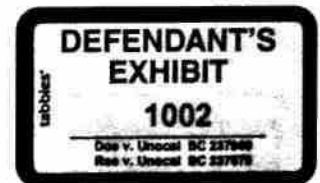


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PRODUCTION SHARING CONTRACT
FOR APPRAISAL, DEVELOPMENT
AND PRODUCTION OF PETROLEUM
IN THE MOATTAMA AREA
BETWEEN
MYANMA OIL AND GAS ENTERPRISE
AND
TOTAL MYANMAR EXPLORATION AND
PRODUCTION



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FOR APPRAISAL, DEVELOPMENT AND PRODUCTION
OF PETROLEUM IN THE MOATTAMA AREA
BETWEEN
MYANMA OIL AND GAS ENTERPRISE
AND
TOTAL MYANMAR EXPLORATION AND PRODUCTION

THIS CONTRACT entered into and delivered at Yangon, The Union of Myanmar on the 1st day of July Nineteen Hundred and Ninety Two by and between ~~THE~~ MYANMA OIL AND GAS ENTERPRISE, an enterprise organized and existing under the Laws of the Union of Myanmar (hereinafter referred to as the "MOGE" which expression shall, unless repugnant to the context or the meaning thereof, be deemed to include its successors and permitted assigns), represented by the purpose of this Contract by ~~THE~~ MANAGING DIRECTOR, MYANMA OIL AND GAS ENTERPRISE,

of the one part

and

TOTAL MYANMAR EXPLORATION AND PRODUCTION, a company existing under the Laws of France (hereinafter referred to as the "CONTRACTOR" which expression shall, unless repugnant to the context or the meaning thereof, be deemed to include its successors and permitted assigns), represented for the purpose of this Contract by its Chairman of the Board,

of the other part.

WITNESSETH

WHEREAS, The Union of Myanmar is the sole owner of all natural resources within her territory and offshore areas and has the right to develop, extract, exploit and utilize the natural resources in the interest of the people of all the national groups ; and

WHEREAS, MOGE is an enterprise formed by the Government of the Union of Myanmar and is concerned with exploration and production of "Petroleum" within the Union of Myanmar both onshore and offshore ; and

WHEREAS, MOGE has the exclusive right to carry out all Petroleum operations in the Union of Myanmar and throughout the area corresponding to blocks M5 and M6 located in offshore Myanmar (Moattama) and described in Annexure "A" and outlined on the map which is Annexure "B", both attached hereto and made a part hereof, which area is hereinafter referred to as the "Contract Area" ; and

WHEREAS, CONTRACTOR is of sound financial standing and possesses technical competency and professional skill for carrying out exploration, appraisal, and development works and other "Petroleum Operations" as hereinafter defined ; and

WHEREAS, the parties each has the right, power and authority to enter into this Contract ; and

WHEREAS MOGE has made two gas discoveries in the Contract Area, namely the 3DA-X and 3 DA-1 Structures.

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WHEREAS, MOGE and CONTRACTOR mutually desire to enter into this agreement for a Production Sharing Contract in relation to the Contract Area ;

WHEREAS MOGE and CONTRACTOR have entered into on this same
9th day of July nineteen hundred and ninety two a
Memorandum of Understanding, hereinafter referred to as "MOU" ;

WHEREAS this Production Sharing Contract and the MOU describe
and constitute together the agreement of the parties in relation to the
Project for appraisal, development and production of the two gas
discoveries made by MOGE in the Contract Area ;

NOW, THEREFORE, for and in consideration of the premises and the
mutual covenants hereinafter set out, it is agreed as follows :

SECTION 1 - DEFINITIONS

In this Contract, words in the singular include the plural and vice versa, and except where the context otherwise requires the following terms shall have the meaning set out as follows :

- 1.1. "Accounting Procedure" means the procedures and reporting requirements set forth in Annexure "C".
- 1.2. "Affiliate" means any company, any party or other legal entity :
 - a) in which CONTRACTOR holds directly or indirectly at least fifty percent (50 %) of the shares entitled to vote, or
 - b) which holds directly or indirectly at least fifty percent (50 %) of CONTRACTOR's shares entitled to vote, or
 - c) in which at least fifty percent (50 %) of the shares entitled to vote are owned directly or indirectly by a company, party or legal entity, which owns directly or indirectly at least fifty percent (50 %) of the shares of CONTRACTOR entitled to vote.
- 1.3. "Appraisal Period" means the period which CONTRACTOR deems necessary to determine whether the Discoveries are Commercial Discovery.
- 1.4. "Appraisal Programme" means a programme submitted by CONTRACTOR pursuant to Section 6.2., under which CONTRACTOR will evaluate and delineate the Discoveries, or pursuant to Section 7.2., under which CONTRACTOR will evaluate and delineate an Other Discovery.

- 1.5. "Associated Gas" means Natural Gas found in association with Crude Oil if such Crude Oil can by itself be commercially produced.
- 1.6. "Average Daily Gross Production Rate" means :
- for Gas : the total Cubit Feet produced in each calendar month divided by the days in the said month.
 - for Crude Oil : the total barrels of Crude Oil produced in each calendar month divided by the days in the said month,
- 1.7. "Barrel" means a quantity or unit of forty-two (42) US gallons liquid measure, at or corrected to a temperature of sixty degrees (60°) Fahrenheit with normal atmospheric pressure at sea level.
- 1.8. "Budget" means an estimate of income and expenditure.
- 1.9. "Calendar Year" or "Year" means a period of twelve (12) consecutive months commencing with January 1st and ending with December 31st next following, according to the Gregorian Calendar.
- 1.10. "Commencement of Commercial Production" means, in relation to any Development and Production Area, the date on which regular and continuous sales of Natural Gas commence or the date on which regular and continuous shipments of Crude Oil (excluding test production) commence.
- 1.11. "Commercial Discovery" means
- in relation to the Discoveries that such Discoveries have been determined Commercial by CONTRACTOR in accordance with Sections 7.7.1. and 13.3 herein ;

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in relation to the hydrocarbons in liquid form that may be discovered during the performance of the Appraisal Program, and in relation to any Other Discovery of Petroleum under this Contract that such Petroleum consist of an accumulation or accumulations of Petroleum which CONTRACTOR, after conducting appraisal operations to assess the quantity and quality of the Petroleum present, the place and the depth of its location, the required potential expenditure, prices prevailing in the world market, and other relevant factors, decides to develop and produce.

- 1.12. "Contract Area" means the offshore area described in Annexure "A" and shown on the map in Annexure "B".

The Contract Area extends to all depths within its lateral boundaries.

- 1.13. "Contract Year" means a period of time (normally of three hundred and sixty-five (365) consecutive days) commencing with the Effective Date.

- 1.14. "Cost Petroleum" means Petroleum out of which Contractor may recover the costs and expenses of the Petroleum Operations pursuant to Section 9.4.

- 1.15. "Crude Oil" means crude mineral oil, asphalt, ozokerite, casing head petroleum spirit, and all kinds of hydrocarbons and bitumens whether in solid, liquid or mixed forms, including condensate and other substances extracted or separated from Natural Gas.

- 1.16. "Cubic Foot" means a quantity or unit of vapor saturated Natural Gas contained in one (1) cubic foot of space at a temperature of sixty degrees (60°) Fahrenheit and pressure of 14.735 psia (30 in Hg).
- 1.17. "Delivery Point" means (a) for Natural Gas the point of delivery to the Gas Transportation Company as determined in section 2.2 of the MOU and (b) the point of export, Myanmar, for Crude Oil made available for export sale, (c) the agreed point of delivery within the relevant Development and Production Area for royalty Crude Oil delivered to MOGE pursuant to Section 10.1. and Crude Oil made available for the Myanmar domestic market pursuant to Section 14.1 ;as the case may be.
- 1.18. "Development and Production Area" means the area established by CONTRACTOR in accordance with Section 8.3. by notifying MGGE in writing that CONTRACTOR has made a Commercial Discovery and furnishing a map describing an area comprised of all or a portion of the Contract Area believed by CONTRACTOR to contain the Commercial Discovery. Once designated a Development and Production Area shall extend to all depths within its lateral boundaries.
- 1.19. "Development and Production Operations" means all operations and related administrative and other activities, within or outside the Contract Area, which are carried out following approval of a Development Plan for a Development and Production Area in connection with the extraction, separation, processing, gathering, transportation, storage, treatment and disposition of Petroleum from such Development and Production Area.
- 1.20. "Development and Production Period" means, in relation to each Development and Production Area, the period specified in Section 3.5.

- 1.21. "Development Plan" means a plan for development of a Commercial Discovery prepared by CONTRACTOR and approved in accordance with Section 8.6., including any amendments thereto.
- 1.22. a) "Discoveries" means the discoveries of accumulations of Natural Gas already made by MOGE in the Contract Area.
- b) "Other Discovery" means any other discovery of accumulation or accumulations of Petroleum which in the opinion of CONTRACTOR may be capable of being produced in commercial quantities.
- 1.23. "Effective Date" means the date following execution of this Contract and of the MOU by the Parties, on which the last act necessary to give this Contract and MOU the full legal effect has been taken.
- 1.24. "Exploration Operations" means operations which are conducted under this Contract for or in connection with the exploration for Petroleum including, without limitation, geological, geophysical and other technical surveys and studies, the review, processing and analysis of data, the drilling of exploratory and appraisal wells.
- 1.25. "Field" means an underground accumulation of hydrocarbons or two (2) or more such accumulations overlying one another in connected or separate horizons or reservoirs, related to one single or several combined geological traps, and which must be considered as a unit for the purpose of Petroleum Operations.
- 1.26. "Financial Year" means the Financial Year of the Government of the Union of Myanmar and extending for a period of twelve (12) months commencing with 1st April and ending with 31st March next following.

- 1.27. "Foreign Exchange" means currency other than that of the Union of Myanmar but acceptable to the Union of Myanmar.
- 1.28. "Natural Gas" means all gaseous hydrocarbons produced from wells, including wet mineral gas, dry mineral gas, casing head gas and residue gas remaining after the extraction or separation of liquid hydrocarbons from wet gas.
- 1.29. "Operating Costs" means all of the costs and expenditures borne and incurred by CONTRACTOR in or in connection with the conduct of Petroleum Operations pursuant to this Contract, determined and accounted for in accordance with Annexure "C".
- 1.30. "Petroleum" means and includes both Crude Oil and Natural Gas, as well as any other hydrocarbon produced in association therewith.
- 1.31. "Petroleum Operations" means all operations under this Contract, including, without limitation, Exploration Operations, Development and Production Operations, all associated planning, design, administrative, engineering, construction and maintenance operations, and any other operations and activities, otherwise contemplated under the provisions of this Contract.
- 1.32. "Work Programme" means a programme mutually agreed by MOGE and CONTRACTOR itemizing the Petroleum Operations to be conducted within or with respect to the Contract Area or Production Area and the time schedule thereof.

SECTION 2 - SCOPE

- 2.1. This Contract is a Production Sharing Contract. In accordance with the provisions herein contained, MOGE shall have and be responsible for the management of the operations contemplated hereunder.
- 2.2. CONTRACTOR shall be responsible to MOGE for the execution of such operations in accordance with the provisions of this Contract, and is hereby appointed and constituted the exclusive company to conduct Petroleum Operations in the Contract Area. CONTRACTOR shall provide all the financial and technical assistance required for such operations. CONTRACTOR shall carry the risk of Operating Costs required in carrying out operations and shall therefore have an economic interest in the development of the Petroleum deposits in the Contract Area. Such costs shall be included in Operating Costs recoverable as provided in Section 9.4. The interest expenses incurred by the CONTRACTOR to finance its operations hereunder shall not be cost recoverable from Cost Petroleum.
- 2.3. During the term of this Contract the total production achieved in the conduct of such operations shall be divided in accordance with the provisions of Section 9.7.

SECTION 3 - TERM

- 3.1. Unless sooner terminated in accordance with the terms hereof, this Contract shall remain in effect during the Appraisal Period and any Development and Production Period.
- 3.2. The Appraisal Period shall begin on the Effective Date and shall consist of an initial term which shall continue for two (2) years from the commencement of Petroleum Operations as specified in Section 6.1.
- 3.3. If drilling operations (including testing) are in progress at the end of the Appraisal Period, the current period shall be automatically extended until sixty (60) days after completion of such drilling operations.
- 3.4. CONTRACTOR shall notify MOGE thirty (30) days before the end of the Appraisal Period (as eventually extended) whether it intends or does not intend to retain the Contract Area as per Section 13.3.
- 3.5. The Development and Production Period shall commence with respect to any Development and Production Area on the date that CONTRACTOR gives notice of Commercial Discovery relating to such Area and shall continue until the expiration of twenty (20) years from the date of completion of development in accordance with the Development Plan for such Development and Production Area.

As regard the Development and Production Period related to the Discoveries, it shall furthermore continue until expiration of the related Export Gas Sales Agreement (or any extension thereof) referred to in Section 6 of the MOU.

- 3.6. Without limiting the rights of the parties under Section 17, in the event that the parties agree that CONTRACTOR is prevented or impeded from carrying on operations or is prevented or impeded from gaining access to the Contract Area for reasons relating to the protection of personnel, sub-contractors, or property, CONTRACTOR's obligations hereunder shall be suspended from the time of the commencement of such impairment until the impairment has been alleviated. As soon as practicable thereafter, the parties shall meet and agree upon a period of time which shall be added to the Appraisal Period and any Development and Production Period, which period of time shall be equivalent to the amount of time necessary to restore operations to the status which they occupied at the time of the impairment. If the impairment of operations described above should continue for a period of time exceeding two (2) years, CONTRACTOR shall have the right to elect to terminate this Contract and CONTRACTOR shall be discharged from all further obligations under this Contract, specifically including the obligation to pay any deficiency under Section 5.2. below.

SECTION 4 - RELINQUISHMENTS

There will be no relinquishment of area throughout the term of the Contract except as provided in Section 13.3.

SECTION 5 - MINIMUM EXPENDITURE COMMITMENT

5.1. Subject to the provisions hereof, CONTRACTOR shall commence Petroleum Operations promptly after adoption of the initial Work Programme and Budget pursuant to Section 6.2. and the issuance of all permits, clearances and licences necessary for the commencement of field operations. As soon as possible following the Effective Date, CONTRACTOR shall file such documents as shall be required to effect registration as a foreign corporation authorized to do business in Myanmar.

During the term of Appraisal Period, CONTRACTOR shall spend a total of not less than ten million United States Dollars (US \$ 10,000,000).

5.2. If CONTRACTOR fails to fulfill the minimum expenditure commitments described herein for Appraisal operations during the Appraisal Period as may be extended, CONTRACTOR shall fulfill its obligation by paying the amount of deficiency to MOGE in cash at the end of the Appraisal Period.

5.3. CONTRACTOR shall on the Effective Date provide, in the forms shown in Annexure "D" a Parent Company Guarantee issued by TOTAL in respect of the minimum expenditure commitment of CONTRACTOR under Section 5.1.

SECTION 6 - WORK PROGRAMMES AND EXPENDITURES

- 6.1. Unless otherwise provided herein, CONTRACTOR shall conduct Petroleum Operations in accordance with approved Work Programmes and Budgets and shall commence Petroleum Operations hereunder not later than three (3) months after the Effective Date, subject to Section 6.2.
- 6.2. MOGE will provide CONTRACTOR as soon as practicable after Effective Date with all data and information available to MOGE in relation to the Contract Area. Within sixty (60) days after receipt of such data and information CONTRACTOR shall prepare and submit to MOGE for approval a Work Programme setting forth the Petroleum Operations which CONTRACTOR proposes to conduct during the first Contract Year and a Budget with respect thereto. Such Work Programme will comprise the Appraisal Programme for the Discoveries.
- 6.3. At least ninety (90) days before the end of the first Contract Year and every Contract Year thereafter, CONTRACTOR shall prepare and submit to MOGE for approval a proposed Work Programme and Budget for the next succeeding Contract Year.
- 6.4. Should MOGE wish to propose a revision as to certain specific features of the said Work Programme and Budget, it shall within thirty (30) days after receipt thereof so notify CONTRACTOR specifying in reasonable details its reasons thereof. Promptly thereafter, the parties will meet and endeavour to agree on the revision proposed by MOGE. In any event, any portion of the Work Programme as to which MOGE has not proposed a revision shall in so far as possible be carried out as prescribed therein.
- 6.5. It is recognized by the parties that the details of a Work Programme may require changes in the light of existing

circumstances and as such the CONTRACTOR with the approval of MOGE may make such changes provided they do not change the general objective of the Work Programme.

6.6. MOGE agrees that the approval of a proposed Work Programme and Budget will not be unreasonably withheld.

6.7. The tentative Work Programme and Budget estimated for the initial term of the Appraisal Period shall be set forth by the CONTRACTOR as follows subject to the provisions of Section 5.1 :

<u>Appraisal Period (Initial term)</u>	<u>Tentative Budget Estimate (US \$ Million)</u>
<u>Work Programme</u>	
. Existing data and seismic interpretation and 2 wells	8
. Support of operations	2
	—
S/TOTAL	10
 <u>Contingent programme</u>	
. 2 wells and additional seismic	12
. Support of operations and study of commerciality	3
	—
S/TOTAL	15
<hr/> TOTAL Appraisal Period	25

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- 6.8. a) CONTRACTOR will also perform seismic reprocessing and reinterpretation on the Contract Area within the initial term of the Appraisal period in order for CONTRACTOR to determine if additional seismic and/or exploration well may be justified.
- (b) CONTRACTOR will also drill one additional well to be defined by CONTRACTOR on the 3 DA-1 bright spot structure, should the decision to develop the 3 DA-X structure be taken.

SECTION 7 - DISCOVERY AND APPRAISAL

- 7.1. The CONTRACTOR shall notify MOGE not later than thirty (30) days after any significant Other Discovery of Petroleum within the Contract Area. This notice shall summarize all available details of such Other Discovery and particulars of any testing programme to be undertaken.
- 7.2. If the CONTRACTOR considers that a discovery merits appraisal the CONTRACTOR shall submit to the MOGE as soon as is practicable after completion of the exploration well in question a detailed appraisal work programme and budget to evaluate whether the Other Discovery is a Commercial Discovery.
- 7.3. This Work Programme shall describe the location, nature and estimated size of the Other Discovery. The Appraisal Work Programme shall also include a plan of all drilling, testing and evaluation to be conducted in the Contract Area.
- 7.4. If MOGE requests any changes to the Appraisal Work Programme and Budget, then MOGE shall so notify the CONTRACTOR in writing within fifteen (15) days of receipt thereof and the CONTRACTOR and MOGE shall meet within fifteen (15) days after receipt by the CONTRACTOR of MOGE's written notification as to these requested changes to endeavour to agree on a revised Appraisal Work Programme and Budget. The Work Programme and Budget approved and adopted shall be CONTRACTOR's proposal as modified by agreed changes adopted thirty (30) days after receipt by the CONTRACTOR of MOGE's written notification of requested changes.
- 7.5. After adoption of the Appraisal Work Programme and Budget, the CONTRACTOR shall diligently evaluate the Other Discovery in accordance with such programme without undue interruptions.

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7.6. Within ninety (90) days after the evaluation is completed, but in any event prior to the expiration of the Appraisal Period (or any extension thereof pursuant to Section 3), the CONTRACTOR shall notify and report to MOGE all relevant technical and economic data relating thereto.

7.7.1. The CONTRACTOR shall make a determination as to whether the Discoveries are Commercial Discovery on the following basis :

- a) a study of commerciality is to be performed taking into consideration all pertinent operating and financial data collected during the performance of the Appraisal Work Programme and otherwise, including but not limited to Natural Gas and/or Crude Oil recoverable reserves, sustainable production levels and other relevant technical and economic factors, according to generally accepted international petroleum industry practice, the applicable Laws of Myanmar and the provisions of this Contract,
- b) all the conditions listed under Section 2.1.a) of the MOU are met.

7.7.2. For the determination as to whether an Other Discovery of Natural Gas is a Commercial Discovery, the provisions of Section 7.7.1.(a) above will apply, together with the provisions of Section 8 of the MOU.

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7.8. The CONTRACTOR shall make a determination as to whether a discovery of Crude Oil is a Commercial Discovery on the basis of whether that Other Discovery can be produced commercially after consideration of all pertinent operating and financial data collected during the performance of the Appraisal Work Programme and otherwise, including but not limited to Crude Oil and/or Natural Gas recoverable reserves, sustainable production levels and other relevant technical and economic factors.

according to generally accepted international petroleum industry practice, the applicable Laws of Myanmar and the provisions of this Contract.

SECTION 8 - DEVELOPMENT AND PRODUCTION

- 8.1. If the CONTRACTOR reports that Discoveries are Commercial Discovery under Section 7.7.1. or that an Other Discovery is Commercial Discovery under Sections 7.7.2. or 7.8. above, a Development Plan shall be prepared by the CONTRACTOR and submitted to the MOGE as soon as is practicable after Commercial Discovery is notified.
- 8.2. The Development Plan shall be prepared on the basis of sound engineering and economic principles in accordance with generally accepted international petroleum industry practice, shall be designed to ensure that the Petroleum deposits do not suffer an excessive rate of decline of production or an excessive loss of reservoir pressure and shall adopt the optimum economic well spacing appropriate for the development of those Petroleum deposits.
- 8.3. The Development Plan shall contain :
- a) details and the extent of the proposed Development Area relating to the Commercial Discovery, which area shall correspond to the geographical extension of the Commercial Discovery plus a reasonable margin, and shall be designated as the Development Area for the Commercial Discovery concerned ;
 - b) proposals relating to the spacing, drilling and completion of wells, the production and storage installations, and transportation and delivery facilities required for the production, storage and transportation of Petroleum ;
 - c) proposals relating to necessary infrastructure investments, and employment of Myanmar nationals, and use of

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Myanmar materials, products and services in accordance with Section 17 herein ;

- d) a production forecast and an estimate of the investment and expenses involved, and
- e) an estimate of the time required to complete each phase of the Development Plan.

8.4. MOGE may require the CONTRACTOR to provide within thirty (30) days of receipt of the Development Plan such further information as is readily available and as MOGE may reasonably need to evaluate the Development Plan for any Development Area.

8.5. If MOGE does not request in writing any changes to the Development Plan within ninety (90) days after receipt thereof, the plan shall be deemed approved and adopted by the MOGE.

8.6. If MOGE requests any changes to the Development Plan, then the CONTRACTOR and MOGE shall meet within fifteen (15) days of receipt by CONTRACTOR of MOGE's written notification as to these requested changes to agree on changes to the Development Plan. Revision to the Development Plan, agreed within a further period of ninety (90) days shall be incorporated in a revised plan which shall then be deemed approved and adopted.

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8.7. After the Development Plan has been adopted the CONTRACTOR shall submit to MOGE for discussion ninety (90) days before the end of each subsequent Financial Year a detailed statement of the Development Work Programme and Budget for such subsequent Financial Year ; for the first full Financial Year and the portion of the year preceding the first full Financial Year a detailed statement of the Development Work Programme and

Budget therefor shall be submitted within ninety (90) days after the date of adoption of the Development Plan under Section 8.5. Each such annual detailed statement on the Development Work Programme and Budget therefor shall be consistent with the Development Plan adopted under Section 8.5 or as revised pursuant to Section 8.6 and 8.8.

8.8. The CONTRACTOR may at any time submit to MOGE revisions to any Development Plan or Development Work Programme and Budget. These revisions shall be consistent with the provisions of Section 8.2. and shall be subject to the approval procedure set forth in Section 8.5. and Section 8.6.

8.9. The CONTRACTOR shall commence Development Work not later than three (3) months after the date of adoption of the Development Plan under Section 8.5. and Section 8.6.

8.10. Where MOGE and the CONTRACTOR agree that a mutual economic benefit can be achieved by constructing and operating common facilities (including, but not limited to, roads, pipelines and other transportation, communication and storage facilities), the CONTRACTOR shall use its reasonable efforts to reach agreement with other producers and MOGE on the construction and operation of such common facilities, investment recovery and charges to be paid.

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8.11. If, subsequent to the designation of a Development Area, the extent of the area encompassing the Commercial Discovery or another such area over or underlying it is reasonably expected to be greater than the designation in the Development Plan under Section 8.3. the Development Area shall be enlarged accordingly, provided that the area covered shall be entirely within the Contract Area or, otherwise, not being then awarded to any person other than MOGE.

SECTION 9 - COST RECOVERY AND PROFIT OIL OR GAS ALLOCATION

- 9.1. CONTRACTOR shall provide all funds required to conduct Petroleum Operations under this Contract and may recover its costs and expenses only out of Cost Petroleum in the manner and to the extent permitted under Section 9.4. CONTRACTOR shall have the right to use free of charge Petroleum produced from the Contract Area to the extent it considers necessary for Petroleum Operations under this Contract.
- 9.2. Petroleum produced and saved and not used in Petroleum Operations (hereinafter referred to as "Available Petroleum" or "Available Natural Gas" or "Available Crude Oil" as may be applicable) shall be measured at the Delivery Point and allocated as set forth in this Section.
- 9.3. CONTRACTOR may take such portion of Available Petroleum from the Contract Area as is necessary to discharge CONTRACTOR's obligations to pay the royalty specified in Section 10.
- 9.4. CONTRACTOR shall recover all costs and expenses in respect of all Petroleum Operations hereunder to the extent of and out of a maximum of fifty percent (50 %) per Quarter of all Available Petroleum from the Contract Area ; provided, however, that the costs and expenses of Development and Production Operations in respect of any Development and Production Area shall be recovered only from Available Petroleum produced from such Development and Production Area. Such Petroleum to which CONTRACTOR is entitled for the purpose of recovering its costs and expenses is hereinafter referred to as "Cost Petroleum". Such costs and expenses shall be recovered out of Cost Petroleum in

the later part of the Quarter in which such expenditures are incurred or in the Quarter in which Commencement of Commercial Production first occurs within the Contract Area.

- 9.5. To the extent that in a Quarter costs or expenses recoverable under Section 9.4. exceed the value of all Cost Petroleum from the Contract Area for such Quarter, the excess shall be carried forward for recovery in the next succeeding Quarter and in each succeeding Quarter thereafter until fully recovered, but in no case after termination of this Contract.
- 9.6. The Petroleum Valuation provisions of Section 12 shall be used for determining the value and quantity of Cost Petroleum to which CONTRACTOR is entitled hereunder during a Quarter.
- 9.7. With respect to the Development and Production Area, Available Petroleum not taken for purposes of payment of royalty under Section 10 nor taken as Cost Petroleum, as described in Sections 9.4. and 9.5., in a Quarter shall be allocated between MOGE and CONTRACTOR according to the following incremental scale, based on average daily production over the Quarter from the relevant Development and Production Area ;

a) Available Natural Gas Sharing

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The incremental scale for the Available Natural Gas Sharing will depend on the average Export Market Gas Price (E) during the corresponding quarter.

To determine the incremental scale to be used, the price (E), expressed in US Dollars per million british thermal units (\$/MMBTU), will be adjusted as follows :

$$E_C = E \times I_C/T$$

Where :

I is the arithmetic average of the figures for the Consumer Price Index published by the United States Department of Labor, Bureau of Labor Statistics, for the corresponding quarter.

I₀ is the value of I for the reference period which is the last quarter of 1991.

E_C is the adjusted price.

a.1) If E_C is greater or equal to 2.9., the following incremental scale will be applied :

Available Natural Gas	MOGE Share	CONTRACTOR Share
Up to 300 millions cubic feet per day (MMscfd)	60 %	40 %
Between 301 and 600 MMscfd	70 %	30 %
Between 601 and 900 MMscfd	80 %	20 %
Above 900 MMscfd	90 %	10 %

a.2) If E_C is less or equal to 2.6. the following incremental scale will be applied :

Available Natural Gas	MOGE Share	CONTRACTOR Share
Up to 300 millions cubic feet per day (MMscfd)	40 %	60 %
Between 301 and 600 MMscfd	55 %	45 %
Between 601 and 900 MMscfd	75 %	25 %
Above 900 MMscfd	90 %	10 %

a.3) If E_C is comprised between 2.6. and 2.9., the following - linear formulas will be applied :

Available Natural Gas

Up to 300 millions cubic feet per day (MMscfd) :

MOGE Share : $40 \% + 20 \% (E_C - 2.6)/0.3$

CONTRACTOR Share : $60 \% - 20 \% (E_C - 2.6)/0.3$

Between 301 and 600 MMscfd :

MOGE Share : $55 \% + 15 \% (E_C - 2.6)/0.3$

CONTRACTOR Share : $45 \% - 15 \% (E_C - 2.6)/0.3$

Between 601 and 900 MMscfd :

MORE Share : $75 \% + 5 \% (E_C - 2.6)/0.3$

CONTRACTOR Share : $25 \% - 5 \% (E_C - 2.6)/0.3$

Above 900 MMscfd :

MORE Share : 90 %

CONTRACTOR Share : 10 %

b) <u>Available Crude Oil</u>	<u>MOGE</u> <u>Share</u>	<u>CONTRACTOR</u> <u>Share</u>
Up to 35,000 Barrels per day	60 %	40 %
Between 35,001 and 70,000 Barrels per day	70 %	30 %
Between 70,001 and 100,000 Barrels per day	80 %	20 %
Between 100,001 and 200,000 Barrels per day	82,5 %	17,5 %
In excess of 200,000 Barrels per day	85 %	15 %

9.8. a) Natural Gas will be disposed of pursuant to the provisions of Section 2.2. of the MOU.

b) Subject to its obligations under Section 14, CONTRACTOR shall receive each Quarter at the Delivery Point and may separately dispose of Crude Oil to which it is entitled pursuant to Section 9.4. plus its share of the balance of Petroleum as stipulated in Section 9.7. Title and risk of loss shall pass to CONTRACTOR at such Delivery Point. CONTRACTOR shall have the right to export freely all Petroleum to which it is entitled.

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9.9. CONTRACTOR shall conduct a review of Production Programme prior to the Commencement of Commercial Production from any Development and Production Area and shall establish production at the maximum efficient rate needed to achieve the maximum ultimate economic recovery of Petroleum from that Development and Production Area in accordance with generally accepted standards of the international petroleum industry.

9.10. Prior to Commencement of Commercial Production from a Development and Production Area concerning Crude Oil, MOGE and CONTRACTOR shall agree on a procedure for liftings of their respective entitlements of Crude Oil, such procedure to contain reasonable provisions for underlift and overlift and for each Party to have the right to accumulate and lift economic sized cargoes.

9.11. The provision regarding payment of Income Tax imposed upon CONTRACTOR under the applicable provisions of the Income Tax Laws of the Union of Myanmar shall be applied as follows :

a) CONTRACTOR shall be subject to the Myanmar Income Tax Laws and shall comply with requirements of the Law in particular with respect to filing of returns, assessment of tax, and keeping and showing of books and records.

b) CONTRACTOR's annual taxable income for Myanmar Income Tax purposes shall be an amount equal to the CONTRACTOR's net income attributable to the Profit Gas or Profit Oil allocated to the CONTRACTOR pursuant to Section 9.7. For such purposes, insofar as proceeds from the domestic market supply pursuant to Section 14 are involved, only actual proceeds received by CONTRACTOR shall be considered, and CONTRACTOR's contribution to the Research and Development Fund pursuant to Section 15.7 and bonuses pursuant to Section 11 not yet recovered shall be deductible from CONTRACTOR's income.

c) The CONTRACTOR shall pay Myanmar Income Tax on the annual net taxable income as defined in Section 9.11.(b) above in accordance with the provisions of the Income Tax Laws of the Union of Myanmar and subject to the entitlements under the provisions of the Union of

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Myanmar Foreign Investment Law (The State Law and Order Restoration Council Law n° 10/88).

- d) MOGE shall assist the CONTRACTOR to obtain proper official receipts evidencing the payment of CONTRACTOR's Myanmar Income Tax. Such receipts shall be issued by a duly constituted authority for the collection of Myanmar Income Taxes and shall state the amount and other particulars customary for such receipts. Provisional receipts shall be issued within ninety (90) days following the commencement of the next ensuing Financial Year and final receipt shall be issued not later than ninety (90) days after provisional receipts have been issued.

- e) As used herein, Myanmar Income Tax shall be inclusive of all Taxes on Income payable to the Union of Myanmar.

SECTION 10 - ROYALTY

10.1. CONTRACTOR shall pay to the Government a Royalty equal to ten percent (10 %) of the value of Available Petroleum from the Contract Area, determined in accordance with Section 12, and adjusted by deducting an amount equal to the cost of transportation from the Delivery Point to the usual point of export.

10.2. a) Royalty for Crude Oil

Royalty shall be paid in whole or in part, in cash or in kind at the option of the Government. In the absence of such option on the part of the Government, Royalty accruing during a Quarter shall be paid in cash within thirty (30) days after the end of that Quarter. CONTRACTOR shall be given at least one hundred and eighty (180) days prior notice of an option by the Government to take Royalty in kind and such option shall be effective for a minimum period of one year. Unless otherwise agreed by the Government and CONTRACTOR, Petroleum Royalty taken in kind by the Government shall be delivered at the Delivery Point and shall be supplied in regular and even liftings so as not to disrupt CONTRACTOR's lifting schedules.

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b) Royalty for Natural Gas

Royalty shall be paid in accordance with Section 4.d) of the MOU.

10.3. Royalty shall not be recoverable from Cost Petroleum.

SECTION 11 - BONUSES

11.1. Signature Bonus

CONTRACTOR shall within ten (10) days after the Effective Date pay to MOGE as a Signature Bonus the sum of US Dollars fifteen Million (US\$ 15,000,000). Such amount shall not be credited to CONTRACTOR's minimum expenditure commitment under Section 5.1. and shall not be recoverable from Cost Petroleum under Section 9.

11.2. Production Bonus

CONTRACTOR shall pay the following Production Bonuses to MOGE with respect to the Development and Production Area :

11.2.1. Natural Gas

(a) US Dollars Five Million (US\$ 5,000,000) upon approval of the Development Plan.

(b) US Dollars Two Million (US\$ 2,000,000) within thirty (30) days after the first date when total average daily Natural Gas Production from the Development and Production Area over any consecutive ninety (90) days period reached one hundred and fifty (150) million cubic feet per day (MMscfd).

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(c) US Dollars Three Million (US\$ 3,000,000) within thirty (30) days after the first date when total average daily Natural Gas Production from the Development and Production Area over any consecutive ninety (90) days period reached Three Hundred (300) MM scfd.

- (d) US Dollars Four Million (US\$ 4,000,000) within thirty (30) days after the first date when total average daily Natural Gas Production from the Development and Production Area over any consecutive ninety (90) days period reached Six Hundred (600) MM scfd.
- (e) US Dollars Five Million (US\$ 5,000,000) within thirty (30) days after the first date when total average daily Natural gas Production from the Development and Production Area over any consecutive ninety (90) days period reached Nine Hundred (900) MM scfd.
- (g) US Dollars Ten Million (US\$ 10,000,000) within thirty (30) days after the first date when total average daily Natural gas Production from the Development and Production Area over any consecutive ninety (90) days period reached One Thousand and Two Hundred (1 200) MM scfd.

11.2.2. Crude Oil

- (a) US Dollars two Million (US\$ 2,000,000) within thirty (30) days after the first date when total average daily Crude Oil Production from the Development and Production Area over any consecutive ninety (90) days period reached twenty five Thousand (25,000) Barrels per day.
- (b) US Dollars three Million (US\$ 3,000,000) within thirty (30) days after the first date when total average daily Crude Oil Production from the Development and Production Area over any

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consecutive ninety (90) days period reached Fifty Thousand (50,000) Barrels per day.

- (c) US Dollars four Million (US\$ 4,000,000) within thirty (30) days after the first date when total average daily Crude Oil Production from the Development and Production Area over any consecutive ninety (90) days period reached one hundred Thousand (100,000) Barrels per day.
- (d) US Dollars five Million (US\$ 5,000,000) within thirty (30) days after the first date when total average daily Crude Oil Production from the Development and Production Area over any consecutive ninety (90) days period reached One Hundred Fifty Thousand (150,000) Barrels per day.
- (e) US Dollars Ten Million (US\$ 10,000,000) within thirty (30) days after the first date when total average daily Crude Oil Production from the Development and Production Area over any consecutive ninety (90) days period reached Two Hundred Thousand (200,000) Barrels per day.

11.3. Production Bonuses paid in accordance with this Section 11.2. shall not be recoverable from Cost Petroleum.

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SECTION 12 - VALUATION OF PETROLEUM

12.1 Terms used in this Section shall have the following meanings :

- (a) "Arms Length Sales" means sales on the international market in freely convertible currencies between willing and unrelated sellers and buyers, excluding sales between Affiliates, sales between governments or government owned entities, sales affected by other commercial relationships between seller and buyer, transactions involving barter, and more generally any transactions motivated by considerations other than the usual commercial incentives.
- (b) "Reference Crude" means crude oil(s) produced in Asia which is of comparable gravity and quality to the Crude Oil valued hereunder. The appropriate crude oil comprising Reference Crude shall be selected and agreed by MOGE and CONTRACTOR prior to commencement of Commercial Production from any Development and Production Area.
- (c) "Reference Crude Price" means the average FOB point of export spot price for Reference Crude during the relevant time period, as quoted in Platt's Oilgram Price Report or such other publication as MOGE and CONTRACTOR may agree, adjusted as necessary to exclude non-Arms Length Sales and to reflect thirty (30) day payment terms and differences in gravity and quality between the Reference Crude and the Crude Oil being valued hereunder.
- (d) "Transportation Cost" means the transportation cost determined by reference to the Average Freight Rate Assessment ("AFRA") last published by the London Tanker Broker and Association. or such other published Crude Oil

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freight rate as MOGE and CONTRACTOR may agree, applicable to voyages between the points specified, using vessels of appropriate size.

- 12.2 For the purpose of Section 9 and Section 10 a US Dollar value per Barrel of Crude Oil shall be determined each Quarter. Such value shall be the Fair Market Value determined in accordance with Section 12.3 or Section 12.4 whichever is applicable.
- 12.3 If at least thirty percent (30 %) of all the Crude Oil sales by CONTRACTOR during the relevant Quarter are Arms Length Sales, Fair Market Value for all Crude Oil shall be the price actually received by CONTRACTOR in such sales, adjusted to reflect Free of Board ("FOB") point of export delivery terms and thirty (30) day payment terms.
- 12.4 If less than thirty percent (30 %) of all the Crude Oil sales by CONTRACTOR during the relevant Quarter are Arms Length Sales, the Fair Market Value shall be the volume-weighted average of :
- (a) The price actually received by CONTRACTOR during the relevant Quarter in Arms Length Sales, if any, adjusted to reflect FOB point of export delivery terms and thirty (30) day payment terms ; and
 - (b) The Reference Crude Price applicable for Crude Oil sold by CONTRACTOR during the relevant Quarter in non-Arms Length Sales, adjusted to a Yangon point of export basis by adding the Transportation Cost of the Reference Crude from its point of export to the market in which Myanmar Crude Oil would normally be sold and subtracting the Transportation Cost from Yangon to the market in which Myanma Crude Oil would normally be sold.

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- 12.5 Within twenty (20) days following the end of each Quarter, CONTRACTOR shall determine Crude Oil value in accordance with this Section and shall notify MOGE. Unless within twenty (20) days after receipt of such notice MOGE notifies CONTRACTOR that it does not agree with CONTRACTOR's determination, and specifies in such notice the basis for such disagreement, the CONTRACTOR's determination shall conclusively be deemed to have been accepted.
- 12.6 In the event MOGE shall have timely notified CONTRACTOR, within the above-described twenty day period, that it disagrees with CONTRACTOR's determination of Crude Oil value, MOGE and CONTRACTOR shall meet to discuss the CONTRACTOR's determination. Should MOGE and the CONTRACTOR fail to reach agreement on the Crude Oil value within seventy-five (75) days after the end of the Quarter in question, the parties may submit the value determination (and the selection of the crude oil to comprise Reference Crude if not previously agreed) to a mutually agreed expert. Failing agreement the matter shall be settled in accordance with the provisions of Section 22.
- 12.7 The allocation of Crude Oil for Section 9, Section 10 and Section 14 shall be based on the value last determined or, in the event of a dispute pursuant to Section 12.6, the average of the value determined by CONTRACTOR and the value proposed by MOGE. When a new value is determined, that value shall be applied retroactively for the Quarter in which the sales used in the determination occurred, and appropriate adjustments shall then be made in the allocations of the parties to reflect the retrospective application of the new Crude Oil value.
- 12.8 Natural Gas produced and sold during a Quarter shall be valued at the weighted average "net back price" defined in Section 3 of the MOU.

SECTION 13 - NATURAL GAS

- 13.1 Any Associated Gas produced from the Contract Area, to the extent not used in operations hereunder, may be flared if the processing or utilization thereof is not economical. Such flaring shall be permitted to the extent that gas is not required to effectuate the economic recovery of Petroleum by secondary recovery operations, including repressuring and recycling.
- 13.2 In the event CONTRACTOR considers that the processing and utilization of Associated Gas is not economical, then MOGE may choose to take and utilize such Natural Gas, free of charge, that would otherwise be flared, all costs of taking and handling to be for the sole account and risk of MOGE.
- 13.3 However if upon completion of the Appraisal Programme, CONTRACTOR considers that the Discoveries (or any Other Discovery) are significant but not then economical for development but may become so within seven (7) years, it may retain the Contract Area and at any time within such seven (7) years period re-evaluate the economic viability of development and declare a Commercial Discovery. Then, or at any time at the request of MOGE, MOGE and CONTRACTOR shall jointly make every effort to establish as soon as possible an economically viable gas project based on the Discoveries (or any Other Discovery) and shall negotiate appropriate terms for such a project. CONTRACTOR shall relinquish such Contract Area upon request of MOGE if a Development Plan has not been proposed within the seven (7) years period of retention.

Notwithstanding the foregoing, the retention of the Contract Area beyond the expiration date of the Appraisal Period shall not preclude exploration for Crude Oil by MOGE in that area. Should

however MOGE wish to drill wells which would penetrate the reservoirs constituting the Discoveries (or any Other Discovery), MOGE shall advise CONTRACTOR and CONTRACTOR shall have the option to drill such wells at MOGE's cost and risk.

SECTION 14 - DOMESTIC CRUDE OIL REQUIREMENT

- 14.1 The CONTRACTOR shall after Commercial Production of Crude Oil commences, fulfill its obligation toward the supply of the domestic Crude Oil market in Myanmar by making a share of its entitlement available to MOGE. CONTRACTOR's obligatory share of the domestic market obligation will be in the proportion that CONTRACTOR's entitlement to Crude Oil under Sections 9.4 (for recovery of Operating Costs) and 9.7 (for division of remainder) bears to all Crude Oil produced in the Union of Myanmar. The price MOGE shall pay CONTRACTOR for such Crude Oil up to a quantity not to exceed twenty percent (20 %) of the Crude Oil allocated to CONTRACTOR under Section 9.7 hereof shall be the equivalent to 10 % (ten percent) of fair Market Value. The currency of payment shall be US Dollars. For any amount of Crude Oil in excess of that limit required to satisfy CONTRACTOR's domestic market obligation, the price shall be the Fair Market Value as determined in accordance with Section 12 hereof, and the currency of payment shall be US Dollars.
- 14.2 CONTRACTOR's obligation under this Section 14 shall not exceed the extent to which the Government of the Union of Myanmar shall make available US Dollars which may be remitted abroad in payment of any such Crude Oil payable in US Dollars.

SECTION 15 - EMPLOYMENT AND TRAINING

- 15.1 In conducting Petroleum Operations hereunder, CONTRACTOR shall select its employees and determine the number thereof. CONTRACTOR shall endeavour to employ qualified Myanmar Citizens to the maximum extent possible.
- 15.2 CONTRACTOR shall spend a minimum of US Dollars Fifty Thousand (\$ 50,000) per Year during the Appraisal Period of this Contract for one or more of the following purposes :
- (a) the purchase for MOGE of advanced technical literature, data and scientific instruments ;
 - (b) to send qualified Myanmar nationals to selected accredited universities ;
 - (c) to send selected MOGE personnel to special courses offered by accredited institutions of higher learning or other recognized organizations in the fields of petroleum science, engineering and management.
- 15.3 Upon commencement of the Development and Production Period for the first Development and Production Area, CONTRACTOR's minimum expenditure commitment under this Section shall be increased to US Dollars One Hundred Thousand (\$ 100,000) per Year.
- 15.4 The expenditure of sums for the purposes specified above shall be made pursuant to detailed annual training programmes to be prepared by CONTRACTOR and submitted to MOGE for approval. CONTRACTOR shall submit the first proposed Training Programme to MOGE within four (4) months after the Effective Date.

- 15.5 If training expenditures pursuant to an approved Training Programme fall short of the minimum training expenditure obligations for a Year or if MOGE and CONTRACTOR do not agree on a Training Programme for any Year, the deficiency shall be carried forward and expended in succeeding Years. If training expenditures in any Year exceed the minimum training expenditure obligation for that Year the excess shall be credited to the training expenditure obligations for succeeding Years.
- 15.6 All expenditures made pursuant to this Section 15 relating to Training and Education, including any payments made to MOGE pursuant to Section 15.5, shall be fully recoverable from Cost Petroleum pursuant to Section 9.
- 15.7 The CONTRACTOR shall establish a Research & Development Fund in the sum of Point Five (0.5) percentage of its share of Profit Oil and the expenditure of this Fund will be determined in consultation with MOGE.

SECTION 16 - TITLE OF ASSETS

- 16.1 CONTRACTOR's physical assets which are acquired for purposes of the Petroleum Operations shall become the property of MOGE, and shall be cost recoverable by CONTRACTOR pursuant to Section 9, upon importation into Myanmar or upon acquisition in Myanmar. Data, information, reports and samples acquired or prepared by CONTRACTOR for the Petroleum Operations shall become the property of MOGE, and shall be cost recoverable by CONTRACTOR pursuant to Section 9, when acquired or prepared.
- 16.2 The physical assets, referred to in Section 16.1 shall remain in the custody of CONTRACTOR during the term of this Contract and CONTRACTOR shall have the unrestricted and exclusive right to use such assets in the Petroleum Operations free of charge subject to the provisions of Section 17. CONTRACTOR may retain and freely use, within or outside Myanmar, copies of all data, information and reports and representative portions of all samples, including but not limited to geologic, core, cutting and Petroleum samples.
- 16.3 The provisions of Section 16.1 shall not apply to assets rented or leased by CONTRACTOR or its Affiliates ; nor to assets owned by CONTRACTOR's Contractors, Subcontractors, Affiliates or other parties.

SECTION 17 - RIGHTS AND OBLIGATIONS OF MOGE AND CONTRACTOR

17.1 MOGE shall :

- (a) have and be responsible for the management of the operations contemplated hereunder, however MOGE shall assist and consult with CONTRACTOR with a view to the fact that CONTRACTOR is responsible for the execution of the Work Programme ;

- (b)
 - i) except as provided in Section 17.2 (d) below and in Section 9.11, assume and discharge all Myanmar's taxes imposed upon CONTRACTOR, its Contractors and Sub-contractors, including import and export duties, customs duties, sales tax and other duties levied on materials, equipment and supplies brought into Myanmar by CONTRACTOR, its Contractors and Sub-contractors ;

 - ii) Assume and discharge all exactions applicable under the Laws of the Union of Myanmar in respect of property, capital net worth and operations, including any tax imposed upon sales, gross receipts or transfers of property or any levy on or in connection with operations performed hereunder by CONTRACTOR, its Contractors or its Sub-contractors ;

 - iii) MOGE shall not be obliged to pay taxes on tobacco, liquor, and import and export duties, customs duties and sales tax and any other taxes charged on goods and services or levied upon articles imported for

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personal use by the CONTRACTOR's, its Contractors' and Sub-contractors' employees engaged in Petroleum Operations under this Contract ;

- (c) assist and expedite CONTRACTOR's execution of the Work Programme by providing at cost, facilities, supplies and personnel including, but not limited to, supplying or making available all necessary visas, work permits, transportation, security protection and rights of way and easements as may be requested by CONTRACTOR and made available from the resources under MOGE's control. In the event such facilities, supplies, or personnel are not readily available, then MOGE shall promptly secure the use of such facilities, supplies and personnel from alternative sources. Expenses thus incurred by MOGE at CONTRACTOR's request shall be reimbursed to MOGE by CONTRACTOR and included in the Operating Costs. Such reimbursements will be made in US Dollars computed at the rate of exchange prevailing at the time the expense was incurred as set by the Union of Myanmar Foreign Trade Bank or local currency as appropriate in accordance with prevailing regulations ;

- (d) have title to all original and interpreted data resulting from the Petroleum Operations including but not limited to geological, geophysical, petrophysical, engineering, well logs and completion status reports and any other data as CONTRACTOR may compile during the term hereof for which CONTRACTOR is entitled to retain copies ;

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- (e) to the extent that it does not interfere with CONTRACTOR's performance of the Petroleum Operations use the equipment which becomes its property by virtue of this Contract solely for the Petroleum

Operations envisaged under this Contract and, if MOGE wishes, use such equipment for any alternative purpose. In both cases MOGE shall first obtain approval from the CONTRACTOR ;

- (f) have the right to ask for immediate removal and replacement of any of the CONTRACTOR's employees at the cost of the CONTRACTOR, if in the consideration of MOGE the employee is incompetent in his work and/or unacceptable to MOGE by reason of his acts or behaviour ;
- (g) appoint its authorised representative with respect to this Contract.

17.2 CONTRACTOR shall :

- (a) - advance all necessary funds and purchase or lease all material, equipment and supplies to be purchased or leased with Foreign Exchange pursuant to the Work Programme ;
- (b) furnish all technical requirements, including but not limited to foreign personnel, required for the performance of Work Programmes, payment whereof requires Foreign Exchange ;
- (c) furnish such other funds for the performance of Work Programmes that requires payment in Foreign Exchange, including payment to any third parties who perform services ;
- (d) be responsible for all Income Tax and other levies if any, for which expatriate personnel of CONTRACTOR is liable under the Income Tax Laws of the Union of Myanmar for the portion of their income in Myanmar :

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- (e) be responsible for execution of Work Programmes which shall be implemented in a work-manlike manner and by appropriate scientific methods, and CONTRACTOR shall take the necessary precautions for protection of navigation and fishing and shall prevent environmental pollution. It is also understood that the execution of the Work Programme shall be exercised so as not to conflict with the Laws of the Union of Myanmar ;
- (f) be entitled to export all leased or rented property brought into Myanmar and paid for with Foreign Exchange ;
- (g) have the right to sell, assign, transfer, convey or otherwise dispose of all or any part of its rights and interest under this Contract to an Affiliate or other parties only with the prior written consent of MOGE. Such consent by MOGE on this matter shall not be unreasonably withheld ;
- (h) have the right of access to and from the Contract Area and to and from facilities wherever located at all times ;
- (i) submit to MOGE daily (where applicable), weekly and monthly progress reports ;
- (j) submit to MOGE copies of all such interpreted geological, geophysical, drilling well, production and any other data and reports as it may compile during the term hereof ;
- (k) prepare and carry out plans and programmes for industrial training and education of Myanmar nationals selected by MOGE from its staff for all job classifications with respect to operations contemplated hereunder ;

- (l) appoint authorised representative for Myanmar with respect to this Contract, who shall have an Office in Yangon ; such representative to represent CONTRACTOR in the conduct of Petroleum Operations hereunder ;
- (m) give preference to such goods and services which are available in Myanmar or rendered by Myanmar nationals approved by MOGE, provided such goods and services are offered at comparable conditions with regard to quality, price, availability at the time and in the quantities required ; such payments shall be made in US Dollars, or local currency as appropriate in accordance with prevailing regulations ;
- (n) procure such goods and services of a value higher than one (1) million United States Dollars for the execution of the Work Programme through international tender and approved by MOGE unless otherwise agreed upon by both parties ;
- (o) allow duly authorised representatives of MOGE to have access to the Area covered by this Contract and to the operations conducted thereon. Such representatives may examine data, books, registers and records of CONTRACTOR, and make a reasonable number of surveys, drawings and tests for purpose of enforcing this Contract. They shall, for such purpose, be entitled to make reasonable use of machinery and instruments of the CONTRACTOR. Such representatives shall be given reasonable assistance by the agents and employees of the CONTRACTOR so that none of their activities shall endanger or hinder the safety or efficiency of the operations. The CONTRACTOR shall offer such representatives all privileges and facilities accorded to its own employees in the Contract Area and shall provide

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them, free of charge, the use of reasonable office space while they are in the Contract Area and transportation facilities for them to and from the Contract Area for the purpose of facilitating the objectives of this Clause.

- (p) have the right to use and have access to, and MOGE shall furnish all geologic, geophysical, drilling, well, production and other information held by MOGE or any other governmental agency or enterprise, relating to the Contract Area including well location maps ;
- (q) have the right to use and have access to, and MOGE shall make available so far as possible all geological, geophysical, drilling, well, production and any other information now or in the future held by it or any other governmental agency or enterprise, relating to the areas adjacent to the Contract Area.
- (r) regarding safety of Personnel, Materials and protection of environment, related to CONTRACTOR's Petroleum Operations, be wholly responsible to promote safety precautions and safe working practices.
- (s) prior to the Operations commencement date, nominate a person to act as a Safety Officer of CONTRACTOR who shall be the Representative directly responsible for the safe performance in accordance with the prescribed Safety Policies.

SECTION 18 - MANAGEMENT COMMITTEE

18.1 MOGE retains by this Contract all rights of Management but recognises that CONTRACTOR is responsible for the execution of the Work Programmes. For the purpose of the proper implementation of this Contract, the Parties shall establish a Management Committee ("The Management Committee") within forty-five (45) days from the Effective Date. The Management Committee shall have overall supervision and Management of Petroleum Operations including Approved Work Programmes and Budgets. The Duties and Responsibilities of the Management Committee shall be as prescribed in Annexure "E".

SECTION 19 - STATE PARTICIPATION AND PAST COSTS

- 19.1 MOGE shall have the right to demand from CONTRACTOR that a percentage of up to fifteen percent (15 %) undivided interest in the total rights and obligations under this Contract be offered.
- 19.2 The right referred to in Section 19.1 shall lapse unless exercised by MOGE not later than three (3) months after CONTRACTOR's notification by registered letter to MOGE of Commercial Discovery ; MOGE shall make its demand known to CONTRACTOR by registered letter.
- 19.3 CONTRACTOR shall make its offer by registered letter to MOGE within one (1) month after receipt of MOGE's registered letter referred to in Section 19.2. CONTRACTOR's letter shall be accompanied by a copy of this Contract and a Draft Operating Agreement embodying the manner in which CONTRACTOR and the MOGE shall cooperate. The main principles of the Draft Operating Agreement are contained in Annexure "F" to this Contract.
- 19.4 The offer by CONTRACTOR to MOGE shall be effective for a period of six (6) months. If MOGE has not accepted this offer by registered letter to CONTRACTOR within the said period, CONTRACTOR shall be released from the obligation referred to in this Section.
- 19.5 In the event of acceptance by MOGE of CONTRACTOR's offer, MOGE shall be deemed to have acquired the undivided interest on the date of CONTRACTOR's notification to MOGE referred to in Section 19.2.
- 19.6 For the acquisition of undivided interest in the total of the rights and obligations arising out of this Contract, MOGE shall reimburse CONTRACTOR an amount equal to the percentage of

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the sum of Operating Costs which CONTRACTOR has incurred for and on behalf of its activities in the Contract Area up to the date of CONTRACTOR's notification to MOGE mentioned in Section 19.2, the same percentage of the Signature Bonus paid to MOGE referred to in Section 11.1 of this Contract and the same percentage of the amount referred to in Section 11.2 of this Contract.

19.7 At the option of MOGE the said amount shall be reimbursed :

- (a) either by transfer of the said amount by MOGE within three (3) months after the date of its acceptance of CONTRACTOR's offer referred to in Section 19.3, to CONTRACTOR's account with the banking institution to be designated by it, in the currency in which the relevant costs have been financed ; or
- (b) by way of "Payment out of Production" of fifty percent (50 %) of MOGE's production entitlements under this Contract valued in the manner as described in Section 12 of this Contract, commencing as from the beginning of Commercial Production.

19.8 At the time of its acceptance of CONTRACTOR's offer the MOGE shall state whether it wishes to reimburse in cash or out of production in the manner indicated in Section 19.7.

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19.9 CONTRACTOR will reimburse to MOGE the CONTRACTOR's participating interest share (after exercise by MOGE of its right to participate) of US Dollars forty million (US\$ 40,000,000) representing the costs incurred up to Effective Date by MOGE in relation to the Contract Area.

This amount shall be reimbursed by way of "Payment out of Production" of fifty percent (50 %) of CONTRACTOR's production entitlements under this Contract valued in the manner described

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in Section 12 of this Contract, commencing from the beginning of Commercial Production.

This amount shall be added to Operating Costs and recovered in accordance with Section 9.4.

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SECTION 20 - FORCE MAJEURE

- 20.1 Neither party shall be liable for any failure to perform this Contract which is caused by or the results of war, political disturbances, Riots or Civil Commotions, total or partial breakdown or stoppage of air planes, steamships or other means of transportation, fires, thefts, floods, earthquakes, epidemics or any other cause beyond its control.
- 20.2 If operations are delayed, curtailed or prevented by such causes, then the time for carrying out the obligations thereby affected, the term of this Contract and all rights and obligations hereunder, shall be extended for a period equal to the period thus involved. The period involved will be determined by mutual agreement.
- 20.3 The party whose ability to perform its obligation is so affected shall notify the other party thereof in writing, stating the cause and both parties shall do all reasonably within their power to remove such causes.

SECTION 21 - GOVERNING LAW

21.1 The Laws of Myanmar shall apply to this Contract.
Failing provisions of the local Laws principles of international
law shall apply.

21.2 No term or provisions of this Contract, including the agreement
of the Parties to submit to Arbitration hereunder, shall prevent
or limit the Government of the Union of Myanmar from
exercising its inalienable rights.

SECTION 22 - CONSULTATION AND ARBITRATION

- 22.1 Periodically, MOGE and CONTRACTOR shall meet to discuss the conduct of the Petroleum Operations envisaged under this Contract and will make every effort to settle amicably any problem arising therefrom.
- 22.2 If any dispute, question or difference should arise between the parties to this Contract, in regard to their rights and obligations thereunder which cannot be settled amicably, such dispute shall be settled in Geneva, by Arbitration, through two Arbitrators, one of whom shall be appointed by the CONTRACTOR and the other by MOGE. Should the Arbitrators fail to reach an agreement then the dispute shall be referred to a third Arbitrator who shall be an Umpire nominated by the Arbitrators. If the Arbitrators fail to agree on the appointment of an Umpire then MOGE and CONTRACTOR shall request the President of the International Court of Justice, The Hague, to designate the Umpire. The majority decision of the Arbitrators or, failing which, the decision of the Umpire shall be final and binding upon both parties.

SECTION 23 - BANKING

- 23.1 CONTRACTOR shall supply all funds necessary for Petroleum Operations in Myanmar in freely convertible currency from abroad except to the extent that Myanmar currency is generated in connection with the performance of the Petroleum Operations.
- 23.2 CONTRACTOR shall have the right to open and maintain foreign bank accounts without restriction and to freely receive abroad, remit abroad, retain abroad and use without restriction the entirety of the foreign exchange proceeds which are received from export and local sales of its share of Petroleum from the Contract Area or which are in any way generated in connection with the performance of the Petroleum Operations.
- 23.3 CONTRACTOR shall be entitled to purchase Myanmar currency at authorized banks whenever required for the Petroleum Operations, and to convert into freely convertible foreign currency any excess Myanmar currency which is not then needed for local requirements.
- 23.4 The rate of exchange for transactions referred to in Section 23.3 shall not be less favourable to CONTRACTOR than the effective rate applicable for similar transactions undertaken by any private or state enterprise on the date the transaction is initiated. Normal bank commissions and costs of transfers relating to currency conversions or remittances shall be borne by CONTRACTOR.
- 23.5 CONTRACTOR shall be entitled to pay its foreign-controlled Contractors and Subcontractors and its expatriate employees in foreign currency abroad, and such contractors, subcontractors and expatriate employees shall be entitled to receive and retain such foreign currency abroad.

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23.6 The provisions of Sections 23.2, 23.3, 23.4 and 23.5 shall also apply to CONTRACTOR's expatriate employees and CONTRACTOR's foreign controlled contractors, subcontractors and their expatriate employees.

23.7 Unless otherwise expressly agreed, all payments by CONTRACTOR to MOGE or the Government hereunder and all payments by MOGE or the Government to CONTRACTOR hereunder shall be made in US Dollars at a bank in Myanmar or abroad as specified by the recipient.

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SECTION 24 - INSURANCE

- 24.1 As to all operations performed by the CONTRACTOR under this Contract, the CONTRACTOR shall secure and maintain insurances in accordance with Section 19 of the Union of Myanmar Foreign Investment Law and Rule 15 of the procedures relating to the Union of Myanmar Foreign Investment Law. The CONTRACTOR shall furnish MOGE with Certificates of Insurance evidencing such coverage and containing a statement that such insurance shall not be materially changed or cancelled without at least thirty (30) days prior written notice.
- 24.2 The CONTRACTOR shall require that its subcontractors procure similar insurances to those required to be procured by the CONTRACTOR and such additional insurances as CONTRACTOR shall deem appropriate, all to be evidenced by Certificates of Insurance.
- 24.3 To eliminate controversy, the expense and inconvenience thereof, as between MOGE and the CONTRACTOR, it is agreed that the insurance policies shall be endorsed so that the underwriters, insurers and insurance carriers of each with respect to this Contract shall not have any right of recovery against either of the parties hereto or their representatives in any form whatsoever ; and the rights of recovery with respect to this operation are mutually waived. All policies of insurance herein provided and obtained or required by either party shall be suitably endorsed to effectuate this waiver of recovery.

SECTION 25 - TERMINATION

- 25.1 This Contract may be terminated by the CONTRACTOR by giving not less than ninety (90) days written notice to MOGE provided, however, CONTRACTOR may not so terminate this Contract during the Appraisal Period prior to spending on Petroleum Operations the minimum expenditures required hereunder unless CONTRACTOR pays to MOGE the unexpended portion of the minimum expenditure as specified in Section 5.
- 25.2 The Contract shall be terminated in its entirety by MOGE if irrefutable evidence is brought that the CONTRACTOR is involved willingly with political activities detrimental to the Government of the Union of Myanmar. On such termination, the unexpended portion of the minimum expenditure as specified in Section 5, and all equipment purchased by the CONTRACTOR and brought into Myanmar under Section 16.1 shall pass to MOGE.
- 25.3 Subject to earlier termination upon notice by CONTRACTOR pursuant to Section 25.1, this Contract shall automatically terminate in its entirety as follows :
- (a) If there is no Commercial Discovery of Petroleum in the Contract Area as per Sections 7.7. and 13.3. ;
 - (b) At the end of the Production Periods relating to all Production Areas within the Contract Area.

SECTION 26 - BOOKS AND ACCOUNTS AND AUDITS

- 26.1 Subject to the requirements of Section 17.2 CONTRACTOR shall be responsible for keeping complete books and accounts with the assistance of MOGE reflecting all Operating Costs as well as monies received from the sale of Crude Oil, consistent with modern petroleum industry practices and proceedings as described in Annexure "C" attached hereto. Should there be any inconsistency between the provisions of this Contract and the MOU on the one hand, and the provisions of Annexure "C" on the other, then the provisions of this Contract and of the MOU shall prevail.
- 26.2 MOGE and the Government of the Union of Myanmar shall have the right to inspect and audit CONTRACTOR's books and accounts relating to this Contract for any Financial Year covered by this Contract. Any exception must be made in writing within sixty (60) days following the completion of such audit. Such audit shall be performed within two (2) Financial Years after the closing of the related Financial Year.

SECTION 27 - GENERAL PROVISIONS

27.1 Notices

- (a) Notices and other communications required or permitted to be given under this Contract shall be deemed given when delivered and received in writing either by hand or through the mails, or by prepaid telex or cable transmission, appropriately addressed as follows :

to MOGE :

- i) By hand or mail :
MYANMA OIL AND GAS ENTERPRISE
74/80, Minye Kyawswa Road,
YANGON, MYANMAR

Attention : MANAGING DIRECTOR

- ii) By cable : "YENAN" YANGON

- iii) By telex : MYCORP 21307 BM

- iv) By fax : 95 1 22 964/22 965

to CONTRACTOR :

UYP3 000084

- i) By hand or mail :
TOTAL MYANMAR EXPLORATION AND
PRODUCTION
Attention : Mr J.M. BEUQUE
Cedex 47
92069 PARIS LA DEFENSE - FRANCE

ii) By Cable addressed to Mr J.M. BEUQUE
24 Cours Michelet - LA DEFENSE 10
PUTEAUX - FRANCE

iii) By Telex : 615 700 TCFP
addressed to Mr J.M. BEUQUE

iv) By Fax : 42 91 30 12

(b) MOGE and CONTRACTOR may change its address or addresses by giving notice of the change to each other.

27.2 Language of Text

This Contract is made and entered into in the English Language.

27.3 Effectiveness

This Contract is legally binding on and from the Effective Date.

27.4 Covenant against undue influence

The CONTRACTOR warrants that no gift or reward has been made, nor will be made, to any officials or employees of the Government of the Union of Myanmar.

27.5 Secrecy

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(a) CONTRACTOR undertakes to maintain in strictest secrecy and confidence all data and information purchased or acquired from MOGE as well as during the course of operations in the Union of Myanmar. The CONTRACTOR understands fully that this undertaking and obligation is a

continuing one which will be binding also on its successors and permitted assigns, until such time when MOGE agrees in writing to release CONTRACTOR from its undertakings and obligations.

- (b) MOGE may use at its own discretion all the data and information obtained during the course of operations in the Union of Myanmar but shall undertake to maintain such data and information in strictest secrecy and confidence during the term of this Contract.

27.6 In the event that any situation or condition arise due to circumstances not envisaged in the Contract and warrants amendments to the Contract the parties shall negotiate and make the necessary amendments.

IN WITNESS WHEREOF, this ^{Contract} ~~MOU~~ has been executed at Yangon, the Union of Myanmar as of the day and year first abovementioned.

Signed, sealed and delivered
on behalf of
THE MYANMA OIL AND GAS ENTERPRISE

U PE KYI
Managing Director



WITNESSES :

1. CMDR. THEIN TUN
Director General, Energy Planning Department

2. U SOE MYINT
Deputy Director General, Energy Planning Department

Thein Tun

U Soe Myint

Signed, sealed and delivered
on behalf of
TOTAL MYANMAR EXPLORATION AND PRODUCTION

Thierry DESMAREST
Chairman of the Board

Thierry

WITNESSES :

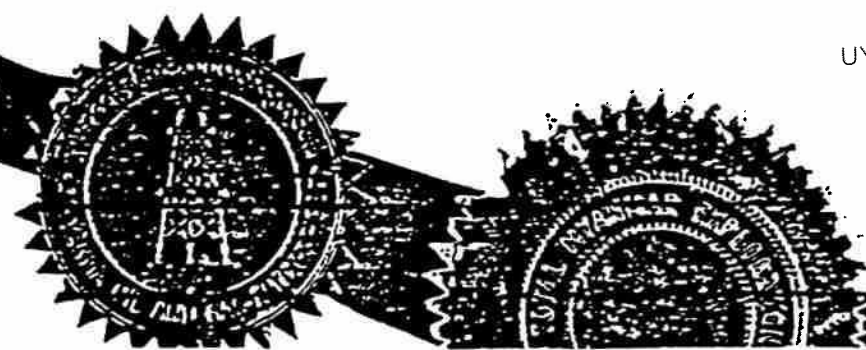
1. Jean-Marie BEUQUE
Chief Executive Officer Far East

J. Beuque

2. Guy ROMEU
Manager General Affairs Far East

Guy Romeu

UYP3 000087



ANNEXURE A

This Annexure "A" is attached to and made in integral part of the Contract between MYANMA OIL AND ENTERPRISE and TOTAL MYANMAR EXPLORATION AND PRODUCTION :

DESCRIPTION OF CONTRACT AREA

Coordinates of Offshore Blocks M5 and M6

Point n°	Latitude (North)	Longitude (East)
A	15' 24' 00"	93' 21' 00"
B	14' 40' 00"	93' 21' 00"
C	15' 24' 00"	94' 49' 00"
D	14' 40' 00"	94' 49' 00"
E	15' 24' 00'	96' 15' 00"
F	14' 40' 00"	96' 15' 00"

Approximate Area in Square Miles

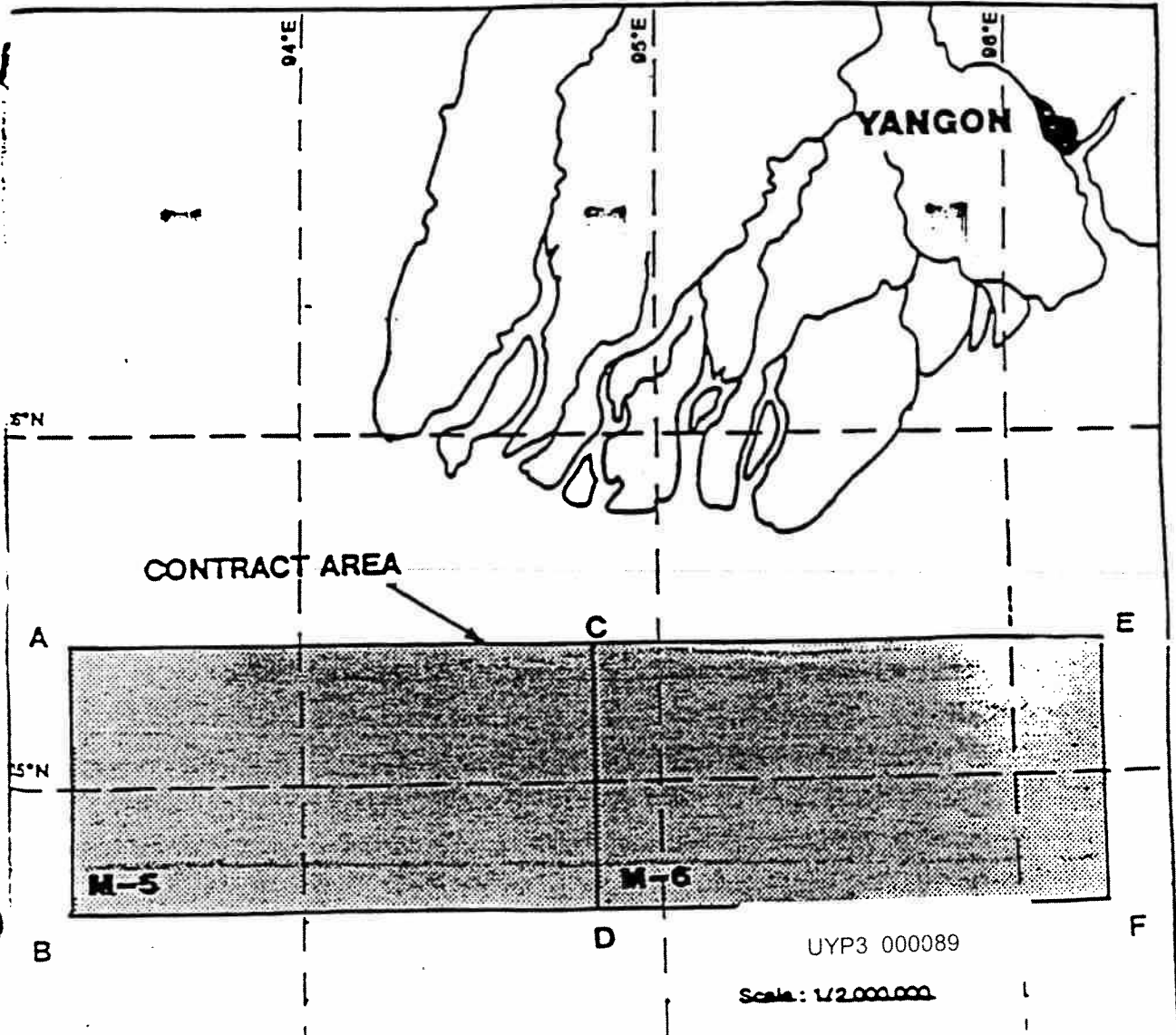
Block M5	5105	(Area A B C D)
Block M6	4988	(Area C D E F)

The Contract Area here described is shown on "Annexure B" of the Contract.

ANNEXURE B

This Annexure "B" is attached to and made an integral part of the Contract between MYANMA OIL AND GAS ENTERPRISE and TOTAL MYANMAR EXPLORATION AND PRODUCTION, dated: 9th July 1997

MAP OF CONTRACT AREA



ANNEXURE "C"

This Annexure "C" is attached to and made an integral part of the Contract between MYANMA OIL AND ENTERPRISE and TOTAL MYANMAR EXPLORATION AND PRODUCTION.

ACCOUNTING PROCEDURE

ARTICLE 1 - GENERAL PROVISIONS

This Accounting Procedure applies to and shall be observed in the establishment, keeping and control of all accounts, books and records of accounts under the Contract.

The Contract and this Accounting Procedure are intended to be correlative and mutually explanatory. Should however any discrepancy arise, then the provisions of the Contract shall prevail.

The Parties agree that if any procedure established herein proves unfair or inequitable to any Party, the Parties shall meet and endeavour to agree on the changes necessary to correct that unfairness or inequity.

For the purpose of the present Accounting Procedure, the term "CONTRACTOR" shall also include CONTRACTOR's Affiliates as may be necessary according to the context.

1.1 Definitions

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- 1.1.1 The terms used in this Accounting Procedure have the same meanings as set out for the same terms in the Contract and otherwise in accordance with the provisions of the Contract.

1.1.2 "Capital Expenditures" means expenditures incurred for the purchase of tangible physical assets which by generally accepted international accounting principles of the international petroleum industry are classified as capital and the cost of which is amortizable. Such assets include but are not limited to :

- drilling and well equipment including wellheads, casing, pipe, flow lines and pumps ;
- gathering systems including pipe, field storage, and crude oil separation and treatment plants and equipment ;
- pipelines for the transportation of Petroleum to the point of export, sale or delivery ;
- storage tanks and loadings facilities at the point of export, sale or delivery ; and
- any other plant, equipment or fixtures in the Union of Myanmar reasonably necessary to carry out Petroleum Operations.

1.1.3 "Controllable Material" means Material which the CONTRACTOR subjects to record control and inventory in accordance with good international petroleum industry practice.

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1.1.4 "Material" means any equipment, machinery, materials, articles, supplies and consumables either purchased, or leased, or rented, or transferred by CONTRACTOR and used, in the Petroleum Operations.

1.2 Books and Records

Books and records of account will be kept in accordance with a generally accepted and recognized accounting system consistent with modern petroleum industry practices and procedures and in English language and US Dollars, supplemented and supported by such books, records or entries in other currencies as may be necessary for completeness and clarity and to implement the Contract in accordance with its terms.

1.3 Currency Exchange

Any costs incurred or proceeds received, in a currency other than US Dollars including the currency of the Union of Myanmar shall be converted into US Dollars computed at the prevailing rate of exchange on the day on which the costs or expenditures were paid or the proceeds were received.

1.4 Independent Auditor

The CONTRACTOR shall in consultation with MOGE, appoint an independent auditor of international standing, to audit annually the accounts and records of Petroleum Operations and report thereon, and the cost of such audit and report shall be promptly delivered to the MOGE and shall be chargeable under the Contract.

ARTICLE 2 - PETROLEUM COSTS

2.1 Petroleum costs

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The Parties shall maintain "Petroleum Costs Account" in which there shall be reflected all Petroleum Costs incurred in

connection with the Petroleum Operations carried out under the provisions of the Contract.

Such Petroleum Costs shall be recoverable by the CONTRACTOR in accordance with the provisions of the Contract and as further set out below. Without limiting the generality of the foregoing, the cost and expenditures considered in 2.2 to 2.12 hereafter are included in Petroleum Costs.

Petroleum Costs shall be recoverable in the following manner :

- (a) Petroleum Costs, including all intangible drilling costs, with the exception of the Capital Expenditures, incurred in respect of the Contract Area, shall be recoverable either in the Financial Year in which these Petroleum Costs are incurred or the Financial Year in which Commercial Production occurs, whichever is the later ;
- (b) Capital Expenditure incurred in respect of each Development Area shall be recoverable at a rate of twenty-five percent (25 %) per annum based on amortization at that rate starting either in the Financial Year in which such Capital Expenditure is incurred or the Financial Year in which Commercial Production from that Development Area commences, whichever is the later.
- (c) Capital Expenditure, including but not limited to expenditure for aircraft, camps, offices, warehouses, vehicles, workshops, power plants, tools, and equipment, incurred outside of a Development Area, shall be recoverable at a rate of twenty-five percent (25 %) per annum, based on amortization at that rate starting either in the Financial Year in which such Capital Expenditure is incurred, or the Financial Year in which Commercial

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production from any Development Area commences, whichever is the later, and shall be recoverable from any Development Area(s).

2.2 Labour and related costs

2.2.1 Contractor's locally recruited employees based in the Union of Myanmar

The actual cost of all Contractor's locally recruited employees who are directly engaged in the conduct of Petroleum Operations in the Union of Myanmar. Such costs shall include the costs of employee benefits and Government benefits for employees and taxes and other charges levied on the CONTRACTOR as an employer, transportation and relocation costs within the Union of Myanmar and costs of the employee and such employee's family (limited to spouse and dependent children) as statutory or customary for the CONTRACTOR.

2.2.2 Assigned personnel

The cost of the personnel of Contractor resident in and working in the Union of Myanmar for the Petroleum Operations. The cost of these personnel shall be as per rates which represent the CONTRACTOR's actual cost according to CONTRACTOR's usual practice.

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Such rates shall not include free furnished accommodation in the Union of Myanmar, medical and dental treatment of the employee and immediate family, local schooling expenses and any other local employment cost paid by the CONTRACTOR. Such Costs shall be charged separately to the Petroleum costs

As early as possible in each Financial Year, the CONTRACTOR shall advise the applicable rates referred to above for each subsequent Financial Year. These rates may be subject to revision from time to time at the CONTRACTOR's initiative if actual costs change.

2.2.3 Personnel of the CONTRACTOR's based in CONTRACTOR's Home Country working for Petroleum Operations on a time sheet basis

Such personnel shall be charged at rates which represent the CONTRACTOR's actual cost. These rates include all costs incidental to the employment of such personnel, but do not include transportation and living expenses they may incur for the performance of such work. In case the work is performed outside CONTRACTOR's Home Country, the hourly rate will be charged from the date such personnel leave the town where they usually work in CONTRACTOR's Home Country through their return thereto, including days which are not working days in the country where the work is performed, and excluding any holiday entitlement derived by the employee from his employment in CONTRACTOR's Home Country. No charge will be made for overtime.

As early as possible in each Financial Year, the CONTRACTOR shall advise these hourly rates for each subsequent Year. They may be subject to revision from time to time at the CONTRACTOR's initiative.

2.2.4 Other personnel

Personnel working outside the Union of Myanmar for the CONTRACTOR's home country who are not on a time sheet basis shall be deemed compensated by the administrative overheads set forth in subpart 2.11 below.

2.2.5 Provisions common to Subparts 2.2.2 and 2.2.3

Subparts 2.2.2 and 2.2.3 above have been agreed upon considering the present structure of the CONTRACTOR. Should the CONTRACTOR be changed, or should the CONTRACTOR change their present structure or organization, these subparts shall be revised accordingly.

2.2.6 Employees training expenses

Training expenses for the CONTRACTOR's employees resident in the Union of Myanmar and the CONTRACTOR's contribution to training under Section 15 of the Contract.

2.3 Material

2.3.1 The cost of Material shall be charged to the Petroleum Costs Account on the basis set forth below.

The CONTRACTOR does not guarantee the Material. The only guarantees are the guarantees given by the manufacturers or the vendors, as long as they are in force.

2.3.1.1 Except as otherwise provided in Subpart 2.3.1.2 below, Material shall be charged at the actual Net Cost incurred by the CONTRACTOR. Net cost shall include, but shall not be limited to such items as the vendor's invoice price, packaging, transportation, loading and unloading expenses, insurance costs, duties, fees and applicable taxes less all discounts actually received.

2.3.1.2 Material shall be charged at the price specified hereinbelow :

- a) New Material (Condition "A") shall be valued at the current international Net Cost which shall not exceed the price prevailing in normal arm's length transactions on the open market ;
- b) Used Material (Conditions "B", "C" and "D" and junk Material) :
 - i) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classified as Condition "B" and priced at seventy-five percent (75 %) of the current price of new Material defined in a) above ;

- ii) Material which cannot be classified as Condition "B" but which after reconditioning will be further serviceable for its original function shall be classified as Condition "C" and priced at fifty percent (50 %) of the current price of new Material as defined in a) above. The cost of reconditioning shall be charged to the reconditioned Material provided that the value of Condition "C" Material plus the cost of reconditioning do not exceed the value of Condition "B" Material ;
- iii) Material which has a value and which cannot be classified as Condition "B" or Condition "C" shall be classified as Condition "D" and priced at a value commensurate with its use.
- iv) Material which is usable and which cannot be classified as Condition "B" or Condition "C" or Condition "D" shall be classified as junk and shall be considered as having no value.

2.3.2 Inventories

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At reasonable intervals, inventories shall be taken by the CONTRACTOR of all controllable Material. The

CONTRACTOR shall give sixty (60) days' written notice of intention to take such inventories to allow the MOGE to choose whether to be represented when the inventory is taken, or not to be represented (in which case the MOGE shall elect to accept the inventory taken by the CONTRACTOR).

2.4 Transportation and employee relocation costs

2.4.1 Transportation of Material and other related costs, including but not limited to origin services, expediting, crating, dock charges, forwarder's charges, surface and air freight, and customs clearance and other destination services.

2.4.2 Transportation of employees as required in the conduct of Petroleum Operations, including employees of the CONTRACTOR's whose salaries and wages are chargeable under subparts 2.2.2 and 2.2.3 of this Accounting Procedure.

2.4.3 Relocation costs to the Contract Area vicinity of employees permanently or temporarily assigned to Petroleum Operations. Relocation costs from the Contract Area vicinity, except when an employee is reassigned to another location classified as a foreign location by the CONTRACTOR. Such costs include transportation of employee's families and their personal and household effects and all other relocation costs in accordance with the usual practice of the CONTRACTOR.

2.5. Services

2.5.1 The actual costs of contract services, professional consultants, and other services performed by third parties.

2.5.2 Costs of use of facilities and equipment for the direct benefit of the Petroleum Operations, furnished by the CONTRACTOR or third parties at rates commensurate with the cost of ownership, or rental, and the cost of operation thereof, but such rates shall not exceed those currently prevailing in normal arm's length transactions on the open market for like services and equipment.

2.6 Damages and losses to material and facilities

All costs or expenses necessary for the repair or replacement of Material and facilities resulting from damages or losses incurred by fire, flood, storm, theft, accident, or any other cause. The CONTRACTOR shall furnish the MOGE written notice of damages or losses for each occurrence or loss involving more than one hundred thousand US. Dollars (US \$ 100,000) as soon after the loss occurrence or as practicable.

2.7 Insurance and claims

2.7.1 Premiums paid for insurance to cover the risks related to Petroleum Operations according to the CONTRACTOR's practice, which is in compliance with international petroleum practice.

2.7.2 Actual expenditure incurred in the settlement of all losses, claims, damages, judgments, and other expenses (including legal expenses as set out below) for the benefit of the Petroleum Operations.

2.8 Legal expenses

All costs or expenses of litigation or legal services otherwise necessary or expedient including but not limited to legal counsel's fees, arbitration costs, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims. These services may be performed by the CONTRACTOR's legal staff and/or an outside firm as necessary.

2.9 Charges and fees

All charges and fees which have been paid by the CONTRACTOR with respect to the Contract.

2.10 Offices, camps and miscellaneous facilities

Cost of establishing, maintaining and operating any offices, sub-offices, camps, warehouses, housing and other facilities such as recreational facilities for employees. If these facilities serve more than one (1) contract area the costs thereof shall be allocated on an equitable basis.

2.11 General and administrative expense

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2.11.1 The services for all personnel of the CONTRACTOR as per subpart 2.2.4 as well as the contribution of the CONTRACTOR's to the Petroleum Operations of an

intangible nature shall be deemed compensated by an annual overhead charge based on a sliding scale percentage.

- 2.11.2 The basis for applying this overhead charge shall be the total Petroleum Costs incurred during each Financial Year or fraction thereof.

The sliding scale percentage shall be the following :

For the first five million US Dollars :	4 %
For the next three million US Dollars :	2 %
For the next four million US Dollars :	1 %
Over twelve million US Dollars :	0.5 %

2.12 Other expenditures

Any reasonable expenditure not covered or dealt with in the foregoing provisions which are incurred by the CONTRACTOR for the necessary and proper performance of the Petroleum Operations and the carrying out of its obligations under the Contract or related thereto.

2.13 Credits under the contract

The net proceeds of the following transactions will be credited to the accounts under the Contract :

UYP3 000102

- (a) the net proceeds of any insurance or claim in connection with the Petroleum Operations or any assets charged to the accounts under the Contract ;
- (b) revenue received from outsiders for the use of property or assets charged to the accounts under the Contract which

have become surplus to Petroleum Operations and have been leased to mitigate losses ;

- (c) any adjustment received by the CONTRACTOR, from the suppliers/manufacturers or their agents in connection with defective equipment or material the cost of which was previously charged by the CONTRACTOR under the Contract ;
- (d) rentals, refunds or other credits received by the CONTRACTOR which apply to any charge which has been made to the accounts under the Contract ;
- (e) proceeds from all sales of surplus Materials charges to the account under the Contract, at the net amount actually collected.

2.14 No duplication of charges and credits

Notwithstanding any provision to the contrary in this Accounting Procedure, it is the intention that there shall be no duplication of charges or credits in the accounts under the Contract.

ARTICLE 3 - FINANCIAL REPORTS TO THE MOGE

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- 3.1 The reporting obligations provided for in this Part shall apply to the CONTRACTOR and shall be in the manner indicated hereunder.
- 3.2 The CONTRACTOR shall submit to MOGE within thirty (30) days of the end of each Quarter :
 - 3.2.1 a report of expenditure and receipts under the Contract analyzed by budget item showing :

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- a) actual expenditure and receipts for the Quarter in question ;
- b) actual cumulative expenditure to date ;
- c) latest forecast of cumulative expenditure at Year end ;
- d) variances between budget expenditure and actual expenditure, and explanations therefor.

3.2.2 a cost recovery statement containing the following information :

- a) recoverable Petroleum Costs brought forward from the previous Quarter, if any ;
- b) recoverable Petroleum Costs incurred during the Quarter ;
- c) total recoverable Petroleum Costs for the Quarter [a) plus b) above]
- d) quantity and value of Cost Oil taken and separately disposed of by the Contractor for the Quarter ;
- e) amount of Petroleum recovered for the Quarter ; and
- f) amount of recoverable Petroleum Costs to be carried forward into the next Quarter, if any.

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- 3.3 After the commencement of production the CONTRACTOR shall, within thirty (30) days after the end of each month, submit a production report to the MOGE showing for each Development Area the quantity of Petroleum :
- a) held in stocks at the beginning of the month ;
 - b) produced during the month ;
 - c) lifted, and by whom ;
 - d) lost and consumed in Petroleum Operations ;
and
 - e) held in stocks at the end of the month.
- 3.4 A lifting Party shall submit, within thirty (30) days after the end of each month, a report to the MOGE stating the quantities and sales value of each Petroleum sales made in that month.

ANNEXURE "D"

This Annexure "D" is attached to and made an integral part of the Contract between MYANMA OIL AND GAS ENTERPRISE and TOTAL MYANMAR EXPLORATION AND PRODUCTION dated :

FORM OF SECURITY

Date :

MYANMA OIL AND GAS
ENTERPRISE
YANGON
THE UNION OF MYANMAR

By this letter TOTAL guarantees to make available to its fully owned subsidiary TOTAL MYANMAR EXPLORATION AND PRODUCTION such capital finance, assets, machinery, equipment, tools, technical expertise or specialists as may be required by TOTAL MYANMAR EXPLORATION AND PRODUCTION in its performance of committed work and expenditure obligations undertaken by the said subsidiary pursuant to the terms of a Production Sharing Contract covering offshore appraisal signed on.....

This guarantee shall come in force at the date said Production Sharing Contract, duly executed by said subsidiary, comes itself into force, and this guarantee shall remain in force for so long as committed work and expenditure obligations remain unperformed by said subsidiary.

TOTAL

ORIGINAL remis
le 9 juillet 1992
à MOGE

LETTER OF GUARANTEE

By this letter TOTAL S.A. guarantees to make available to its fully owned subsidiary TOTAL MYANMAR EXPLORATION AND PRODUCTION such capital finance, assets, machinery, equipment, tools, technical expertise or specialists as may be required by TOTAL MYANMAR EXPLORATION AND PRODUCTION in its performance of committed work and expenditure obligations undertaken by the said subsidiary pursuant to the terms of the Production Sharing Contract covering appraisal development and production of petroleum in the Mostama area to be signed between MYANMA OIL AND GAS ENTERPRISE AND TOTAL MYANMAR EXPLORATION AND PRODUCTION.

This guarantee shall come in force at the date said Production Sharing Contract, duly executed by said subsidiary, comes itself into force, and this guarantee shall remain in force for so long as committed work and expenditure obligations remain unperformed by said subsidiary.

Made in Paris on the 8th of July 1992



Alain MADEC
Financial Director

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ANNEXURE "E"

This Annexure "E" is attached to and made an integral part of the Contract between MYANMA OIL AND GAS ENTERPRISE and TOTAL MYANMAR EXPLORATION AND PRODUCTION.

dated :

MANAGEMENT PROCEDURE

1. MOGE retains by this Contract all rights of Management but recognises that CONTRACTOR is responsible for the execution of the Work Programme. To obtain the benefits of mutual cooperation and to coordinate their efforts under the Contract, MOGE and CONTRACTOR shall establish a "Management Committee" (herein called the Committee) composed of Four (4) representatives appointed by MOGE and Four (4) representatives appointed by CONTRACTOR. One of the MOGE's representatives shall act as Chairman of the Committee.
2. The initial appointment of representatives to the Committee shall be made by MOGE and by CONTRACTOR, by notice given to the other within thirty (30) days after the Effective Date, advising the names of their respective representatives and such appointments may be changed thereafter from time to time by similar notice from the changing party to the other.
3. All decisions required to be taken by the Management Committee shall be taken by the unanimous vote of the representatives present at the meeting, it being understood that no such decisions shall be valid unless at least one representative of MOGE and one representative of the CONTRACTOR is present at the

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meeting. Decisions taken by the Committee shall be recorded in minutes signed on behalf of both MOGE and CONTRACTOR and shall be binding on the parties hereto.

4. The Committee shall meet whenever required by MOGE or by CONTRACTOR, subject to 15 days prior notice to its members required which notice shall include the agenda for the meeting.
5. The Committee shall have the following functions and responsibilities under this Contract :
 - a) to provide the opportunity for and to encourage the exchange of information, views, ideas and suggestions regarding plans, performance and results obtained under the Contract,
 - b) to review and approve Work Programmes and Budgets proposed by CONTRACTOR, taking into consideration any revisions thereto proposed by MOGE and further revisions by both parties,
 - c) to coordinate on all technical, financial administrative and policy matters of interest to both parties,
 - d) in case of discovery of Petroleum to review and approve proposal for the appraisal and development of such discovery,
 - e) to consider and act upon recommendations made to the Committee by its sub-committees,
 - f) to cooperate towards implementation of the Contract in accordance with its terms.

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6. To facilitate the discharge of its functions, the Committee shall appoint sub-committees composed of representatives of both MOGE and the CONTRACTOR such as but not limited to :
- a) Technical Sub-committee to review and consult upon work programs and any variation thereof, to supervise all safety procedures to be used in the conduct of Petroleum Operations, to advise the parties on the progress of the current Work Programme, pertaining to exploration, development and production, and to perform any other task that the parties may ascribe by common agreement.
 - b) Procurement Sub-committee to review and recommend the international tender being applied for purchase of equipment and the selection of sub-contractors and supplies of services for Petroleum Operations hereunder.
 - c) Accounting Sub-committee to review the incomes and expenditures related to Petroleum Operations in accordance with this Contract and any questions arising thereto.
 - d) Petroleum Valuation Sub-committee to set the value, the International Market Price FOB Myanmar per barrel of Crude Oil for purposes of Cost Recovery and division of net sales proceeds. The valuation shall be based upon enquiries made by MOGE and CONTRACTOR internationally for the specific type of quality of Crude Oil such as API gravity, sulphur content, viscosity, pour-point, etc ... The valuation of Natural Gas will be determined as per Section 12.8.

UYP3 000110

ANNEXURE "F"

This Annexure "F" is attached to and made an integral part of the Contract between MYANMA OIL AND GAS ENTERPRISE and TOTAL MYANMAR EXPLORATION AND PRODUCTION.

dated

MEMORANDUM ON PARTICIPATION

The operating agreement between CONTRACTOR and MOGE referred to in Section 19.3. shall embody, inter alia, the following main principles :

1. CONTRACTOR shall be the sole Operator of the venture under properly defined rights and obligations.
2. Authorized representatives of both parties shall meet periodically for the purpose of conducting the venture's operations. Decisions shall be taken by majority vote except in cases which shall require the unanimous consent of the parties and which shall include the decision to terminate the main Contract. However if either of the parties wishes to withdraw from the venture it shall transfer without cost its undivided interest to the other party.
3. Both parties shall have the obligation to provide or cause to be provided their respective proportions of such finance and in such currencies as may be required from time to time by the Operator for the operations envisaged under the main agreement. The effects of a party's failure to meet calls for funds within the prescribed time limits shall be provided.

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4. The Operator shall prepare the annual Work Programme and Budgets which shall be submitted to the authorized representative of both parties for decision prior to their submission to MOGE in accordance with the provisions of the main Contract.
5. Appropriate Sole Risk provisions.
6. Subject to adequate lifting tolerances each Party shall offtake at CONTRACTOR's point of export its production entitlement. However, if MOGE is not in a position to market such quantity wholly or partly it shall in respect of the quantity which it cannot market itself have the option under an adequate notification procedure : either to require CONTRACTOR to purchase that quantity, or to lift that quantity at a later date under an adequate procedure within a period of time defined in such related procedure.

This paragraph 6 is applicable only for hydrocarbons in liquid form.

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