

Republic of the Philippines  
DEPARTMENT OF ENERGY  
Manila

**SERVICE CONTRACT**

This SERVICE CONTRACT is made and entered into this \_\_\_ day of \_\_\_\_\_, in \_\_\_\_\_, by and between:

**THE GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES**, hereinafter referred to as the "Government", acting through the DEPARTMENT OF ENERGY, with principal office at Energy Center, Merritt Road, Fort Bonifacio, Taguig, Metro Manila, in this act represented by the Secretary, \_\_\_\_\_, hereinafter referred to as the "DEPARTMENT";

- and -

\_\_\_\_\_, a corporation organized and existing under the laws of the \_\_\_\_\_, with postal address at \_\_\_\_\_, in this act represented by its President, \_\_\_\_\_, hereinafter referred to as the "CONTRACTOR";

In the implementation of this Contract, the Government shall act through and be represented by the DEPARTMENT. The DEPARTMENT and CONTRACTOR are hereinafter referred to individually as "Party", and collectively as "Parties".

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

**WHEREAS**, all Petroleum, Crude Oil, Crude, Natural Gas and/or Casinghead Petroleum Spirit of the Philippines belong to the State and their disposition, exploration, development, exploitation and utilization are governed by Presidential Decree No. 87, as amended, otherwise known as the Oil Exploration and Development Act of 1972 (the "Act") and Section 2, Article XII of the 1987 Constitution;

**WHEREAS**, the Act declares it to be the policy of the State to hasten the discovery and production of indigenous Petroleum through the utilization of Government and/or private resources;

**WHEREAS**, the Foreign/Local CONTRACTOR desires and agrees to provide funds, and apply its appropriate and advanced technology and managerial experience to cooperate with the

DEPARTMENT for the exploration, development and exploitation of Petroleum resources within the Contract Area and agrees to be subject to the laws and decrees of the Government and other rules and regulations of the DEPARTMENT in the implementation of the Contract;

**NOW, THEREFORE**, in view of the foregoing premises, the DEPARTMENT and CONTRACTOR hereby stipulates and agree as follows:

## **SECTION I**

### **SCOPE**

- 1.1. This Contract is a Service Contract entered into pursuant to Section 7 of the Act with all necessary technology and financing as well as the required services to be furnished by CONTRACTOR in accordance with the provisions herein contained. The CONTRACTOR shall undertake and execute the Petroleum Operations contemplated herein under the full control and supervision of the DEPARTMENT.
- 1.2. CONTRACTOR shall be responsible to the DEPARTMENT for the execution of the Petroleum Operations in accordance with the provisions of this Contract, and is hereby appointed and constituted the exclusive party to conduct the Petroleum Operations on behalf of the Government. The DEPARTMENT shall have the right to require performance of any or all obligations of CONTRACTOR under this Contract against any or all of the companies comprising CONTRACTOR.
- 1.3. CONTRACTOR shall assume all exploration risks such that if no Petroleum In Commercial Quantity is discovered and produced, it will not be entitled to reimbursement of expenses incurred in connection with this Contract.
- 1.4. During the term of this Contract, the total production achieved in the conduct of the Petroleum Operations shall be accounted for between the Parties in accordance with Section X hereof.

## **SECTION II**

### **DEFINITIONS**

In this Contract, the words and terms defined in Section 3 of the Act shall, unless otherwise specified therein, have meaning in accordance with the following definitions:

- 2.1. **Affiliate** - means: (a) a company in which any one of the companies comprising CONTRACTOR holds directly or indirectly at least fifty percent (50%) of its outstanding shares entitled to vote; or, (b) a company which holds directly or indirectly at least fifty percent (50%) of the outstanding shares entitled to vote of one of the companies comprising CONTRACTOR; or, (c) a company in which at least fifty percent (50%) of its outstanding shares entitled to vote are held by a company which holds directly or indirectly at least fifty percent (50%) of the outstanding shares entitled to vote of one of the companies comprising CONTRACTOR.
- 2.2 **Annual Gross Production of Crude Oil** – means the total amount of Crude Oil produced from each Oil Field and/or Gas Field within the Contract Area considered separately in each Calendar Year, less the amount of Crude Oil used for Petroleum Operations and the amount of losses, which is saved and measured by a jointly-approved measuring device at a jointly-agreed delivery point.
- 2.3 **Annual Gross Production of Natural Gas** – means the total amount of Natural Gas produced from each Oil Field and/or Gas Field within the Contract Area considered separately in each Calendar Year, less the amount of Natural Gas used for Petroleum Operations and the amount of losses, which is saved and measured by a jointly-approved measuring device at the point of sale of Natural Gas.
- 2.4 **Appraisal Well** – means a well drilled for the purpose of evaluating the commerciality of a geological trap in which Petroleum has been discovered.
- 2.5 **Associated Gas** – means all gaseous hydrocarbons produced in association with Crude Oil from oil reservoirs, including residue gas remaining after the extraction of liquid hydrocarbons therefrom.
- 2.6 **Barrel** - means 42 U.S. gallons or 9702 cubic inches at a temperature of 60 degrees Fahrenheit (60°F).
- 2.7 **Calendar Quarter** – means a period of three (3) consecutive Gregorian months under the Gregorian Calendar beginning on the first day of January, the first day of April, the first day of July, or the first day of October.
- 2.8. **Calendar Year** - means a period of twelve (12) consecutive months commencing with January 1 and ending on the following December 31.

- 2.9 **Casinghead Petroleum Spirit** - means any hydrocarbons, including condensate existing in liquid form at a temperature of sixty degrees Fahrenheit (60°F) and at an atmospheric pressure of 14.65 PSIA, which are obtained from Natural Gas at the well head or by separation or by any chemical or physical process or ethane, propane, and butane produced by gas processing.
- 2.10 **Contract** - means this Service Contract.
- 2.11 **Contract Area** - means, at any time, the area within the territory of the Republic of the Philippines which is the subject of this Contract. The Contract Area is outlined and more particularly described in Annex "A" attached hereto.
- 2.12 **Contractor** – means the Foreign/Local Contractor specified in the Introduction of Parties hereto, including assignee(s) in accordance with Section XXIV hereof.
- 2.13 **Contract Year** - means a period of twelve (12) consecutive months counted from the Effective Date of this Contract and, thereafter, from the anniversary of such Effective Date.
- 2.14. **Crude Oil** - means oil in its natural state before the same has been refined or otherwise treated. It does not include oil produced through destructive distillation of coal, bituminous shales, or other stratified deposits, either in its natural state or after the extraction of water and sand or other foreign substances therefrom.
- 2.15 **Crude Oil Exported** - shall include not only Crude Oil exported as such, but also indigenous Crude Oil refined in the Philippines for export.
- 2.16 **Date of Commencement of Commercial Production** – means the date of commencement of production of Crude Oil and/or Natural Gas from any Oil Field and/Gas Field determined and announced by DEPARTMENT in accordance with the provisions in Section IX hereof, after completion of the Development Operations as provided in the Overall Development Program for the said Oil Field and/or Gas Field. This excludes production from Extended Well Test (EWT) and Drillstem Test (DST).
- 2.17 **Deepwater Area** - refers to an area where water depths are in excess of two hundred (200) meters.

- 2.18 **Deepwater Contract** - refers to a service contract in which at least eighty-five percent (85%) of the total contract area is in water depths beyond two hundred (200) meters.
- 2.19 **Deepwater Contractor** - means the contractor in a Deepwater Contract, whether acting alone or in consortium with others.
- 2.20 **Delivery Point** – means the point at which Petroleum reaches the delivery facility as agreed upon by the CONTRACTOR and the buyer in the sales contract.
- 2.21 **Development Area** – means a portion of the Contract Area covering an Oil Field and/or Gas Field which has been designated for development and any potential contiguous extension areas to such Field(s) within the Contract Area. The Development Area(s) shall be proposed by the CONTRACTOR, demarcated by the DEPARTMENT and delineated as such in the Overall Development Program approved by the DEPARTMENT. The Development Area shall automatically cease to be in force as of the date of approval of the Production Area.
- 2.22 **Development Cost** – means cost incurred by CONTRACTOR for Development Operation.
- 2.23 **Development Operations** – means operations carried out for the realization of Petroleum production from the date of approval of the Overall Development Program for any Oil Field and/or Gas Field by the DEPARTMENT including design, construction, installation, drilling, and related research work as well as relevant activities carried out before the Date of Commencement of Commercial Production for the realization of Petroleum production.
- 2.24 **Development Well** – means any well drilled in a Development Area or a Production Area after the date of approval of the Overall Development Program for the purpose of producing Petroleum, increasing production or accelerating extraction of Petroleum, including production wells, injection wells and dry holes unless such well is designated in the Overall Development Program as an exploratory Well.
- 2.25 **Effective Date** - means the date of execution of this Contract by the Parties.
- 2.26 **Expatriate Employee** – means any person employed by the Contractor or Subcontractor(s) who is not a citizen of the Philippines who reside abroad and assumed work permitted status and who are citizens of a foreign country, when they are employed

by the Contractor or Subcontractor(s), shall also be deemed as Expatriate Employees within the scope of the Contract.

- 2.27 **Exploration Area** – means a portion of the Contract Area which has not been relinquished before the expiration of the exploration period and which is not included in a Development Area or a Production Area.
- 2.28 **Exploration Cost** – means cost incurred by CONTRACTOR for Exploration Operation.
- 2.29 **Exploration Operations** – means operations carried out for the purpose of discovering Petroleum-bearing traps by means of geological, geophysical, geochemical and other methods including exploratory well drilling; all the work undertaken to determine the commerciality of traps in which Petroleum has been discovered including Appraisal Well drilling and feasibility studies, formulation of the Overall Development Program; and activities related to all such operations, including any work done prior to approval of the Overall Development Program in an attempt to identify a market for Natural Gas.
- 2.30 **Exploration Well** – means any Wildcat Well and/or Appraisal Well drilled within the exploration period, including dry hole(s) and discovery well(s).
- 2.31 **Filipino Participation Incentive Allowance or "FPIA"** - means:
- (a) the sliding scale allowance from One and one-half percent (1.5%) to Seven and one-half percent (7.5%) of the gross proceeds granted to CONTRACTOR when the aggregate participation in the Service Contract by one or more Filipino citizens and/or companies is from fifteen percent (15%) to thirty percent (30%), in accordance with OEA Circular No. 87-12-003; or,
  - (b) the allowance of Seven and one-half percent (7.5%) of the gross proceeds granted to CONTRACTOR when the aggregate participation in the Service Contract by one or more Filipino citizens and/or companies is at least fifteen percent (15%) in respect of a Deepwater Contract, in accordance with OEA Circular No. 92-10-05; or,
  - (c) the allowance of Seven and one-half percent (7.5%) of the gross proceeds granted to CONTRACTOR when the aggregate participation in the Service Contract by one or more Filipino citizens and/or companies is at least fifteen percent (15%) in respect of the drilling of a well by CONTRACTOR in water depths beyond 200

meters, whether within or outside a Deepwater Area, in accordance with DOE Circular No. 94-01-01.

- 2.32 **Filipino Personnel** – means any citizen of the Republic of the Philippines employed by the Contractor and/or the Subcontractor(s), involved in Petroleum Operations under the Contract.
- 2.33 **Foreign Exchange** - means any currency other than that of the Republic of the Philippines which is freely convertible into gold or currencies eligible to form part of the country's international reserves and is acceptable to the DEPARTMENT and CONTRACTOR.
- 2.34 **Gas Field** - means an accumulation of gas within the Contract Area composed of one or several overlapping gas bearing zones, within one trap or within associated traps of the same independent geological structure, which may or may not be complicated by faulting, and which has commercial value determined in accordance with the procedures stipulated in Section XIII hereof.
- 2.35 **Government** - means the Government of the Republic of the Philippines.
- 2.36 **Gross Income** - means the gross proceeds from the sale, exchange or disposition of Petroleum, Crude, Natural Gas and/or Casinghead Petroleum Spirit produced under this Contract and sold or exchanged during the Calendar Year at Posted Price or Market Price, as the case may be, all as determined pursuant to Section X and such other income which are incidental to or arising from any one or more of the Petroleum Operations of CONTRACTOR.
- 2.37 **Market Price** - means the price which is realized for Petroleum produced under this Contract if sold in a transaction between independent persons dealing at arm's length in a free market; *Provided*, however, that the Market Price for Natural Gas including condensate shall be determined in accordance with Section X and Section XIII hereof.
- 2.38 **Moratorium Period** - has the meaning set forth in Section IV of this Contract.
- 2.39 **Natural Gas** - means Non-associated Gas and Associated Gas in their natural state including gas obtained from boreholes and wells and consisting primarily of hydrocarbons.

- 2.40 **Net Proceeds** - has the meaning set forth in Section X hereof.
- 2.41 **Non-Associated Gas** – means all gaseous hydrocarbons produced from gas reservoirs, including wet gas, dry gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas.
- 2.42 **Oil Field** – means an accumulation of Oil within the Contract Area composed of one or several overlapping oil-bearing zones, within one trap or within associated traps of the same independent geological structure, which may or may not be complicated by faulting, and which has commercial value determined in accordance with the procedures stipulated in Section IX hereof.
- 2.43 **Oil Field and/or Gas Field Straddling a Boundary** – means any Oil field and/or Gas Field extending beyond the Contract Area.
- 2.44 **Operating Cost** – means the cost incurred by CONTRACTOR for the production operation.
- 2.45 **Operating Expenses** - means the total expenditures incurred by CONTRACTOR both within and outside the Philippines in all Petroleum Operations performed pursuant to this Contract as determined in accordance with the Accounting Procedures attached hereto and made part thereof as Annex "B". These expenses shall include, but are not necessarily limited to, the cost of seismic surveys, reprocessing and special processing of seismic data, geological and geophysical studies, drilling, equipping and completing wells, engineering studies, construction of well platforms and tank batteries, pipeline systems and terminals, the cost of operating and maintaining all such facilities including general and administrative costs and expenses, Home Office overhead, in accordance with the Accounting Procedures (Annex "B"). Operating Expenses shall also include, but are not necessarily limited to, charges relating to lifting, transportation, storage, handling, and sale of Petroleum as specified in Section X, whether for export or domestic consumption, together with two-thirds (2/3) of interest and financing charges for development and production operations. However, the cost of transportation of petroleum by pipeline shall be subject to separate agreement referred to in Section 2.49 hereof. In the recovery of operating expenses, the first to be recovered shall be the Operating Cost followed by the Exploration Cost and the last is the Development Cost.



- 2.46 **Overall Development Program** – means a plan prepared by the Operator for the development of an Oil Field and/or Gas Field which has been reviewed and approved by the DEPARTMENT and such plans shall include, but shall not be limited to recoverable reserves, the development well pattern, master design, production profile, economic analysis and time schedule of the Development Operations.
- 2.47 **Petroleum** - means any Crude or mineral oil, Natural Gas or hydrocarbon gas, condensate, Casinghead Petroleum Spirit, bitumen, asphalt, mineral gas, and all other similar or naturally associated substances with the exception of coal, peat, bituminous shale and/or other stratified mineral fuel deposits.
- 2.48 **Petroleum In Commercial Quantity** - means Petroleum in such quantities which will permit its being economically developed, either on its own or in combination with other existing and/or future discoveries of Petroleum, as determined by CONTRACTOR and approved by the DEPARTMENT after taking into consideration the location of the Petroleum reserves, the depths and number of wells required to be drilled, and the transport and terminal facilities needed to exploit the Petroleum which has been discovered.
- 2.49 **Petroleum Operations** - means searching for and obtaining Petroleum within the Philippines under this Contract, drilling and pressure or suction or the like, and all other operations incidental thereto. It includes the transportation, storage, handling and sale (whether for export or domestic consumption) of Petroleum so obtained but does not include any: (1) transportation of Petroleum outside the Philippines; (2) processing or refining at a refinery; or (3) any transaction in the products so refined. It includes both transportation of Petroleum up to delivery point to the buyer or buyers thereof, and the upstream facilities of said delivery point for extraction of such petroleum. In the event that the DEPARTMENT agrees to the participation of the CONTRACTOR in the pipeline installation and operation to transport the Petroleum, then the Parties shall negotiate a separate agreement covering construction and operation of such pipeline. However, Petroleum Operations do not include pipeline gas distribution and retail to public.
- 2.50 **Philippine Corporation** - means a corporation organized under Philippine Laws at least sixty percent (60%) of the voting capital of which is owned and held by Filipino citizens and/or other Philippine corporations.

- 2.51 **Philippine Income Tax** - refers to taxes imposed under the National Internal Revenue Code of the Philippines, as amended, upon taxable corporate income.
- 2.52 **Posted Price** - means that Free on Board (FOB) price established by CONTRACTOR and the DEPARTMENT for each grade, specific gravity, and quality of Crude Oil offered for sale to buyers generally for export at the particular point of export, which price shall be based upon geographical location and the fair market export values for Crude Oil of comparable grade, specific gravity, quality and quantity.
- 2.53 **Production Area** - means that portion of the Contract Area where all reservoirs containing Petroleum In Commercial Quantity are delineated by CONTRACTOR with the approval of the DEPARTMENT.
- 2.54 **Production Operations** – means operations and all activities related thereto carried out for Petroleum production of an Oil Field and/or Gas Field from the Date of Commencement of Commercial Production, such as extraction, injection, stimulation, treatment, storage, transportation, and lifting, etc.
- 2.55 **Production Year** – means, in respect of each Oil Field and/or Gas Field, a period of twelve (12) consecutive Gregorian months under the Gregorian Calendar beginning on the Date of Commencement of Commercial Production of such Field or any anniversary thereof.
- 2.56 **Subcontractor** – means an entity which provides the Operator with goods or services for the purpose of the Contract.
- 2.57 **Taxable Net Income** - shall have the meaning set forth in Section XI hereof.
- 2.58 **Third Party** - means any individual or entity except the DEPARTMENT and the CONTRACTOR.
- 2.59 **Wildcat Well** – means a well drilled on any geological trap for the purpose of searching for Petroleum accumulations, including wells drilled for the purpose of obtaining geological and geophysical parameters.
- 2.60 **Work Program** – means all types of plans formulated for the performance of the Petroleum Operations, including plans for exploration, development, and production.

**SECTION III**  
**EFFECTIVITY**

This Contract shall come into effect on the Effective Date.

**SECTION IV**  
**TERM**

- 4.1. The exploration period under this Contract shall be seven (7) years consisting of three (3) sub-phases, the duration of which depends on the proposed work programs, from the Effective Date. The seven-year term is extendible for three (3) years if (a) the CONTRACTOR has not been in default in its exploration work obligations and other obligations; (b) has drilled to a combined subsea depth a minimum of at least 10,700 meters of test wells; and (c) has provided a work obligation for the extension acceptable to the DEPARTMENT after which time this Contract shall automatically terminate unless Petroleum has been discovered by the end of the tenth year. If Petroleum is discovered by the end of the seventh or tenth year, this Contract shall be further extended to determine whether the discovery is in commercial quantity, in which event, another extension not exceeding one (1) year shall freely be granted upon a satisfactory showing to the DEPARTMENT that the work program, to be conducted to determine whether the discovery is in commercial quantity, justifies the period for extension. This one (1) year extension shall be credited as part of the initial twenty-five (25) years production term, if the Area is subsequently developed by CONTRACTOR.
- 4.2. Where Petroleum In Commercial Quantity is discovered during the exploration period or any extension thereof, this Contract shall as to any Production Areas delineated pursuant to Section V hereof, remain in force during the balance of the exploration period, or any extension thereof, and for an additional period of twenty-five (25) years, thereafter renewable for a series of five (5) year periods but shall in no case exceed a total of fifteen (15) years under such terms and conditions as may be granted upon by the Parties at the time of the renewal. The term of this Contract shall in no case exceed fifty (50) years from the Effective Date.
- 4.3. If CONTRACTOR discovers Petroleum under this Contract in sufficient quantity that could be normally produced except that, due to inadequate technology, the capability to produce the Petroleum in Commercial Quantity does not yet exist, CONTRACTOR shall notify the DEPARTMENT and the Parties will jointly review the findings of CONTRACTOR. Upon mutual satisfaction that technological means to extract

Petroleum In Commercial Quantity does not yet exist, then the corresponding work and expenditure obligations under this Contract shall be suspended for a period of two (2) years (the "Moratorium Period"), provided that CONTRACTOR, subject to the approval of the DEPARTMENT, shall delineate the Oil and Gas Field that will be put under Moratorium and elect to either relinquish and continue the Work Program over the rest of the Contract Area, subject to Section V hereof. The decision as to whether a Moratorium Period is justified shall be based, among others, on projects and operations found elsewhere in the world at comparable depths and conditions to those encountered by CONTRACTOR under this Contract.

- 4.4 During the Moratorium Period, CONTRACTOR shall actively pursue the necessary research, by itself or in joint industry studies, to develop the technology necessary to produce the discovered Petroleum in commercial quantity. The CONTRACTOR shall semi-annually report to the DEPARTMENT its progress in developing the requisite technology. If during the Moratorium Period CONTRACTOR and the DEPARTMENT mutually agree that technology has developed sufficiently to allow the discovered Petroleum to be produced in commercial quantity, then CONTRACTOR must elect either to continue with its obligations under this Contract with respect to the Production Area established for the discovered Petroleum, or relinquish the said Production Area without further commitment or obligation under this Contract.

## **SECTION V**

### **EXCLUSION OF AREAS**

- 5.1. On or before the end of the First sub-phase, CONTRACTOR shall surrender twenty-five percent (25%) of the initial Contract Area.
- 5.2 On or before the end of the Second sub-phase, CONTRACTOR shall surrender an additional area equal to twenty-five percent (25%) of the initial Contract Area.
- 5.3 In the event that on or before the end of any sub-phase during the exploration period, CONTRACTOR has delineated any Production Area pursuant to Section 7.3(d) hereof, the extent of such Production Area shall be deducted from the initial Contract Area for the purpose of determining the size of such area that must be surrendered pursuant to Sections 5.1 and 5.2 above.
- 5.4 If Petroleum In Commercial Quantity is discovered during any sub-phase of the exploration period or any extension thereof, CONTRACTOR may retain after the

exploration period twelve and one-half percent (12 ½%) of the initial Contract Area for further exploration and development, in addition to the delineated Production Areas; *Provided*, That CONTRACTOR shall provide an annual work program and corresponding budget for the area to be retained acceptable to the DEPARTMENT; *Provided further*, That CONTRACTOR shall pay after the exploration period as annual rentals to the DEPARTMENT on such twelve and one-half percent (12 ½%) retained area of Forty Pesos (P40.00) per hectare or fraction thereof; and, *Provided finally*, That such annual rentals shall be offset by the amount spent by CONTRACTOR for exploration on such retained area during the Contract Year. Failure of CONTRACTOR to implement the work program as approved by the DEPARTMENT in any Contract Year will cause the automatic surrender of the retained area to the DEPARTMENT.

- 5.5 Within ninety (90) days prior to the date of each relinquishment, the CONTRACTOR shall submit to the DEPARTMENT a report on its completed Exploration Operations on the areas to be relinquished, including a map showing the areas to be relinquished with the coordinates of the connecting points of the boundary lines.
- 5.6 CONTRACTOR shall have the right, on at least thirty (30) days written notice to the DEPARTMENT, to surrender or abandon the entire Contract Area without liability or cost and be relieved of any work and expenditure commitments thereon; *Provided*, That if CONTRACTOR surrenders or abandons the entire Contract Area prior to satisfying its minimum work and expenditure commitments for any of the Contract Year or exploration sub-phase, it shall pay the DEPARTMENT the amount it should have spent, but did not, for exploration work during the Contract Year or sub-phase as specified under Section VI. The performance guarantee posted by CONTRACTOR, in accordance with Section 7.1(g) of this Contract, shall be answerable for any such deficiency.
- 5.7 CONTRACTOR shall have the right, on at least thirty (30) days written notice to the DEPARTMENT, to surrender or abandon any portion of the exploration sub-phase. Any portion surrendered shall be credited against that portion of the exploration sub-phase which CONTRACTOR is next required to surrender under the provisions of Sections 5.1 and 5.2 hereof.
- 5.8 With respect to any surrender of area pursuant to this Section V, CONTRACTOR shall advise the DEPARTMENT of the portion to be surrendered at least thirty (30) days in advance of the date of surrender. The areas being surrendered shall each be of sufficient size and convenient shape by themselves or in conjunction with areas outside the Contract Area to enable Petroleum Operations to be conducted thereon.

**SECTION VI**  
**MINIMUM WORK COMMITMENT AND MINIMUM EXPECTED**  
**EXPLORATIONS EXPENDITURES**

- 6.1. CONTRACTOR shall begin to perform the exploration operations within six (6) months from the Effective Date of the Contract.
- 6.2. CONTRACTOR shall fulfill the minimum exploration work commitment for each sub-phase of the exploration period in accordance with the following provisions:
- (a) During the first sub-phase of the exploration period covering Contract Years \_\_\_\_ to \_\_\_\_, CONTRACTOR shall \_\_\_\_\_ with an expected equivalent minimum expenditure of U.S. \$ \_\_\_\_\_.
  - (b) During the second sub-phase of the exploration period covering Contract Years \_\_\_\_ to \_\_\_\_, the CONTRACTOR shall \_\_\_\_\_ with an expected equivalent minimum expenditure of U.S.\$ \_\_\_\_\_.
  - (c) During the third sub-phase of the exploration period covering Contract Years \_\_\_\_ to \_\_\_\_, the CONTRACTOR shall \_\_\_\_\_ with an expected equivalent minimum expenditure of U.S. \$ \_\_\_\_\_.
- 6.3. Before the end of the first sub-phase or the second sub-phase of the exploration period, the CONTRACTOR has the following options in accordance with the terms of this Contract to:
- a. enter the next sub-phase and continue exploration; or
  - b. conduct only appraisal Work Program approved by the DEPARTMENT and/or development operations in the Petroleum discoveries awaiting appraisal based on procedures under Section IX of the Contract, provided that the minimum obligations during the current exploration sub-phase have been fulfilled; and the areas under Section V hereof have been relinquished; or
  - c. terminate the Contract.

The CONTRACTOR shall notify the DEPARTMENT in writing of its option at least thirty (30) days before the end of each sub-phase.

- 6.4 If the CONTRACTOR fail to comply with the work obligations provided for in this Contract, it shall pay to the DEPARTMENT the amount it should have spent but did not in direct prosecution of its work obligations. If the CONTRACTOR elects to terminate the Contract before the end of the exploration period and there are unfulfilled work obligations, the CONTRACTOR shall pay the value of the unfulfilled balance of the minimum exploration work commitment for the sub-phase or sub-phases entered into in U.S. Dollars after it has been converted into a cash equivalent using the method provided in Annex "B" – Accounting Procedures hereto. However, if the minimum exploration work commitment for the exploration period is fulfilled while its expected corresponding minimum exploration expenditures are not fulfilled, the unspent part shall be deemed as a saving and shall not be paid to the DEPARTMENT.
- 6.5 Subject to the approval of the DEPARTMENT, the CONTRACTOR may commence any exploration sub-phase earlier than scheduled provided that the work commitments for the preceding sub-phase have been fulfilled. If the exploration work actually fulfilled by the CONTRACTOR exceeds the minimum exploration work commitment for the said exploration sub-phase, the excess part may be credited, subject to the approval of the DEPARTMENT, against the minimum exploration work commitment for the next exploration sub-phase.

## **SECTION VII**

### **CONTRACTOR**

- 7.1 The CONTRACTOR shall have the following obligations
- (a) Perform all Petroleum Operations and provide all necessary services, technology, and financing in connection therewith; *Provided*, that no Foreign Exchange requirements of the Petroleum Operations shall be funded from the Philippine banking system unless otherwise allowed under applicable laws and regulations;
  - (b) Be subject to the provisions of applicable laws relating to labor, health, safety, environment and ecology;

- (c) Provide insurance to adequately cover/answer for any oil spill which may cause pollution and/or damage to the environment;
- (d) Once a Production Area has been established, CONTRACTOR to operate the Production Area in accordance with accepted good oil and gas field practices and pursuant to an efficient and economic program of operation, using modern and scientific methods to enable maximum economic production of Petroleum. CONTRACTOR shall use its best efforts to avoid hazards to life, health, and property, pollution of air, land, and waters;
- (e) Allow examiners of the Bureau of Internal Revenue and other representatives authorized by the DEPARTMENT, at all reasonable times upon prior written notice, full access to accounts, books, and records relating to Petroleum Operations hereunder for tax and other fiscal purposes;
- (f) Give priority in employment to qualified personnel (as determined by CONTRACTOR) in the municipalities or provinces where the Petroleum Operations are located;
- (g) Within sixty (60) days after the Effective Date of this Contract, to post a bond or other guarantee of sufficient amount, but not less than the minimum expenditure commitment for each Contract year, in favor of the DEPARTMENT and with surety or sureties satisfactory to the DEPARTMENT, conditioned upon the faithful performance by CONTRACTOR of any or all of its exploration activities under this Contract. Upon the request of CONTRACTOR, the amount of guarantee for each Contract Year may be subsequently reduced based on CONTRACTOR's performance of its work and expenditure commitments;
- (h) Include in the Overall Development Program, submitted to the DEPARTMENT for approval, a provision for abandonment and payment of abandonment costs. It shall provide that beginning on the Date of Commencement of Commercial Production the estimated abandonment and decommissioning cost of the Oil Fields and/or Gas Fields in the Contract Area shall be determined (with annual reviews and adjustments thereafter) and accrued and recovered annually as Operating Expenses over the productive life of the Oil Fields and/or Gas Fields. In this regard, the CONTRACTOR shall be responsible in the proper abandonment and rehabilitation of all sites affected by its Petroleum Operations. For this purpose, CONTRACTOR shall establish and maintain a sinking fund in



the form of deposit account within one (1) year after the commencement of commercial oil or gas production.

- (i) Apply the appropriate and advanced technology and business managerial experience in performing the Petroleum Operations reasonably, economically and efficiently in accordance with sound international petroleum industry practice;
- (j) Prepare the annual Work Program and budget for the DEPARTMENT's approval to carry out the Petroleum Operations;
- (k) Be responsible for procurement of installations, equipment and supplies and enter into subcontracts related to the Petroleum Operations, in accordance with the approved Work Program and budget;
- (l) Maintain complete and accurate accounting records of all the costs and expenditures for the Petroleum Operations in accordance with the provisions of Annex "B" – Accounting Procedures hereto and to keep securely the accounting books in good order;
- (m) Make necessary preparation for regular meetings of Parties, and to submit in advance to the Parties necessary information related to the matters to be reviewed and approved by the Parties;
- (n) Give preference to local companies/agencies in entering into subcontracts on projects or services which are required in the Petroleum Operations but not carried out by the Operator provided that these companies/agencies are competitive and the services required are locally available;
- (o) Inform all the Subcontractors which render services for the Petroleum Operations and all the Expatriate Employees of the Operator and of subcontractors who are engaged in the Petroleum Operations in the Philippines that they shall be subject to the laws, decrees of the Government, and other rules and regulations of the DEPARTMENT; and
- (p) Report periodically to the DEPARTMENT its work accomplishment and actual expenditure relative to Section VI hereof.

- (q) Handle the information, samples or reports in accordance with the following provisions:
- (i) Provide the DEPARTMENT with various information and data in accordance with Section VIII and Section XIV hereof;
  - (ii) Furnish the DEPARTMENT in a timely manner with reports on safety, environmental protection and accidents related to the Petroleum Operations and with financial reports prepared in accordance with the provisions of Annex “B” – Accounting Procedures hereto; and
  - (iii) Furnish the DEPARTMENT with the following:
    - (a) procurement plans for purchasing equipment and materials, inquiries, offers, orders and service contracts, etc;
    - (b) manuals, technical specifications, design criteria, design documents (including design drawings), construction records and information, consumption statistics, equipment inventory, spare parts inventory, etc.;
    - (c) technical investigation and cost analysis reports; and
    - (d) other information relating to the Petroleum Operations already acquired by the Operator in the performance of the Contract.
- (r) Abide by the laws, decrees of the Government and other rules and regulations of the DEPARTMENT with respect to environmental protection and safety of the Petroleum Operations and shall endeavor in accordance with the international petroleum industry practice to:
- (i) minimize the damage and destruction to marine organisms and their living oceanic environments;
  - (ii) control blowouts promptly and prevent or avoid waste or loss of Petroleum discovered in or produced from the Contract Area;

- (iii) prevent Petroleum from flowing into low pressure formations or damaging adjacent Petroleum-bearing formations;
  - (iv) prevent water from flowing into Petroleum-bearing formations through dry holes or other wells, except for the purpose of secondary recovery; and
  - (v) prevent land, forests, crops, buildings and other installations from being damaged and destroyed.
- (s) Maintain detailed technical records and accounts of Petroleum Operations;
  - (t) Meet with the DEPARTMENT on a monthly basis during the formulation of CONTRACTOR's Overall Development Plan and all issues relative to the development;
  - (u) Conform to Government regulations regarding, among others, safety, demarcation of the Contract Area, non-interference with the rights of other Petroleum, mineral, and natural resources operators;
  - (v) Maintain all meters and measuring equipment in good order and, upon proper notification from an inspection group, allow access to these as well as to the exploration and production sites to inspectors authorized by the DEPARTMENT;
  - (w) Be subject to Philippine income tax under the provisions of the National Internal Revenue Code and the Act, both as amended;
  - (x) After commercial production of Crude Oil commences in the Contract Area, to supply from CONTRACTOR's and Government's shares in such production, a portion of the domestic requirements of the Republic of the Philippines on a *pro-rata* basis, which portion shall be offered for sale at Market Price and shall be determined as follows: in respect of each year, by multiplying the total quantity of Crude Oil required for domestic consumption by the ratio of the total quantity of Crude Oil produced from the Contract Area to the entire Philippine production of Crude Oil. CONTRACTOR, subject to the approval of the DEPARTMENT, which approval shall not be unreasonably withheld, shall be entitled to sell its portion of such Crude Oil in the open market in case domestic purchasers of the

Crude Oil are not willing or otherwise unable to timely purchase the Crude Oil or timely pay the Market Price therefor;

- (y) CONTRACTOR, acting as reasonably prudent operator following sound oil and / or gas field practices prevalent in the international petroleum industry, shall at all times exert best efforts to ensure rig availability in connection with the performance of its obligations hereunder; and
- (z) Be responsible in securing the petroleum facilities including wells, platform, pipelines and all other equipment installed which are necessary for the petroleum operations. Costs and expenses for securing the petroleum facilities shall be included as Operating Expenses under Section X.
- (aa) Refrain from issuing press releases, media statements and interviews on any oil/gas discovery, estimated oil/gas reserves and any well drilling operations, tests, and/or results. The DEPARTMENT shall have the exclusive right to make any such press releases or interviews on the mentioned activities/information.

7.2 CONTRACTOR shall have the following rights:

- (a) Exemption from all national taxes, except Philippine income tax, under the provisions of the National Internal Revenue Code and the Act, as amended;
- (b) Exemption from payment of all levies, tariffs, duties, compensating tax and value added tax on the importation into the Philippines of all machinery, equipment, spare parts, and all materials required for, and to be used exclusively by CONTRACTOR or its Subcontractor(s) in the Petroleum Operations, on the conditions that: (1) said machinery, equipment, spare parts, and materials of comparable price, quality and quantity are not manufactured domestically nor readily available to CONTRACTOR or its Subcontractor(s) within the same or better time frame; (2) said machinery, equipment and spare parts are directly and actually needed, and will be used exclusively by the CONTRACTOR in its Petroleum Operations or in the operations for it by a Subcontractor(s) and are covered by shipping documents in the name of the CONTRACTOR to whom the shipment will be delivered directly by the customs authorities; and, (3) the prior approval of the DEPARTMENT was obtained by CONTRACTOR prior to the importation of such machinery, equipment, spare parts, and materials, which approval shall not be unreasonably withheld; *Provided* however, That if

CONTRACTOR or its Subcontractor(s) sell, transfer, or dispose of such machinery, equipment, spare parts, and materials within the Philippines without the prior approval of the DEPARTMENT, CONTRACTOR shall pay twice the amount of the tax exemption granted on the equipment sold, transferred or disposed; *Provided further*, That the DEPARTMENT shall allow, and approve the sale, transfer, or disposition of the said items within the Philippines, without tax, if made: (1) to another contractor; (2) for reasons of technical obsolescence; or, (3) for purposes of replacement to improve and/or expand the Petroleum Operations of the CONTRACTOR;

- (c) Exemption from posting of performance/surety bond during the production period of the Contract;
- (d) Exemption, upon approval by the DEPARTMENT, from laws, regulations and/or ordinances restricting: (1) the construction, installation, and operation of power plants for the exclusive use of the CONTRACTOR if no local enterprise can supply within a reasonable period and at a reasonable cost the power needed by CONTRACTOR in its Petroleum Operations; and, (2) the exportation of machinery, equipment, spare parts and materials which were imported solely for CONTRACTOR's Petroleum Operations when no longer needed therefor;
- (e) Exemption from publication requirements under Republic Act Number Five Thousand Four Hundred Fifty Five, and the provisions of Republic Act Number Six Thousand One Hundred Seventy Three, as amended, with respect to the exploration, production, exportation, sale, or disposition of Crude Oil discovered and produced in the Philippines;
- (f) Exportation of Petroleum subject to the obligation to supply a portion of domestic requirements as provided in Section 7.1(x) above;
- (g) Entry, upon the sole approval of the DEPARTMENT, which approval shall not be unreasonably withheld, of alien technical and specialized personnel (including the immediate members of their families), who may exercise their professions solely for the Petroleum Operations of CONTRACTOR; *Provided*, That if the employment or connection of such alien with CONTRACTOR ceases, the applicable laws and regulations on immigration shall apply to him and his immediate family; *Provided further*, That Filipinos shall be given preference to positions for which they have adequate training and experience (as determined by

CONTRACTOR); *Provided finally*, That CONTRACTOR shall adopt and implement a training program for Filipinos along technical or specialized lines;

- (h) Have at all times the right of ingress to and egress from the Contract Area and to and from facilities wherever located;
- (i) Subject to regulations of the Bangko Sentral ng Pilipinas, be entitled to: (1) repatriate over a reasonable period the capital investment and all costs and expenses actually spent on or brought into the country in Foreign Exchange or other assets and registered with the Bangko Sentral ng Pilipinas; (2) retain abroad all Foreign Exchange representing proceeds arising from exports accruing to CONTRACTOR and/or its designated Operator over and above: (a) the Foreign Exchange to be converted into pesos in an amount sufficient to cover the costs of the Petroleum Operations payable in Philippine currency; and, (b) revenues due the Government on such Crude; (3) convert into Foreign Exchange and remit abroad at prevailing rates no less favorable to CONTRACTOR than those available to any other purchaser of foreign currencies, any excess balances of CONTRACTOR's peso earnings from Petroleum production and sale over and above the current working capital they require; and, (4) convert Foreign Exchange into Philippine currency for all purposes in connection with its Petroleum Operations at prevailing rates no less favorable to CONTRACTOR than those available to any other purchaser of such currency;
- (j) Be allowed the Filipino Participation Incentive Allowance (FPIA); and
- (k) Exemption from the investment requirements of foreign corporations under Section 126 in relation to Section 148 of the Corporation Code of the Philippines.

7.3 The DEPARTMENT shall assume and pay, on behalf of each company comprising CONTRACTOR, all income taxes payable to the Republic of the Philippines under the provisions of this Contract, the National Internal Revenue Code, and the Act based on income or profit derived from Petroleum Operations under this Contract. The DEPARTMENT shall separately remit the payment of such taxes to, and obtain separate official receipts acknowledging payment of said taxes from, the proper Government authority and shall furnish to each of the companies comprising CONTRACTOR their respective official receipts issued in their names.

**SECTION VIII**  
**WORK PROGRAM AND BUDGET**

- 8.1 Before the \_\_\_\_\_ of each Calendar Year after the Effective Date of the Contract, the CONTRACTOR shall submit and present to the DEPARTMENT for review and approval its annual Work Program and Budget for the next Calendar Year. Within forty five (45) days following the receipt of the annual Work Program and Budget, the DEPARTMENT shall notify the CONTRACTOR in writing of its approval or suggest modifications thereto with its detailed reasons. If the DEPARTMENT requests any modifications on the aforesaid annual Work Program and Budget, the Parties shall promptly hold meetings to discuss modifications and all suggested modifications will be respectively considered by the CONTRACTOR. Any modifications agreed upon by the Parties shall be effected immediately. In case the DEPARTMENT fails to act on the proposed annual Work Program and Budget within forty five (45) days from receipt, the proposed annual Work Program and Budget shall be deemed to have been approved by the DEPARTMENT. The CONTRACTOR shall make its best efforts to perform the Petroleum Operations in accordance with the approved or modified annual Work Program and Budget.
- 8.2 The CONTRACTOR may, in accordance with the following provisions, incur excess expenditures or expenditures outside the budget in carrying out the Work Program and Budget, provided that the objectives in the approved Work Program and Budget are not changed.
- (a) In carrying out an approved budget for a single item, such as the drilling of well, the CONTRACTOR may, if necessary, incur excess expenditures of no more than ten percent (10%) of the budgeted amount. The CONTRACTOR shall inform the DEPARTMENT in writing of such possible excess of aggregate amount ten (10) days prior to incurring such expenditures and explain the need for such expenditures.
  - (b) For the efficient performance of the Petroleum Operations, the CONTRACTOR may, without approval of the DEPARTMENT, undertake certain case of emergency works which are not included in the Work Program and Budget, for a maximum expenditure of US\$100,000.00, but the CONTRACTOR shall, within fifteen (15) days after such expenditures are incurred, make a written report the same to the DEPARTMENT.

- (c) In the event that the aggregate of excess expenditures under Section 8.2(a) herein and expenditures under Section 8.2(b) herein in a Calendar Year cause the total expenditures of that Calendar Year to exceed the approved annual budget, such excess shall not exceed five percent (5%) of the approved annual budget for that Calendar Year. If the aforesaid excess is expected to be in excess of five percent (5%) of the annual budget, the CONTRACTOR shall present its reasons therefore to the DEPARTMENT in writing and also meet with the DEPARTMENT to discuss the expenditures for approval prior to incurring such expenditures.

## **SECTION IX DETERMINATION OF COMMERCIALITY**

- 9.1 If any Crude Oil or Natural Gas discovery is made within the Contract Area, the CONTRACTOR shall promptly report such discovery to the DEPARTMENT.

If the CONTRACTOR makes a decision that a Crude Oil/Natural Gas discovery is worthy of appraisal, the CONTRACTOR shall submit to the DEPARTMENT an appraisal Work Program including appraisal work and timetable for such discovery as soon as possible. For crude oil discovery such an appraisal Work Program shall be prepared and submitted by the CONTRACTOR to the DEPARTMENT not later than ninety (90) days from the date of the aforesaid decision made by the CONTRACTOR. The appraisal Work Program shall, insofar as is practicable, be based on conducting the appraisal work continuously, with a view to commencing petroleum operations within one hundred eighty (180) days from the date of the aforesaid decision made by the CONTRACTOR.

- 9.2 After the submission to and approval by the DEPARTMENT of the appraisal Work Program referred to in Section 9.1 herein, the CONTRACTOR shall carry out the operations as soon as possible without unreasonable delay in accordance with the timetable set forth in the approved appraisal Work Program.
- 9.3 Within one hundred eighty (180) days after the completion of the last Appraisal Well, the CONTRACTOR shall submit to the DEPARTMENT a detailed report on the appraisal of the commerciality of the discovery. Under special circumstances, the above-mentioned periods may be reasonably extended upon agreement of the Parties. The appraisal report shall include the evaluation on geology, development, engineering and economics.



9.4 Within thirty (30) days following the submission of the appraisal report on any Crude Oil bearing trap, the CONTRACTOR shall convene a meeting with the DEPARTMENT to review such report. When Parties decides unanimously after its review that the said Crude Oil bearing trap may be an Oil Field containing Petroleum in Commercial Quantity, then CONTRACTOR shall, within a reasonable period of time, submit an Overall Development Program to the DEPARTMENT. The Overall Development Program shall include the Maximum Efficient Rate (MER) and the expected duration of the production determined in accordance with the international petroleum industry practice.

Prior to the submission of the Overall Development Program, the CONTRACTOR shall submit to the DEPARTMENT a report of Crude Oil and Natural Gas reserves in place for review. The CONTRACTOR shall likewise submit to the DEPARTMENT for approval the Overall Development Program of the said Oil Field to be developed.

9.5 In the event of an Oil Field and/or Gas Field Straddling a Boundary, the CONTRACTOR shall endeavor to arrange with the neighboring parties involved to work out a unitized Overall Development Program for such Field and to negotiate the relevant provisions thereof.

9.6 If a Petroleum bearing trap without commercial value within the Contract Area can be most economically developed as a commercial Oil Field and/or Gas Field by linking it up with facilities located outside the Contract Area, then the development of such Field shall be dealt with in the same manner as provided in Section 9.5 herein or other manner agreed by the neighboring parties.

9.7 The procedures specified in this Section IX shall be applied, by analogy, to the determination of additional development projects in any Oil Field within the Contract Area during the production period, such projects being designed to increase the level of production and/or total quantity of Petroleum recoverable from the said Field.

9.8 If an appraisal trial production or temporary trial production or an extended well test is deemed by the CONTRACTOR to be necessary with respect to any trap in which Petroleum is discovered or any Oil Field and/or Gas Field within the Contract Area, the CONTRACTOR shall reach a written agreement with the DEPARTMENT through negotiation on terms and conditions of appraisal trial production or temporary trial production or extended well test.

**SECTION X**  
**RECOVERY OF OPERATING EXPENSES AND**  
**ACCOUNTING FOR PROCEEDS OF PRODUCTION**

- 10.1 For the purpose of determining gross proceeds, Petroleum shall be valued as follows:
- (a) All Petroleum sold, exchanged, or otherwise disposed for consumption in the Philippines, or for export, shall be valued at Market Price; *Provided*, that the actual sales price for such Petroleum shall be deemed to be the Market Price if such Petroleum is sold in a transaction between independent persons dealing at arm's length in a free market.
  - (b) If there are no transactions which can be used to determine the Market Price of Crude Oil, then such Petroleum shall be valued at the Posted Price.
  - (c) If there are no transactions which can be used to determine the Market Price of Natural Gas, then the value of Natural Gas produced from the Contract Area shall be determined based on general pricing principles prevailing internationally, taking into account such factors as the market, quality and quantity of the Natural Gas, including equivalent hydrocarbon substitute energy imported into the Philippines.
  - (d) The value determined under Section 10.1(a), (b) or (c) above shall be reduced by reasonable commissions or brokerage fees incurred in connection with sales to Third Parties but shall not exceed the customary and prevailing rate.
- 10.2 In each Calendar Year, CONTRACTOR shall recover from the Gross Income resulting from the sale, exchange, or other disposition of all Petroleum produced under this Contract an amount equal to all unrecovered Operating Expenses; *Provided*, that the amount so recovered shall not exceed seventy percent (70%) of the Gross Income from Petroleum production in any Calendar Year; *Provided further*, that if, in any Calendar Year, the unrecovered Operating Expenses exceed seventy percent (70%) of the Gross Income from Petroleum production, or there are no Gross Income, then the unrecovered Operating Expenses shall be recovered from the Gross Income in the succeeding Calendar Year(s).
- 10.3 Unless elected otherwise by the DEPARTMENT, the CONTRACTOR shall market the Government share of petroleum. CONTRACTOR shall have the right and privilege of

receiving in kind and disposing of CONTRACTOR's portion of the Petroleum produced and saved from the Contract Area.

10.4 If the DEPARTMENT elects to receive its entire share of Petroleum in kind, then the DEPARTMENT shall notify CONTRACTOR of such election at least six (6) months in advance of any Calendar Year in which Petroleum is to be received. However, if the CONTRACTOR markets the Government share of Petroleum produced, the CONTRACTOR shall account for the proceeds from such sales as provided in this Section X.

(a) If the CONTRACTOR markets the Government's entire share of Petroleum production, CONTRACTOR shall within three (3) working days from the collection date, but in no case beyond sixty (60) days from lifting or delivery date, pay to the DEPARTMENT, with respect to such Petroleum production, an amount equal to sixty percent (60%) of estimated Net Proceeds from each Petroleum lifting or delivery operation. This payment shall be calculated in accordance with the United States dollar amounts recorded in the books of accounts pursuant to Section XVIII. The payment corresponding to the first lifting or delivery of the Calendar Year shall include any adjustments on the Government's share for the preceding calendar quarter.

(b) If the payment for the Petroleum marketed is not received by CONTRACTOR within sixty (60) days from a lifting or delivery date, CONTRACTOR shall accordingly inform the DEPARTMENT immediately. CONTRACTOR and the DEPARTMENT shall then meet to agree upon a mutually acceptable solution.

10.5 If CONTRACTOR has not been authorized to market the Government's entire share of Petroleum production, then with respect to such Petroleum the Government shall be entitled to receive in kind and shall take Petroleum equal in value to sixty percent (60%) of the Net Proceeds.

10.6 CONTRACTOR shall retain its share of Petroleum in an amount equal to its fee of forty percent (40%) of the Net Proceeds from Petroleum Operations.

10.7 For purposes of this Section X, Net Proceeds means the difference between Gross Income, and the sum of: (1) the Operating Expenses recoverable pursuant to Section 10.2 and (2) the Filipino Participation Incentive Allowance pursuant to Section 7.2(j).

**SECTION XI**  
**INCOME TAXES**

11.1 CONTRACTOR shall be liable each taxable year for Philippine income tax under the provisions of the National Internal Revenue Code and the Act, both as amended. The CONTRACTOR's Gross Income shall consist of:

- (a) Gross Proceeds determined in accordance with Section 10.1. above; and,
- (b) Such other income which is incidental to and/or arising from any Petroleum Operations or other aspects of this Contract.

In computing the Taxable Net Income CONTRACTOR shall be allowed to deduct operating expenses recovered pursuant to Section 10.2 above.

11.2 In ascertaining CONTRACTOR's Taxable Net Income, CONTRACTOR shall be allowed to deduct from Gross Income two-thirds (2/3) of the amount of interest or other consideration paid or suffered in respect of the financing of development or production operations in the Contract Area.

11.3 CONTRACTOR shall render to the DEPARTMENT a return for each taxable year in duplicate in such form and manner as provided by law setting forth its Gross Income and the deductions herein allowed. The DEPARTMENT shall file CONTRACTOR's return with the Commissioner of Internal Revenue or his deputies or other persons authorized to receive such return within the period specified in the National Internal Revenue Code and the Rules and Regulations promulgated thereunder.

11.4 The DEPARTMENT shall separately pay the income taxes of each company comprising CONTRACTOR and, upon payment, shall obtain separate official receipts in the name of each company comprising CONTRACTOR and shall furnish such receipts to each company. Each of the companies comprising CONTRACTOR shall be subject to tax separately on its share of income.

**SECTION XII**  
**PAYMENTS**

All payments which this Contract obligates CONTRACTOR to make to the DEPARTMENT shall be in Foreign Exchange at a bank to be designated by the DEPARTMENT and agreed upon

by the Bangko Sentral ng Pilipinas; *Provided*, That CONTRACTOR may make such payments in Philippine Pesos to the extent that such currency is realized as a result of the domestic sale of Petroleum. All such payments shall be translated at the applicable exchange rate as defined in the Accounting Procedures attached hereto as Annex "B".

**SECTION XIII**  
**NATURAL GAS**

13.1 Associated Gas.

- (a) Associated Gas produced from any Oil Field within the Contract Area shall be used primarily for purposes related to the Production Operations and production enhancement of Oil Fields including, without limitations, oil treating, gas injection, gas lifting and power generation.
- (b) Based on the principle of full utilization of the Associated Gas and with no impediment to normal production of the Crude Oil, the Overall Development Program of each Oil Field shall include a plan of utilization of Associated Natural Gas. If there is any excess Associated Gas remaining in any Oil Field after utilization pursuant to Section 13.1(a) herein, the CONTRACTOR shall carry out a feasibility study regarding the commercial utilization of such excess Associated Gas. Such feasibility study, if carried out before the Development Operations of an Oil Field, shall be included as part of the feasibility study on the development of the Oil Field.
  - (i) If the Parties agree that excess Associated Gas has no commercial value, then such gas shall be disposed of by the CONTRACTOR, provided that there is no impediment to normal production of the Crude Oil.
  - (ii) If the Parties agree that excess Associated Gas has commercial value, CONTRACTOR shall complete the gas sales contract(s) and other commercial and technical arrangements required to develop such Gas with prior approval of the DEPARTMENT. The DEPARTMENT shall participate in all gas sales negotiations to be entered into for the sale of Associated Gas to be produced from the Contract Area.
  - (iii) If any Party considers that excess Associated Gas has commercial value while the other Party considers that excess Associated Gas has no

commercial value, the Party which considers excess Associated Gas to have commercial value may utilize such excess Associated Gas, at its own cost and expense and without impeding the production of Crude Oil and without affecting the shares of Crude Oil and Gas otherwise allocable to the Parties under the other provisions of this Contract, but if such excess Associated Gas is not so utilized at any time or from time to time, then such excess Associated Gas shall be disposed of by the CONTRACTOR, provided that there is no impediment to normal production of the Crude Oil.

### 13.2 Non-associated Gas.

- (a) For Non-associated Gas discovery pursuant to Sections 9.1 and 9.2 herein an appraisal Work Program shall be prepared and submitted by the CONTRACTOR to the DEPARTMENT not later than twenty four (24) months from the submission of the discovery report. During this period CONTRACTOR will conduct preliminary market studies in order to analyze the markets for the Non-associated Gas as well as investigate such technical issues as reserve size ranges, deliverability and other issues pertaining to the exploitation of the Non-associated Natural Gas.
- (b) Following the completion of the appraisal Work Program and review of the potential of the discovery, the CONTRACTOR shall submit an appraisal report to the DEPARTMENT within one (1) Calendar Year from the completion of the last appraisal well. If the CONTRACTOR with the approval of the DEPARTMENT decides that the discovery is commercial, the Parties shall agree on a development plan for the Gas Field. The CONTRACTOR shall complete the gas sales contract(s) and other commercial and technical arrangements required to develop such Natural Gas. The DEPARTMENT may participate in all gas sales negotiations to be entered into for the sale of the Non-associated Gas to be produced from the Contract Area.
- (c) If the Parties decide unanimously that a Non-associated Gas reservoir is non-commercial, the corresponding area covered by the Non-associated Gas reservoir may be retained in the Contract Area as long as CONTRACTOR is actively seeking in good faith to solve technical issues and find a market for the Non-associated Gas, but in no event can the CONTRACTOR retain the area longer

than ten (10) years from the submission of the discovery report nor beyond the termination of this Contract.

- (d) Prior to the expiration of the exploration period, if the DEPARTMENT considers that a Non-associated Gas reservoir which has been determined to be non-commercial needs to be reappraised because of some favorable factors, the CONTRACTOR shall work out a new evaluation report on that Non-associated Gas reservoir and submit the same to the DEPARTMENT for review and approval.

### 13.3 Natural Gas Transportation.

- (a) The DEPARTMENT may agree to the participation of the CONTRACTOR in the pipeline installation and operation to transport Natural Gas, subject to a separate pipeline agreement between the DEPARTMENT and CONTRACTOR and/or Third Parties. If CONTRACTOR participates in the installation and operation of such pipeline(s), the installation and operation of such pipeline(s) shall be included in the Overall Development Program and Petroleum Operations under this Contract.
- (b) If a Third Party provides Natural Gas pipeline transportation services to CONTRACTOR, the tariffs charged to CONTRACTOR for such services shall be fair and reasonable based on the investment and shall be appropriate for pipeline infrastructure projects in the Philippines.

## **SECTION XIV**

### **TECHNICAL DATA AND REPORTS SUBMISSION**

14.1 All technical data and reports, except for proprietary techniques used in developing such technical data and reports, must be submitted by the CONTRACTOR to the DEPARTMENT within sixty (60) days after such technical data and reports became available. The technical data and reports to be submitted by the CONTRACTOR include but are not limited to the following:

- (a) Unprocessed and migrated seismic data in tapes, CD and hard copies

- (b) Geological and geochemical reports, including geological maps, petrographic data and geochemical data/analysis
- (c) Geophysical Reports
  - (i) Seismic acquisition, processing and interpretation reports
  - (ii) Gravity & Magnetic Surveys
  - (iii) Navigation data of surveys
  - (iv) Other geophysical surveys
- (d) Rock cores, rock cuttings, geological logs and hydrocarbon or fluid samples obtained from drilling
- (e) Drillstem and well test data, analysis and interpretation
- (f) Well drilling, completion and abandonment reports
- (g) All petrophysical and geophysical logs from wells in digital and hard copies
- (h) Data, analysis, and interpretation on oil and gas reservoir characteristics
- (i) Oil, gas and condensate production reports
- (j) Other relevant data and reports generated from Petroleum Operations

## **SECTION XV**

### **ASSETS AND EQUIPMENT**

- 15.1 CONTRACTOR shall acquire for the Petroleum Operations only such assets and equipment as are reasonably estimated to be required in carrying out the Petroleum Operations.
- 15.2 CONTRACTOR may also utilize in the Petroleum Operations, equipment owned and made available by CONTRACTOR. Charges to the Petroleum Operations account for the use of such equipment shall be made as provided in the Annex "B" - Accounting Procedures.
- 15.3 The DEPARTMENT shall have ownership of any cost recovered assets and materials, equipment and facilities which it elects to retain after the termination of this Contract.



However, all other materials, equipment and facilities which the DEPARTMENT does not elect to retain shall be removed and disposed by the CONTRACTOR within one (1) year after the termination of this Contract, or within the period agreed by the Parties.

- 15.4 The ownership of all data, records, samples, and other technical data obtained in the course of performing the Petroleum Operations shall be vested in the DEPARTMENT.

## **SECTION XVI**

### **CONSULTATION AND ARBITRATION**

- 16.1 The Parties shall make their best efforts to settle amicably through consultation any dispute arising in connection with the performance or interpretation of any provision hereof.
- 16.2 Disputes arising between the DEPARTMENT and CONTRACTOR relating to this Contract or the interpretation and performance of any of its clauses, which cannot be settled amicably, shall be settled by arbitration. The DEPARTMENT and CONTRACTOR shall each appoint one arbitrator and so advise the other Party within thirty (30) days after receipt of a written request to do so. Such two arbitrators shall appoint a third arbitrator. If either Party fails to appoint an arbitrator within thirty (30) days after receipt of a written request from the other Party to do so, such arbitrator shall be appointed, at the request of the other Party, by the President of the International Chamber of Commerce. If the first two arbitrators appointed as aforesaid fail to agree on a third arbitrator within thirty (30) days after receipt of a written request from the other Party to do so, such third arbitrator shall be appointed, at the request of either Party, by the President of the International Chamber of Commerce. If an arbitrator fails or is unable to act, his successor will be appointed in the same manner as the arbitrator whom he succeeds. Unless the Parties agree otherwise, the Philippines shall be the venue of the arbitration proceedings.
- 16.3 The English language shall be the official language to be used in the arbitral proceedings. All hearing materials, statement of claim or defense, award and the reasons supporting them shall be written in English.
- 16.4 The decision of a majority of the arbitrators shall be final and binding upon the Parties. Judgment upon the award rendered may be entered in any court having jurisdiction or application may be made to such court for a judicial acceptance of the award and an order of enforcement, as the case may be.

- 16.5 Except as provided in this Section XVI, arbitration shall be conducted in accordance with the Rules of Arbitration of the International Chamber of Commerce, then in effect.
- 16.6 The right to arbitrate disputes under this Contract shall survive the termination or cancellation of the Contract.

**SECTION XVII**  
**EMPLOYMENT AND TRAINING**  
**OF PHILIPPINE PERSONNEL**

- 17.1 CONTRACTOR agrees to employ qualified Filipino personnel (as determined by CONTRACTOR) in the Petroleum Operations and, after commercial production commences, will undertake the schooling and training of Filipino personnel for labor and staff positions, including administrative, technical and management positions.
- 17.2. CONTRACTOR shall provide assistance for training programs, conferences, seminars and other similar activities for the DEPARTMENT's personnel with a total training commitment of Twenty Thousand United States Dollars (US\$20,000.00) per year, cumulative during exploration/development period and Fifty Thousand United States Dollars (US\$50,000.00) per year, cumulative during production period. This training obligations shall survive the cancellation/termination of this Contract
- 17.3. Costs and expenses of training Filipino/Foreign personnel for CONTRACTOR's own employment and the training assistance of DEPARTMENT's personnel shall be included as Operating Expenses in the Work Program and Budget under Section VIII hereof.

**SECTION XVIII**  
**BOOKS OF ACCOUNTS AND AUDIT**

- 18.1. CONTRACTOR shall be responsible for keeping complete books of accounts, both in United States and Philippine currency denominations, reflecting all transactions in connection with the Petroleum Operations in accordance with Annex "B" - Accounting Procedures.

- 18.2. The DEPARTMENT shall have the right to inspect and audit CONTRACTOR's books of accounts relating to this Contract for any Calendar Year within twenty four (24) months following the end of such Calendar Year. Any such audit shall be completed within twenty four (24) months after its commencement. Any exception must be made to CONTRACTOR in writing within ninety (90) days following the completion of such audit. If the DEPARTMENT fails to give such written exception within such time, or fails or declines to conduct an audit of CONTRACTOR's books of accounts within the time period stated above, then CONTRACTOR's books of accounts and statements of Operating Expenses for such Calendar Year shall be established as correct and final for all purposes including the recovery of Operating Expenses.
- 18.3 The DEPARTMENT is entitled access to all relevant joint account, records, files and other information and may inspect such sites and facilities as necessary.
- 18.4 If the DEPARTMENT notifies CONTRACTOR of an exception to CONTRACTOR's books of accounts within the time period specified in Section 18.2 above, CONTRACTOR shall within ninety (90) days after receipt of such notice confer with the DEPARTMENT regarding the exception and the Parties shall attempt to reach a mutually acceptable resolution of such exception within a period not to exceed six (6) months. If any cost or expense included in CONTRACTOR's statement of Operating Expenses is the subject of an exception which cannot be resolved during such six (6) months period, then such cost or expense shall be excluded as an Operating Expense and shall not be recoverable from gross proceeds pending the resolution of such exception through mutual agreement or arbitration. If such cost or expense is subsequently determined to be properly included in CONTRACTOR's statement of Operating Expenses, either by mutual agreement or arbitration, then CONTRACTOR's current statement of Operating Expenses shall be increased by the amount of such cost or expense.

## **SECTION XIX**

### **MISCELLANEOUS PROVISIONS**

#### 19.1. *Notices*

Any notice required or given by either Party to the other Party shall be in writing and shall be effective when a copy thereof is handed to or served upon the Party's designated representative or the person in charge of the Party's office or place of business; or, when sent by facsimile, notice shall be effective upon the issuance of a confirmation report that

the notice was successfully transmitted to addressee's number; or, when sent by registered mail, notice shall be effective upon actual receipt by the addressee; *Provided*, That if addressee fails to claim its mail from the post office within five (5) days from the date of the first notice of the postmaster, service shall take effect at the expiration of such time. All such notices shall be addressed, as follows:

To the GOVERNMENT -

Director  
Energy Resource Development Bureau  
**DEPARTMENT OF ENERGY**  
Energy Center  
Merritt Road, Fort Bonifacio  
Taguig, Metro Manila, Philippines  
Tel. No. : (632) 840-14-01

To the CONTRACTOR -

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Any Party may substitute or change its address on written notice thereof to the other Parties.

19.2. ***Governing Law***

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

19.3 ***DEPARTMENT Circulars, Rules and Regulations on Petroleum***

The CONTRACTOR shall abide by DEPARTMENT circulars, rules and regulations on petroleum issued by the DEPARTMENT.

Subject to Section XXI of this Contract, the CONTRACTOR shall abide by the DEPARTMENT circulars, rules and regulations on petroleum to be issued by the DEPARTMENT; provided, however, that the DEPARTMENT shall send notice to CONTRACTOR of the complete text of any new or amended circulars, rules and regulations issued on or after the Effective Date immediately upon the issuance of any such new or amended circulars, rules and regulations.

19.4 ***Cancellation of Contract***

The DEPARTMENT shall have the power to cancel and annul this Contract after due notice for failure of CONTRACTOR without justifiable cause to (a) fulfill its work obligation in any Contract Year or exploration sub-phase, (b) remit the government share within sixty (60) days from lifting or delivery date, (c) post the required performance bond within sixty (60) days from award of Contract, (d) implement safety measures required by the DEPARTMENT, and (e) submit the reportorial requirements.

19.5 ***Downstream Facilities***

At such time as CONTRACTOR has established commercial production, CONTRACTOR may undertake technical and economic studies to determine the feasibility of establishing downstream facilities such as petrochemical, liquefied natural gas (“LNG”), liquefied petroleum gas (“LPG”), compressed natural gas (CNG) or middle distillate synthesis plants in the Philippines to utilize a portion of the Petroleum produced from the Contract Area. If the studies indicate that a particular downstream facility could be constructed and operated in an economical and technically feasible manner, then CONTRACTOR shall have the option, subject to the Government's approval, to design, construct, and operate such facility. The DEPARTMENT shall assist CONTRACTOR in obtaining such approvals.

**SECTION XX**

**PAYMENTS BY CONTRACTOR**

20.1 CONTRACTOR shall pay the DEPARTMENT a signature bonus of U.S.\$\_\_\_\_\_within sixty (60) days from the date of execution of this Contract.

20.2. CONTRACTOR shall, within sixty (60) days following commencement of production of Petroleum in Commercial Quantity, pay to the DEPARTMENT the total sum of \_\_\_\_\_ Thousand United States Dollars (US\$\_\_\_\_,000.00).

- 20.3. On the first occasion that there shall be produced and sold from the Contract Area either twenty five thousand (25,000) barrels of Crude Oil and/or Casinghead Petroleum Spirit per day (BPD) or two hundred fifty million (250,000,000) cubic feet of Natural Gas per day (CFGD) at an average rate for sixty (60) consecutive days, CONTRACTOR shall, within sixty (60) days following the expiration of said sixty (60) day period, pay to the DEPARTMENT the total sum of Five Hundred Thousand United States Dollars (US\$500,000.00); *Provided*, it is understood that CONTRACTOR, in order to sustain said rate of twenty five thousand (25,000) BPD of Crude Oil and/or Casinghead Petroleum Spirit or two hundred fifty million (250,000,000) CFGD for said sixty (60) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil and/or gas field practice prevalent in the international petroleum industry.
- 20.4. On the first occasion that there shall be produced and sold from the Contract Area either fifty thousand (50,000) BPD of Crude Oil and/or Casinghead Petroleum Spirit or five hundred million (500,000,000) CFGD at an average rate for sixty (60) consecutive days, CONTRACTOR shall, within sixty (60) days following the expiration of said sixty (60) day period, pay to the DEPARTMENT the total sum of One Million United States Dollars (US\$1,000,000.00); *Provided*, it is understood that CONTRACTOR, in order to sustain said rate of fifty thousand (50,000) BPD of Crude Oil and/or Casinghead Petroleum Spirit or five hundred million (500,000,000) CFGD for said sixty (60) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil and/or gas field practice prevalent in the international petroleum industry.
- 20.5. On the first occasion that there shall be produced and sold from the Contract Area either seventy five thousand (75,000) BPD of Crude Oil and/or Casinghead Petroleum Spirit or seven hundred fifty million (750,000,000) CFGD at an average rate for sixty (60) consecutive days, CONTRACTOR shall, within sixty (60) days following the expiration of said sixty (60) day period, pay to the DEPARTMENT the total sum of Two Million United States Dollars (US\$2,000,000.00); *Provided*, it is understood that CONTRACTOR, in order to sustain said rate of seventy five thousand (75,000) BPD of Crude Oil and/or Casinghead Petroleum Spirit or seven hundred fifty million (750,000,000) CFGD for said sixty (60) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil and/or gas field practice prevalent in the international petroleum industry.

**SECTION XXI**  
**STABILIZATION**

- 21.1. Rights and obligations under this Contract shall be deemed as essential considerations for the conclusion hereof and shall not be unilaterally changed or impaired.
- 21.2 This Contract shall not be annulled, amended or modified in any respect except by the mutual consent in writing of the Parties hereto.
- 21.3. CONTRACTOR's rights under this Contract shall not be impaired and its obligations shall not be increased by: (1) any change in Philippine laws or regulations; or, (2) any change in the manner of implementing any existing laws or regulations; or (3) any introduction of new laws or regulations; or (4) any cancellation of existing laws or regulations.

**SECTION XXII**  
**INSURANCE**

- 22.1 The CONTRACTOR shall work out an insurance program for the Exploration Operations and submit the same to the DEPARTMENT for review and approval within one hundred and twenty (120) days after the Effective Date of this Contract. The CONTRACTOR shall obtain the insurance contracts in accordance with such program as approved by the DEPARTMENT before commencement of Petroleum Operations within the Contract Area. Similar provisions shall apply in respect of Development Operations and Production Operations.
- 22.2 The insurance programs worked out by the CONTRACTOR shall include, but not be limited to, the following insurance covering:
- a) damages to and expenses for all drilling installations and equipment, including damages to and expenses for the properties used in work sites and supply bases for the Petroleum Operations, while the equipment and properties owned by any Third Party rendering services to the CONTRACTOR shall be handled in accordance with Section 22.4 herein;
  - b) damages to and expenses for any of the equipment or installations for production, storage and transportation, and buildings in the course of construction and installation both onshore and offshore;

- c) damages to and expenses for the Crude Oil and/or Natural Gas production installations, facilities, equipment and pipelines, both onshore and offshore;
  - d) liability to Third Party;
  - e) liability for pollution and expenses for cleaning up in the course of drilling and Production Operations;
  - f) expenses for killing blowouts;
  - g) liability incurred by the CONTRACTOR who takes the responsibility in chartering drilling vessels, supply boats or other boats, ships and aircraft serving the Petroleum Operations;
  - h) liability for removal of wrecks;
  - i) losses and expenses incurred during the transportation and storage in transit of goods shipped from different parts of the world to work sites.
- 22.3 Losses within the deductible limits of the insurance program reviewed and approved by the DEPARTMENT in accordance with Section 22.1 herein shall be chargeable as Operating Expenses.
- 22.4 The CONTRACTOR shall endeavor to urge Subcontractors and lessors to insure themselves against relevant losses.

### **SECTION XXIII CONFIDENTIALITY**

- 23.1 All documents, information, data and reports related to the Petroleum Operations within the Contract Area (“Confidential Information”) shall be kept confidential, pursuant to this Section 23 for the duration of the Contract.
- 23.2 Without the written consent of the DEPARTMENT no company comprising the CONTRACTOR or any assignee shall disclose the Confidential Information to any Third Party and to any Affiliate not directly connected with the implementation of the Contract except the Third Parties and Affiliates in Section 23.3 herein, and no Party shall



otherwise transfer, present, sell or publish it in any way within the Confidentiality periods.

Within the confidentiality period, the DEPARTMENT shall bear the obligations for confidentiality for the Confidential Information. However, DEPARTMENT has the right to furnish the following original information and data or interpretation thereon with respect to the Contract Area to any Third Parties.

- (a) raw information and data generated and held by CONTRACTOR for over two (2) years; and
- (b) interpretations of original information and data generated and held by CONTRACTOR for over five (5) years.

23.3 CONTRACTOR may, furnish necessary Confidential Information to the following Third Parties and Affiliates

- (a) Banks or other credit institutions from which finance is sought by any party to the Contract for the implementation of the Contract;
- (b) Third Parties and Affiliates which provide services for the Petroleum Operations, including Subcontractors and other service contractors; and
- (c) A prospective assignee or assignees to whom rights and obligations under the Contract are intended to be assigned.

23.4 Necessary Confidential Information may be furnished by the CONTRACTOR to governments and stock exchanges in accordance with the laws of the relevant countries.

23.5 The CONTRACTOR when furnishing Confidential Information to Third Parties and Affiliates as mentioned in Section 23.3 herein shall require them to assume the confidentiality obligations as set forth herein.

## **SECTION XXIV**

### **ASSIGNMENTS AND AUTHORIZATION**

24.1 The CONTRACTOR may assign part or all of its rights and/or obligations under the Contract to its Affiliate with prior notice to the DEPARTMENT and in accordance with the following provisions:

- a) the CONTRACTOR shall submit to the DEPARTMENT copies of a written agreement on the corresponding part of its rights and/or obligations to be assigned;
  - b) the CONTRACTOR shall guarantee in writing to the DEPARTMENT the performance of the assigned obligations; and
  - (c) no such assignment shall interfere with the performance of the Petroleum Operations or affect the organizational structure.
- 24.2 The CONTRACTOR may assign part or all of its rights and/or obligations under the Contract to any Third Party, provided that such assignment shall be approved by the DEPARTMENT in advance and provided further that such approval will not be unreasonably withheld.
- 24.3 The CONTRACTOR may authorize its subsidiaries, branches or regional corporations to implement the Contract, but CONTRACTOR shall remain responsible for the performance of the Contract.

## **SECTION XXV**

### **HEALTH, ENVIRONMENTAL PROTECTION AND SAFETY**

- 25.1 In the performance of the Petroleum Operations, the CONTRACTOR shall be subject to the laws, decrees and regulations on environmental protection, indigenous peoples rights and safety promulgated by the Government and endeavor to make its best efforts to prevent pollution and damage to the atmosphere, oceans, rivers, lakes, harbors and land, and secure the safety and health of the operating personnel. The CONTRACTOR shall use all reasonable endeavors as are applicable to eliminate promptly any pollution occurring in the performance of the Petroleum Operations and minimize its consequences.
- 25.2 When the Government assigns any person to inspect for environmental protection and safety within the scope of the Petroleum Operations according to relevant laws, decrees, rules and regulations, the CONTRACTOR shall provide such reasonable facilities and assistance as are applicable to enable the inspectors to carry out such inspection smoothly. CONTRACTOR shall be given reasonable notice of all such inspections.

**SECTION XXVI**  
**FORCE MAJEURE**

26.1 *Force Majeure*

- (a) Any failure or delay on the part of either Party in the performance of its obligations or duties hereunder shall be excused to the extent attributable to Force Majeure. If operations are delayed, curtailed, or prevented by such causes, then the time for enjoying the rights and carrying out of the obligations thereby affected, and all rights and obligations hereunder shall be extended for a period equal to the period of delay, curtailment or prevention.
- (b) Force Majeure shall include Acts of God, unavoidable accidents, acts of war or conditions attributable to or arising out of war (declared or undeclared), laws, rules, regulations, and orders by any government or governmental agency strikes, lockouts, or other labor or political disturbances, insurrections, riots, and other civil disturbances, hostile acts of hostile forces constituting direct and serious threat to life and property, and all other matters or events of a like or comparable nature beyond the control of the Party concerned, other than rig availability; *Provided*, that laws, rules, regulations, and orders of the Government or any of its agencies shall not constitute Force Majeure as to the DEPARTMENT.
- (c) The Party whose ability to perform its obligations is impaired due to Force Majeure shall notify the other Party in writing of such fact with reasonable detail as to the cause and nature thereof and both Parties shall do what is reasonably within their power to remove such cause.

**SECTION XXVII**  
**TERMINATION**

27.1 This Contract shall be terminated as provided in Sections 4.1 and 4.2 hereof.

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

**GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES:**

Represented By:

**DEPARTMENT OF ENERGY**

By:

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**VINCENT S. PÉREZ, JR.**  
Secretary

**CONTRACTOR:**

By:

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By:

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By:

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