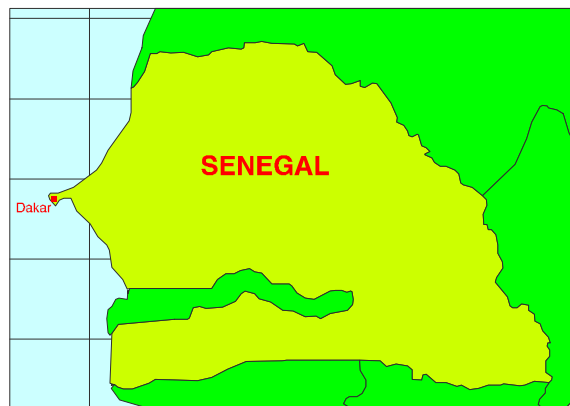


THE REPUBLIC OF SENEGAL

One People – One Goal – One Faith

CONTRACT FOR RESEARCH AND HYDROCARBON PRODUCTION SHARING

1998



"Restricted distribution, limited to authorized persons"

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CONTRACT

BETWEEN

- the **Republic of Senegal**, hereinafter called "**the State**", hereby represented by the Minister of Energy, Mines and Industry,
party of the first part,

AND

- _____, company governed by _____ law, with its head office located at _____, hereinafter called _____, and hereby represented by _____, duly qualified to this effect,
- the **Société des Pétroles du Sénégal** [Petroleum Company of Senegal], a company governed by Senegalese law, with its head office located at Dakar, Senegal, hereafter called "PETROSEN", and hereby represented by _____ General Manager, duly qualified to this effect,

To be filled out, if necessary, when the Contractor is composed of other companies.

Hereinafter collectively designated as the "**Contractor**",

party of the second part,

Whereas the economic interest that the discovery and the operation of hydrocarbons represents the territory of the Republic of Senegal;

Whereas the Contractor states that it has the technical and financial capabilities to execute the Oil Operations authorized in accordance with this document and wishes to undertake said Oil Operations within the framework of a production sharing contract, setting forth its rights and obligations;

In view of Law n°97-XX dated XX..... 1997 involving the Oil Producers Code fixing the legal and tax system for research, operation and the transport of hydrocarbons;

THE FOREGOING SET FORTH, THE FOLLOWING HAS BEEN MUTUALLY AGREED AND ORDERED:

CHAPTER ONE

GENERAL PROVISIONS

ARTICLE 1

DEFINITIONS

The terms defined in the present article shall have the following meaning for the entire Contract and the other texts that may supplement or modify the same:

- 1.1. "**Civil Year**" signifies a period of twelve (12) consecutive months beginning January first (1st) and ending on the following December thirty-first (31).
- 1.2. "**Contract Year**" signifies a period of twelve (12) consecutive months beginning on the Entry into Effect Date or the anniversary of said Entry into Effect Date.
- 1.3. "**Budget**" signifies the detailed cost estimate of the Oil Operations forecast in an Annual Project Plan.
- 1.4. "**Contractor**" signifies, either individually or collectively, _____ and PETROSEN, and any entity to whom an interest might be transferred pursuant to Articles 24 and 29 below.
- 1.5. "**Contract**" signifies the present document and its appendices forming the Contract and any addition or modification to the present documents receiving the approval of the Parties in accordance with the provisions of Article 35.3 below.
- 1.6. "**Oil Producers Code**" designates Law n° 97-XX dated XX.... 1997 establishing the legal and tax code for research, operation and the transport of hydrocarbons, and the texts used for its application.
- 1.7. "**Oil Producer Costs**" signifies the entirety of the costs and expenses incurred by the Contractor within the framework of the present Contract that are necessary according to the rules of the art in use in the international oil industry in performing the Oil Operations involving the Contract Area and determined according to the Accounting Procedure attached to _____ Contract as Appendix 2.
- 1.8. "**Entry into Effect Date**" signifies the date the Contract as defined in Article 35.3 below goes into effect.
- 1.9. "**Dollar**" signifies United States dollar.

- 1.10. **"State"** signifies the Republic of Senegal.
- 1.11. **"CFA Franc"** signifies a franc of the West African Monetary Union (UMOA).
- 1.12. **"Natural Gas"** signifies the dry and wet gas produced by itself or together with the Raw Petroleum and any other gaseous component extracts from the wells.
- "Associated Natural Gas"** signifies the Natural Gas existing in a reservoir in a solution with Raw Petroleum or in the form of "gas-cap" in contact with the Raw Petroleum, and which is produced or may be produced in association with Raw Petroleum.
- "Non-Associated Natural Gas"** signifies Natural Gas excluding Associated Natural Gas.
- 1.13. **"Marketable Deposit"** signifies a geological entity filled with hydrocarbons, duly evaluated in accordance with the provisions in Article 9 herein below, and which in accordance with the rules in use in the international oil industry can be developed and produced under economic conditions for the Contractor.
- 1.14. **"Hydrocarbons"** signifies Raw Petroleum and Natural Gas.
- 1.15. **"Minister"** designates at any time the Minister in charge of the sector of Oil Operations or his qualified representative.
- 1.16. **"Ministry"** designates at any time the Ministry in charge of the sector of Oil Operations.
- 1.17. **"Oil Operations"** signifies all operations for the prospecting, research, evaluation, development, production, storage, transport and sale of the Hydrocarbons to the Delivery Point, including the treatment of Natural Gas, but excluding the refining and distribution of petroleum products.
- 1.18. **"Party (Parties)"** signifies the State and/or the Contractor.
- 1.19. **"Operation Perimeter"** signifies the portion of the Contract Area delineated by the perimeter of a Marketable Deposit established in accordance with the provisions of Article 10.1 herein below.
- 1.20. **"Raw Petroleum"** signifies: raw mineral oil, asphalt, ozokerite and any other liquid hydrocarbons at the natural state or obtained from Natural Gas by condensation or extraction, including condensates and Natural Gas liquids.
- 1.21. **"PETROSEN"** signifies la Société des Pétroles du Sénégal [the Petroleum

Company of Senegal] and its successors and transferees.

- 1.22. **"Delivery Point"** signifies the F.O.B. point at the loading terminal of the Hydrocarbons in Senegal and/or any other point mutually agreed upon by the Parties.
- 1.23. **"Annual Project Schedule"** signifies the document describing the Oil Operations to be carried out in accordance with the provisions of Article 16 herein below.
- 1.24. **"Affiliated Company"** signifies:
- a) any company that directly or indirectly controls or is controlled by a company that is a party in the present document;
 - b) or any company that directly or indirectly controls or is controlled by a company that is a party in the present document.

In the present definition, «control» signifies the direct or indirect ownership by a company or any other entity of a percentage of stock or corporate shares sufficient to give rise to voting rights at the general stockholder meeting of another company or to give a determining power in the management of this other company.

- 1.25. **"State Company"** signifies a public establishment, a national company or a Senegalese company created in view of oil operations in which the State has a majority share equity.
- 1.26. **"Third party"** signifies an entity other than an Affiliated Company.
- 1.27. **"Contract Area"** signifies the surfaced defined in Appendix 1 of the present Contract. The surfaced returned by the Contractor shall be considered as no longer comprising the Contract Area. On the other hand, the Operation Perimeter or Perimeters shall form an integral part of the Contract Area during the time they are in effect.

ARTICLE 2

OBJECT and DURATION OF THE CONTRACT

- 2.1. The present Contract is a production sharing contract under the terms of which the State entrusts the provision of all necessary services to the Contractor for the research, and if applicable, the operation of Hydrocarbons which the Contract Area might enclose.

The Contractor shall act solely to carry out and perform the Oil Operations. It shall assign all technical, technological means, equipment and materials and all personnel necessary thereto.

The Contractor shall assume, at its own risks and expense, the entire responsibility for the implementation and the financing of the Oil Operations.

In the event a Marketable Deposit should be discovered in the Contract Area, the production of Hydrocarbons of said Deposit shall be, for the entire period of the Operation with respect to the present Contract, the object of a production sharing between the Parties in accordance with the provisions of Article 22 herein below.

- 2.2. The present Contract specifically establishes the conditions under which the research and the operation of the Marketable Hydrocarbon Deposit shall be carried out and the storage, transport, primary treatment, liquefaction, evacuation of the Hydrocarbons and related substances and/or products deriving therefrom by means of separation or treatment, refining proper being excluded.
- 2.3. The present Contract is entered into for the period of research, including its renewals and extensions, and for the operation period relating to each Marketable Deposit, respectively defined in Articles 5 and 10 herein below.
- 2.4. If, at the end of the research period, including its renewals and extensions, the Contractor has not notified the Minister of its decision to develop a Marketable Hydrocarbon Deposit in accordance with Article 10.1 herein below, the present Contract shall end..
- 2.5. The expiration, the release or the cancellation of the present Contract does not release the Contractor from its obligation with respect to the present Contract created before or on the occasion of said expiration, release or cancellation, which shall be executed by the Contractor.

ARTICLE 3

RIGHTS OF THE OF THE CONTRACTOR IN THE IMPLEMENTATION OF THE OIL OPERATIONS

- 3.1. In accordance with the provisions under the laws and the regulations in effect, in particular the Oil Producers Code and the provisions of the present Contract, the Contractor shall have the right:
 - a) to search for Hydrocarbons within the Contract Area and if necessary, the Operation Perimeters, and to: extract, store, transport, carry out the primary treatment and/or liquefaction, sell, export the Hydrocarbons and the related substances and/or products deriving therefrom via separation or treatment, refining proper being excluded, coming from deposits contained within the Operation Perimeters.

- b) to access any place located within the Contract Area so as to perform Oil Operations.
 - c) to implement any facilities and all work and in a general manner, all deeds and operations necessary for the conducting of the Oil Operations;
 - d) to use water necessary for the Oil Operations, on condition that it not damage the water supply of the inhabitants and the water points for livestock;
 - e) to use the rocks, sand, clay, gypsum, lime and other similar substances, necessary to the conducting of the Oil Operations.
- 3.2. Subject to the authorization of the Minister, which shall not be refused without a duly-founded reason, the Contractor shall have the right to build at its expenses all facilities necessary to the Oil Operations such as – without this list being limitative – roads, pipelines, storage facilities, port facilities both inside and outside the Contract Area.

Said authorization of the Minister may be subject to the use by Third Parties of the surplus capacities of said facilities, on condition that such use does not interfere with the Oil Operations and that said Third Parties pay a fair and equitable compensation to the Contractor.

ARTICLE 4

GENERAL OBLIGATIONS OF THE CONTRACTOR IN THE CONDUCTING OF THE OIL OPERATIONS

- 4.1. The Contractor shall comply with the laws and regulations of the Republic of Senegal and scrupulously comply with the stipulations of the present Contract.
- 4.2. The Contractor shall perform all work necessary for the implementation of the Oil Operations according to the rules of the art in use in the international oil industry.

In particular, the Contractor shall take all necessary steps to:

- a) ensure that all of the facilities and equipment used in the Oil Operations are in good operating condition and are properly maintained and repaired during the period the present Contract is in effect;
- b) avoid Hydrocarbons and sludge or any other product used in the Oil Operations from being wasted and polluting the water tables;

- c) place Hydrocarbons that are produced in storage areas built for this purpose and not remove Raw Petroleum from storage in underground tanks, except temporarily in situations of emergency or with the prior authorization of the Minister;
 - d) ensure the protection of the environment, prevent accidents and limit the consequences thereof, and in particular, prevent, reduce and control the pollution of the environment and if applicable restore the sites and undertake the abandonment project upon completion of each Oil Operation under the conditions established in Article 20 herein below.
- 4.3. All work and facilities erected in the Senegalese marine areas under this Contract shall be:
- a) constructed, indicated and marked with buoys so as to leave at all time and in total safety the free passage for navigation;
 - b) fitted with navigation aids that shall be approved by the proper Senegalese authorities and maintained in good operating condition.
- 4.4. The Contractor shall in particular make it known when implementing the Oil Operation to take all necessary measures for the protection of the environment, in accordance with the provisions of the international agreements related to the pollution of the sea waters by Hydrocarbons and the texts taken for their application.
- 4.5. The Contractor shall compensate and indemnify the State and any person in the event damage might be caused by the Oil Operations or damage that occurred due to the employees or officials of the Contractor during or on occasions of said Operations.
- The State shall in no way be liable for damages, accidents, or disputes related to the Oil Operations.
- 4.6. The Contractor shall sign and have its subcontractors sign all insurance policies in use in the international oil industry relating to the obligations and liabilities for which it is responsible specifically the liability insurance policies with respect to third parties, property damage insurance policies to the property and the environment, and the insurance policies that might be required by the regulations in effect in the Republic of Senegal. The Contractor shall provide to the Minister the certificates proving the signing of said insurance policies; this communication in no way shall commit the responsibility of the State for the event in which, upon the occurrence of an accident, the guarantees or the amount of these insurance policies should prove to be insufficient.
- 4.7. In the event the Contractor should be composed of several entities, the obligations and responsibilities of the latter by virtue of the present Contract

shall be joint and shared, with the exception of provisions otherwise provided in particular pursuant to Article 24 herein below regarding the rights and obligations of PETROSEN.

- 4.8 The Contractor is responsible for opening, within three (3) months after the Entry into Effect Date, an office in the Republic of Senegal and for maintaining it during the time period the present Contract is in effect; said office shall specifically be provided with an agent with the authority to conduct the Oil Operations and to whom any notification regarding the present Contract may be submitted.
- 4.9 The Contractor shall notify the Minister, before the date the present Contract is signed, of the entity designated as operator for the carrying out of the Oil Operations under the responsibility of the Contractor. It shall also submit for its approval within thirty (30) days following the Entry into Effect Date the association agreement entered into among the entities composing the Contractor. Any change of operator shall receive the prior approval of the Minister that may not be refused without duly-founded reasons when the new operator has the technical and financial capacities necessary for carrying out the Oil Operations.

CHAPTER II

REGARDING RESEARCH

ARTICLE 5

DURATION OF THE RESEARCH PERIOD AND RENEWALS

- 5.1. The initial research period related to the Contract Area shall be _____ (__) Contract Years.
- 5.2. The Contractor, if it has fulfilled the project obligations as defined in Article 7 herein below for the current Research Period, shall rightfully obtain, by decree, the renewal of the research period two (2) times for an additional research period of _____ (__) Contract Years each.
- For each renewal, the Contractor shall submit, in accordance with the provisions of the Oil Producers Code, a request to the Minister at least two (2) months before the expiration of the current research period.
- 5.3. If, as of the expiration of the second renewal period, an evaluation project program for a discovery of Hydrocarbons as indicated in Article 9 herein

below is in the process of implementation, the Contractor shall rightfully obtain, by decree, within the estimated surface area of said discovery, an extension of the research period underway for the time necessary for the completion of the evaluation project, without however being able to exceed _____ months.

In this case, the Contractor shall submit an extension request to the Minister at least thirty (30) days before the expiration of the second renewal period and for this same period, the Contractor shall have fulfilled all project obligations defined in Article 7 herein below.

- 5.4. In accordance with the provisions in the Oil Producers Code, the duration of the research time period shall also be extended, if necessary, by decree, in the event of discovery of Hydrocarbons for which the project evaluation program has been executed but has not allowed declaring the latter marketable; the extension period, the area covered and the conditions of such extension are set forth in Article 9 herein below.

ARTICLE 6

SURFACE YIELDS AND RELEASE

- 6.1. Upon the expiration of the initial research period _____, the Contractor shall return at least _____ percent (___%) of the initial surface of the Contract Area.
- 6.2. Upon the expiration of the first renewal period, the Contractor shall return at least _____ percent (___%) of the initial surface area of the Contract Area.
- 6.3. Pursuant to Articles 6.1. and 6.2. hereinabove:
- a) the surfaces abandoned with respect to Article 6.5 herein below and minus surfaces already covered by the Operation Perimeters shall be deducted from the surfaces to be returned;
 - b) the Contractor shall have the right to establish the extent, the form and the localization of the research perimeter which it intends to keep. However, the portion returned shall be a simple geometric form, marked off by North/South, East/West lines or by natural limits;
 - c) a drawing with an indication of the research perimeter that is being kept shall be attached to the renewal request.
- 6.4. Upon the expiration of the research period, the Contractor shall return the remaining surface area of the Contract Area, excluding any surfaces covered by Operation Perimeters.

- 6.5. The Contractor can at any time, subject to prior notice of three (3) months with the exception indicated in Article 10.5, notify the Minister that it waives its rights over all or part of the Contract Area. In the event of partial release, the provisions of Article 6.3. b) hereinabove shall be applicable to the delineation of the returned perimeter.

In any event, no voluntary release during a research period will reduce the project obligations cited in Article 7 herein below for the research period underway or the amount of the corresponding bank bond.

ARTICLE 7

RESEARCH PROJECT OBLIGATIONS

- 7.1. The Contractor shall begin the geological and geophysical work within three (3) months following the Entry into Effect Date.
- 7.2. During the initial research period cited in Article 5.1. hereinabove, the Contractor shall:
- a) carry out at least _____ seismic kilometers (or _____ 3-D seismic square kilometers);
 - b) and perform at least _____ exploratory drill operations. The first drill operation shall start within _____ months following the Entry into Effect Date.
- 7.3. During the first renewal period cited in Article 5.2. hereinabove, the Contractor shall:
- a) carry out at least _____ seismics kilometers (or _____ 3-D seismic square kilometers);
 - b) and perform at least _____ exploratory drill operations.
- 7.4. During the second renewal period cited in Article 5.2. hereinabove, the Contractor shall:
- a) carry out at least _____ seismics kilometers (or _____ 3-D seismic square kilometers);
 - b) and perform at least _____ exploratory drill operations.
- 7.5. Each of the exploratory drill operations provided in accordance with Articles 7.2. through 7.4. hereinabove shall be carried out until the minimum depth of _____ meters (hereinafter called « minimum contract depth »).

However, such drill operations may be stopped at a lesser depth if the

continuation of the drilling, carried out in accordance with the rules of the art in use in the international oil is excluded for one of the following reasons:

- a) the base is encountered at a depth less than the minimum contract depth;
- b) continuation of the drilling presents a clear danger due to the existence of an abnormal layer pressure;
- c) oil formations are encountered the crossing of which requires the laying of piping for their protection not permitting the reaching of the minimum contract depth.

In the event one of the above conditions exists, the Contractor shall, before stopping the drill operation, obtain the prior authorization of the Minister with the assistance of PETROSEN, which may not be refused without a duly-founded reason and the hole shall be – in the event of approval – considered as having been drilled to the minimum contract depth. The ruling of the Minister shall be made known as soon as possible.

- 7.6. If the Contractor, during the first renewal period, either of the initial research period, or the first renewal period, should implement a number of exploratory drill operations greater than the minimum drill obligations provided in Articles 7.2. and 7.3. hereinabove, the excess hole or hole could be postponed to the following research period or periods and be deducted from the project obligations set forth for said period or periods, on condition that at least one exploration hole shall be carried out per renewal period.
- 7.7. Pursuant to Articles 7.2. through 7.6. hereinabove, the holes made within the framework of a project evaluation program shall not be considered as exploration holes and only one well per discovery shall be considered as being an exploration hole.
- 7.8. If at the end of any research period, or in the case of total release or cancellation of the Contract, the research work conducted having not attained the minimum commitments undertaken in Articles 7.2. through 7.4. hereinabove, the Contractor shall pay the State no later than the expiration of the research period in progress a compensation equal to the unpaid balance of the work commitments projected for this period and calculated in accordance with the provisions of Article 7.9. herein below, otherwise the State shall call up the bond provided in Article 7.10. herein below.

Once payment has been made, the Contractor shall be considered as having fulfilled its minimum project obligations with respect to Article 7 of the present Contract; the Contractor may, except in the case of cancellation of the Contract for a major breach of Contract, continue to benefit from the Contract provisions and in the event of an allowable claim, obtain the renewal of the research period.

- 7.9. If the Contractor does not carry out the work provided in Articles 7.2 through 7.4. hereinabove, the compensation cited in Article 7.8. that the Contractor shall pay the State, as payment for non-execution, shall be determined as follows:
- a) if the work provided for in Article 7.3. a) has not been performed, an amount of _____ Dollars;
 - b) if the work provided for in Article 7.4. a) has not been performed, an amount of _____ Dollars;
 - c) if the work provided for in Article 7.2. c) has not been performed, an amount of _____ Dollars;
 - d) per exploration hole not carried out to the minimum contract depth, the amount of _____ Dollars.
- 7.10. On the Entry into Effect Date, the Contractor shall provide an irrevocable bank bond, at first application, acceptable by the Minister, covering its minimum work obligations for the initial research period.

In the event of renewal of the research period, the Contractor shall also provide at the entry into effect of each renewal period, a similar bond covering the minimum project obligations for the renewal period in question.

The amount of the bond shall be calculated by using the amounts in Article 7.9. hereinabove.

Three (3) months after the completion of a seismic program or an exploration hole carried out to the minimum contract depth, the above-mentioned bond shall be, after notification to the Minister, adjusted so as to cover the minimum project obligations of the research period in progress remaining to fulfill, evaluated according to the provisions of the previous paragraph.

If at the end of any research period, or in the event of total release or cancellation of the Contract, the research project having not attained the minimum commitments agreed to in the present Article 7, the Minister shall have the right under the terms of Article 7.8 to call up the bond as compensation for the non-execution of the project commitments that the Contractor had signed.

ARTICLE 8

- 8.1. The Contractor, no later than the first day of each Contract Year, shall pay the following surface area leasing amount:
- a) _____ Dollars per square kilometer and per year during the initial research period;
 - b) _____ Dollars per square kilometer and per year during the renewal period;
 - c) _____ Dollars per square kilometer and per year during the second renewal period and during any extension provided in Articles 5.3. and 5.4. hereinabove.
- 8.2. The surface area leasing amount shall be governed for the entire year according to the extent of the Contract Area held by the Contractor as of the due date of said leasing amount. In the event of a release during the Contract Year, no reimbursement of the already-paid leasing amounts shall be made.
- 8.3. The surface area leasing amounts shall be paid by the Contractor to PETROSEN which has been entrusted by the State with the carrying out of actions necessary for the promotion of the oil investments in Senegal.

ARTICLE 9

EVALUATION OF A DISCOVERY

- 9.1. If the Contractor discovers Hydrocarbons within the Contract Area, it shall immediately notify the Minister thereof and prepare, in accordance with the rules of the art in use in the international oil industry, the tests required to evaluate the Petroleum indicated during the drilling.
- 9.2. If the Contractor wishes to evaluate the above-mentioned discovery, it shall submit to the Minister within six (6) months following the notification of the discovery, a project evaluation program and the corresponding budget. The Minister may not refuse this program without a duly-founded reason.
- 9.3. The Contractor shall then execute the evaluation project of the discovery as diligently as possible in accordance with the established program.
- 9.4. At the end of this evaluation project, which may not be extended beyond the research period cited in Article 5 hereinabove, including the renewals and any extensions, the Contractor shall provide to the Minister within two (2) months, a report containing the technical and economic data on the discovered deposit which will establish according to the Contractor, the marketable character of said deposit. This report shall include in particular the following information:

- the geological and petrophysical information of the deposit;
- the estimated delineation of the extent of the deposit and the corresponding technical proof;
- the results from the project tests conducted or samplings taken;
- an estimate of the reserves and a preliminary economic study for placing the deposit into operation.

9.5. The marketable character of the deposit shall be determined by the Contractor. If the Contractor concludes the marketable character of the duly-evaluated deposit, it shall also submit to the Minister, within six (6) months after the completion of the evaluation project, a development and operation startup plan of the Marketable Deposit in question, which shall in particular contain the following:

- the precise delineation and surface area of the Exploitation Perimeter, within the Contract Area that is currently valid for the Marketable Deposit in question;
- an estimate of the recoverable reserves, proven and probable and of the production profile and a study on the Hydrocarbon recovery methods and the economic development of the Natural Gas;
- the description and the project characteristics necessary for the exploitation startup of the Marketable Deposit such as the number of wells, the facilities required for production, treatment, storage and the transport of the Hydrocarbons;
- the schedule for implementing the above-mentioned project and the date forecast for production startup;
- an environmental impact study indicating any effects from the projected work on the environment, the conditions under which they satisfy the environment concerns and a preliminary plan of abandonment or restoration of the sites in question at the end of the exploitation;
- an estimate of development costs and the corresponding exploitation, and an economic study proving the marketable character of the Deposit.

Within three (3) months following the acceptance of the development plan and the exploitation startup, the Minister may propose revisions or modifications to said plan and the provisions of Article 16.2 of the Contract

shall apply *mutatis mutandis* [with the necessary changes] to said development plan concerning its adoption within three (3) months after it is submitted.

- 9.6. If the Marketable Deposit extends beyond the limits of the Contract Area, the Minister may, if necessary, require that the Contractor exploit said deposit in conjunction with the contractor of the adjacent contract area or areas according to the provisions of a so-called «*unitization*» agreement.

The Contractor shall submit to the Minister for his approval the development and exploitation startup plan of the Marketable Deposit prepared in association with the contractor of the adjacent contract area within six (6) months after the Minister has formulated his requirement.

If the development and exploitation startup plan is not submitted to the Minister within the above-indicated time period, or if it was not adopted by the Minister, the latter may prepare a development and exploitation startup plan in accordance with the rules of the art in use in the international oil industry. Said plan shall be adopted by the Contractor if the terms established by the Minister do not have the purpose of reducing the economic profitability of the Contractor as resulting from the Contract or imposing on the Contractor an investment significantly higher than that which he would normally have had to endure if he have had to ensure the development and startup of exploitation by itself.

- 9.7. The Minister can request the Contractor to abandon the surface delineating a discovery of Hydrocarbons if the Contractor:
- a) has not begun the evaluation project of the discovery within two (2) years after the date of notification to the Minister of said discovery mentioned in Article 9.1 hereinabove;
 - b) does not consider the deposit as being marketable within a time period of eighteen (18) months after the completion of the evaluation project, except in the case of application of the provisions of Article 9.8. herein below.

Any surface thus returned shall be deducted from the surfaces to be returned by way of Article 6 hereinabove and the Contractor shall loose any right over the Hydrocarbons that could be produced from this discovery.

- 9.8. If, at the end of the evaluation project, the Contractor establishes in the report mentioned in Article 9.4. hereinabove that the Hydrocarbon deposit object of the discovery is not exploitable commercially in the immediate future but becomes so, he may, upon request, obtain an extension of the research period involving the presumed extension of said deposit the purpose of which is to grant him a withholding period of said deposit measured from the date the signed report was submitted and equal:

- a) to three (3) years in the event of a discovery of a Raw Petroleum deposit;
- b) to five (5) years in the event of a discovery of non-associated Natural Gas deposit.

During said retention period, the Contractor shall provide to the Minister within sixty (60) days after the end of each Civil Year a report showing the marketable character or not of the deposit in question. He shall also, if it is a non-associated Natural Gas deposit, update the market study of the potential outlets of said Gas.

- 9.9. If required, the Contractor, may according to the terms set forth by the Oil Producers Code, obtain during the research period a temporary exploitation authorization, in particular to conduct long-term production testing.

At the end of said testing, the Contractor shall supply to the Minister an evaluation report similar to that mentioned in Article 9.4 hereinabove, that will indicate the results and the interpretations of the tests and an estimate of the long-term production profile of the deposit and of the best possible mode of recovery.

CHAPTER III

REGARDING THE EXPLOITATION

ARTICLE 10

DURATION OF THE EXPLOITATION PERIOD

- 10.1. If a discovery of Hydrocarbons is declared commercially exploitable, the Contractor shall demand, on the date the development and the exploitation startup plan is submitted for the Marketable Deposit in question, and obtain by decree, in accordance with the provision of the Oil Producers Code, the authorization of exploitation with respect to the Exploitation Perimeter of said Deposit granted for a duration of twenty-five (25) years and involving the extent of the Marketable Deposit within the Contract Area that is currently valid.
- 10.2. Upon the expiration of the period of twenty-five (25) years stipulated in Article 10.1. hereinabove, the exploitation period of the Exploitation Perimeter shall be renewed by decree, upon the request of the Contractor, for an additional period of ten (10) years, renewable at least once, on condition that the Contractor has fulfilled all its contract obligations and proves that a commercial production based on the Exploitation Perimeter is still possible

at the expiration of the initial period of exploitation or the first renewal.

- 10.3. The Contractor shall startup the development project of a Marketable Deposit no later than six (6) months after the granting of the Exploitation Perimeter and shall pursue them diligently.
- 10.4. In particular, the Contractor shall:
- a) apply to the exploitation startup of a Marketable Deposit the cleanest possible methods in order to avoid losses of energy and industrial products;
 - b) ensure the preservation of the deposit and the best possible economic performance in Hydrocarbons;
 - c) conduct studies for assisted recovery as soon as possible and use such processes if they lead to an improvement of the ultimate recovery rate of Hydrocarbons;
 - d) periodically conduct tests and measures on each well in production so as to control the proper exploitation of the Marketable Deposit.
- 10.5. Any release request, in whole or in part, to an Exploitation Perimeter submitted by the contractor with an advance notice of one (1) year will be favorably examined if it has satisfied all these obligations and promises to execute any work which it might be ordered to do by the Minister in the interest of public safety, the preservation of deposits and the water tables and the protection of the environment, in accordance with the rules of the art in use in the international oil industry.

The above-mentioned advance notice shall be accompanied by the list of measures that the Contractor undertakes to implement at the time of its release and this release shall only become effective after the proper execution of the work that may have been ordered by the Minister.

ARTICLE 11

PRODUCTION PROGRAMS

- 11.1. The Contractor undertakes to produce on a yearly basis reasonable quantities of Hydrocarbons from each Marketable Deposit according to the rules of the art in use in the international oil industry, mainly taking into consideration the rules of proper preservation of the deposits and the best possible recovery of the Hydrocarbon reserves under economic conditions.
- 11.2. In the case of production, the Annual Project Schedule mentioned in Article 16 herein below that the Contractor must submit, before the first (1st) October of each Civil Year, to the Minister will include for each Marketable

Deposit, the production program and the corresponding budget prepared for the following Year.

- 11.3. The Contractor shall attempt to produce during each Civil Year, the quantities estimated in the production program defined hereinabove.

ARTICLE 12

NATURAL GAS

- 12.1. All the provisions of the Contract shall apply *mutatis mutandis* [with the necessary changes] to Natural Gas subject to the special provision of the present article.

- 12.2. All quantities of Associated Natural Gas that, according to the evaluation of the Contractor could not be economically reinjected, or used in the Oil Operation, or treated for sale, cannot be burned by the Contractor without the prior approval of the Minister which may not be refused if the temporary burning of the Gas is in accordance with the rules of the art in use in the international oil industry.

In this case, the Contractor shall, except in cases of emergency, notify the Minister at least two (2) months in advance and provide the necessary proof showing in particular that all or part of this Gas cannot be usefully and economically used to improve the best possible economic rate of recovery of Raw Petroleum by reinjection in accordance with the provisions of Article 10.4 hereinabove or any other use that could normally be required.

- 12.3. If the Contractor decides:
- a) to burn the Associated Natural Gas in accordance with the provisions of Article 12.2. hereinabove;
 - b) or if the Contractor decides to not exploit a discovery of Non-associated Natural Gas;

the State shall have the right to exploit and remove said Natural Gas, without paying any compensation to the Contractor. The State shall assume in this case if applicable all the additional costs necessary for the production, the treatment and the removal of said Natural Gas.

- 12.4. If the Contractor considers the Natural Gas as commercially exploitable, it may in particular sell the Natural Gas that it produces to the State for the local consumption needs of the Republic of Senegal at competitive prices with other replacement products but also for other industry uses at prices suitable to the Parties.

ARTICLE 13

MEASUREMENT OF THE HYDROCARBONS

- 13.1. The Contractor shall measure, at a point mutually agreed upon by the Parties, all the Hydrocarbons produced, after extraction of water and related substances, by using, according to the approval of the Ministry, the equipment and measuring procedures in accordance with the methods in use in the international oil industry. The Ministry shall have the right to examine these measures and to inspect the equipment and procedures used.
- 13.2. If during the exploitation, the Contractor wishes to modify said equipment and procedures, it shall obtain the prior approval from the Minister.
- 13.3. When equipment or procedures used have led to an overestimate or an underestimate of the quantities measured, the error shall be considered as existing since the date of the last calibration of the equipment, unless otherwise can be proven and the appropriate adjustment shall be implemented for the corresponding period.

ARTICLE 14

TRANSPORT OF HYDROCARBONS

- 14.1. The Contractor shall have the right to transport or have transported the products of its exploitation to points of storage, treatment, loading or wholesale consumption, all the while maintaining ownership, under conditions established by the Oil Producers Code.
- 14.2. The authorization for transport shall be granted under law, upon their request, either to the Contractor, or individually to each of the companies forming the Contract. The approval by the Minister of a pipeline project, as indicated in Article 39 of the Oil Producers Code, may not be refused if the project complies with the current regulations and makes it possible to ensure the transport of the products extracted under the best possible technical, economical and environmental conditions.
- 14.3. In the event of several discoveries of Hydrocarbon within the same geographical region, the Contractor may come to a friendly agreement with the other exploiting entities for the construction and/or common usage of pipeline installations making it possible to evacuate all or part of their respective productions. All protocols, agreements or contracts resulting therefrom shall be submitted for the prior approval of the Minister.

Lacking a friendly agreement, the Minister may request that the Contractor and the other exploiting entities join forces for the construction and/or common usage, under the best possible technical and economic conditions of facilities or pipelines, on condition that this demand may not be either for reducing the economic profitability of the Contractor such as it results from the present Contract or imposing a significant investment for the Contractor in particular greater than that which it would normally have had to endure if it had had to ensure the implementation of the project by itself.

ARTICLE 15

LOCAL DEMAND FOR RAW PETROLEUM

- 15.1. The Contractor undertakes the production of Raw Petroleum in the Republic of Senegal to be sold to the State by priority, the share needed to satisfy the domestic consumption needs of the country, equal at a maximum to the percentage that the quantity of Raw Petroleum produced by the Contractor represents with respect to the total quantity of Raw Petroleum produced in the Republic of Senegal.
- 15.2. The Minister shall make known in writing no later than October first (1st), the quantity of Raw Petroleum that it chooses to buy, in accordance with the present article, during the following Civil Year. After the deliveries have been made to the State or to the beneficiary designated by the Minister, by quantities reasonably equal and at regular time intervals during said Year, according to the ways and means established by agreement of the Parties.
- 15.3. The Contractor shall sell the Raw Petroleum to the State at a priced established in accordance with the provisions of Article 21 hereinbelow with regard to determining the "current international market price". This price shall be payable in Francs CFA at the exchange rate with respect to the Dollar by the Central Bank as of the payment date established sixty (60) days after delivery.

CHAPTER IV

JOINT PROVISIONS REGARDING RESEARCH AND EXPLOITATION

ARTICLE 16

ANNUAL PROJECT SCHEDULE

- 16.1. The Contractor shall submit to the Minister, within thirty (30) days following the Entry into Effect Date of the Contract, the Annual Project Schedule and the corresponding Budget for the Civil Year in progress.

Three (3) months before the expiration of each Civil Year, the Contractor shall submit to the Minister the Annual Project Schedule and the corresponding Budget forecast for the following Civil Year.

The Annual Project Schedule and the corresponding Budget shall be subdivided among the various research, evaluation, development and production activities.

- 16.2. The Minister may not refuse the Annual Project Schedule and the corresponding Budget without a duly-founded reason. However, the Minister may propose revisions or modification to the Annual Project Schedule by making these known to the Contractor within thirty (30) days following the acceptance of this Program.

In this case, the Minister and the Contractor shall meet as soon as possible to study the revisions and modifications requested and establish by mutual agreement the Annual Project Schedule and the corresponding Budget in their final form, in accordance with the rules of the art in use in the international oil industry. The date for adopting the Annual Project Schedule and the corresponding Budget shall be the date of the above-mentioned joint agreement.

If the Minister does not notify the Contractor of its wish to revise or modify within the above-mentioned thirty (30) days, said Annual Project Schedule and the corresponding Budget shall be considered as being adopted by the Minister on the expiration date of said time period.

- 16.3. Results deriving during the carrying out of the project in which special circumstances might justify changes to the Annual Project Schedule. In this case, after notification to the Minister, the Contractor may carry out such changes on condition that the fundamental objectives of said Annual Project Schedule are not modified.

ARTICLE 17

INSPECTION OF OIL OPERATIONS

- 17.1. The Oil Operations shall be subjected to the inspection of the State. Its duly-qualified officials shall have the right to monitor the Oil Operations and to inspect, at reasonable intervals, the facilities, equipment, material, recordings and corresponding records of the Oil Operations.

- 17.2. The Contractor shall notify the Ministry, before their implementation, of the Oil Operations such as geological or geophysical campaign, probing or well testing, so that the qualified officials of the Ministry may be present at said operations without however causing any delay in the normal progress of the operations.

The Contractor shall keep the Ministry informed of the progress of the operations, and if necessary inform it of any accidents that have occurred.

For the purposes of permitting the exercising of rights as indicated in Article 17.1 hereinabove, the Contractor shall provide to the representatives of the Ministry a reasonable assistance regarding the means of transport and lodging, and expenses for transportation and lodging directly linked to the monitoring and to the inspection shall be at the expense of the Contractor.

- 17.3. The Ministry may demand that the Contractor carry out, at its own expense, all work deemed necessary to ensure the safety, hygiene and protection of the environment during the Oil Operations.
- 17.4. In the event the Contractor should decide to abandon a hole, it shall notify the Ministry thereof at least seventy-two (72) hours before the abandonment.

ARTICLE 18

INFORMATION AND REPORTS

- 18.1. The Contractor shall keep, in accordance with the rules of the art in use in the international oil industry, all data and information resulting from the Oil Operations and in particular, the recordings, measurement and geophysical interpretation reports, geological reports, borehole loggings and drilling reports and tests and shall supply a copy to the Ministry as soon as possible of all data, information, reports and interpretations, obtained or prepared during the Oil Operations.

All maps, sections, profiles and any other documents or geophysical or geological recordings shall be supplied to the Ministry on a transparent medium for subsequent reproduction and in digital form, if necessary.

The Contractor shall supply to the Ministry a representative portion of the core samples, drill cuttings, and samples of fluids produced during the tests or production trials.

Upon expiration, or in the event of a release or cancellation of the Contract, the original document, including the magnetic tapes shall be transferred to the Ministry.

- 18.2. The Contractor shall supply to the Ministry the following periodical reports:

- a) a daily report on the progress of the drilling and on the production, and a weekly report on the geophysical work in progress;
- b) within fifteen (15) days following the end of each month, a monthly report on the Oil Operations underway;
- c) within thirty (30) days following the end of the months of March, June, September and December, a quarterly report regarding the Oil Operations carried out during the past quarter and a detailed report of expenses incurred;
- d) within sixty (60) days following the end of each Civil Year, a report regarding the Oil Operations carried out during the past Civil Year, and a detailed report of expenses incurred and a list of the personnel employed by the Contractor.

- 18.3. The Ministry may at any time access technical and economic files of the Contract with respect to the Oil Operations, of which at least one copy shall be kept in the Republic of Senegal.

The Contractor undertakes to supply to the Ministry upon its request, all reports, studies, recordings, measuring results, tests, trials, interpretations, documents and information enabling the monitoring of the execution of the Oil Operations.

- 18.4. All reports and information supplied to the Ministry by the Contractor shall be, if they bear the disclosure "Confidential", considered as such during a period of three (3) years from the time they are obtained. The State may make these documents known to any individual employed by it or working on its behalf. The above-mentioned period confidentiality may be increased if the Minister so deems necessary.

However, the Minister may use the information supplied by the Contractor for the purpose of preparing and publishing any report required by law and any report and study of general interest.

- 18.5. Notwithstanding the provisions of Article 18.4 hereinabove, the Minister may place any information in the public domain regarding the area on which the Contract no longer has exclusive rights subsequent to its expiration, of the release, withdrawal or cancellation of the Contract over said area.

ARTICLE 19

PERSONNEL AND TRAINING

- 19.1. The Contractor may from the start of the Oil Operations ensure the priority

use, with equal qualification, the citizens of the Republic of Senegal and contribute to the training of this personnel in order to enable their promotion to any positions as qualified workers, specialty officials, clerks and managers.

At the end of each Civil Year, the Contractor shall prepare, in agreement with the Ministry, a recruitment plan and a training plan to achieve an increased and broader participation of the Senegalese personnel in the Oil Operations.

- 19.2. Particularly, in order to facilitate the employ of Senegalese personnel, the Contractor shall provide, in view of the satisfaction of its needs, to the training and the advanced training of its personnel employed for the Oil Operations. The Contractor shall also attempt to provide for the training and advanced training of the personnel of the Ministry and of PETROSEN.

The Contractor shall organize this training and advanced training, according to a plan established by mutual agreement with the Minister and the General Manager of PETROSEN, either within its company, or in other enterprises, by means of internships or exchanges of personnel, both in Senegal and abroad.

For these purposes, the Contractor shall devote to the training plan of the Ministry's personnel and that of PETROSEN a minimum of _____ Dollars per year during the research period, and starting from the granting of an Exploitation Perimeter, a minimum of _____ Dollars per year.

- 19.3. Foreign personnel employed by the Contractor and its subcontractors for the needs of the Oil Operations shall be authorized to enter and stay in Senegal for the required duration. The Ministry shall assist the Contractor for the issuance and the renewal of the administrative documents necessary for the entry and stay in the Republic of Senegal of said personnel and their families, in accordance with the current legislation.

ARTICLE 20

ABANDONMENT AND TRANSFER OF ASSETS UPON THE EXPIRATION

- 20.1. The Contractor shall, no later than six (6) years before the expected expiration of the Exploitation Perimeter, or upon the date on which _____ percent (%) of the proven and probable reserves of Hydrocarbons with respect to an Exploitation Perimeter have been produced, if this date is before, submit for the approval of the Minister an abandonment plan of the area in question accompanied by an estimate of the abandonment costs, which shall comply with the rules of the art in use in the international oil industry.

The Parties shall meet within three (3) months following the submission of said estimate to reach an agreement on its adoption after any revisions and to jointly decide on the type and the amount of the guarantees to be provided by the Contractor to cover the estimated abandonment costs, which may either be a periodical contribution to a sequestered account or the supply of a bank bond of a guarantee of Affiliated Companies acceptable to the Minister. Notwithstanding the creation of said guarantees, the actual abandonment costs shall be the exclusive responsibility of the Contractor. During the above-mentioned meeting, the Parties shall also agree on the annual provisions for the abandonment costs which shall be Oil Producer Costs recoverable pursuant to Article 22.1 hereinbelow and tax deductible for the determination of the profit submitted to tax on corporations.

- 20.2. Upon the expiration or the cancellation of the Contract, or in the case of surface area returns, the assets belonging to the Contractor and necessary for the Oil Operations in the area returned shall become the property of the State at no charge, unless they must be used by the Contractor for the exploitation of other Marketable Deposits located in Senegal. The purpose of the transfer of ownership shall be for involving, if necessary the canceling out of any surety or guarantee involving these assets, or that these assets comprise.

If the Minister decides not to use all or part of said assets, it may demand the Contractor to remove them at the latter's expense, however, the abandonment project must be carried out pursuant to the provisions in Article 20.1 hereinabove.

- 20.3. During the time the Contract is in effect, the probes acknowledged by joint agreement as unsuitable for the pursuit of research or the exploitation shall be taken up by the State, upon the request of the Ministry for the purposes of converting them into water wells. The Contractor shall then be responsible for leaving in place the pipes over the requested height and possibly the well-head and to perform the sealing of the probe in the requested area.

CHAPTER V

ECONOMIC AND TAX PROVISIONS

ARTICLE 21

PRICE OF RAW PETROLEUM AND NATURAL GAS

- 21.1. The unit sales price of the Raw Petroleum taken into consideration for the needs of the Contract shall be the actual F.O.B. sales price faithfully reflecting the current international market price as defined hereinbelow, at the Delivery Point.
- 21.2. The actual F.O.B. sales price, calculated each quarter of the Civil Year shall be the weighted average of the priced obtained by the Contractor and the State for sales contracts to Third Parties. Commissions paid at the time of sales to Third Parties shall not exceed the values in use in the international oil industry.

If such sales to Third Parties are not carried out during the quarter in question, or represent less than thirty percent (30%) of the total sales, the value shall be established by comparison with the "current international market price" during the quarter in question of the Raw Petroleum produced in Senegal and in the neighboring producer countries, considering the differentials of quality, density, transport and payment.

By "current international market price", it shall be understood a price such that it enables the Raw Petroleum sold to attain, at the sites of treatment or consumption, a competitive price equal to that practiced for Raw Petroleum of the same quality coming from other regions and delivered under comparable commercial conditions, both from the quantity standpoint as well as the destination and the use of the Raw Petroleum, taking into account the market conditions and the type of contracts.

- 21.3. A commission presided over by the Minister, or its delegate and including representatives of the Administration and the representatives of the Contractor shall meet upon the request of its president, to establish according to the stipulations of Article 21.2. hereinabove, the actual F.O.B. sales price of the Raw Petroleum produced, applicable to the quarter of the lapsed Civil Year. The decisions of the commission shall be made unanimously.

- 21.4. If no decision is made by the commission within thirty (30) days after the end of the quarter of the Civil Year in question, the actual F.O.B. sales price of the Raw Petroleum produced shall be definitively established by an internationally acknowledged expert, appointed by agreement by the Parties, or, lacking agreement, by the International Center of Expertise of the International Chamber of Commerce.

The expert shall establish in accordance with the stipulations of Article 21.2 within twenty (20) days after his appointment. The fees for the expertise shall be equally shared by the Parties.

- 21.5. While waiting for the price to be established, temporary actual F.O.B. sales price applicable for a quarter of the Civil Year shall be the actual F.O.B. sales price of the previous quarter. Any adjustment necessary shall be implemented no later than thirty (30) days after the establishment of the actual F.O.B. sales price for the quarter in question.
- 21.6. For the needs of the present Contract, the value of the Natural Gas sold or transferred to Third Parties or to the State shall be the actual price obtained by the contractor for the sale of said Natural Gas.

For sales or transfer of Natural Gas other than those of the Third Parties or to the State, the value shall be determined by agreement between the Minister and the Contractor by particularly taking into consideration, the principles then in effect internationally for the marketing of the Natural Gas, the quality and the quantity of Natural Gas and the price of the Senegalese Natural Gas sold to Third Parties under comparable market conditions.

ARTICLE 22

RECOVERY OF PETROLEUM COSTS AND PRODUCTION SHARING

- 22.1. In the event of Hydrocarbons production based on the Contract Area, the Contractor shall have the right to receive free-of-charge, each Civil Year, in view of the recovery of its Oil Producer Costs, a maximum share of _____ percent (____%) of the production of the Contract Area which has not been lost or used for the needs of the Oil Operations.

If, during a Civil Year, the value of the above-mentioned maximum production share, determined according to the provisions of Article 21 hereinabove, is greater than the Oil Producer Costs to be recovered during said Year, the Contractor shall receive only such lesser percentage of the production which is necessary and sufficient to recover the Oil Producer Costs.

22.2. The Oil Producer Costs shall be recoverable in the following manner:

- a) The Oil Producer Costs incurred during the implementation of the Oil Operations with respect to the Contract Area, with the exception of the costs relating to fixed assets, and those pursuant to Article 4 of Appendix 2 to the present Contract, shall be recovered during the Civil Year in which the Oil Producer Costs were incurred or the Civil Year during which the first Commercial Year of the Contract Area is placed in production, if the latter year is after the Civil Year in which Costs were incurred.
- b) The Oil Producer Costs relating to fixed assets shall be recoverable at the annual amortization rate stipulated in Article 4 of Appendix 2 of the present Contract. The recovery of the Costs of the fixed assets corresponding to an Exploitation Perimeter shall begin the Civil Year during which the fixed assets were implemented or the Civil Year during which the production on said Exploitation Perimeter begins, if the latter year is after the Civil Year in which said fixed assets were implemented.
- c) If the Oil Producer Costs recoverable during any Civil Year exceed in value the limit fixed in Article 22.1 hereinabove, the surplus shall be brought forward to the Civil Year or Years following until the recovery of said Oil Producer Costs.

22.3 The Contractor shall receive each Civil Year, by way of compensation, a percentage of the Hydrocarbon production of the Contract Area remaining after deduction of the Hydrocarbon share intended for the recovery of the Oil Producer Costs of said Year, in accordance with the provisions of Articles 22.1 and 22.2 hereinabove.

For this purpose, said production remaining shall be shared by the State and the Contractor by way of the value of the relationship "R" hereinafter defined, in the following manner:

"R" Value	Share of the State	Share of the Contractor
less than 1 % %
from 1 to 2 % %
from 2 to 3 % %
more than 3 % %

The "R" relationship designates the "Net Accumulated Earnings" relationship over "Cumulated Investments", the determination of which is based on the accumulated amounts from the Entry into Effect Date until the end of the most recent Civil Year, in which:

- "Net Accumulated Earnings" designates the amount of profits after taxes on corporations calculated according to the Accounting Procedure:

- "Accumulated investments" designates the amount of research, evaluation and development expenses calculated according to the Accounting Procedure.
- 22.4 The recovery of Oil Producer Costs and the production sharing shall be established every quarter of the Civil Year on a cumulative basis. The recovery of the Oil Producer Costs and the production sharing shall be established each quarter of Civil Year on a cumulative basis. If the production or the Oil Producer Costs recoverable are not definitively known as of the calculation date, estimates made based on the Annual Project Schedule and the Budget of the Civil Year in question as indicated in Article 16 hereinabove, shall be used. No later than two (2) months after the end of each Civil Year, the amounts of the recovery of the Oil Producer Costs and the production sharing for said Civil Year shall be determined as well as the necessary adjustments.
- 22.5. In the event of Non-Associated Natural Gas Production, the Oil Producer Costs corresponding to this production shall be recoverable based on the latter only unless the Parties agree otherwise.
- 22.6. Pursuant to the provisions of the present article, the value of the Hydrocarbons produced shall be that determined in Article 21 hereinabove.
- 22.7. Unless otherwise agreed, the Contractor shall acquire the ownership of the Hydrocarbons at the Delivery Point to which it has right under the present Contract. However, the responsibility of the Contractor shall remain committed before this transfer of ownership, in accordance with the provisions of Article 4.5 hereinabove.
- 22.8. The State shall decide whether the production share coming to it, after the recovery of the Oil Producer Costs and the compensation of the Contractor, shall be taken in kind or converted into currency.

If the State decides to take its production share in kind, in all or in part, the Minister shall notify the Contractor thereof at least three (3) months before each six-month period of the Civil Year indicating the exact quantity it wishes to take during the following Civil Year six-month period.

If the State decides to convert into currency its production share in all or in part, the Contractor shall pay it the value of this production calculated in accordance with the provisions of Article 21 hereinabove. This payment shall be made on a monthly basis within thirty (30) days following the end of the month to which the payment applies and the Contractor shall acquire the ownership of said production share at the Delivery Point.

It is understood that the Contractor shall not enter into any sales commitments of the State's production share of which the duration is more than six (6) months, without the written consent of the Minister.

- 22.9. For the purposes, of the tax laws of the Republic of Senegal, the quantity of Hydrocarbons that the State shall receive in kind or in currency during each Civil Year pursuant to Article 22.3 hereinabove, shall include the portion necessary to pay the taxes on the companies owed by the Contractor to Senegal with respect to the present Contract.

The State undertakes to pay this portion of the tax on corporations for and on behalf of the Contractor and to submit to the latter the official certifications of such payments.

ARTICLE 23

TAX SYSTEM

- 23.1. The Contractor is subject to taxation on companies as provided in the general Tax Code and on the Oil Producers Code.

The net profits that the Contractor draws from the entirety of its Oil Operations in the territory of the Republic of Senegal as defined in the General Tax Code, unless otherwise stated in the Oil Producers Code, are subject to a tax on corporations of thirty-five percent (35 %) calculated on said net profits.

The Contractor holds per Civil Year, in accordance with the regulations in effect in Senegal and the provisions of the present Contract, a separate accounting of the Oil Operations which enables the establishing of a profits and losses account and a balance sheet indicating both the results of said operations as well as the credit and liability items assigned thereto or directly relating thereto.

In the event the Contractor is composed of several entities, their tax obligations are separate.

In accordance with the provisions of Article 22.9 hereinabove, the Contractor shall not be subjected to any payment to the State with respect to tax on corporations. From the standpoint of the tax authorities of the Republic of Senegal, the share of the Hydrocarbons that the Contractor receives pursuant to Articles 22.1 and 22.3 hereinabove, is considered as representing the recovery of the Oil Producer Costs and the net profit due the Contractor after taxes on corporations.

- 23.2. The Contractor, its shareholders and its Affiliated Companies shall benefit from the tax advantages pursuant to Article 48 of the Oil Producers Code.
- 23.3. Furthermore, in accordance with the provisions of Article 48d) of the Oil Producers Code, the Contractor shall be exempted from any tax on the sales or related tax. Foreign enterprises or Senegalese enterprises with foreigners

have entered into a Contract with the Contractor for the needs of the Oil Operations shall themselves be exonerated of any tax on sales or related tax on all acquisitions of goods and services strictly and directly necessary for the implementation of said Contract.

By related tax, it is understood any tax or incidental tax levying, in particular by means of withholding tax at the source, owed to the Republic of Senegal on compensations paid to foreign enterprises.

- 23.4. Foreign enterprises with no stable establishment in Senegal and taking part exclusively within the framework of contracts entered into with the Contractor for the needs of the Oil Operations shall be exempted of any tax on corporations in Senegal.

ARTICLE 24

SHARE EQUITY OF THE STATE

- 24.1. Beginning from the Entry into Effect Date of the present Contract, PETROSEN has in the Contract Area a share of the undivided interests of _____ percent (___ %) conferring upon it, in the proportion of its share equity, all rights and obligations of the present Contract, subject to the provisions of the present Article 24.

The share equity of PETROSEN indicated in the previous paragraph shall not entail for the latter, during the entire duration of the research period, the participation in the expenses and charges incurred by the Contractor (including that regarding any indemnity in the event of noncompliance, the submission of a bank bond, surface area leasing amounts and the training expenses pursuant to Articles 7.8, 7.10, 8 and 19.2 hereinabove respectively), the share of PETROSEN being endured by the other entities composing the Contractor, each on a pro rated basis of its share equity percentage.

- 24.2. When the exploitation authorization with respect to an Exploitation Perimeters indicated in Article 10.1 hereinabove goes into effect, PETROSEN shall have the option to increase its share equity to the risks and the profits of the Oil Operations in said Exploitation Perimeter, in accordance with the following provisions:
- a) within an Exploitation Perimeter, the share equity of PETROSEN may reach a maximum of _____ percent (___ %);
 - b) PETROSEN shall notify the Contractor of its decision to exercise its option to increase its share equity and the percentage of share equity chosen no later than six (6) months after the date the authorization relating to the Exploitation Perimeter authorization goes into effect;

- c) the share equity of PETROSEN relating to an Exploitation Perimeter shall take effect beginning on the date the exploitation authorization in question goes into effect;
- d) the entities, other than PETROSEN, composing the Contractor shall transfer to PETROSEN, each on a pro rated basis of its share equity as of that moment, a percentage of their share equity, of which the total shall be equal to the amount of increase in the share equity decided by PETROSEN;
- e) PETROSEN shall have the right to exercise or not exercise its option to increase share equity separately for each Exploitation Perimeter.

24.3. Starting from the date its participation indicated in Article 24.2.c) hereinabove becomes effective, PETROSEN:

- a) shall participate on a pro rated basis of its participation in the expenses corresponding to the Exploitation Perimeter in question;
- b) shall possess and remove its co-payment of the production obtained based on said Exploitation Perimeter.

PETROSEN shall not be subject, by way of its share equity, to reimburse any part of the expenses incurred before the entry into effect of the exploitation authorization related to the Exploitation Perimeter, or to contribute to the training expenses.

In the event PETROSEN should exercise its option to increase its share equity pursuant to Article 24.2. hereinabove, it shall reimburse in Dollars to the Contractor, with no interest, on a pro rated basis of the increase of its share equity, the expenses incurred relating to the Exploitation Perimeter in question between the date of entry into effect of the exploitation authorization and the notice of exercising of its option. Said reimbursement shall be carried out within sixty (60) days following said notification date.

24.4. The respective rights and obligations of PETROSEN and the other entities composing the Contractor shall be established in the association agreement pursuant to Article 4.9 hereinabove.

24.5. PETROSEN, on one hand, and the other entities composing the Contractor on the other, shall not be jointly and mutually responsible for the obligations resulting from the present Contract.

Accordingly, PETROSEN shall be individually responsible with regard to the State for its obligations as provided for in the Contract.

The State at all times guarantees the execution of the obligations of PETROSEN resulting from the present Contract. Any failure of PETROSEN

in the execution of any of its obligations may not be considered as a failure of the Contractor and may under no circumstances be invoked by the State to cancel the present Contract.

- 24.6. The State reserves the right to have its share equity exercised pursuant to the present Article 24 by a State Corporation other than PETROSEN.

ARTICLE 25

ACCOUNTING AND VERIFICATION

- 25.1. The Contractor shall keep its accounting in accordance with the regulations in effect and according to the provisions of the Accounting Procedure established in Appendix 2 attached hereto which is an integral part of the present Contract.
- 25.2. Accounting records and books shall be kept in French and denominated in Dollars. These records shall in particular be used to determine the recovery of the Oil Producer Costs, the gross earnings, the operating costs, the net profits and the preparation of the Contractor earnings statement. By way of information, the profits and losses accounts and the balance sheets shall also be kept in Francs CFA.
- 25.3. Account records and books shall be materially proven by detailed documents proving the expenses and receipts of the Contractor in accordance with the provisions and obligations of the Contract.
- 25.4. The State, after having been informed by the Contractor in writing, shall have the right to examine and check, by its own officials or experts of its choosing, the account records and books relating to the Oil Operations. It shall have five (5) years following the end of the year in question to conduct this examination or this verification and submit to the Contractor its objection for any contradiction or errors observed during the examination or verification.

The lack by the State to make a claim within the above-mentioned five (5) years shall end any objection, dispute or claim on behalf of the State for the year in question.

ARTICLE 26

IMPORTS AND EXPORTS

- 26.1. The Contractor shall have the right to import into the Republic of Senegal on its behalf or on behalf of its subcontractor any materials, equipment, machines, apparatus, automobiles, airplanes, spare parts and consumable material necessary for the Oil Operations.

The above-mentioned goods shall be imported by the Contractor in accordance with the provisions of Article 49 of the Oil Producers Code.

Furthermore, the expatriate employees and the families, hired to work in the Republic of Senegal on behalf of the Contractor or its subcontractors, shall have the right to import into the Republic of Senegal, when becoming settled therein, their personal effects, including their car.

- 26.2. The Contractor and its subcontractors undertake to carry out the imports defined hereinabove only in so far as said goods are not available in the Republic of Senegal in equal quantity, quality, price, time frame and payment conditions, unless special technical emergencies or requirements submitted by the Contractor or its subcontractors.

The Contractor and its subcontractors undertake to grant the preference to Senegalese enterprises for all construction, supply or service contracts with equal conditions in terms of quantities, quality, price, time fame and payment conditions.

For all contracts of a value greater than one hundred thousand (100,000) Dollars, the Contractor shall select its subcontractors by means of invitations to bid with Senegalese and foreign companies or by means of any other appropriate method in use in the international oil industry.

- 26.3. The Contractor and its subcontractors, and their foreign employees and their families, shall have the right to re-export out from the Republic of Senegal free of any exit fees and taxes, the goods imported pursuant to Article 26.1 hereinabove which would no longer be necessary for the Oil Operations, subject to the application of provisions provided in Article 20 hereinabove.

- 26.4. The Contractor and its subcontractors shall have the right to sell in the Republic of Senegal, on condition of informing the Minister in advance thereof, the goods that they imported when they are no longer necessary to the Oil Operations. In this case, it shall be the responsibility of the seller to fulfill all the procedures required by the current regulations and to pay all fees and taxes applicable as of the transaction date, unless the above-mentioned goods are transferred to enterprises carrying out Oil Operations in the Republic of Senegal.

- 26.5. For the entire duration of the Contract, and subject to the provisions in Article 15 hereinabove, the Contractor shall have the right to export freely to the chosen destination for this purpose, free of any exit fees and taxes, the portion of Hydrocarbons to which the Contractor has right under the Contract.
- 26.6. All imports and exports under the present Contract shall be subject to the procedures required by the current regulations concerning them, unless otherwise stipulated in Article 49 of the Oil Producers Code.

ARTICLE 27

EXCHANGE

- 27.1. The Contractor shall be subject to the regulation of the exchanges in the Republic of Senegal. However, it is understood that the Republic of Senegal undertakes for the duration of the present Contract to maintain to the Contractor and to its subcontractors the benefit of the following guarantees for the operations carried out within the framework of the present Contract:
- a) the right to contract loans abroad necessary for the execution of their activities in Senegal;
 - b) the right to deposit and keep abroad all funds acquired or borrowed abroad, including earnings from sales, and to dispose thereof freely within the limit of the amounts exceeding the needs of their operations in Senegal;
 - c) the free movement of funds belonging to them free of any rights, taxes and commissions of any kind between Senegal and any other country;
 - d) the right to repatriate the capital invested within the framework of the present Contract and to transfer their profits, in particular the interests and dividends;
 - e) and the free transfer of amounts owed, as well as the free receiving of amounts which are owed to them for any reason whatsoever, with the responsibility to make the declarations provided by the current regulations.
- 27.2. For the execution of its operations, the Contractor shall be authorized to practice the exchange of national currency and the foreign currencies convertible at exchange rates not less favorable for the Contractor than on the date or that the rates generally applicable in the Republic of Senegal to other firms, on the day of the operations.

- 27.3. Within thirty (30) days following the end of each Civil Year quarter, the Contractor shall provide to the Minister in charge of finances, a report on the movements of funds related to the Oil Operations during the recently lapsed Quarter.
- 27.4. The expatriate employees of the Contractor shall have the right, in accordance with the current regulations in the Republic of Senegal, to the free exchange and to the free transfer to their country of origin of their savings on their salaries, as well as the contributions for retirement and savings plan paid by themselves or on their behalf, on condition they have paid their taxes in the Republic of Senegal.

ARTICLE 28

PAYMENTS

- 28.1. All amounts owed to the State or to the Contractor shall be payable in Dollars or in any other convertible currency chosen by mutual agreement by the Parties.
- 28.2. In the event of a delay in a payment, the amounts owed shall bear interest at the rate of _____ percent (___ %) per year starting from the day on which they should have been paid.

CHAPTER VI

MISCELLANEOUS PROVISIONS

ARTICLE 29

RIGHTS OF TRANSFER AND INSPECTION OF THE CONTRACTOR

- 29.1. In accordance with the provisions the Oil Producers Code, the rights and obligations resulting from the present Contract cannot be transferred in part or in whole by any of the entities composing the Contractor without the prior approval of the Minister. The transfer shall involve the entirety of the rights and obligations relating to the present Contract.

If within sixty (60) days following the notification to the Minister of the transfer project accompanied by the transfer document, the latter has not made known its reasoned opposition, this transfer shall be considered as having been approved by the Minister upon the expiration of said time period.

Starting from the approval date, the transferee or transferees shall acquire the capacity as Contractor and shall fulfill the obligations ordered to the contractor by the Oil Producers Code and the present Contract to which they shall have subscribed prior to the transfer.

In the event of a transfer to an Affiliated Company, the Minister shall authorize said transfer and may request, if applicable, that the parent company submit for the approval of the Minister a bond for the proper performance of the obligations under the present Contract.

29.2. The Contractor also is responsible for submitting for the prior approval of the Minister:

- a) Any change of individual or any project which could possibly bring about, in particular by means of a new distribution of the corporate shares, a modification of the control of the Contractor or a company composing the Contractor. The distribution of the corporate capital, nationality of the majority shareholders, as well as the by-law provisions relating to the headquarters and the rights and obligations under the social titles shall be considered as elements of control of the Contractor. However, transfers of corporate shares to Affiliated Companies shall be free. With regard to transfers of corporate share to Third Parties, they shall only be subject to the approval of the Ministry if they are intended to place in the hands of the latter more than twenty-five percent (25%) of the company's capital.
- b) Any project for constituting sureties on assets and facilities assigned to the Oil Operations.

The projects indicated in the present Article 29.2 shall be made known to the Minister. If within sixty (60) days after said notification the Minister has not notified the Contractor of its reasoned opposition to said project, they shall be considered as having been approved.

ARTICLE 30

CANCELLATION OF THE CONTRACT

30.1. Pursuant to the Oil Producers Code, the present Contract can be canceled by the Stated under one of the following cases:

- a) serious violation by the Contractor of the provisions of the Oil Producers Code, or stipulations of the present Contract, after official notification with no remedy within three (3) months;
- b) delay of more than three (3) months brought by the Contractor to a

payment owed the State, after official notification not rectified within three (3) months;

- c) after the startup of production on a Marketable Deposit, shutdown of its exploitation for one (1) year, without resumption of this exploitation six (6) months after the official notification to do so;
- d) the non-execution by the Contractor within the time period ordered of an arbitration ruling corresponding to the present Contract;
- e) or legal regulation or liquidation of the assets of the Contractor or its parent companies.

30.2. For the application of the provisions mentioned hereinabove, the Minister shall officially notify via certified letter with acknowledgement of receipt the Contractor to comply therewith within the time periods established in paragraphs a) through d) hereinabove.

Failure of the Contractor to comply with this injunction within the ordered time periods, shall result in the present Contract being ruled as canceled.

ARTICLE 31

FORCE MAJEURE

31.1. When one Party is incapable of executing its contract obligations, excluding payments which it owes, or can only execute them late, due to an event of *Force Majeure*, the non-execution or the delay shall not be considered as a violation of the present Contract, on condition, however, that there is a link of cause and effect between the prevention and the event of *Force Majeure* invoked.

Arbitration can be called for to determine, in particular the character of the prevention and its effect on the contract obligation of the interested Party.

31.2. For the purposes of the present Contract, events of *Force Majeure* can be understood as being any unforeseen event, uncontrollable and independent of the will of the Party invoking it, such as earthquakes, riots, insurrections, civil troubles, sabotage, wars or conditions attributable to war. The intention of the Parties is that the term of *Force Majeure* receives the interpretation as compliant as possible with the principles and uses of international law.

31.3. When a Party considers that it is prevented from executing any one of its obligations due to an event of *Force Majeure*, it must immediately notify the other Party thereof and indicate the reasons thereof.

It must also take all useful measures to ensure the normal resumption of the execution of the obligations affected as soon as possible as soon as the

ceasing of the event constituting the event of *Force Majeure*.

- 31.4. If, subsequent to an event of *Force Majeure*, the execution of any one of the obligations of the contract is deferred, the time period the delay lasts resulting therefrom, increased by the time period which could be necessary to repair any damage caused by the event of *Force Majeure*, would be added to the time period granted under the terms of the contract for the execution of said obligation as well as the duration of the Contract.

ARTICLE 32

ARBITRATION AND EXPERTISE

- 32.1. In the event of a dispute arising between the State and the Contractor, concerning the interpretation or the execution of the present Contract or any one of its provisions, the Parties shall attempt to resolve it out of court.

If the Parties are unable to settle the dispute out of court within three (3) months from its notification, they shall mutually agree that such a dispute shall be submitted to the International Center for the Resolution of Investment-related Disputes (C.I.R.D.I.), for the purpose of its resolution by means of arbitration in accordance with the Agreement for the Resolution of Investment-related Disputes between Countries and Nationals of other Countries signed March 18, 1965 and ratified by Senegal according to the terms of Decrees 67-517 dated May 19, 1967 and which appeared in the Official Bulletin of the Republic of Senegal on June 10, 1967. The arbitration court shall be composed of three (3) arbitrators.

- 32.2. Arbitration shall take place in Paris (France). The arbitration procedure shall be conducted in French and the applicable law shall be Senegalese Law.

The ruling of the court shall be handed down definitively and irrevocably; it shall be binding to the Parties and is immediately executable.

- 32.3. The Parties undertake to comply with any preservative measure ordered or recommended with majority ruling by the arbitration court constituted in accordance with the provisions of Article 32.1 hereinabove.

The introduction of an appeal in arbitration involves any suspension of effects regarding the object of the dispute. On the other hand, the execution by the Parties of their other obligations under the present Contract shall not be suspended during the arbitration period.

- 32.4. In the event of difficulty in the execution of the present Contract, the Parties shall mutually agree, in particular before any arbitration and lacking out-of-court settlement, to request from an expert to assist them in the out-of-court

treatment of their dispute. Said expert shall be appointed by mutual agreement by the Parties or lacking agreement, by the International Expertise Center of the International Chamber of Commerce in accordance with the technical expertise regulation thereof. The costs and fees of the expert shall be equally shared by the Parties (or at the expenses of the Contractor excluding PETROSEN until the startup of the commercial production).

ARTICLE 33

APPLICABLE LAW AND STABILIZATION OF THE CONDITIONS

- 33.1. The present Contract and the Oil Operations undertaken within the framework of said Contract are governed by the laws and regulations of the Republic of Senegal.
- 33.2. The Contractor shall be subject to the laws and regulations of the Republic of Senegal.
- 33.3. No provision may be applied to the Contractor the purpose of which is to directly or as a consequence thereof increase the charges and obligations deriving from the systems mentioned in Chapter 7 of the Oil Producers Code, as these systems are defined by the legislation and the regulations in effect as of the date the present Contract is signed, without prior agreement of the Parties.

ARTICLE 34

NOTIFICATIONS

- 34.1. All notifications or other communications relating to the present Contract shall be forwarded in writing and shall be considered as having been submitted as soon as they have been carried or delivered under stamped recommended cover with acknowledgement of receipt or forwarded via telex or fax (with confirmation of receipt) to the choice of domicile indicated hereinbelow:

For the Republic of Senegal:

For the Contractor:

- 34.2. The State and the Contractor can at any time change their authorized representative, or modify the election of above-mentioned domicile, on condition of making it known with an advance notice of ten (10) days.

ARTICLE 35

OTHER PROVISIONS

- 35.1. The Chapters included in the present Contract are inserted for purposes of convenience and of reference and in no way define, or limit or outline the scope or the purpose of the Contract, nor any one of its clauses.
- 35.2. Appendices 1 and 2 attached herewith are an integral part of the present Contract.
- 35.3. The present Contract can only be modified in writing and by mutual agreement by the Parties.
- 35.4. Any release of the State to the fulfillment of an obligation of the Contractor shall be made in writing and signed by the Minister and no release may be considered as implicit if the Minister waives the application of one of the rights he is recognized as having by the present Contract.
- 35.5. The Entry into Effect Date shall be the date of the decree of approval of the present Contract.

AS WITNESS OF WHICH, the Parties to the present Contract have mutually agreed to sign said Contract in _____ copies and to submit it to the recording procedure at no cost.

Dakar, [date]_____

For the Republic of Senegal
The Minister of Energy, Mines
and the Industry

For the Contractor:

- For

The Prime Minister

- For PETROSEN

For Approval

APPENDIX 1

DELINEATION OF THE CONTRACT AREA

APPENDIX 2

ACCOUNTING PROCEDURE

ARTICLE 1

GENERAL PROVISIONS

1.1. Object

The present Accounting Procedure shall be followed and respected in the execution of the Contract obligations to which it is attached.

The object of the present Accounting Procedure is to establish the rules and methods of accounting for the determination of the costs and expenses incurred by the Contractor and necessary, in accordance with the rules of the art in use in the international oil industry, for Oil Operations (hereinafter called "Oil Producer Costs").

1.2. Accounts and allocations

The Contractor shall record separately in different accounts all transactions with respect to Oil Operations and shall continuously keep accounts, books and records distinguishing in particular:

- research expenses;
- evaluation expenses according to discovery;
- if necessary, according to Exploitation Perimeter:
 - . development and transport expenses of the production;
 - . current exploitation and transport expenses of the production;
 - . abandonment expenses;
- financial fees;
- general and administrative expenses.

The accounts, books and records of the Contractor shall be kept following the rules of the accounting schedule in effect in Senegal and the practices and methods in use in

the international oil industry.

In accordance with the provisions of Article 25.2 of the Contract, the accounts, books and records of the Contractor shall be kept in French and denominated in Dollars.

All times it is necessary to convert into Dollars the expenses and receipts paid or received in any other currency, they shall be evaluated based on the exchange rate quoted on the exchange markets in Paris, according to the modalities established by mutual agreement.

All profit or loss resulting from the exchange of currency at the time of the transactions object of the present Contract shall be debited or credited to the account of the Oil Producer Costs.

1.3. Interpretation

The definitions of the terms included in this Appendix 2 are the same as the corresponding terms in the Contract.

In the event there is a conflict between the provisions of this Accounting Procedure and that of the Contract, this one shall prevail.

1.4. Modifications

The provisions of the Accounting Procedure can be modified by mutual agreement by the Parties.

The Parties mutually agree that if one of the provisions of the Accounting Procedure should be inequitable with regard to one Party, they shall in good faith modify the provision in question to even out any inequality.

ARTICLE 2

PRINCIPLES AND BASES FOR ALLOCATION OF THE OIL PRODUCER COSTS

The Contractor shall keep a detailed account of the Oil Producer Costs in which the Oil Producer Costs supported for Oil Operations, and to the debit item of which the following expenses and costs shall be passed:

2.1. Personnel expenses

All payments made or expenses incurred to cover the fixed salaries of employees of the Contractor and its Affiliated Companies directly assigned, either part-time or full-time to the Oil Operations in the territory of the Republic of Senegal, including the legal and social charges and all additional charges or expenses provided by individual or collective agreements in accordance with the administration regulations of the

Contractor.

2.2. Buildings

Construction, maintenance costs and attending expenses including the leasing amount paid for all offices, houses, warehouses, and buildings, including the residences and recreation centers for employees and the costs of equipments, furnishings and fitting necessary for the use of such buildings required for the execution of the Oil Operations.

2.3. Materials, equipment and leasing amounts

Costs of the equipment, materials, machines, articles, furnishings and facilities bought or furnished for the needs of the Oil Operations, as well as the leasing amounts or compensations paid or incurred for the use of all equipment and facilities necessary to the Oil Operations, including equipment belonging to the Contractor.

2.4. Transportation

Transportation of the employees, equipment, materials and supplies within Senegal, as well as between Senegal and other countries, necessary for the Oil Operations. The transportation costs of the employees shall include the moving costs of the employees and their families paid by the Contractor in accordance with the policy established by the latter.

2.5. Services rendered by the subcontractors

The costs for the provision of services rendered for the needs of the Oil Operations by the subcontractors, consultants, expert advisors as well as all costs related to services rendered by the State or any other Senegalese authority.

2.6. Insurance policies and claims

Premiums paid for insurance policies that it is customary to underwrite for the Oil Operations needing to be implemented by the Contractor and all expenses incurred and paid for settlement of all losses, claims compensation and other expenses, including the legal services expenses not recovered by the policy holder and the expenses deriving from legal decisions.

If, after the approval of the Minister, no insurance policy has been undersigned for a particular risk, all expenses incurred and paid by the Contractor for settlement of all losses, claims, compensations, legal decisions and other expenses.

2.7. Legal expenses

All expenses related to the conduct, examination and the settlement of disputes of claims arising due to the Oil Operations, or those necessary to protect or recover goods acquired for the needs of the Oil Operations, including in particular legal fees, court or investigation costs, and amounts paid by way of settlement or balance of such disputes or claims. If such actions must be conducted by the legal department of the Contractor, a reasonable compensation shall be included in the Oil Producer Costs, which shall under no circumstances not exceed the cost of the provision of such service normally practiced by a Third Party.

2.8. General and administrative expenses ("General Expenses ")

- 2.8.1. The General Expenses in the Republic of Senegal correspond to the retirement and personnel expenses of the Contractor serving the Oil Operations in the Republic of Senegal of which the work time is not directly assigned to the latter and the maintenance and operating costs of a general and administrative office and the auxiliary offices in the Republic of Senegal necessary for the Oil Operations.
- 2.8.2. The Contractor shall add a reasonable amount by way of General Expenses abroad necessary for the implementation of the Oil Operations and supported by the Contractor and its Affiliated Companies, said amount being determined as a function of the annual amount of the Oil Producer Costs (excluding financial fees and General Expenses) in the following manner:
- a) for the range up to three million (3,000,000) Dollars per year: three percent (3%);
 - b) for the range between three million (3,000,000) Dollars and six million (6,000,000) Dollars per year: two percent (2%);
 - c) for the range between six million (6,000,000) Dollars and ten million (10,000,000) Dollars per year: one percent (1%);
 - d) for the range over ten million (10,000,000) Dollars per year: zero point five percent (0.5%).

2.9. Financial fees

The interests and agios of capital placed by Third Parties at the disposal of the Contractor to cover a fraction of the investment costs for development of the Marketable Deposits and transport of their production to Senegal to the Delivery Point corresponding to the fixed assets, in so far as they do not exceed the normal rates in use on the international financial markets for similar-type loans; as well as, notwithstanding Article 8.2 of the General Tax Code, the interests and agios used for associates or the Affiliated Companies by way of amounts that they place at the disposal of the Contractor in addition to their capital share, if these amounts are assigned to cover a reasonable co-payment of the development investment costs of the Marketable Deposits and transport of their production to Senegal to the Delivery Point corresponding to fixed assets and if the interest rates do not exceed the rates mentioned hereinabove. The debts contracted abroad shall be previously declared to the Minister.

2.10. Provisions for abandonment costs

Provisions for abandonment costs constituted in accordance with the provisions of Article 20.1 of the Contract.

2.11. Other expenses

All expenses incurred by the Contractor and necessary for the conducting of the Oil Operations, other than the expenses covered and regulated by the previous provisions in Article 2 of this Appendix 2, and other than expenses, fees or losses not deductible for the determination of the profit subject to taxation on corporations in accordance with the General Tax Code or not capable of being allocated to the account of Oil Producer Costs pursuant to Article 2.12 hereinbelow.

2.12 Expenses that cannot be allocated to the Oil Producer Costs account

Expenses that are not directly necessary for the implementation of the Oil Operations, and the expenses excluded by the provision of the Contract or the present Accounting Procedure as well as the regulations in effect in the Republic of Senegal, cannot be allocated to the Oil Producer Costs account and are therefore not recoverable.

In particular, these expenses include:

- a) expenses relating to the period before the Entry into Effect Date;
- b) all expenses related to the operations carried out beyond the Delivery Point, such as transport and marketing costs;
- c) financial fees related to the financing of the Oil Operations for research, evaluation and exploitation and those related to the financing of the development costs and transport of the production to the Delivery Point exceeding the limits included in Article 2.9 hereinabove.

On the other hand, the provisions deductible from the net profit by way of taxation on corporations (excluding the provisions for abandonment costs included in Article 2.10 hereinabove) cannot be allocated to the Oil Producer Costs account due the definition of the latter.

2.13. Elements defined as credit to the Oil Producer Costs Account

In particular defined as credits to the Oil Producer Costs to be recovered are the following earnings and products:

- a) earnings from the marketing of the quantity of Hydrocarbons of which the Contractor has disposal, in accordance with Articles 21.1 of the Contract, by way of recovery of Oil Producer Costs;
- b) all other earnings or products linked to the Oil Operations, in particular those from:
 - the sale of related substances:
 - all services rendered to Third Parties using the facilities assigned to the Oil Operations, in particular treatment, transport and storage of products for Third Parties in these facilities;
 - from the transfer of assets of the Contractor, and the transfer of all or part of the rights and obligations of the Contractor pursuant to Article 29 of the Contract.

ARTICLE 3

PRINCIPLES OF ALLOCATION OF COSTS FROM THE PROVISION OF SERVICES, MATERIALS AND EQUIPMENT USED IN THE OIL OPERATIONS

3.1. Technical Services

A reasonable rate shall be applied for technical services rendered by the Contractor or by its Affiliated Companies to the profit of the Oil Operations executed within the framework of the present Contract, such as gas, water or bore sample analyses, and any other test and analysis, on condition that such rates do not exceed those normally practiced within the case of similar serviced provided by service companies and independent laboratories.

3.2. Purchase of materials and equipment

The materials and equipment purchases that are necessary to the Oil Operations shall be allocated to the Oil Producer Costs account to the «Net Cost» supported by the Contractor.

The "Net Cost" shall include the purchase price (deduction of any discounts and rebates obtained) and the elements such as export commissions or unloading and licensing fees and charges related to the supply of materials and equipment, as well as any losses in transit which are not recovered by insurance.

3.3. Use of equipment and facilities belonging to the Contractor

The equipment and facilities belonging to the Contractor and used for the Oil Operations shall be allocated to the Oil Producer Costs account at a leasing rate intended to cover maintenance, amortization and the necessary services to the Oil Operations, on condition that such costs do not exceed those normally practiced in the Republic of Senegal for similar services.

3.4. Evaluation of transferred materials

All materials transferred from warehouses of the Contractor or its Affiliated Companies, or by any of the entities composing the Contractor or their Affiliated Companies, shall be evaluated as follows:

a) New materials

New materials (condition "A") represents new materials which have never been used: one hundred percent (100%) of the Net Cost defined hereinabove in Article 3.2.

b) Materials in good condition

Materials in good condition (condition "B") represents materials in good service condition still usable in their primary destination without repair: seventy-five percent (75%) of the Net Cost of the new materials as defined in paragraph a).

c) Other used materials

Other used materials (condition "C") represents materials still usable in their primary destination, but only after repairs and overhaul: fifty percent (50%) of the Net Cost of the new materials defined in paragraph a).

d) Materials in bad condition

Materials in bad condition (condition "D") represents materials which are no longer usable in their primary destination but for other services: twenty-five percent (25%) of the Net Cost of the new materials defined in paragraph a).

e) Scrap and rejects

Scrap and rejects (condition "E") represents materials beyond use and irreparable: current price for scrap.

f) Evaluation

The Parties may replace the rates mentioned in paragraphs b) through e) hereinabove with evaluations made in conjunction by their representatives.

3.5. Prices of materials and equipment transferred by the

Contractor

- a) Materials equipment and consumable matter bought by the entirety of the entities composing the Contractor or shared among them in kind, shall be evaluated according to the principles defined in Article 3.4 hereinabove.
- b) Materials and equipment bought by any of the entities composing the Contractor or by Third Parties shall be evaluated at the sales price received, which under no circumstances shall be less than the price determined according to the principles defined in Article 3.4 hereinabove.
- c) The corresponding amounts shall be credited to Oil Producer Costs.

ARTICLE 4

AMORTIZATION OF FIXED ASSETS AND RESEARCH EXPENSES

4.1. Fixed Assets

For the purposes of recovery of the Oil Producer Costs stipulated in Article 21.1 of the Contract and for the determination of the net taxable profit of the Contractor, the Oil Producer Costs relating to the fixed assets implemented by the Contractor and necessary to the Oil Operations shall be amortized according to a linear amortization system.

The minimum period for amortization shall be five (5) Civil Years (of ten (10) Civil Years with respect to the production transportation fixed assets) starting from the Civil Year during which the fixed assets are carried out, or starting from the Civil Year during which said fixed assets are placed in normal service if this latter Civil Year is later. The date of placement into normal service begins at the earliest year of regular production obtained starting from the fixed assets in question.

4.2. Research Expenses

The Oil Producer Costs, with the exception of the Costs related to fixed assets, shall be recoverable and deductible starting in their year of implementation or according to the choice of the Contractor at an annual rate of amortization chosen by the latter and applicable according to the system of linear amortization.

In particular, for the purposes of the recovery of the Oil Producer Costs provided in Article 21.1 of the Contract and for the determination of the net taxable profit of the Contractor, research expenses for Hydrocarbons incurred by the Contractor including in particular geological and geophysical expenses and the exploration drilling

expenses (except the productive exploration drilling expenses, which must be locked up), shall be considered as being recoverable and deductible charges in their entirety starting in their year of implementation or may be amortized according to a system of amortization chosen by the Contractor.

A particular treatment of research expenses incurred in Senegal outside the Contract Area may be provided.

ARTICLE 5

DETERMINATION OF PRODUCTION SHARING ACCORDING TO THE "R" RELATIONSHIP

For the purposes of determining the "R" relationship used to determine the production sharing, it is understood by:

5.1. Net Accumulated Earnings

The amount of profits of the Contractor after payment of the tax on corporations, determined since the Entry into Effect Date until the end of the Civil Year which has just lapsed and equal to the amount of the sales of the Contractor obtained pursuant to Articles 21.1 and 21.3 of the Contract, minus the amount of the Oil Producer Costs corresponding to only current operating expenses and those of production transport to the Delivery Point (which do not include in particular the development and production transport costs corresponding to fixed assets and financial fees).

5.2. Accumulated investments

The amount of the research costs, evaluation expenses and development and production transport costs to the Delivery Point corresponding to fixed assets (which do not include in particular financial charges, current operating expenses and production transport costs, abandonment expenses and General Expenses), allocated to the Oil Producer Costs account in accordance with Article 1.2 of the Accounting Procedure, determined since the Entry into Effect Date until the end of the Civil Year recently lapsed, with no deduction with regard to the amortizations which could have been practiced by the Contractor.

ARTICLE 6

INVENTORIES

6.1. Frequency

The Contractor shall keep a permanent and cost inventory of all the goods used for the Oil Operations and shall conduct at reasonable intervals at least once per year, physical inventories as required by the Parties.

6.2. Notification

A written notification with the intention of conducting a physical inventory shall be forwarded by the Contractor at least sixty (60) days before the beginning of said inventory, so that the Minister and the entities composing the Contractor can be represented at their expense during this inventory.

6.3. Information

In the event the Minister or an entity composing the Contractor is not represented during an inventory, such Party or Parties shall be linked by the inventory established by the Contractor which shall then supply such party or Parties a copy of said inventory.

7 FINANCIAL AND ACCOUNTING STATEMENTS

The Contractor shall supply to the Ministry all reports, returns and statements provided by the provisions of the Contract and the regulations in effect and in particular the following financial and accounting statements:

7.1 Oil cost recovery report

A quarterly report shall be submitted no later than one (1) month after the end of each Civil Year quarter. It shall show the following elements of the Oil Producer Costs accounts:

- a) the amount of the Oil Producer Costs remaining to recover at the beginning of the quarter;
- b) the amount of the Oil Producer Costs related to the quarter in question and recoverable according to the provisions of the Contract;
- c) the quantity and the value of the production of Hydrocarbons paid out during the quarter by the Contractor with regard to the recovery of Oil Producer Costs;

- d) the amount of the earnings or products credited pursuant to Article 2.13 b) hereinabove during the quarter;
- e) the amount of the Oil Producer Costs remaining to be recovered at the end of the quarter.

In addition, an annual recovery report of Oil Producer Costs shall be submitted before the end of the month of February of each Civil Year.

7.2 Production Report

After the beginning of production, this monthly report shall be submitted no later than fifteen (15) days after the end of each month.

It shall show, for each month, the detail of the production of each Marketable Deposit and in particular the quantities of Hydrocarbons:

- a) in stock at the beginning of the month;
- b) removed during the month;
- c) lost and used for the needs of the Oil Operations;
- d) in stock at the end of the month.