tools, lighters, etc.), construction machinery and equipment (office furniture and equipment, among others);
- (d) for construction purposes: the cost of construction of houses and residential facilities, offices, warehouses, workshops, energy plants, storage facilities and access roads for development activities, the cost of quays and anchors, the treatment plant and machinery, the secondary recovery system, the gas plants and steam systems; and
- (e) drilling and production facilities and platforms.

With the exception of the land acquired by the Contractor, all the goods mentioned here will depreciate in accordance with Article 3.2 of the Accounting Procedure.

3.1.2 INTANGIBLE CAPITAL COSTS

The intangible capital costs will be the ongoing costs incurred in the purchase of movable goods and services directly related to Oil Operations and will be recognised as expenses at the moment they are incurred. These costs/expenses will include the following:

- (a) the costs of aeromagnetic, airborne gravimetry, topographical, geological, geophysical and geochemical studies, costs of interpretation and reinterpretation of technical data, labour required for exploration and similar costs;
- (b) drilling costs of Exploration Wells and Evaluation Wells: costs of services provided to drill Development and Evaluation wells, chemical products, leasing costs (of helicopters, lighters, boats, tugs etc.), transport, warehousing facilities, accommodation, technical services for mud control, Well geology, controlled directional drilling of Wells, diving service, mud control, Well geology tests, hardening and related costs;
- (c) drilling costs of Development Wells such as mobilisation and demobilisation of platforms and drilling equipment, drilling contracts and hire of platforms and drilling equipment, labour for platform facilities and infrastructure, fuel, water, drivers, drill bits, drilling tubes, hire of equipment, production test equipment, Christmas tree for production and mud tests and components, chemical products, hire costs (of helicopters, lighters, boats, tugs, etc.), transport, warehousing facilities, accommodation, technical services for mud control, Well location geology, directional drilling of Wells, diving service, production and evaluation test, culmination and supervision;
- (d) the acquisition or purchase costs of goods and services such as transport costs, operating costs, verification of equipment, costs of on site installation, maintenance costs and fuel costs;

- (e) general services (electrical registers, vertical seismic profile [VSP], mud control, sample collection, Well geology tests, hardening, production test, supervision and similar costs), delineation services, all leasing of heavy engineering machinery and other expenses incurred abroad;
- (f) materials, reconstruction of access roads and other types of roads and other intangible goods for construction, public services and construction support; and
- (g) other Exploration Costs, auxiliary or temporary installations with a working life of less than one (1) Year.

3.2 DEPRECIATION OF TANGIBLE CAPITAL COSTS

Depreciation will be calculated from the Calendar Year in which the asset is brought into service, allowing a full Year of depreciation during the initial Calendar Year. For the purposes of estimating liability with respect to Income Tax, depreciation will be calculated using the linear method over five (5) Years.

3.3 NON-CAPITAL COSTS

Non-capital costs will be classified as follows:

3.3.1 COSTS DEDUCTIBLE BY THE CONTRACTOR

For the purposes of Income Tax, costs deductible by the Contractor will include the following:

- (a) general and administrative expenses (staff salaries, insurance payments, labour, office technical services and other similar services, material services, public relations, expenses abroad related to Oil Operations in Equatorial Guinea determined in accordance with Article 2.5 of the Accounting Procedure);
- (b) labour, materials and services used indirectly in Development Drill operations, viability studies for the production of Crude Oil or Natural Gas fields, secondary recovery operations, warehousing, handling, transport and delivery operations, Natural Gas Well operations, transport and delivery of Natural Gas, services for treatment of Natural Gas, environmental protection measures and all other maintenance activities indirectly related to the Oil Operations.

3.3.2 COSTS NOT DEDUCTIBLE BY THE CONTRACTOR

For the purposes of Income Tax, the following Contractor costs will not be deductible:

- (a) Bonus paid by Contractor for agreement of Contract;
- (b) Discovery bonuses paid by the Contractor;
- (c) Production bonuses paid by the Contractor;
- (d) surface leases paid to the State;
- (e) any unapproved excess cost that exceeds the limits established by Article 4.4 of the Contract;
- (f) interest on loans, in accordance with Article 2.7 of this Accounting Procedure;
- (g) any payment made to the State for breach of the minimum obligations of Exploration work in accordance with the provisions of Article 3 of the Contract;

- (h) any fine or penalty imposed for infringement of any laws or regulations, including the laws and regulations of Equatorial Guinea;
- (i) any amounts that exceed the limits established in relation to the depreciation of tangible assets;
- (j) any donation to the State or other similar expenses unless otherwise agreed;
- (k) the costs of auditing and State inspection incurred due to failure to keep original documents at the office of the Contractor in Equatorial Guinea;
- (l) any penalty imposed on the Contractor in accordance with the Law of Hydrocarbons or otherwise;
- (m) costs related to transfers made by the Contractor to any of its Affiliates or other Persons.

ARTICLE 4
BASIS FOR CALCULATION OF INCOME TAX

4.1 PRACTICAL DETERMINATION OF TAXABLE INCOME

To determine the taxable income and to calculate liability with respect to the annual Income Tax of each member of the Contractor, the following will be considered:

Taxable income = [(1)] - {[(2)+(3)+(4)] + [(5)+(6)+(7)+(8)]}.

- (1) Gross annual income (including gifts)
- (2) Gifts
- (3) State Share of net Hydrocarbons
- (4) National Company share of Hydrocarbons based on interest owed or with payment obligations in the Contract under Article 8
- (5) Deductible intangible capital costs
- (6) Depreciation of tangible capital costs
- (7) Non-capital deductible costs
- (8) Losses authorised and certified by the Ministry corresponding to previous Calendar Years.

Points (2), (3) and (4) will include the sum paid by each member of the Contractor to the State or to the National Company for their purchase of the portion of State Hydrocarbons (Articles 7.1 and 7.4) or of the portion of Hydrocarbons corresponding to the Participation Interest of the National Company as a member of the Contractor (Article 8) or its sale by the State or the National Petroleum Company.

Points (5), (6), (7) and (8) will include the costs paid by each member of the Contractor which were attributed to payment of the share of another member of the Contractor Participation Interest, including participation of the National Company under Article 8.

4.2 PRINCIPLE OF TAX TREATMENT OF DEFICIT IN A FINANCIAL YEAR

In the event of a deficit occurring during a Calendar Year, that deficit will be treated as a charge on the following Calendar Year and will be deducted from the profit recorded during the said Calendar Year; in the event that this profit is not sufficient to fully offset the deduction, any excess deficit (certified by the Ministry) will be transferred successively to the profit for the following Calendar Year.

ARTICLE 5 RECORDS AND VALUATION OF ASSETS

5.1 RECORDS

The Contractor will keep correct, exact and detailed records of all goods used for Oil Operations according to the Contract and in accordance with generally accepted practice in the international oil industry.

5.2 INVENTORIES AFTER INITIAL PRODUCTION

Within one hundred and eighty (180) days following the start of production in a Field, the Contractor will prepare an initial inventory (which will be included as part of the status of materials required in accordance with Article 6 of this Accounting Procedure) of all goods to be used for Oil Operations and their value recorded in the Contractor's books.

5.3 INVENTORIES IN SUBSEQUENT OPERATIONS

Following preparation of the initial inventory of the goods, the inventories of goods used in Oil Operations as per the contract will be made at regular intervals but at a minimum once every five (5) Calendar Years.

The Contractor will notify the Ministry at least thirty (30) days in advance of its intention to conduct the said inventory and the Ministry will have the right to be represented when the said inventory is taken. The Contractor must clearly state the principles on which valuation of the inventory has been based and will provide the Ministry with a full report of this inventory within a period of ninety (90) days from conclusion thereof.

ARTICLE 6 STATEMENTS AND RECORDS

6.1 FINANCIAL STATEMENTS AND TAX REPORTS TO BE SUPPLIED BY THE CONTRACTOR

The Contractor must present detailed accounts indicating the Costs of Oil Operations incurred by the Contractor during the previous Calendar Year. These accounts must be submitted to the Ministry within a period of ninety (90) days calculated from the end of the Calendar Year and will be certified by an independent auditor accepted by the Parties. This period may be extended by an additional thirty (30) days at the request of the Contractor and with the approval of the Ministry and this consent must not be refused or delayed without reasonable justification.

Income Tax statements must be duly completed with the detailed information required to facilitate full comprehension by the tax authorities of Equatorial Guinea, including:

- (a) details of depreciation;
- (b) details of fixed assets;
- (c) statistics and details of Production and export;

- (d) all tax reports specified in the Contract; and
- (e) detailed information on deductible expenses to estimate the tax obligations in accordance with the Tax Law.

6.2 PRODUCTION STATEMENT

Without prejudice to the rights and obligations of the Parties as per the Contract, from the initial date of the start of commercial Production in the Contract Area, the Contractor will present the Ministry with a monthly Production statement containing the information listed below separated by Field and consolidated for the Contract Area:

- (a) the amount of Crude Oil produced and conserved;
- (b) the quality characteristics of the Crude Oil produced and conserved;
- (c) the amount of Natural Gas produced and conserved;
- (d) the quality characteristics of this Natural Gas produced and conserved;
- (e) the amounts of Crude Oil and Natural Gas used to perform drilling and Production Operations;
- (f) the amounts of Crude Oil and Natural Gas unavoidably lost;
- (g) the amounts of Natural Gas burned off and flared;
- (h) the amounts of Hydrocarbons in existence at the start of the calendar month in question;
- (i) the amounts of Hydrocarbons in existence at the end of the calendar month in question;
- (j) the amounts of Natural Gas reinjected into Hydrocarbon deposits; and
- (k) the amounts of Hydrocarbons delivered and sold.

All amounts indicated in this statement will be expressed both in volume terms (barrels of Crude Oil [bbls] and cubic metres of Natural Gas [M³]) and in weight (metric tons [MT] and long tons [LT]).

The Production statement for each calendar month and the technical report for each Well will be presented to the Ministry no later than thirty (30) days after the end of the said calendar month.

6.3 STATEMENT OF THE PRODUCTION VALUE AND THE PRICE

To satisfy the purposes of Article 10 of the Contract, the Contractor will prepare a Quarterly statement supplying detailed information about the value of the Hydrocarbons produced, conserved and sold during each Quarter.

The statement of the value of Production will include the following information:

- (a) the amounts, prices and income received by the Contractor as a consequence of sales of Hydrocarbons to third parties during the Quarter in question;

- (a) the amounts, prices and income received by the Contractor as a consequence of sales of Hydrocarbons, other than sales to third parties, during the Quarter in question;
- (c) the value of the stocks of Hydrocarbons at the end of the Quarter preceding the Quarter in question;
- (c) the value of all stocks of Hydrocarbons at the end of the Quarter in question; and
- (e) the information available to the Contractor regarding the prices of competitive Crude Oil in so far as is necessary for the purposes of Article 10 of the Contract.

6.4 STATEMENT OF COSTS OF OIL OPERATIONS

6.4.1 Quarterly Statement

The Contractor will prepare a Quarterly Statement of Costs of Oil Operations listing the Costs of Oil Operations incurred by the Contractor with respect to the Contract Area, as established in this Accounting Procedure.

Each Development Cost and Production Cost will be broken down for each Field, if relevant, and the Contractor will specify the basis for allocating shared costs. If the Ministry is not satisfied with the breakdown indicated within the categories, the Contractor will provide a more detailed breakdown.

All Exploration Costs must be indicated separately.

The statement of costs of Oil Operations for each Quarter will be presented to the Ministry no later than thirty (30) days after the end of the said Quarter.

6.4.2 Annual Statement

The Contractor will prepare an Annual Statement of Costs of Oil Operations with the following information, for the purposes of the provisions of Articles 9 and 16 of the Contract:

- (a) the Costs of Oil Operations which have not yet been recovered and are carried over from the previous Calendar year, if they exist;
- (b) the Costs of Oil Operations of the Calendar Year in question;
- (c) the quantity and value of the Production of Hydrocarbons that the Contractor has designated as Oil for Recovery of Costs in accordance with the provisions of Article 7.2 of the Contract for the Calendar Year in question; and
- (d) the Costs of Oil Operations which have not yet been recovered at the end of the Calendar Year in question.

The Annual Statement of Costs of Oil Operations must be presented to the Ministry no later than forty-five (45) days after the end of the said Calendar Year.

6.5 STATEMENT OF PRODUCTION SHARE

Within a period of sixty (60) days following the end of each Calendar Year, the Contractor must present to the Ministry with respect to the said Calendar Year, a statement of the Production share including the following data for the purposes of Article 7 of the Contract:

- (a) the value of all sales of Hydrocarbons made by the Contractor from the Date on which the Contract came into Force until the end of the previous Calendar Year;
- (a) the value of all sales of Hydrocarbons made by the Contractor during the Calendar Year in question;
- (c) the total of points (a) and (b) at the end of the Calendar Year in question;
- (d) the accumulated Costs of Oil Operations from the Date on which the Contract came into Force until the end of the previous Calendar Year;
- (e) the Costs of Oil Operations of the Calendar Year in question;
- (f) the total of points (d) and (e) at the end of the Calendar Year in question;
- (g) the amount and value of the Contractor's share in the Hydrocarbons; and
- (h) the amount of the State's share in the Hydrocarbons and their value if they have been sold by the Contractor.

6.6 FINAL STATEMENT AT THE END OF THE YEAR

No later than the thirty-first (31) of March of each Calendar Year, the Contractor must present to the Ministry a final statement of the end of the Calendar Year and a statement of accounts corresponding to the previous Tax Year in which the following information will be included:

- (a) accounting reconciliation of expenses against approved Annual Budget;
- (b) accounting reconciliation of expenses against recoverable costs; and
- (c) accounting reconciliation of expenses against deductible costs.

6.7 STATEMENT OF ANNUAL BUDGET

The contractor will present the Ministry with a statement of the Annual Budget in accordance with the provisions of Article 4 of the Contract. This statement will distinguish between the Exploration Costs, the Development Costs and the Production Costs budgeted for each Quarter and will correspond to the individual entries for Oil Operations included in the Annual Work Programme.

ANNEX D
GUARANTEE AGREEMENTS

This Annex consists of two Guarantee Agreements, D1 and D2, which are provided below.

ANNEX D.1
GUARANTEE AGREEMENT – GENERAL OBLIGATIONS

This Annex forms an integral part of the Contract between the Republic of Equatorial Guinea and the Contractor.

This Guarantee Agreement is celebrated on this [insert day] of [insert month and year]

BETWEEN:

- (1) [THE GUARANTOR], a company established and existing under the laws of [insert jurisdiction] with its registered address at [insert address] (the “Guarantor”); and
- (2) THE REPUBLIC OF EQUATORIAL GUINEA (the “State”), represented for the purposes of this Guarantee by the Ministry of Mines and Hydrocarbons (the “Ministry”).

WHEREAS:

the Guarantor is the parent company or affiliate of [insert name], established in accordance with the laws of [insert jurisdiction], with its registered address at [insert address] (the "Contractor");

the Contractor has agreed a contract to participate in production (the "Contract") with, among others, the State with respect to the Contract Area;

the Contractor has a Participation Interest under the Contract;

the State wishes the signature and performance of the Contract by the Contractor to be guaranteed by the Guarantor and the Guarantor wishes to provide this Guarantee as an incentive for the State to agree the Contract and in return for the rights and benefits acquired by the Contractor under the contract; and

the Guarantor fully understands and wishes to guarantee certain contractual obligations of the Contractor under the Contract.

AS A RESULT, taking into account the premises established in this document and in exchange for a provision of security, the receipt and sufficiency of which are demonstrated by this document, the Guarantor agrees and undertakes with the Contractor as follows:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. Except where the contrary is specifically established or where the context demands the contrary, the terms defined in this Section 1.1 and in the introduction will have, for all purposes

of this Guarantee Agreement, the meanings specified in this document. The following definitions apply both to the singular and the plural form of any of the terms defined in this document:

Guarantee Agreement

The term "Guarantee Agreement" refers to this Guarantee Agreement, as it was originally signed and as it may, from time to time, be supplemented, modified or amended in accordance with the provisions of this document.

Affiliate

The term "Affiliate" refers to a legal entity that Controls, or is Controlled by, or is Controlled by an entity that Controls a Party.

Control

The term "Control" refers to direct or indirect ownership of more than fifty (50) per cent of the voting rights of a corporation, company or other legal entity. The terms deriving from the word "Control", such as "**Controls**" and "**Controlled by**" will have the same meaning.

Banking Day

The term "Banking Day" refers to any day, except a Saturday, Sunday or any other day on which commercial banks whether in Malabo, Equatorial Guinea, or in Houston (Texas) are authorised or obliged to remain closed.

Maximum Amount

The term "Maximum Amount" refers to the meaning stipulated in Section 3.1 of this Guarantee Agreement.

Person

The term "Person" refers to any physical person, corporation, limited liability company, company, participating company, association, public limited company, trust, unincorporated organisation, or government or any government body, authority or political subdivision.

Section 1.2. Other Terms Defined. The terms used with a capital letter which are not otherwise defined in this Guarantee Agreement will have the same meaning as that ascribed to them in the Contract.

ARTICLE II

DECLARATIONS OF THE GUARANTOR

Section 2.1. Declarations of the Guarantor. The Guarantor makes the following declarations to the State:

(a) The Guarantor has been duly established and exists under the laws of its place of establishment and enjoys all the faculties and corporate prerogatives necessary to enter into this Guarantee Agreement and to implement and complete all the transactions contemplated in this Agreement Guarantee.

(b) The agreement and delivery of this Agreement Guarantee and the completion of all of the transactions contemplated within it will not come into conflict with or constitute on the part of

the Guarantor a violation or breach under the founding documents, articles of association or any contract, or any other important instrument or agreement to which the Guarantor is a party or to which the goods of the Guarantor are bound, or any order, rule or regulation of any court, government body or organ that has jurisdiction over the Guarantor or any of its activities or goods.

(c) This Guarantee Agreement has been duly authorised, signed and delivered by the Guarantor and constitutes a valid and binding obligation for the Guarantor.

ARTICLE III

GUARANTEE AND AGREEMENTS

Section 3.1. Guarantee By virtue of this document, the Guarantor guarantees to the State payment and timely compliance with all and any debts and obligations of the Contractor with respect to the State that arises from the provisions of the Contract or in relation to it, distinct from the obligations that derive from the following Articles of the Contract:

- (a) 3.1.1
- (b) 3.1.2
- (c) 3.1.4

Including the payment of any sum the Contractor has to pay to the state when this payment is enforceable and payable; so long as, however, the liability of the Guarantor to the State under this Guarantee does not exceed fifty million United States dollars (\$50,000,000) (the "Maximum Amount").

Section 3.2 Claim procedure. In the event of breach by the Contractor in the performance of any of the obligations guaranteed under this agreement, in order to submit a claim under this Guarantee Agreement, the State or its duly authorised attorney must notify the Guarantor in writing of the amount owed and of the other points provided in (a) to (d) below, and the Guarantor, within a period of ten (10) Working Days, will pay or will cause payment in immediately available funds of the said amount as notified, in Dollars, to the bank account or other destination in [insert jurisdiction] designated by the State and without any compensation or reduction of this amount with respect to any claim that the Contractor may have at the time or subsequently. The State will supply to the Guarantor, at the address of the Guarantor included in Section 4.2, a written notification, signed by an authorised representative of the State (the "Notification") of breach by the Contractor with respect to its obligations established in the Contract, specifically indicating:

- (a) the clause(s) allegedly breached,
- (b) that the Contractor has failed to make timely payment or perform in a timely manner all or some of its obligations under the Contract,
- (c) a description of the obligations breached and the amount that the Contractor must pay as a consequence of said breach, and
- (d) that the Contractor has not paid to the State the amount claimed, that the State has notified the Contractor in writing of the lack of payment or breach and was informed of the intention of the State to enforce this Guarantee Agreement.

Section 3.3 Waiver of notification, agreement of modifications. The Guarantor waives the requirement to be notified of acceptance of this Guarantee Agreement and of the status of indebtedness of the Contractor at any time, and expressly agrees to any extension, renewal, modification or acceleration of the sums owed to the State in accordance with the Contract or any of the terms thereof, without this releasing the Guarantor of any of its responsibilities in accordance with this Guarantee.

Section 3.4 Absolute and unconditional guarantee. The obligations of the Guarantor, as established in Section 3.1 above, will be a guarantee of payment and of absolute and unconditional compliance with the obligations that should be performed strictly in accordance with the terms of the Contract and without respect to those defensive measures that may be available to the Contractor, including, among others, some of the following, with or without notice to or the consent of the Guarantor:

- (a) any modification, amendment, alteration, extension, tolerance, renunciation of the term or concession (material or otherwise) granted to the Contractor;
- (b) taking or not taking measures by the State against the Contractor;
- (c) any breach, omission, delay or failure by the State in enforcing, implementing or exercising any right, power or recourse that it may have against the Contractor;
- (d) the liquidation, dissolution, sale or other disposal, voluntary or involuntary, of all or almost all of the assets, administration of assets and liabilities, failure, insolvency, bankruptcy, transfer to the benefit of creditors, reorganisation, settlement, agreement with creditors or readjustment or other similar procedures that affect the Guarantor or Contractor or any of the respective assets of either of them, or any accusation or claim with regard to the validity of this Guarantee Agreement in any of these procedures;
- (e) any defence based on a legal incapacity of the Contractor.

Section 3.5 Non exoneration of the Guarantor. The obligations of the Guarantor under this Guarantee will not be extinguished or affected in any way by the following: renunciation or delivery by the Contractor of the goods or other guarantee held or acquired in the future for the payment of any of the obligations guaranteed by this agreement; exchange, replacement or alteration of these goods or another guarantee; taking or ceasing to take any measure or action against the Contractor or the Guarantor with respect to these goods or other guarantees; or any other circumstance that could constitute a defence or exoneration, whether legal or in equivalence, of a guarantee.

Section 3.6 Prior actions of the State. The State will not be obliged in the first instance to demand payment or compliance from the Contractor or any other Person or to act against any good or security delivered to the State or to perform any other action before having direct recourse to the Guarantor.

Section 3.7 Accumulation of rights. The rights, powers and remedies of the State under this Guarantee are cumulative and not alternate and exist in addition to any right, power or remedy granted to the State by the law or by any other means.

Section 3.8 Continuity of the guarantee. This Guarantee Agreement is made with the intention of granting a continuous guarantee of payment and compliance and will also be considered as such; additionally, it will remain in full effect and force while the Contract or any amendment to it are current or while any liability or obligation of the Contractor to the State continues in accordance with the Contract.

Section 3.9 Substitution. So long as the debt guaranteed by this guarantee has not been paid in full, the Guarantor will have no right of substitution with respect to any good, security, guarantee or other right that the State may have.

Section 3.10. Costs. If the State makes a successful legal claim against the Guarantor, the Guarantor agrees to pay all the costs, fees and duties, including the reasonable legal fees, which the State may have incurred to enforce or attempt to enforce this Guarantee Agreement following any breach by the Guarantor, whether to enforce it through legal trial or by any other means. If, notwithstanding, the State makes a legal claim against the Guarantor and the Guarantor is successful, the State agrees to pay all costs, fees and duties,

including the reasonable legal fees, which the State may have incurred to enforce or attempt to enforce this Guarantee Agreement following any breach by the Guarantor, whether to enforce it through legal trial or by any other means. If the State makes a legal claim against the Guarantor and the decision favours both the State and the Guarantor (divided decision), each party will be responsible for its own costs, fees and duties, including the reasonable legal fees, which each party may have incurred to enforce or attempt to enforce this Guarantee Agreement following any breach of this Guarantee Agreement, whether to enforce it through legal trial or by any other means.

ARTICLE IV

MISCELLANEOUS

Section 4.1. Applicable legislation and resolution of disputes. This Guarantee Agreement will be governed by the laws of New York (excluding the principles of choice of applicable jurisdiction under these laws). Any dispute between the parties to this Guarantee Agreement will be resolved in accordance with the procedures established in the provisions on conflict resolution included in the Contract.

Section 4.2. Notifications. All notifications and other communications to the State or the Guarantor will be made electronically or delivered in person to either of the parties to this document at the addresses indicated in this Section 4.2:

All communications for the State will be sent to:

[Address of the State]

Attention: [position or name]

Fax number: [fax number]

All communications for the Guarantor will be sent to:

Name

Address

Attention: [position or name]

Fax number:[fax number]

or to any other address or fax number that either of the parties has notified to the other in accordance with the provisions of this Section 4.2. All communications for the Contractor will be sent in accordance with the notification provisions included in the Contract.

For all of the purposes of this Guarantee Agreement, a notification or communication will be considered valid if:

- (a) it is delivered in person, (i) on the day on which it is delivered, unless this is not a Banking Day or (ii) if it is delivered after the closing time of a Banking Day, the notification will be considered to have been received on the next Banking Day, and
- (b) it is delivered by fax, on the date of sending, as shown by the 'fax sent' confirmation generated by the fax machine of the sender, unless the date of sending and confirmation is not a Banking Day or the time of confirmation is after the closing time for that day, in which case the notification will be considered to have been received on the next Banking Day.

Section 4.3. Banking Days. Unless the opposite is stipulated in this Guarantee Agreement, if a payment is to be made, a notification is to be delivered or any other measure is to be taken under this agreement on a date which is not a Banking Day, then this payment, notification or measure will be made, delivered or taken on the following Banking Day and, in the case of any payment, interest for late payment will not apply.

Section 4.4. Assignees and transferees. This Guarantee Agreement will be binding for the Guarantor and its permitted assignees and transferees and will operate to the benefit of the State and its permitted assignees and transferees. The Guarantor may not transfer its obligations under this agreement without the prior written consent of the State, on the condition that the State does not withhold approval of a transferee if the proposed transferee possesses consolidated net assets of not less than five (5) times the Maximum Amount. The State may not cede, sell or transfer its rights or shares in this Guarantee Agreement other than to an Affiliate of the State, and in the event of such a concession, sale or transfer occurring, immediate written notification must be sent to the Guarantor. If (i) the State or an Affiliate of the State sells, transfers or cedes part or all of its share in the Contract to a person who is not an Affiliate of the State or (ii) the State sells, transfers or cedes part or all of this Affiliate of the State to a person who is not an Affiliate of the State, then the Maximum Amount under this Guarantee Agreement will be reduced proportionately from the date of this sale, transfer or cession and, in no circumstances, will the Guarantor be liable to any transferee.

Section 4.5. Guarantee to the benefit of the State. The Guarantor enters into this Guarantee Agreement to the benefit of the State. None of the provisions included in this agreement will be deemed to generate any right or permit any Person to enforce or pursue any claim by virtue of this agreement or to be, either partially or in whole, to the benefit of any Person, other than the Guarantor, the State and their respective permitted assignees and transferees.

Section 4.6. Duration. This Guarantee Agreement will end and cease to have force when the first of the following dates occurs (a) the day on which the Contract expires, or (b) the day on which the Maximum Amount under this Guarantee is reduced to US\$0 due to payment of the total amount, or (c) the day on which the Contractor ceases to be an Affiliate of Ophir Energy. At the moment of its cancellation or expiry, the original of this Guarantee Agreement will immediately be returned to the Guarantor.

Section 4.7. Amendments and waivers. Any provision of this Guarantee Agreement may be amended or waived if and only if the said amendment or waiver is made in writing and signed by each party, the Guarantor and the State.

Section 4.8. Titles. The titles of the articles and sections of this Guarantee Agreement have the sole purpose of contributing to its organisation and will not affect its interpretation in any way.

Section 4.9. Partial invalidity. The lack of validity of one or more sentences, phrases, clauses or sections of this Guarantee Agreement will not affect the validity or enforceability of the other portions of this Guarantee Agreement or of any of its constituent parts.

Section 4.10. No waiver, appeals. No omission or delay by the State in exercising any right, power or privilege established in this agreement will be considered to constitute a waiver thereof; likewise, nor will the partial exercise of a single right, power or privilege exclude any other exercise or the exercise of any other right, power or privilege. The appeals included in this agreement are cumulative and do not exclude any other appeal contemplated in the law.

Section 4.11. Integrity of the Agreement. This Guarantee Agreement constitutes the whole agreement and commitment by the parties with respect to this issue and replaces any prior oral and written statements in this regard; *with the proviso that*, for greater security, the State and the Guarantor recognise that this Guarantee Agreement does not have the purpose of amending and does not amend any term or condition of the Contract.

Section 4.12. Signature of several copies. Several examples of this Guarantee Agreement may be signed and each of these will be considered to be an original for any purpose. However, taken together, these copies will constitute a single instrument. Sending the signature page of a signed copy of this Guarantee Agreement by fax will have the same validity as manual delivery of a copy of this signed Guarantee Agreement.

IN PROOF WHEREOF, THE PARTIES TO THIS AGREEMENT have caused this Guarantee Agreement to be signed in their respective names and on their behalf by their respective duly authorised officers on the date indicated on the first page above.

(GUARANTOR)

By

[name]

[position]

[full name of Beneficiary]

By

[name]

[position]

ANNEX D.2
GUARANTEE AGREEMENT – WORK OBLIGATIONS

This Annex forms an integral part of the Contract between the Republic of Equatorial Guinea and the Contractor.

This Guarantee Agreement is celebrated on this [insert day] of [insert month and year]

BETWEEN:

(1) [THE GUARANTOR], a company established and existing under the laws of [insert jurisdiction] with its registered address at [insert address] (the “Guarantor”); and

(2) THE REPUBLIC OF EQUATORIAL GUINEA (the “State”), represented for the purposes of this Guarantee by the Ministry of Mines and Hydrocarbons (the “Ministry”).

WHEREAS:

the Guarantor is the parent company or affiliate of [insert name], established in accordance with the laws of [insert jurisdiction], with its registered address at [insert address] (the "Contractor");

the Contractor has agreed a contract to participate in production (the "Contract") with, among others, the State with respect to the Contract Area;

the Contractor has a Participation Interest under the Contract;

the State wishes the signature and performance of the Contract by the Contractor to be guaranteed by the Guarantor and the Guarantor wishes to provide this Guarantee as an incentive for the State to agree the Contract and in return for the rights and benefits acquired by the Contractor under the contract; and

the Guarantor fully understands and wishes to guarantee certain contractual obligations of the Contractor under the Contract.

AS A RESULT, taking into account the premises established in this document and in exchange for a provision of security, the receipt and sufficiency of which are demonstrated by this document, the Guarantor agrees and undertakes with the Contractor as follows:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. Except where the contrary is specifically established or where the context demands the contrary, the terms defined in this Section 1.1 and in the introduction will have, for all purposes of this Guarantee Agreement, the meanings specified in this document. The following definitions apply both to the singular and the plural form of any of the terms defined in this document:

Guarantee Agreement

The term "Guarantee Agreement" refers to this Guarantee Agreement, as it was originally signed and as it may, from time to time, be supplemented, modified or amended in accordance with the provisions of this document.

Affiliate

The term "Affiliate" refers to a legal entity that Controls, or is Controlled by, or is Controlled by an entity that Controls a Party.

Control

The term "Control" refers to direct or indirect ownership of more than fifty (50) per cent of the voting rights of a corporation, company or other legal entity. The terms deriving from the word "Control", such as "**Controls**" and "**Controlled by**" will have the same meaning.

Banking Day

The term "Banking Day" refers to any day, except a Saturday, Sunday or any other day on which commercial banks whether in Malabo, Equatorial Guinea, or in Houston (Texas) are authorised or obliged to remain closed.

Maximum Amount

The term "Maximum Amount" refers to the meaning stipulated in Section 3.1 of this Guarantee Agreement.

Person

The term "Person" refers to any physical person, corporation, limited liability company, company, participating company, association, public limited company, trust, unincorporated organisation, or government or any government body, authority or political subdivision.

Section 1.2. Other Terms Defined. The terms used with a capital letter which are not otherwise defined in this Guarantee Agreement will have the same meaning as that ascribed to them in the Contract.

ARTICLE II

DECLARATIONS OF THE GUARANTOR

Section 2.1. Declarations of the Guarantor. The Guarantor makes the following declarations to the State:

(a) The Guarantor has been duly established and exists under the laws of its place of establishment and enjoys all the faculties and corporate prerogatives necessary to enter into this Guarantee Agreement and to implement and complete all the transactions contemplated in this Agreement Guarantee.

(b) The agreement and delivery of this Agreement Guarantee and the completion of all of the transactions contemplated within it will not come into conflict with or constitute on the part of the Guarantor a violation or breach under the founding documents, articles of association or any contract, or any other important instrument or agreement to which the Guarantor is a party or to which the goods of the Guarantor are bound, or any order, rule or regulation of any court, government body or organ that has jurisdiction over the Guarantor or any of its activities or goods.

(c) This Guarantee Agreement has been duly authorised, signed and delivered by the Guarantor and constitutes a valid and binding obligation for the Guarantor.

ARTICLE III

GUARANTEE AND AGREEMENTS

Section 3.1. Guarantee By virtue of this document, the Guarantor guarantees to the State payment and timely compliance with all and any debts and obligations of the Contractor with respect to the State that arise from the provisions of the Contract as this obligations are defined under the Contract:

- (a) 3.1.1
- (b) 3.1.2

since the liability of the Guarantor with respect to the State established here does not exceed the amounts for each period listed in the provisions of the Contract listed above in this Section 3.1 (collective, the "Maximum Amount" for the corresponding period covered);

and since for each of the periods covered by each of the provisions of the Contract listed the Maximum Amount under this Guarantee Agreement will be reduced after which the Guarantor will be notified in writing that the Contractor has complied with some or all of the obligations guaranteed under the corresponding provision of the Contract listed above in Section 3.1 of this document, and this notification must be signed by an authorised signatory of the State, which signature may not be unjustly withheld, and this will be accepted as conclusive evidence that the events described in it occurred and that the Maximum Amount is duly reduced. The notification will indicate the amount to which the Amount should be reduced. The Guarantor will have the right to consider this amount as conclusive and the Guarantee Agreement will be deemed to be immediately reduced by this amount following receipt by the Guarantor of this notification for the particular period applicable to the provision of the Contract in particular. After entering the following period of the Contract and in the event that operations must be performed under the following provision of the Contract listed above in this Section 3.1, the Maximum Amount will be reincorporated in the Maximum Amount required for this period of the Contract in particular.

Section 3.2 Claim procedure. In the event of breach by the Contractor in the performance of any of the obligations guaranteed under this agreement, in order to submit a claim under this Guarantee Agreement, the State or its duly authorised attorney must notify the Guarantor in writing of the amount owed and of the other points provided in (a) to (d) below, and the Guarantor, within a period of ten (10) Working Days, will pay or will cause payment in immediately available funds of the said amount as notified, in Dollars, to the bank account or other destination in [insert jurisdiction] designated by the State and without any compensation or reduction of this amount with respect to any claim that the Contractor may have at the time or subsequently. The State will supply to the Guarantor, at the address of the Guarantor included in Section 4.2, a written notification, signed by an authorised representative of the State (the "Notification") of breach by the Contractor with respect to its obligations established in the Contract, specifically indicating:

- (a) the clause(s) allegedly breached,
- (b) that the Contractor has failed to make timely payment or perform in a timely manner all or some of its obligations under the Contract,
- (c) a description of the obligations breached and the amount that the Contractor must pay as a consequence of said breach, and

(d) that the Contractor has not paid to the State the amount claimed, that the State has notified the Contractor in writing of the lack of payment or breach and was informed of the intention of the State to enforce this Guarantee Agreement.

Section 3.3 Waiver of notification, agreement of modifications. The Guarantor waives the requirement to be notified of acceptance of this Guarantee Agreement and of the status of indebtedness of the Contractor at any time, and expressly agrees to any extension, renewal, modification or acceleration of the sums owed to the State in accordance with the Contract or any of the terms thereof, without this releasing the Guarantor of any of its responsibilities in accordance with this Guarantee.

Section 3.4 Absolute and unconditional guarantee. The obligations of the Guarantor, as established in Section 3.1 above, will be an absolute and unconditional guarantee of compliance and payment of the obligations that must be performed strictly in accordance with the terms of the Contract and without respect to those defensive measures that may be available to the Contractor, including, among others, some of the following, with or without notice to or the consent of the Guarantor:

- (a) any modification, amendment, alteration, extension, tolerance, renunciation of the term or concession (material or otherwise) granted to the Contractor;
- (b) taking or not taking measures by the State against the Contractor;
- (c) any breach, omission, delay or failure by the State in enforcing, implementing or exercising any right, power or recourse that it may have against the Contractor;
- (d) the liquidation, dissolution, sale or other disposal, voluntary or involuntary, of all or almost all of the assets, administration of assets and liabilities, failure, insolvency, bankruptcy, transfer to the benefit of creditors, reorganisation, settlement, agreement with creditors or readjustment or other similar procedures that affect the Guarantor or Contractor or any of the respective assets of either of them, or any accusation or claim with regard to the validity of this Guarantee Agreement in any of these procedures;
- (e) any defence based on a legal incapacity of the Contractor.

Section 3.5 Non exoneration of the Guarantor. The obligations of the Guarantor under this Guarantee will not be extinguished or affected in any way by the following: renunciation or delivery by the Contractor of the goods or other guarantee held or acquired in the future for the payment of any of the obligations guaranteed by this agreement; exchange, replacement or alteration of these goods or another guarantee; taking or ceasing to take any measure or action against the Contractor or the Guarantor with respect to these goods or other guarantees; or any other circumstance that could constitute a defence or exoneration, whether legal or in equivalence, of a guarantee.

Section 3.6 Prior actions of the State. The State will not be obliged in the first instance to demand payment or compliance from the Contractor or any other Person or to act against any good or security delivered to the State or to perform any other action before having direct recourse to the Guarantor.

Section 3.7 Accumulation of rights. The rights, powers and remedies of the State under this Guarantee are cumulative and not alternate and exist in addition to any right, power or remedy granted to the State by the law or by any other means.

Section 3.8 Continuity of the guarantee. This Guarantee Agreement is made with the intention of granting a continuous guarantee of payment and compliance and will also be considered as such; additionally, it will remain in full effect and force while the Contract or any amendment to it are current or while any liability or obligation of the Contractor to the State continues in accordance with the Contract.

Section 3.9 Substitution. So long as the debt guaranteed by this Guarantee has not been paid in full, the Guarantor will have no right of substitution with respect to any good, security, guarantee or other right that the State may have.

Section 3.10. Costs. If the State makes a successful legal claim against the Guarantor, the Guarantor agrees to pay all the costs, fees and duties, including the reasonable legal fees, which the State may have incurred to enforce or attempt to enforce this Guarantee Agreement following any breach by the Guarantor, whether to enforce it through legal trial or by any other means. If, notwithstanding, the State makes a legal claim against the Guarantor and the Guarantor is successful, the State agrees to pay all costs, fees and duties, including the reasonable legal fees, which the State may have incurred to enforce or attempt to enforce this Guarantee Agreement following any breach by the Guarantor, whether to enforce it through legal trial or by any other means. If the State makes a legal claim against the Guarantor and the decision favours both the State and the Guarantor (divided decision), each party will be responsible for its own costs, fees and duties, including the reasonable legal fees, which each party may have incurred to enforce or attempt to enforce this Guarantee Agreement following any breach of this Guarantee Agreement, whether to enforce it through legal trial or by any other means.

ARTICLE IV

MISCELLANEOUS

Section 4.1. Applicable legislation and resolution of disputes. This Guarantee Agreement will be governed by the laws of New York (excluding the principles of choice of applicable jurisdiction under these laws). Any dispute between the parties to this Guarantee Agreement will be resolved in accordance with the procedures established in the provisions on conflict resolution included in the Contract.

Section 4.2. Notifications. All notifications and other communications to the State or the Guarantor will be made electronically or delivered in person to either of the parties to this document at the addresses indicated in this Section 4.2:

All communications for the State will be sent to:

[Address of the State]

Attention: [position or name]

Fax number: [fax number]

All communications for the Guarantor will be sent to:

Name

Address

Attention: [position or name]

Fax number:[fax number]

or to any other address or fax number that either of the parties has notified to the other in accordance with the provisions of this Section 4.2. All communications for the Contractor will be sent in accordance with the notification provisions included in the Contract.

For all of the purposes of this Guarantee Agreement, a notification or communication will be considered valid if:

- (a) it is delivered in person, (i) on the day on which it is delivered, unless this is not a Banking Day or (ii) if it is delivered after the closing time of a Banking Day, the notification will be considered to have been received on the next Banking Day, and
- (b) it is delivered by fax, on the date of sending, as shown by the 'fax sent' confirmation generated by the fax machine of the sender, unless the date of sending and confirmation is not a Banking Day or the time of confirmation is after the closing time for that day, in which case the notification will be considered to have been received on the next Banking Day.

Section 4.3. Banking Days. Unless the opposite is stipulated in this Guarantee Agreement, if a payment is to be made, a notification is to be delivered or any other measure is to be taken under this agreement on a date which is not a Banking Day, then this payment, notification or measure will be made, delivered or taken on the following Banking Day and, in the case of any payment, interest for late payment will not apply.

Section 4.4. Assignees and transferees. This Guarantee Agreement will be binding for the Guarantor and its permitted assignees and transferees and will operate to the benefit of the State and its permitted assignees and transferees. The Guarantor may not transfer its obligations under this agreement without the prior written consent of the State, on the condition that the State does not withhold approval of a transferee if the proposed transferee possesses consolidated net assets of not less than five (5) times the Maximum Amount. The State may not cede, sell or transfer its rights or shares in this Guarantee Agreement other than to an Affiliate of the State, and in the event of such a concession, sale or transfer occurring, immediate written notification must be sent to the Guarantor. If (i) the State or an Affiliate of the State sells, transfers or cedes part or all of its share in the Contract to a person who is not an Affiliate of the State or (ii) the State sells, transfers or cedes part or all of this Affiliate of the State to a person who is not an Affiliate of the State, then the Maximum Amount under this Guarantee Agreement will be reduced proportionately from the date of this sale, transfer or cession and, in no circumstances, will the Guarantor be liable to any transferee.

Section 4.5. Guarantee to the benefit of the State. The Guarantor enters into this Guarantee Agreement to the benefit of the State. None of the provisions included in this agreement will be deemed to generate any right or permit any Person to enforce or pursue any claim by virtue of this agreement or to be, either partially or in whole, to the benefit of any Person, other than the Guarantor, the State and their respective permitted assignees and transferees.

Section 4.6. Duration. This Guarantee Agreement will end and cease to have force when the first of the following dates occurs (a) the day on which the Contract expires, or (b) the day on which the Contractor ceases to be an Affiliate of Ophir Energy. At the moment of its cancellation or expiry, the original of this Guarantee Agreement will immediately be returned to the Guarantor.

Section 4.7. Amendments and waivers. Any provision of this Guarantee Agreement may be amended or waived if and only if the said amendment or waiver is made in writing and signed by each party, the Guarantor and the State.

Section 4.8. Titles. The titles of the articles and sections of this Guarantee Agreement have the sole purpose of contributing to its organisation and will not affect its interpretation in any way.

Section 4.9. Partial invalidity. The lack of validity of one or more sentences, phrases, clauses or sections of this Guarantee Agreement will not affect the validity or enforceability of the other portions of this Guarantee Agreement or of any of its constituent parts.

Section 4.10. No waiver, appeals. No omission or delay by the State in exercising any right, power or privilege established in this agreement will be considered to constitute a waiver thereof; likewise, nor will the partial exercise of a single right, power or privilege exclude any other exercise or the exercise of any

other right, power or privilege. The appeals included in this agreement are cumulative and do not exclude any other appeal contemplated in the law.

Section 4.11. Integrity of the Agreement. This Guarantee Agreement constitutes the whole agreement and commitment by the parties with respect to this issue and replaces any prior oral and written statements in this regard; *with the proviso that*, for greater security, the State and the Guarantor recognise that this Guarantee Agreement does not have the purpose of amending and does not amend any term or condition of the Contract.

Section 4.12. Signature of several copies. Several examples of this Guarantee Agreement may be signed and each of these will be considered to be an original for any purpose. However, taken together, these copies will constitute a single instrument. Sending the signature page of a signed copy of this Guarantee Agreement by fax will have the same validity as manual delivery of a copy of this signed Guarantee Agreement.

IN PROOF WHEREOF, THE PARTIES TO THIS AGREEMENT have caused this Guarantee Agreement to be signed in their respective names and on their behalf by their respective duly authorised officers on the date indicated on the first page above.

[GUARANTOR]

By

[name]

[position]

[full name of Beneficiary]

By

[name]

[position]



DEED OF ASSIGNMENT

THIS DEED OF ASSIGNMENT (“Deed”) is made as of 12 June 2018, between:

- (1) **Ophir Equatorial Guinea (EG-24) Limited**, a company existing under the laws of the British Virgin Islands under commercial registry number 1958060 whose registered office is at Jayla Place, Wickhams Cay 1, Road Town, Tortola, VG1110, British Virgin Islands (hereinafter referred to as “Assignor”)
- (2) **Kosmos Energy Equatorial Guinea**, a company existing under the laws of the Cayman Islands whose registered office is at c/o Circumference (Cayman), 4th Floor, Century Yard, Cricket Square, Elgin Avenue, George Town, Grand Cayman, KY1 1209, Cayman Islands (hereinafter referred to as “Assignee”)

RECITALS

- A. The Republic of Equatorial Guinea (represented by the Ministry of Mines and Hydrocarbons), Guinea Ecuatorial de Petroleos (“GEPetrol”) and Assignor have entered into a Production Sharing Contract for the exploration, development and production of hydrocarbons in block EG-24 (“PSC”)
- B. Assignor is the current owner of an undivided eighty percent (80%) Participating Interest (one hundred percent (100%) paying interest in the PSC.
- C. Assignor wishes to assign and transfer to Assignee a forty percent (40%) Participating Interest (fifty percent (50%) paying interest) in the PSC in accordance with the terms and conditions set out in this Agreement and Assignee wishes to acquire such forty percent (40%) Participating Interest (fifty percent (50%) paying interest) in the PSC.
- D. Pursuant to the Farmout Agreement the Assignor agreed to assign to the Assignee the Assigned Interest.

THE PARTIES COVENANT AND AGREE:

1. DEFINITIONS

As used in this Deed, these words and expressions shall have the following meanings:

“**PSC**” has the meaning given to it in Recital (A);

“**Assigned Interest**” means an undivided forty percent (40%) legal and beneficial interest in and under the PSC;

“**Assignment Date**” means 12 June 2018.

“**Deed**” means this Deed of Assignment, as amended, supplemented or varied from time to time.

“**Farmout Agreement**” means the Farmout Agreement relating to the PSC between the Parties dated 14 March 2018 for the assignment by the Assignor to the Assignee of the Assigned Interest.

“**Party**” means Assignor or Assignee;

2. INTERPRETATION

2.1 Updating of Documents and Legislation

Unless otherwise stated, references to any document of any kind and to any legislation are to that document or legislation as amended or replaced from time to time.

2.2 Parties' Successors

A reference to a Party to this Deed or any other instrument includes that Party's administrators, successors and permitted assigns.

3. ASSIGNMENT

3.1 For the consideration referred to in Clause 3.2 of this Deed, the Assignor hereby assigns and transfers as legal and beneficial owner, the Assigned Interest to the Assignee, and the Assignee agrees to such assignment and transfer on and from the Assignment Date.

3.2 The Parties agree that the consideration payable under the Farmout Agreement and the assumption of obligations and liabilities by the Assignee pursuant to the Farmout Agreement is good and sufficient consideration for the transfer of the Assigned Interest to the Assignee by the Assignor.

3.3 This Deed shall be binding upon and inure to the benefit of the Parties hereto, their successors and lawful assigns,

4. ASSIGNEE TO BE BOUND BY PSC TERMS

4.1 The Assignee covenants with the Assignor on and from the Assignment Date to observe and be bound by the terms and conditions of the PSC as existing and as amended from time to time in respect of the Assigned Interest.

4.2 The Assignee indemnifies the Assignor against all liabilities and obligations arising with respect to the Assigned Interest accruing on and after the Assignment Date.

5. PARTIAL RELEASE

5.1 Subject to clauses 5.2 and 5.3 of this Deed, the Assignee releases and discharges the Assignor from its obligations in respect of the Assigned Interest on and from the Assignment Date.

Continuing Obligations of Assignor

5.2 Subject to clause 5.3 of this Deed as between the Assignor and the Assignee, Assignor remains liable to the Assignee for, and must observe and perform, all the Assignor's obligations arising in respect of the Assigned Interest before the Assignment Date.

Without Prejudice

5.3 This Deed does not affect the Assignor or the Assignee's rights and obligations to each other under the Farmout Agreement, which, as between Assignor and Assignee, shall prevail over this Deed in the event of a conflict.

6. INTERESTS OF PARTIES FROM ASSIGNMENT DATE

The Participating Interests of the Parties on and from the Assignment Date are:

Ophir:	40%
Kosmos:	40%
GEPetrol:	20%
	100%

7. ADDRESS FOR SERVICE

A notice (including any approval, consent or other communication) in connection with this Deed and the documents referred to in it:

(A) must be in writing;

(B) must be left at or delivered by courier to the address of the addressee or sent by pre-paid recorded delivery (airmail if posted to or from a place outside the United Kingdom) to the address of the addressee or sent by facsimile to the facsimile number of the addressee in each case which is specified in this Clause in relation to the Party to whom the notice is addressed, and marked for the attention of the person so specified, or to such other address or facsimile number in the United Kingdom and/or marked for the attention of such other person as the relevant Party may from time to time specify by notice given in accordance with this Clause.

The relevant details of each Party at the date of this Deed are:

Name:	Ophir Equatorial Guinea (EG-24) Limited
Address:	123 Victoria Street, London, SW1E 6DE
Attention:	General Counsel
Fax:	+44207 811 2421

Name:	Kosmos Energy Equatorial Guinea
Address:	c/o Circumference (Cayman), P.O. Box 32322, 4th Floor, Century Yard, Cricket Square, Elgin Avenue, George Town, Grand Cayman, KY1-1209, Cayman Islands
Attention:	General Counsel
Fax:	+1 214 445 9705

(C) for the avoidance of doubt, must not be sent by electronic mail.

8. COSTS, DUTIES, TAXES, AND FEES

Each Party is responsible for its own legal and other costs and expenses, but the Assignee shall pay any fees pursuant to Articles 14.13.2 and 14.13.3 of the Farmout Agreement in relation to this Deed.

9. GOVERNING LAW

This Deed is governed by the laws of England and Wales, without regard to its choice of law rules and the mandatory exclusive venue for any judicial proceeding permitted in this Deed is in

London. The Parties consent to the jurisdiction of these courts and waive any defenses they have regarding jurisdiction.

10. NO THIRD-PARTY RIGHTS

Unless expressly provided to the contrary in this Deed, a person who is not a Party has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefit of any term of this Deed.

11. AMENDMENTS

There shall be no modification of this Deed except by written agreement signed by all Parties.

12. COUNTERPART

This Deed may be executed in any number of counterparts, each of which is an original and all of which constitute one and the same instrument.

13. FURTHER ASSURANCES

Each Party must execute, and do, all reasonable acts and things necessary or desirable to implement and give full effect to the provisions and purpose of, this Deed.

EXECUTED AND DELIVERED AS A DEED BY:

In witness whereof this Deed has been delivered as a deed on the date first stated above.

SIGNED AS A DEED and DELIVERED on behalf of **Ophir Equatorial Guinea (EG-24) Limited** by: /s/ Oliver Quinn
Oliver Quinn

in the presence of:

Signature of Witness /s/ Andrew Freear
Name Andrew Freear
Address 52 Bridle Road Maidenhead, UK
Occupation Asset Manager

SIGNED AS A DEED and DELIVERED on behalf of **Kosmos Energy Equatorial Guinea** by: /s/ Alissa Lee Eason
Alissa Lee Eason

in the presence of:

Signature of Witness /s/ Andrew Freear
Name Andrew Freear
Address 52 Bridle Road Maidenhead, UK
Occupation Asset Manager

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: August 6, 2018

/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: August 6, 2018

/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 June 30, 2018, 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: August 6, 2018

/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 June 30, 2018, 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: August 6, 2018

/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.