



Marginal Field Incentive

by

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DEFINITION

A marginal field is an oil field located within a producing block that, under the current PSC terms and conditions, is not economics to be developed.

Old Definition in PSC Contract:

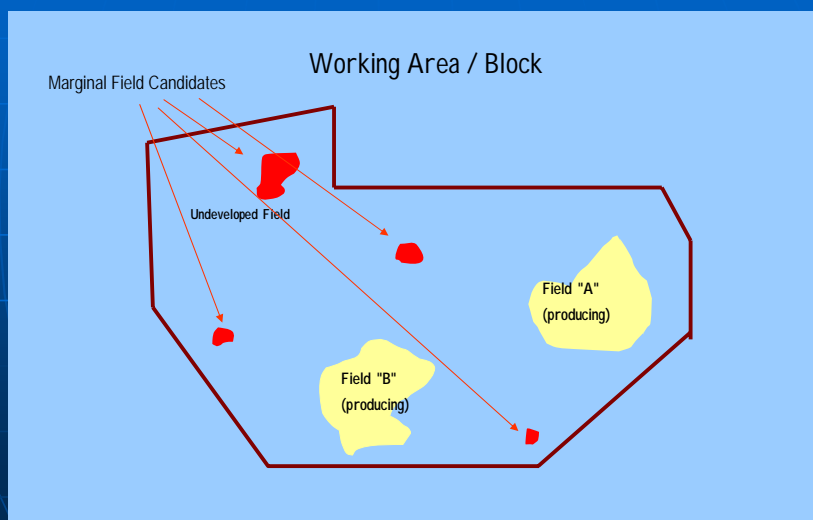
“Marginal Field” is the first field of the Contract Area proposed by Contractor for development and approved, capable of Crude Oil production not exceeding 10,000 Barrels daily average projected for the initial two (2) production years (24 production months).



Conditions for Marginal Field

- Located within a producing block.
- Its main product is oil.
- The exploration costs for that field has been fully recovered, i.e. no more sunk costs considered.
- If calculate based on the current PSC terms and conditions and other incentive packages that may be applied for that field in accordance with laws and regulations, the Internal Rate of Return (IRR) is estimated less than 15%.

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Type of Incentive

- **20% Operating Cost*)** recovery up-lift.
- Other incentive packages that may be applied for that field in accordance with the prevailing PSC, laws and regulations.

*) Under Definition of the PSC, the Operating Cost consist of:

1. **Current Year's Non Capital Costs**
2. **Current Year's Depreciation for Capital Costs**

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Marginal Field Incentive

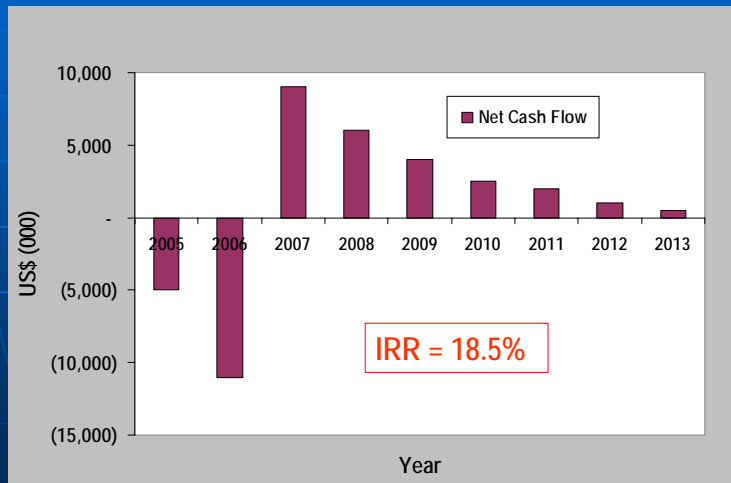
The Mechanism

- Incentive is not permanently given and will be evaluated on yearly basis.
- The new incentive package is issued in order to improve the economics of the field, after receiving the incentive, the IRR of the field is expected at least 15%. (The Incentive is "ON")
- The Incentive will be removed if the actual cumulative IRR has reached 30% (The Incentive is "OFF").
- The Incentive will be re applied if the actual cumulative IRR in the followong year has dropped below 15%.

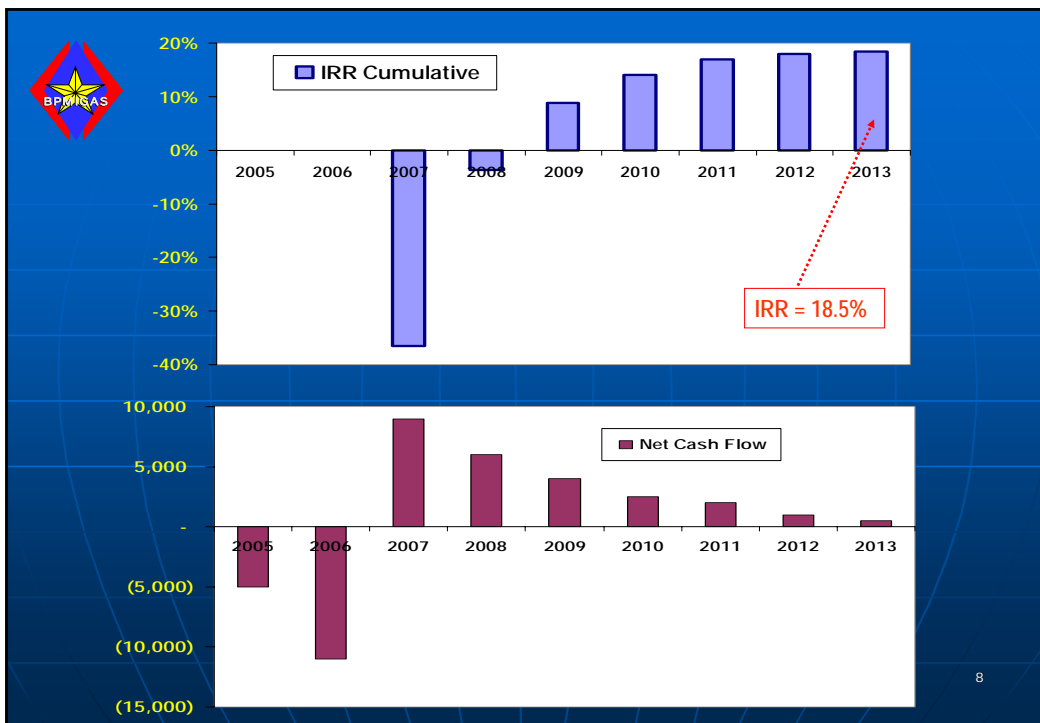
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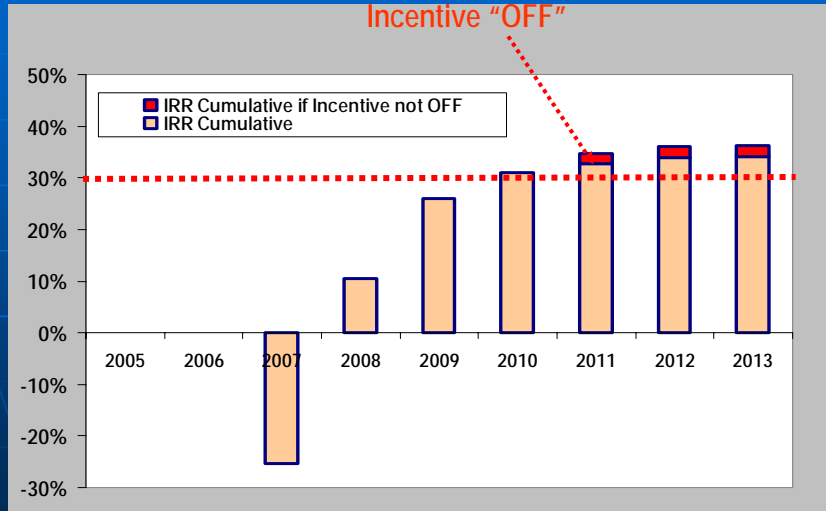
The Concept of IRR Cumulative



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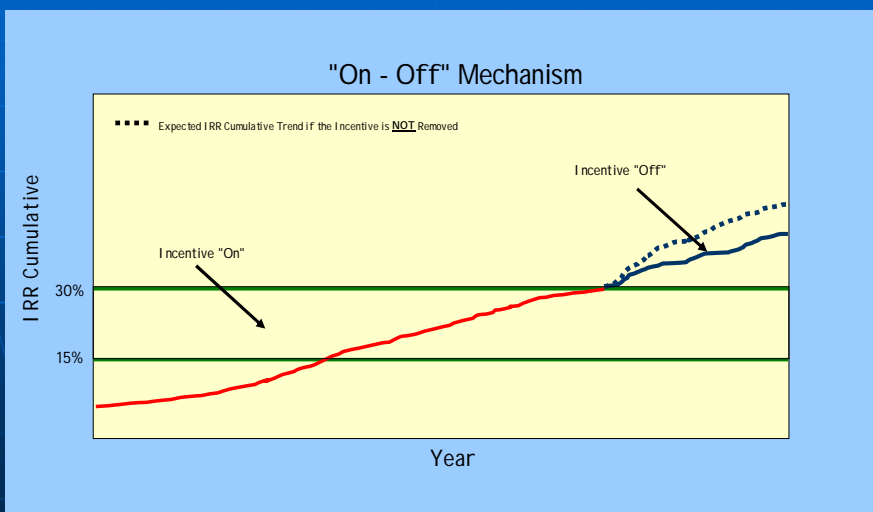
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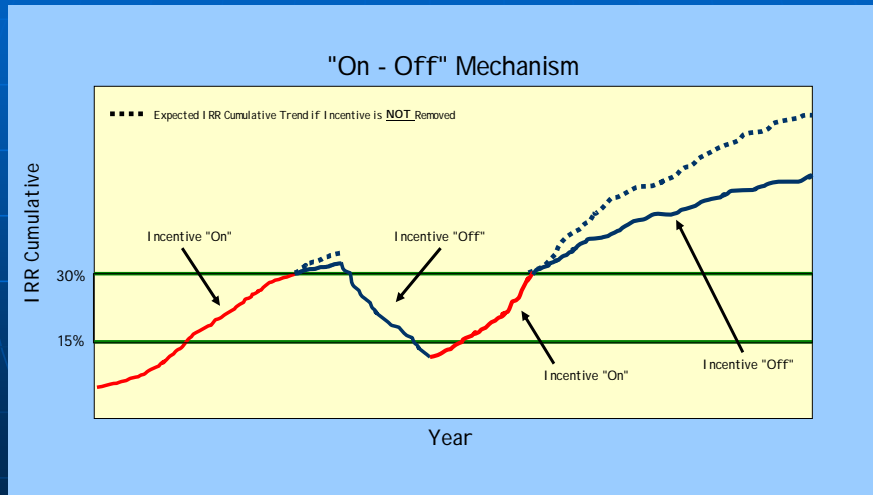
Most Likely Case



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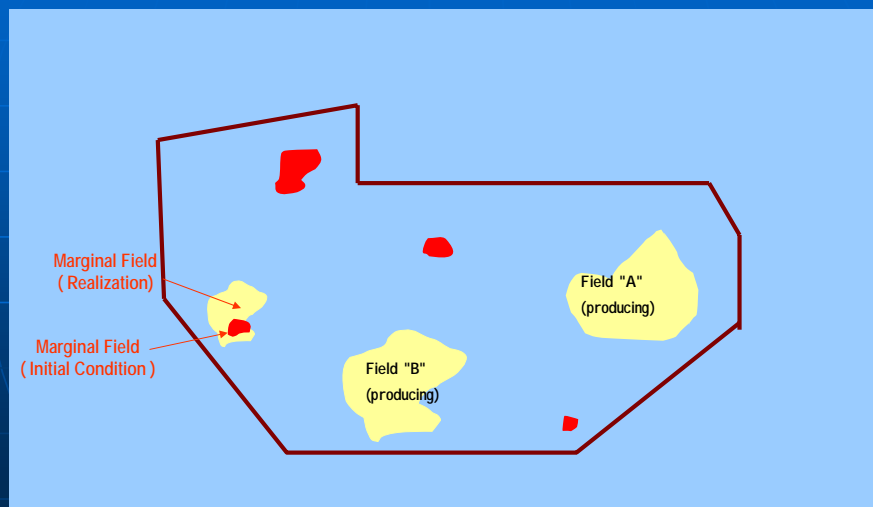
Extreme - Case



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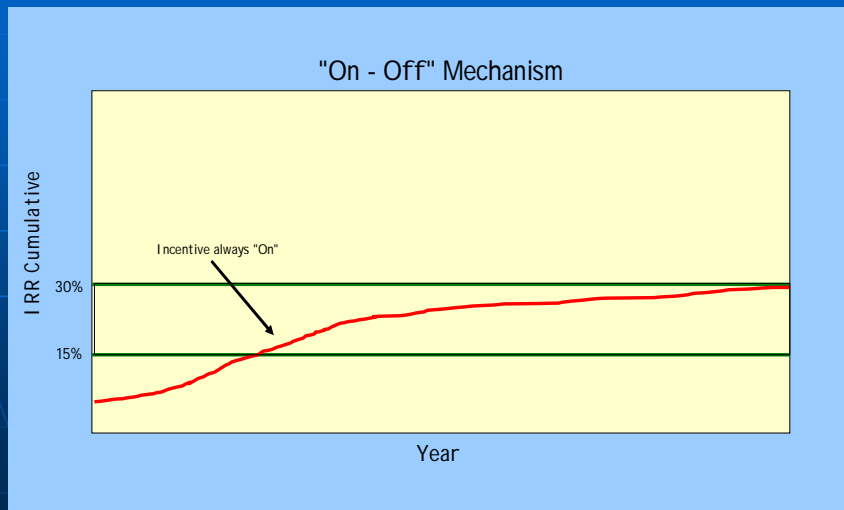
Illustration



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Always "On" - Case



Procedure

Registration & Submission

1. PSC could register the candidates for marginal field by submitting the summary of POD. BPMIGAS will response by sending the written answer no longer than 10 working days.
2. No longer than 6 months following the registration, PSC should submit complete POD (in order to speed-up the process, the draft of AFE proposal need also to be attached).
3. Registration period is 12 months (25 April 2005 – 24 April 2006)



Procedure

Evaluation, Approval & Implementation

1. When submitting the POD, the assumption for oil price is US\$ 25 per barrel.
2. BPMIGAS will approve or not approve the POD proposal by sending the written answer to the PSC no longer than 30 days after receiving the POD proposal.
3. PSC should commence the activities no longer than one year after POD approved.

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Procedure

Evaluation, Approval & Implementation

4. The commencement of the activities is "declared" if:
 - Tender Plan is approved; or
 - Tender Announced; or
 - Execution of the Field Development

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Procedure

Implementing and Reporting

1. PSC should make the special book account for marginal field.
2. The marginal field incentive is taxable.