

**ISLAMIC REPUBLIC OF MAURITANIA**

**Honour - Fraternity - Justice**

**PRODUCTION SHARING CONTRACT**

**BETWEEN**

**THE ISLAMIC REPUBLIC OF MAURITANIA**

**AND**

---

**Model Contract proposed to oil companies**

**1994**

**(Unofficial English Translation)**

## CONTENTS

Article	Page
1 Definitions.....	2
2 Scope of the Contract.....	4
3 Exclusive exploration authorization.....	5
4 Exploration work obligations.....	7
5 Preparation and approval of Annual Work Programs.....	9
6 Contractor's obligations relating to the conduct of Petroleum Operations.....	10
7 Contractor's rights relating to the conduct of Petroleum Operations.....	12
8 Control over Petroleum Operations and activity reports.....	15
9 Appraisal of a discovery and granting of an exclusive exploitation authorization.....	17
10 Recovery of Petroleum Costs and production sharing.....	21
11 Taxation.....	23
12 Personnel.....	27
13 Bonuses.....	28
14 Valuation of Crude Oil.....	28
15 Natural Gas.....	30
16 Transportation of Petroleum by pipelines.....	33
17 Obligation to supply domestic market with Crude Oil.....	36
18 Import and export.....	37
19 Foreign Exchange.....	38
20 Bookkeeping, monetary unit, accounting.....	39
21 Government participation.....	41
22 Additional rights of the first producer.....	43
23 Assignment.....	44
24 Ownership and transfer of assets upon termination.....	45
25 Responsibility and insurance.....	46
26 Termination of the Contract.....	47
27 Applicable law and stability of conditions.....	48
28 Force Majeure.....	48
29 Arbitration and expertise.....	49
30 Conditions for application of the Contract.....	50
31 Effective Date.....	51

## APPENDICES

1 Exploration Perimeter.....	53
2 Accounting Procedure.....	55.

## CONTRACT

### Between

The Islamic Republic of Mauritania, hereby represented by the Minister in charge of Mines,  
hereinafter referred to as the "Government",

**on the one hand,**

### And

- \_\_\_\_\_, a company organized under the laws in force in \_\_\_\_\_, having its  
headquarters in \_\_\_\_\_, hereby represented by \_\_\_\_\_  
duly commissioned hereto,

hereinafter referred to as the "Contractor",

*In the event the Contract is signed by a group of companies, the above  
should be filled in by each such company.*

**on the other hand,**

both parties being hereinafter referred to jointly as the "Parties, or individually as the Party".

Whereas the Government wishes to promote the discovery and exploitation of Petroleum to advance  
the economic expansion of the country;

Whereas the Contractor, who represents it has the technical and financial competences, wishes to  
explore for and exploit any liquid and/or gaseous Petroleum which may be located in the  
Exploration Perimeter, within the framework of this production sharing contract;

Considering the Ordinance n° 88.151 of November 13, 1988, stating the legal and fiscal  
regime applicable to the exploration for and exploitation of Petroleum;

**NOW THEREFORE, THE PARTIES HEREBY AGREE AS FOLLOWS:**

**ARTICLE 1**  
**DEFINITIONS**

The terms used in this text shall have the following meaning:

- 1.1. "Calendar Year" means a period of twelve (12) consecutive months starting January first (1st) and ending on the subsequent December thirty-first (31 st).
- 1.2. "Contract Year" means a period of twelve (12) consecutive months starting on the Effective Date or the anniversary date of said Effective Date.
- 1.3. "Barrel" means "US barrel", i.e. 42 U.S. gallons measured at a temperature of 60° F and under the atmospheric pressure.
- 1.4. "Annual Budget" means the detailed estimate of the cost of the Petroleum Operations defined in an Annual Work Program.
- 1.5. "Contractor" means jointly or individually the company or companies which have entered into this Contract, as well as any company to which an interest is assigned pursuant to Articles 21 and 23.
- 1.6. "Contract" means this instrument and its appendices, as well as any extension, renewal, replacement or modification hereto as approved by the Parties.
- 1.7. "Petroleum Costs" means all the costs and expenditures incurred by the Contractor in performance of the Petroleum Operations specified in this Contract and determined in accordance with the Accounting Procedure provided in Appendix 2 to this Contract.
- 1.8. "Effective Date" means the date of entry into effect of this Contract as defined in Article 31.
- 1.9. "Dollar" means dollar of the United States of America.
- 1.10. "Natural Gas" means the dry gas and wet gas produced alone or in association with Crude Oil, as well as any other gaseous components extracted from wells.
- 1.11. "Associated Natural Gas" means the Natural Gas existing in a reservoir in solution with Crude Oil, or as gas cap in contact with Crude Oil, and which is or may be produced in association with Crude Oil.
- 1.12. "Non-Associated Natural Gas" means the Natural Gas other than Associated Natural Gas.
- 1.13. "Government" means the Government of the Islamic Republic of Mauritania.
- 1.14. "Petroleum" means Crude Oil and Natural Gas.
- 1.15. "Minister" means the Minister in charge of Mines.

- 1.16. "Petroleum Operations" means all the Petroleum exploration, appraisal, development, exploitation, separation, treatment, storage, transportation and marketing operations up to the Delivery Point, performed by the Contractor under this Contract, including the treatment of Natural Gas, but excluding refining operations and the marketing of petroleum products.
- 1.17. "Exploitation Perimeter" means any portion of the Exploration Perimeter over which the Government shall have granted an exclusive exploitation authorization to the Contractor under this Contract, in accordance with the provisions of Articles 9.2 and 9.4.
- 1.18. "Exploration Perimeter" means the area defined in Appendix 1, after deduction of relinquishments as provided in Article 3, over which the Government grants an exclusive exploration authorization to the Contractor under this Contract, in accordance with the provisions of Article 2.1.
- 1.19. "Crude Oil" means crude mineral oil, asphalt, ozokerite and all other petroleum which are solid, semi-solid or liquid in their natural state or obtained from Natural Gas through condensation or extraction, including condensates and Natural Gas liquids.
- 1.20. "Delivery Point" means the F.O.B. Petroleum loading point at the export terminal or any other point mutually agreed upon by the Parties.
- 1.21. "Annual Work Program" means the detailed itemized document describing the Petroleum Operations which shall be performed during a Calendar Year under this Contract, prepared in accordance with the provisions of Articles 4, 5 and 9.
- 1.22. "Affiliated Company" means:
- (a) any company or any other entity which directly or indirectly controls or is controlled by a company constituting a party hereto; or
  - (b) any company or any other entity which directly or indirectly controls or is controlled by a company or entity which directly or indirectly controls itself a company constituting a party hereto.

For purposes of the foregoing definition, the term "control" means the direct or indirect ownership by a company or any other entity of a percentage of the shares or interests enough to hold a majority of voting rights at general meetings of another company or entity, or enough to give a determining position in the management of that other company or entity.

- 1.23. "Third Party" means any company or other entity which is not included in the definition provided in Article 1.22.
- 1.24. "Quarter" means a period of three (3) consecutive months starting on the first day of January, April, July or October of a Calendar Year.

## **ARTICLE 2**

### **SCOPE OF THE CONTRACT**

- 2.1. The Government hereby authorizes the Contractor to perform, on an exclusive basis in the Exploration Perimeter defined in Appendix 1, the Petroleum Operations which are useful and necessary under this Contract, it being understood that such Operations can only relate to Petroleum.
- 2.2. This Contract is entered into for the duration of the exclusive exploration authorization provided in Article 3, including the periods of renewal and extension thereof and, in the event of commercial discovery, for the duration of the exclusive exploitation authorizations which shall have been granted, as defined in Article 9.11.
- 2.3. If, upon expiry of all the exploration periods provided in Article 3, the Contractor has not obtained an exclusive exploitation authorization with respect to a commercial field, this Contract shall be terminated.

In the event several exclusive exploitation authorizations have been granted, this Contract shall be terminated upon expiry of the last one in force, except in the event it has been terminated in advance.

- 2.4. The expiry, relinquishment or termination of this Contract, whatever the reason thereof, shall not relieve the Contractor of its obligations under this Contract arising prior to, or resulting from, such expiry, relinquishment or termination, which obligations shall be fulfilled by the Contractor.
- 2.5. The Contractor shall be responsible for performing the Petroleum Operations provided in this Contract. It agrees to observe the good international petroleum industry practice in performing such Operations.
- 2.6. The Contractor shall provide all the financial and technical resources necessary for the proper conduct of the Petroleum Operations and shall bear entirely all the risks associated with the performance thereof. The Petroleum Costs incurred by the Contractor shall be recoverable by the Contractor in accordance with the provisions of Article 10.
- 2.7. During the term of this Contract, the production resulting from the Petroleum Operations shall be shared between the Government and the Contractor in accordance with the provisions of Article 10.

## **ARTICLE 3**

### **EXCLUSIVE EXPLORATION AUTHORIZATION**

- 3.1. The exclusive exploration authorization inside the Exploration Perimeter defined in Appendix 1 is granted to the Contractor, in accordance with the provisions of Article 2.1, for an initial period of \_\_\_\_\_ (\_\_) Contract Years.
- 3.2. In the event the Contractor has fulfilled the work obligations set forth in Article 4 for the current exploration period, it shall have the right to renew the exclusive exploration

authorization twice for a renewal period of \_\_\_\_\_ (\_\_\_) Contract Years each time.

For each such renewal, the Contractor shall file an application with the Minister, no later than two (2) months prior to the expiry of the current exploration period.

- 3.3. The Contractor undertakes to relinquish to the Government at least twenty-five percent (25%) of the initial area of the Exploration Perimeter upon each renewal thereof, so that it shall keep no more than seventy-five percent (75%) of the initial area of the Exploration Perimeter during the second exploration period, and no more than fifty percent (50%) of the initial area of the Exploration Perimeter during the third exploration period.
- 3.4. For purposes of Article 3.3:
- (a) The areas already relinquished under Article 3.5 and the areas already covered by exclusive exploitation authorizations shall be deducted from the areas to be relinquished;
  - (b) The Contractor shall have the right to define the size, shape and location of the portion of the Exploration Perimeter, which it intends to keep. However, the relinquished portion shall constitute a limited number of perimeters of a simple geometric shape, delimited by North-South and East-West lines or by natural boundaries;
  - (c) The application for renewal shall be accompanied with a map specifying the Exploration Perimeter kept by the Contractor along with a report specifying the work performed on the relinquished areas since the Effective Date and the results obtained there from.
- 3.5. The Contractor may at any time notify the Minister, with at least three (3) months' prior notice, that it relinquishes its rights on all or part of the Exploration Perimeter.

In the event of relinquishment in part, the provisions of Article 3.4 shall apply to the relinquished area.

In any event, any voluntary relinquishment during an exploration period shall not reduce the exploration work commitments set forth in Article 4 for such exploration period, nor the amount of the corresponding guarantee.

- 3.6. Upon expiry of the third exploration period provided in Article 3.2, the Contractor shall relinquish the remaining area of the Exploration Perimeter, except the areas already covered by Exploitation Perimeters.

If, upon expiry of the third exploration period provided in Article 3.2, an appraisal work program with respect to a discovery, as set forth in Article 9.2, is actually under progress, the Contractor shall obtain, upon application with respect to the estimated area of said recovery, the extension of the exclusive exploration authorization for the duration necessary to complete the appraisal work, which shall not, however, exceed six (6) months.

In such a case, the Contractor shall file an application for the above-mentioned extension of the exclusive exploration authorization with the Minister at least two (2) months prior to the

expiry of the third exploration period, and the Contractor shall have fulfilled all its exploration work obligations set forth in Article 4 with respect to that period.

- 3.7 The duration of the exclusive exploration authorization shall also be extended, as the case may be, in the event of application for an exclusive exploitation authorization, until a decision may occur, with respect to the area set forth in said application.

## **ARTICLE 4**

### **EXPLORATION WORK OBLIGATIONS**

- 4.1. During the initial exploration period of \_\_\_\_\_ (\_\_\_\_) Contract years provided in Article 3.1, the Contractor shall:
- (a) carry out at least \_\_\_\_\_ (\_\_\_\_) kilometres of seismic survey; the work with respect to such seismic survey shall commence within \_\_\_\_\_ (\_\_\_\_) months from the Effective Date; and
  - (b) drill at least \_\_\_\_\_ (\_\_\_\_) exploratory wells; the first well shall commence within \_\_\_\_\_ (\_\_\_\_) months from the Effective Date.
- 4.2. During the second exploration period of \_\_\_\_\_ (\_\_\_\_) Contract Years provided in Article 3.2, the Contractor shall:
- (a) carry out at least \_\_\_\_\_ (\_\_\_\_) kilometres of seismic survey;
  - (b) drill at least \_\_\_\_\_ (\_\_\_\_) exploratory wells.
- 4.3. During the third exploration period of \_\_\_\_\_ (\_\_\_\_) Contract Years provided in Article 3.2, the Contractor shall:
- (a) carry out at least \_\_\_\_\_ (\_\_\_\_) kilometres of seismic survey;
  - (b) drill at least \_\_\_\_\_ (\_\_\_\_) exploratory wells.
- 4.4. Each exploratory well set forth above shall be drilled to the minimum contractual depth of \_\_\_\_\_ (\_\_\_\_) meters, or to a lesser depth if authorized by the Government or if discontinuing drilling according to good international petroleum industry practice is justified by one of the following reasons;
- (a) basement is encountered at a depth less than the above-mentioned minimum contractual depth;
  - (b) continued drilling is manifestly dangerous due to abnormal formation pressure;
  - (c) rock formations are encountered, of which the hardness makes impractical to continue drilling with appropriate equipment; or
  - (d) petroleum formations are encountered, requiring the installation of protective casings which prevent reaching the above-mentioned minimum contractual depth.
- In any of the above cases, the Contractor shall obtain prior approval of the Minister, prior to discontinuing drilling, which approval shall not be withheld without being duly justified, and

the well in question shall be deemed to have been drilled to the above-mentioned minimum contractual depth.

- 4.5. If either during the *first* exploration period or during the second exploration period provided in Articles 3.1 and 3.2 respectively, the Contractor drills a number of exploratory wells greater than the minimum drilling obligations specified for said period in Articles 4.1 and 4.2 respectively, the excess exploration wells may be carried forward to the following period(s) and shall be deducted from the minimum drilling obligations specified for said period(s), provided that at least one exploratory well shall be drilled during each renewal period of the exclusive exploration authorization.

For purposes of Articles 4.1 to 4.5, appraisal wells drilled under an appraisal program with respect to a discovery shall not be considered as exploratory wells and, in the event of a petroleum discovery, only one well per discovery shall be deemed to be an exploratory well.

- 4.6. Upon the Effective Date, the Contractor shall provide an irrevocable bank guarantee acceptable to the Minister, guaranteeing its minimum work obligations for the first initial exploration period provided in Article 4.1.

In the event of renewal of the exclusive exploration authorization, the Contractor shall also provide a similar guarantee guaranteeing the minimum work obligations for that renewal period.

The amount of the guarantee shall be calculated by using the unit costs per km of seismic survey and per exploratory well set forth as follows:

- (a) Dollars \_\_\_\_\_ (\_\_\_) per km of seismic survey to be performed;
- (b) Dollars \_\_\_\_\_ (\_\_\_) million per Exploratory Well to be drilled.

Three (3) months after completion of a seismic survey or an exploratory well drilled to the minimum contractual depth, the abovementioned guarantee shall be adjusted in such a manner as to guarantee the outstanding balance of the minimum contractual work obligations for the current exploration period, as valued in accordance with the provisions of the foregoing paragraph.

If, upon expiry of any exploration period, or in the event of whole relinquishment or termination of the Contract, the exploration work has not reached the minimum commitments prescribed in this Article 4, the Minister shall have the right to call for the guarantee as a compensation for the non-performance of the work commitments entered into by the Contractor.

After the payment has been made, the Contractor shall be deemed to have fulfilled its minimum exploration work obligations under Article 4 of this Contract; the Contractor may, except in the event of termination of the exclusive exploration authorization due to a material breach of this Contract, continue to benefit from the provisions of said Contract and obtain the renewal of the exclusive exploration authorization, subject to apply therefore in the appropriate manner.

## ARTICLE 5

## **PREPARATION AND APPROVAL OF ANNUAL WORK PROGRAMS**

- 5.1. No later than three (3) months prior to the beginning of each Calendar Year, or, for the first Calendar Year, no later than two (2) months after the Effective Date, the Contractor shall prepare and submit to the Minister for approval a detailed itemized Annual Work Program, along with the corresponding Annual Budget for the whole Exploration Perimeter.

Each Annual Work Program and corresponding Annual Budget shall be broken down into the various exploration activities and, as the case may be, the appraisal activities with respect to each discovery, and the development and production activities with respect to each commercial field.

- 5.2. The Minister may propose amendments or modifications to the Annual Work Program and corresponding Annual Budget by notice to the Contractor, including all justifications deemed necessary, within thirty (30) days following receipt of said Program. In such a case, the Minister and the Contractor shall meet as soon as possible to review the requested amendments or modifications and establish by mutual agreement the Annual Work Program and corresponding Annual Budget in final form, in accordance with good international petroleum industry practice. The date of approval of the Annual Work Program and corresponding Annual Budget shall be the date of the above-mentioned mutual agreement.

Failing notice by the Minister to the Contractor of his wish to amend or modify~ the Annual Work Program and corresponding Annual Budget within the above-mentioned period of thirty (30) days, said Program and Budget shall be deemed approved by the Minister upon the expiry date of said period.

In any case, each operation included in the Annual Work Program, for which the Minister has not requested any amendment or modification, shall be diligently performed by the Contractor.

- 5.3. It is acknowledged by the Minister and the Contractor that the results acquired as the work progresses or certain circumstances may justify changes to the Annual Work Program. In that case, after notification to the Minister, the Contractor may make such changes provided the basic objectives of said Annual Work Program are not modified.

## **ARTICLE 6**

### **CONTRACTOR'S OBLIGATIONS RELATING TO THE CONDUCT OF PETROLEUM OPERATIONS**

- 6.1. The Contractor shall supply all the necessary funds and purchase or rent all the equipment and materials required for the performance of the Petroleum Operations. It shall also supply all technical expertise, including the use of the foreign personnel required for the performance of the Annual Work Programs. The Contractor shall be responsible for the preparation and performance of the Annual Work Programs which shall be performed in the most appropriate way in accordance with good international petroleum industry practice.
- 6.2. Upon the Effective Date, the Contractor shall notify the Minister of the entity designated as operator, which shall be responsible for the conduct and performance of the Petroleum

Operations. The Operator, in the name and on behalf of the Contractor, shall forward to the Minister all the reports, data and information set forth in this Contract. Any change of operator shall be submitted to the prior approval of the Minister, which approval shall not be unduly withheld.

- 6.3. Within three (3) months following the Effective Date, the Contractor shall open an office in the Islamic Republic of Mauritania and keep it during the term of this Contract; said office shall include in particular a representative authorized to conduct the Petroleum Operations, to whom any notice under this Contract may be delivered.
- 6.4. The Contractor shall, during the Petroleum Operations, take any necessary actions for the protection of environment.

The Contractor shall, inter alia, take any reasonable steps in order to:

- (a) ensure that all the facilities and equipment used for the requirements of the Petroleum Operations are in good order and correctly maintained in good repair during the term of this Contract;
  - (b) avoid losses and discharges of Petroleum produced as well as losses and discharges of mud or any other product used in the Petroleum Operations;
  - (c) ensure the protection of water bearing strata encountered during the Petroleum Operations and provide the Director of Mines and Geology with all information obtained thereon;
  - (d) store Petroleum produced in storage facilities erected for that purpose;
  - (e) as the case may be, rehabilitate the sites of the Petroleum Operations upon completion of each Petroleum Operation.
- 6.5. All work and facilities erected by the Contractor under this Contract shall, as applicable, be built, indicated, marked and equipped so as to allow at any time the free and safe passage for navigation inside the Exploration Perimeter and, without prejudice to the foregoing, the Contractor shall, in order to facilitate navigation, install and properly maintain sound or optical device approved or required by the competent Government authorities
  - 6.6. The Contractor shall take all necessary precautions to prevent pollution of the marine area of the Exploration Perimeter and observe, inter alia, the provisions of the International Convention on the prevention of petroleum pollution of sea waters signed in London on May 12, 1954 and the amendments and texts enacted for the implementation thereof. In order to prevent pollution, the Government may also decide in agreement with the Contractor on any additional action it deems necessary to ensure the preservation of the marine area.
  - 6.7. In the exercise of its right to build, perform, work and maintain all facilities necessary for purposes of this Contract, the Contractor shall not occupy land located within less than fifty (50) meters from any building, used for religious purposes or not, burial place, enclosing wall, yard and garden, house, group of dwellings, village, urban center, well, water point, reservoir, street, road, railway, pipeline, works of public interest, infrastructure works, unless prior authorization by the Minister. The Contractor shall repair any damage caused during such

work.

- 6.8. The Contractor and its sub-contractors undertake to give the preference to Mauritanian enterprises and goods, under equivalent conditions in terms of price, quantity, quality, conditions of payment and delivery time.

The Contractor and its sub-contractors undertake to issue calls for bids to Mauritanian and foreign candidates for supply, construction or services contracts the value of which exceeds \_\_\_\_\_ (\_\_\_) Dollars, it being understood that the Contractor shall not unduly break down said contracts.

Copies of all the contracts pertaining to the Petroleum Operations shall be submitted to the Minister upon signing thereof

- 6.9. The Contractor and its sub-contractors undertake to give the preference, under equivalent economic conditions, to the purchase of goods required by the Petroleum Operations versus the renting thereof or any other kind of leasing.

For that purpose, the Contractor shall specify in the Annual Work Programs all the leasing contracts the value of which exceeds \_\_\_\_\_ (\_\_\_) Dollars.

## ARTICLE 7

### **CONTRACTOR'S RIGHTS RELATING TO THE CONDUCT OF PETROLEUM OPERATIONS**

- 7.1. The Contractor shall have the exclusive right to perform the Petroleum Operations inside the Exploration Perimeter, provided such Operations are in accordance with the terms and conditions of this Contract, as well as with the laws and regulations of the Islamic Republic of Mauritania, and provided they are performed in accordance with good international petroleum industry practice.

- 7.2. For purposes of performing the Petroleum Operations, the Contractor shall have the right:

- (a) to occupy the land necessary for the conduct of the Petroleum Operations and related activities, such as the activities set forth in paragraphs (b) and (c) below, and for the accommodation of personnel assigned thereto;
- (b) to perform or cause to be performed any infrastructure work required for carrying out, under normal economic conditions, the Petroleum Operations and related activities, such as transportation and storage of equipment and products extracted, excluding transportation of Petroleum by pipelines as set forth in Article 16 of this Contract, establishment of equipment of telecommunications and lines of communication, as well as production and supply of energy required for the Petroleum Operations;
- (c) to perform or cause to be performed drilling and work required for supplying personnel, works and facilities with water, in accordance with the regulations which govern water

takes;

- (d) to take and utilize or cause to be taken and utilized the ground materials (other than Petroleum) required for the activities set forth in paragraphs (a), (b) and (c) above, in accordance with the regulations in force.

7.3. The occupation of land set forth in Article 7.2 shall be the subject of an application filed with the Minister, specifying the location of said land and the contemplated use thereof.

Following receipt of such application, if it is accepted, an order from the Minister will acknowledge the acceptance thereof and define the necessary land. The rights under local customs shall, as the case may be, be systematically recorded and verified by the administration.

Failing amicable agreement, the authorization for occupation shall be granted:

- (a) only after the landowners or the beneficiaries of said rights of use under local customs shall have had the opportunity to raise their objection through the administration and within a period determined in accordance with the local regulations.

For that purpose, the following persons shall be referred to:

- in the case of land owned by private individuals, in accordance with the provisions of the Common Law or the regulations for registration: the owners;
  - in the case of land owned through rights under local customs: the beneficiaries of said rights or their duly authorized representatives;
  - in the case of land belonging to the public domain: the community or the public body which is in charge of their administration and, as the case may be, the current occupant.
- (b) only after payment to the Public Treasury of estimated compensations determined by the administrative authority as follows:
    - if occupation is only temporary and if land may be cultivated after one (1) year as it was previously, the compensation shall be equal to twice the net income from the land;
    - in all other cases, the compensation shall be equal to twice the value of the land prior to occupation.

Any dispute between landowners or arising from the estimation of damage shall be subject to civil courts.

7.4. The projects described in Article 7.2 above may, as the case may be, be declared of public interest, under the conditions provided for in the regulations on expropriation for public interest.

- 7.5. The expenses, compensations and more generally any charge arising from the application of Articles 7.3 and 7.4 above shall be borne by the Contractor.
- 7.6. In the event the occupation of land deprives the landowner or the beneficiary of rights under local customs to use such land for more than one (1) year, or, in the event the occupied land proves to be no longer utilizable for cultivation after completion of work, the landowner or the beneficiary of rights under local customs may request that the Contractor acquires said land. Any portion of land which has been damaged or spoiled over the most of its area shall be entirely purchased if the owner or the beneficiary of rights under local customs 50 requests. Land to be acquired shall be in any case valued at least at its value prior to such occupation.
- 7.7. The expiry in whole or part of an Exploration Perimeter or an Exploitation Perimeter shall have no effect on the rights arising for the Contractor under Article 7.2 on work and facilities realized pursuant to the provisions of this Article 7, provided that such work and facilities are utilized within the frame of the Contractor's activities in the area retained or in other Exploration Perimeters or Exploitation Perimeters.
- 7.8. In order to ensure the best technical and economic utilization, the Minister may impose to the Contractor certain conditions of realization and operation of the work and facilities set forth in Article 7.2, provided however that said conditions shall not alter the normal economic conditions for the activities of the holders of exclusive Petroleum exploration and exploitation rights.

For that purpose, the Minister may, in the event no amicable agreement can be reached, demand that several right holders jointly utilize said facilities.

In the event of any dispute between the right holders arising from the conditions for said association, and falling amicable agreement, such disputes shall be subject to arbitration in accordance with the procedure provided in Article 29 of this Contract.

- 7.9. Subject to the provisions of Articles 6.8, 6.9 and 18, the Contractor may freely select its suppliers and subcontractors and shall benefit from the Customs regime provided in Article 18.
- 7.10. Unless as otherwise provided herein, no restriction shall be placed on the entry, residence, free circulation, employment and repatriation of persons and their families and property for the employees of the Contractor and its subcontractors, provided that the Contractor and its subcontractors comply with the labour legislation and regulations as well as social laws in force or which may be enacted in the Islamic Republic of Mauritania and applicable to any industrial sector.

The Government shall facilitate the issuing to the Contractor and its subcontractors of any administrative authorization, which may be required in connection with the Petroleum Operations performed under this Contract.

## **ARTICLE 8**

### **CONTROL OVER PETROLEUM OPERATIONS**

## AND ACTIVITY REPORTS

- 8.1. Petroleum Operations shall be subject to supervision by the Direction of Mines and Geology. The duly commissioned representatives from the Direction of Mines and Geology shall have the right, inter alia, to supervise Petroleum Operations and, at reasonable intervals, to inspect the facilities, equipment, material, records and books relating to Petroleum Operations, provided that such inspection shall not unduly delay the proper conduct of said Operations.

For purposes of permitting the exercise of the above-mentioned rights, the Contractor shall provide the representatives of the Direction of Mines and Geology with reasonable assistance regarding transportation and accommodation, and transportation and accommodation costs directly related to supervision and inspection shall be borne by the Company. Said costs shall be deemed to be Petroleum Costs and recoverable pursuant to the provisions of Article 10.2.

- 8.2. The Contractor shall regularly inform the Direction of Mines and Geology of the performance of Petroleum Operations and of the accidents which have occurred, if any.

The Contractor shall, in particular, notify the Direction of Mines and Geology, as soon as possible and at least one (1) month in advance, of the planned Petroleum Operations such as geological or geophysical survey, drilling.

In the event the Contractor decides to abandon a well, it shall notify the Direction of Mines and Geology thereof at least seventy-two (72) hours prior to such abandonment; such time period shall be extended up to thirty (30) days with respect to producing wells.

- 8.3. The Direction of Mines and Geology may require the Contractor to carry out, at the latter's expense, any work considered as necessary for the safety and health of Petroleum Operations.
- 8.4. The Government shall have access to any original data resulting from the Petroleum Operations undertaken by the Contractor in the Exploration Perimeter including, but not limited to, geological, geophysical, petrophysical, drilling and exploitation start-up reports.
- 8.5. The Contractor shall provide the Direction of Mines and Geology with the following periodical reports:
- (a) daily reports on drilling activities;
  - (b) weekly reports on geophysical work;
  - (c) as from granting an exclusive exploitation authorization, within ten (10) days from the end of each month, monthly reports on development and exploitation activities along with statistics on production and sales of Petroleum;
  - (d) within thirty (30) days from the end of each Quarter, a report on the Petroleum Operations carried out during the previous Quarter, which shall include in particular the description of the Petroleum Operations carried out and a detailed statement of expenses incurred;
  - (e) within three (3) months from the end of each Calendar Year, a report on the Petroleum

Operations carried out during the previous Year, along with a detailed statement of expenses incurred and a list of personnel employed by the Contractor, specifying their number, nationality, position, the total amount of their wages, along with a report on the medical care and training which have been provided to them.

- 8.6. In addition, the following reports or documents shall be provided to the Direction of Mines and Geology as soon as they are prepared or obtained:
- (a) three (3) copies of geological studies and synthesis reports as well as the maps and other documents related thereto;
  - (b) three (3) copies of geophysical studies, measurement and interpretation reports, along with the maps, profiles, sections or any other document related thereto. The Direction of Mines and Geology shall have access to the originals of all recordings made (magnetic tapes or other supports) and may, upon its request, obtain two (2) copies thereof free of charge. In addition, the Contractor undertakes to keep originals free of charge during at least ten (10) years following the expiry of this Contract and to make them available to the Government, upon its request;
  - (c) two (2) copies of the drilling set-up and completion reports for each well drilled;
  - (d) two (2) copies of all measurements, tests and logs recorded during drilling as well as any composites thereof with representation of litho logy and other existing data for each well drilled;
  - (e) two (2) copies of analysis, drill stem test or production test reports;
  - (f) two (2) copies of each report of analyses (petrography, biostratigraphy, geochemistry, or other) made on cores, cuttings or fluids taken from each well drilled, including negatives of the various related photographs;
  - (g) a representative portion of the cores and cuttings taken from each well drilled and samples of the fluids produced during drill stem tests or production tests shall also be supplied within a reasonable time. In addition, cores and cuttings held by the Contractor upon expiry of this Contract shall be remitted to the Government;
  - (h) more generally, two (2) copies of ail work, studies, measurements, analyses or other results or products of any activity charged to the Petroleum Costs account under this Contract.

All maps, sections and ail other geological or geophysical documents and logs shall be provided to the Direction of Mines and Geology on an appropriate transparent support for subsequent reproduction and, as the case may be, on a digitalized support.

- 8.7. The Parties undertake to treat as confidential and not to communicate to Third Parties ail or part of the documents and samples pertaining to the Petroleum Operations during a time period of five (5) years form the abstention thereof, and in the event of relinquishment of an area, until the date of said relinquishment with respect to the documents and samples pertaining to the area 50 relinquished.

However, each Party may proceed at any time to studies related to the Petroleum Operations by Third Parties selected by said Party. Such Third Parties may examine the information pertaining to the Petroleum Operations, after notifying the other Party thereof, and shall undertake to observe the foregoing confidentiality clause. The Government may also carry out synthesis studies on the petroleum activities in the Islamic Republic of Mauritania provided that it shall not publish during the confidentiality period without the agreement of the Contractor raw data obtained by the Contractor.

If he so desires, the Minister may also decide to increase the confidentiality period provided in this Article 8.7.

- 8.8. The Contractor shall forthwith notify the Minister of any discovery of mineral substances made during the performance of the Petroleum Operations.

## **ARTICLE 9**

### **APPRAISAL OF A DISCOVERY AND GRANTING OF AN EXCLUSIVE EXPLOITATION AUTHORIZATION**

- 9.1. If the Contractor discovers Petroleum in the Exploration Perimeter, it shall notify the Minister in writing thereof as soon as possible and carry out, in accordance with good international petroleum industry practice, the tests necessary to the determination of the shows encountered during drilling. Within thirty (30) days following the date of provisional shut-down or abandonment of the discovery well, the Contractor shall submit to the Minister a report giving all the information associated with said discovery and specifying the recommendations of the Contractor with respect to the continuation of appraisal of said discovery.
- 9.2. If the Contractor wishes to undertake the appraisal of the above-mentioned discovery, it shall diligently submit to the Minister a provisional appraisal work program and the estimated corresponding budget, no later than six (6) months following the date on which the discovery has been notified as set forth in Article 9.1.

The Contractor shall then diligently undertake the appraisal work in compliance with said program, it being understood that the provisions of Article 5.3 shall apply to said program.

- 9.3. Within three (3) months following completion of appraisal work and no later than thirty (30) days prior to the expiry of the third exploration period defined in Article 3.2, including any extension thereof in accordance with the provisions of Article 3.6, the Contractor shall submit to the Minister a detailed report giving all the technical and economic information associated with the Petroleum field 50 discovered and appraised and which shall establish, in the Contractor's opinion, whether said discovery is commercial or not.

Such report shall include, inter alia, the following information: geological and petrophysical characteristics of the field; estimated delimitation of the field; results of the drill stem tests and production tests performed; preliminary economic study with respect to the exploitation of the field.

- 9.4. Any quantity of Petroleum produced from a discovery before it is declared commercial, if it is not used for the Petroleum Operations or lost, shall be subject to the provisions of Article 10.

- 9.5. If the Contractor deems the discovery to be commercial, it shall submit to the Minister, within three (3) months following the remittance of the report referred to in Article 9.3, and no later than thirty (30) days prior to the expiry of the third exploration period defined in Article 3.2, including any extension thereof in accordance with the provisions of Article 3.6, an application for an exclusive exploitation authorization.

Said application shall specify the delimitation of the requested Exploitation Perimeter, which shall encompass the presumed area of the Petroleum field 50 discovered and appraised inside the Exploration Perimeter then in force, and shall be accompanied with all the technical materials in support of said delimitation.

The above-mentioned application for an exclusive exploitation authorization shall be accompanied with a detailed development and production program, including inter alia with respect to the field in question:

- (a) an estimate of the recoverable reserves, both proven and probable, and of the corresponding production profile, as well as a study on the methods for recovery of Petroleum and utilization of Natural Gas;
- (b) the description of the work and facilities required for the exploitation of the field, such as the number of wells, the facilities required for the production, separation, treatment, storage and transportation of Petroleum;
- (c) the program and time-schedule for the performance of said work and facilities, including the date of production start-up;
- (d) the estimates of development capital expenditures and production costs, as well as an economic study, which demonstrates the commercial nature of the field.

The Minister may propose amendments or modifications to the above-mentioned development and production program, as well as to the requested Exploitation Perimeter, by notice to the Contractor including all the justifications deemed necessary, within ninety (90) days following receipt of said program. The provisions of Article 5.2 shall be applicable to said program as regards the approval thereof.

When the results obtained during development justify some modifications to the development and production program, said program may be modified by using the same procedure as that provided for above as regards the initial approval thereof.

- 9.6. Granting of the exclusive exploitation authorization shall be issued in accordance with the procedure in force in the Islamic Republic of Mauritania, and shall occur within forty-five (45) days following the date on which the development and production program is approved.
- 9.7. If the Contractor makes more than one commercial discovery in the Exploration Perimeter, each of them shall be the object of a separate exclusive exploitation authorization corresponding to an Exploitation Perimeter. The number of exclusive exploitation authorizations and associated Exploitation Perimeters in the Exploration Perimeter is unlimited.
- 9.8. If during work performed after granting the exclusive exploitation authorization, it appears that the extent of the field is larger than initially projected pursuant to Article 9.5, the Government shall grant the Contractor, under the exclusive exploitation authorization already

granted, the additional area, provided that such area is an integral part of the Exploration Perimeter then in force and provided that the Contractor provides the technical evidence of the extension 50 requested.

- 9.9. In the event a field extends beyond the boundaries of the Exploration Perimeter in force, the Minister may require the Contractor to exploit said field in association with the right holder of the adjacent area under the provisions of a so-called unitisation agreement. Within six (6) months after the Minister has notified his request, the Contractor shall submit to the Minister for approval the development and production program with respect to the field in question, prepared in agreement with the right holder of the adjacent area.
- 9.10. The Contractor shall commence development operations within six (6) months after the date of granting of the exclusive exploitation authorization set forth in Article 9.6 and shall pursue said operations diligently.

The Contractor undertakes to perform the development and production operations in accordance with good international petroleum industry practice, which enable to ensure the maximum economic recovery of Petroleum contained in the field.

The Contractor undertakes to proceed as soon as possible to studies on enhanced recovery in consulting the Minister, and to use such recovery processes if, in the Contractor's opinion, they may lead to an increase of the recovery rate under economic conditions.

- 9.11. The duration of the exploitation period during which the Contractor is authorized to produce a field declared commercial is set at twenty-five (25) years from the date of granting of the corresponding exclusive exploitation authorization.

Upon expiry of the initial exploitation period defined above, the exclusive exploitation authorization may be renewed for an additional period of ten (10) years, at the Contractor's request submitted to the Minister at least one (1) year prior to said expiry, provided that the Contractor has fulfilled all its contractual obligations during the initial exploitation period and provided that it may demonstrate that a commercial production from the corresponding Exploitation Perimeter is still possible after the initial exploitation period.

- 9.12. For any field which has resulted in the granting of an exclusive exploitation authorization, the Contractor undertakes to perform at its own expense and financial risk all Petroleum Operations useful and necessary for placing the field in exploitation and production, in accordance with the development and production program approved.

However, if the Contractor may demonstrate during the development and production program that the exploitation of said field cannot be commercially profitable, although the discovery well and the appraisal work have resulted in the granting of an exclusive exploitation authorization under this Contract, the Minister agrees not to obligate the Contractor to continue the work to place said field in production unless the Minister grants the Contractor financial advantages which would make the exploitation profitable. In the event the Contractor discontinues the exploitation work and if the Minister so requests, the Contractor shall relinquish the exclusive exploitation authorization in question and the rights related thereto.

- 9.13. The Contractor may at any time relinquish part or all of each of its exclusive exploitation authorizations, subject to a six (6) month's prior notice to the Minister, provided it has fulfilled

ail its contractual obligations under this Contract.

- 9.14. The Contractor undertakes for the duration of the exclusive exploitation authorizations to produce annually reasonable quantities of Crude Oil from each field in accordance with generally admitted international petroleum industry standards, giving special consideration to the rules of good field preservation and optimum recovery of Petroleum reserves under economic conditions for the duration of the exclusive exploitation authorizations in question.
- 9.15. Stoppage of production for a period of at least six (6) months decided by the Contractor without the Minister's consent may give rise to the termination of this Contract in accordance with the provisions of Article 26.
- 9.16. For the duration of the exclusive exploration authorization, the Minister may, with at least six months' prior notice, request the Contractor to relinquish immediately without any compensation ail its rights over the area encompassing a discovery, including Petroleum which may be produced from said discovery, if the Contractor:
- (a) has not submitted an appraisal work program with respect to said discovery within eighteen (18) months following the date on which said discovery has been notified to the Minister; or
  - (b) does not declare the field commercial within two (2) years after completion of appraisal work with respect to said discovery.

The Government may then perform or cause to be performed any appraisal, development, production, treatment, transportation and marketing work with respect to said discovery, without any compensation to the Contractor, provided however it shall not cause prejudice to the performance of the Petroleum Operations by the Contractor.

## **ARTICLE 10**

### **RECOVERY OF PETROLEUM COSTS AND PRODUCTION SHARING**

- 10.1. From the commencement of regular production of Crude Oil under an exclusive exploitation authorization, the Contractor shall market ail the production of Crude Oil obtained and measured in accordance with good international petroleum industry practice, pursuant to the following provisions.
- 10.2. For purposes of recovery of the Petroleum Costs, the Contractor may freely retain each Calendar Year a portion of the total production of Crude Oil in no event greater than \_\_\_\_\_percent (\_\_\_%) of the total quantity of Crude Oil which is not used in the Petroleum Operations or lost, or only any lesser percentage which would be necessary and sufficient.

The value of the portion of total production of Crude Oil allocated to the recovery of Petroleum Costs by the Contractor, as defined in the foregoing paragraph, shall be determined in accordance with the provisions of Article 14.

If during any Calendar Year the Petroleum Costs as yet unrecovered by the Contractor under the provisions of this Article 10.2, exceed the equivalent in value of \_\_\_\_ percent (\_\_\_%) of the total production of Crude Oil determined as mentioned above, the excess which cannot be

recovered in the Calendar Year in question shall be carried forward to the subsequent Calendar Year or Years until full recovery of the Petroleum Costs or termination of this Contract.

- 10.3. The quantity of Crude 011 remaining during each Calendar Year after the Contractor has taken from the total production of Crude 011 the portion necessary for recovery of the Petroleum Costs under the provisions of Article 10.2, shall be shared between the Government and the Contractor as follows:

<b>Increments of total daily production of Crude Oil (in Barrels per day)</b>	<b>Government share</b>	<b>Contractor share</b>
lower than _____	_____ %	_____ %
from _____ to _____	_____ %	_____ %
from _____ to _____	_____ %	_____ %
greater than _____	_____ %	_____ %

For purposes of this Article, the terms "total daily production" mean the average rate of total daily production from all the Exploitation Perimeters under this Contract during a period of thirty (30) consecutive days.

The Contractor's share of production shall be subject to the fiscal provisions set forth in Article 11.

- 10.4. The Government may receive its share of production defined in Article 10.3 either in kind or in cash.
- 10.5. *if* the Government wishes to receive in kind all or part of its share of production defined in Article 10.3, the Minister shall notify the Contractor in writing thereof at least ninety (90) days prior to the beginning of the Quarter concerned, specifying the precise quantity which it wishes to receive in kind during said Quarter and the conditions for delivery.

For that purpose, the Parties hereby agree that the Contractor shall not enter into any sales commitment with respect to the Government's share of production for a term greater than one (1) year without the written consent of the Minister.

- 10.6. If the (Government wishes to receive in cash ail or part of its share of production defined in Article 10.3, or if the Minister has not notified the Contractor of its decision to receive its share of production in kind pursuant to Article 10.5, the Contractor shall market the Government's share of production to be taken in cash for the Quarter concerned, lift said share during such Quarter and pay to the Government, within thirty (30) days following the date of each lifting, an amount equal to the quantity corresponding to the Government's share of production multiplied by the selling price defined in Article 14.

The Minister shall have the right to require payment, for sales of its share of production sold by the Contractor, in Dollars or in any other foreign currency in which the sale has been made.

## ARTICLE 11

### TAXATION

- 11.1. The Contractor shall be subject to the direct income tax, with respect to the Petroleum Operations, as provided in the General Tax Code, in accordance with the provisions of Ordinance No. 88.151 of November 13, 1988 stating the legal and fiscal regime applicable to the exploration for and exploitation of Petroleum and in accordance with the provisions of this Contract.

The net profits arising to the Contractor from all the Petroleum Operations it carries out in the territory of the Islamic Republic of Mauritania shall be subject to the direct tax of forty percent (40%) determined on said net profits.

It is specifically acknowledged that the provisions of this Article 11 shall apply individually to all the entities constituting the Contractor under this Contract.

- 11.2. The Contractor shall maintain for each Calendar Year separate accounts with respect to the Petroleum Operations which shall be used, inter alias, to establish a profit and loss account and a balance sheet which will show the results of said Operations as well as the assets and liabilities assigned or directly related thereto.
- 11.3. For purposes of determining the Contractors net profit, the profit and loss account shall be credited, inter alias, with the following:
- (a) the value of Petroleum to which the Contractor is entitled under Articles 10.2 and 10.3, as it is recorded in its accounting books and determined in accordance with the provisions of Article 14;
  - (b) the capital gains realized in connection with the assignment or transfer of any item of Contractor's assets;
  - (c) any other revenues or proceeds directly connected to the Petroleum Operations including, inter alias, those arising from the sale of related substances, or from the treatment, storage and transportation of products for Third Parties;
  - d) exchange gains realized in connection with the Petroleum Operations.

- 11.4. The said profit and loss account shall be debited with all charges necessary for the purposes of the Petroleum Operations with respect to the Calendar Year concerned, which may be deducted under the applicable laws of the Islamic Republic of Mauritania, and determined in accordance with the Accounting Procedure attached to this Contract.

The charges which may be debited from the income of the Calendar Year concerned include, inter alias, the following:

- (a) In addition to the charges specifically set forth below in this Article 11.4, all other Petroleum Costs, including the costs of supplies, personnel and manpower expenses, the costs of services provided to the Contractor in connection to the Petroleum Operations.

However, the costs of supplies, personnel and services rendered by Affiliated

Companies shall be deductible provided that they shall not exceed those which would be normally charged in arm's length transactions between independent buyer and seller for identical or similar supplies or services.

- (b) Overheads related to the Petroleum Operations performed under this Contract, including without limitation:
    - Rentals for movable and immovable properties as well as insurance premiums;
    - A reasonable portion, in light of the services rendered to the Petroleum Operations performed in the Islamic Republic of Mauritania, of wages and salaries paid to managers and employees residing abroad, and the general and administrative costs of the central services of the Contractor and its Affiliated Companies working for its account, located abroad, and indirect costs incurred by said central services abroad for their account. Overheads paid abroad shall in no event be greater than the limits specified in the Accounting Procedure.
  - (c) Depreciation of capital expenditures in accordance with the provisions of Article 4 of the Accounting Procedure;
  - (d) Interests and agios paid to creditors of the Contractor, for their actual amount, subject to the limits specified in the Accounting Procedure;
  - (e) Losses of materials or assets resulting from destruction or damage, assets which are renounced or abandoned during the year, bad debts, indemnities paid to Third Parties as compensation for damage;
  - (f) Reasonable and justified reserves made for clearly identified future losses or liabilities which current events render probable;
  - (g) Any other losses or charges directly related to the Petroleum Operations, including exchange losses realized in connection with the Petroleum Operations as well as the bonuses provided in Article 13, the surface fees provided in Article 11.7 and the amounts paid during the Calendar Year pursuant to Article 12.2, excluding the amount of direct income tax determined in accordance with the provisions of this Article 11;
  - (h) The amount of non-offset losses relating to previous Calendar Years in accordance with the regulations in force, until full settlement of said losses or termination of this Contract.
- 11.5. The Contractor's taxable net profit shall be equal to the difference, if positive, between all the amounts credited and all the amounts debited in the profit and 1055 account. If this amount is negative, it shall constitute a loss.
- 11.6. Within sixty (60) days after the end of a Fiscal Year, the Contractor shall submit to the competent tax authorities its annual tax return together with the financial statements, as required by the applicable regulations.

Unless as otherwise provided for by the Parties, the income tax shall be paid in Dollars through quarterly payments in advance with annual settlement after remittance of the above-mentioned annual tax return. Such payments in advance shall be made prior to the end of each Quarter

and shall be equal, except as otherwise agreed upon (in particular, for the first year of payment of income tax) to the fourth of the income tax paid in the preceding Calendar Year.

The settlement and payment of the outstanding balance of income tax with respect to the profits of a given Calendar Year shall be made no later than the first day of April of the following Calendar Year.

If the Contractor has paid in advance an amount greater than the amount of income tax which it is liable to with respect to the profits of a given Calendar Year, the excess amount shall be refunded within ninety (90) days following the remittance of its annual tax return.

After the payments to the Government provided for the income tax, the Government shall, within ninety (90) days following the remittance of the Contractors tax return, deliver to the Contractor the income tax receipts and any other document attesting that the Contractor has fulfilled all its tax obligations as defined in this Article 11.

11.7. The Contractor shall pay the Direction of Mines and Geology the following annual surface fees:

- (a) Dollars \_\_\_\_\_ (\_\_\_) per sq. km. annually during the initial term of the exclusive exploration authorization;
- (b) Dollars \_\_\_\_\_ (\_\_\_) per sq. km. annually during the first renewal period of the exclusive exploration authorization;
- (c) Dollars \_\_\_\_\_ (\_\_\_) per sq. km. annually during the second renewal period of the exclusive exploration authorization and any extension thereof as provided for in Articles 3.6 and 3.7;
- (d) Dollars \_\_\_\_\_ (\_\_\_) per sq. km. annually during the term of an exclusive exploitation authorization.

The annual surface fees set forth in paragraphs (a), (b) and (c) above shall be paid in advance each year, no later than the first day of each Contract Year, for the whole Contract Year, on the basis of the surface of the Exploration Perimeter held by the Company on the date of payment of said surface fees.

The annual surface fees related to an exclusive exploitation authorization shall be paid in advance each year, at the beginning of each Calendar Year following the granting of such exclusive exploitation authorization (or, for the Calendar Year of said granting within thirty (30) days from the date of granting, prorate temporise for the remaining duration of the Year in question) on the basis of the surface of the Exploitation Perimeter on said date.

In the event of surface relinquishment during a Year or in the event of Force Majeure, the Contractor shall have no right to be reimbursed for the surface fees already paid.

The amounts referred to in this Article 11.7 shall be considered as Petroleum Costs and

recoverable under the provisions of Article 10.2.

- 11.8. Apart from the income tax defined in Article 11.1, the surface fees provided in Article 11.7 and the bonuses provided in Article 13, the Contractor shall be exempt from all other present and future, national, regional or communal levies, duties, taxes or contributions of any nature whatsoever arising from the Petroleum Operations and any revenues related thereto or, more generally, on Contractor's property, activities or actions, including its establishment, its transfers of funds and its operation in performance of this Contract, it being understood that such exemptions shall apply only to Petroleum Operations.

The shareholders of the entities constituting the Contractor and their Affiliated Companies shall also be exempt from all levies, duties, taxes and contributions in respect of any dividends received, debts, bans and related interests, purchases, transportation of Petroleum for export, services rendered and, more generally, any revenues or activities in the Islamic Republic of Mauritania directly related to the Petroleum Operations.

This Article shall not apply to the services effectively rendered by the Mauritanian administrations and public bodies. However, the rates charged with respect to the Contractor, its subcontractors, carriers, clients and agents shall be reasonable for the services rendered and shall not exceed the rates generally charged for the same services by said administration and public bodies.

It is however understood that real estate taxes or buildings used for housing shall be payable in accordance with the generally applicable conditions.

Assignments of any kind between the companies signing this Contract and their Affiliated Companies as well as any assignment made in accordance with the provisions of Article 35 shall be exempt from any duties or taxes payable in such respect.

- 11.9. Purchases of materials, equipment and products made by the Contractor or the companies working for its account as well as the Contractor's services assigned to the Petroleum Operations shall be exempt from any taxes on turnover. Due to the special nature of the Petroleum Operations, such exemption shall also apply to the purchases made and services rendered by the Contractor's subcontractors under this Contract.

## **ARTICLE 12**

### **PERSONNEL**

- 12.1. From the commencement of the Petroleum Operations, the Contractor shall assure priority employment for Mauritanian personnel and contribute to the training of that personnel in order to allow them access to any position of skilled worker, foreman, executive and manager.

For that purpose the Contractor shall establish at the end of each Calendar Year in agreement with the Direction of Mines and Geology a plan for recruiting Mauritanian personnel and a plan for training and improving such personnel in order to achieve progressively greater participation of Mauritanian personnel in the Petroleum Operations.

- 12.2. The Contractor shall also contribute to the training and improving of the agents from the Direction of Mines and Geology, in accordance with a plan established in agreement with the Minister at the end of each Calendar Year.

For that purpose the Contractor shall allocate to said plan for training and improving the Mauritanian personnel from the Administration or place at the disposal of the Direction of Mines and Geology a minimum amount of \_\_\_\_\_ (\_\_\_\_) Dollars per year during the term of the exclusive exploration authorization and, as from the granting of an exclusive exploitation authorization, a minimum amount of \_\_\_\_\_ (\_\_\_\_) Dollars per year.

## ARTICLE 13

### BONUSES

- 13.1. The Contractor shall pay the Minister a signature bonus of an amount of \_\_\_\_\_ (\_\_\_\_) Dollars within thirty (30) days following the Effective Date.

*As an exceptional measure, the signature bonus is repealed for the 1994 Promotion of Petroleum Exploration in the Islamic Republic Of Mauritania.*

- 13.2. In addition, the Contractor shall pay the Minister the following production bonuses:

- (a) \_\_\_\_\_ (\_\_\_\_) Dollars when the regular marketed production of Crude Oil extracted from the Exploitation Perimeters reaches for the first time the average rate of \_\_\_\_\_ (\_\_\_\_) Barrels per day during a period of thirty (30) consecutive days;
- (b) \_\_\_\_\_ (\_\_\_\_) Dollars when the regular marketed production of Crude 011 extracted from the Exploitation Perimeters reaches for the first time the average rate of \_\_\_\_\_ (\_\_\_\_) Barrels per day during a period of thirty (30) consecutive days;
- (c) \_\_\_\_\_ (\_\_\_\_) Dollars when the regular marketed production of Crude 011 extracted from the Exploitation Perimeters reaches for the first time the average rate of \_\_\_\_\_ (\_\_\_\_) Barrels per day during a period of thirty (30) consecutive days;

Each of the amounts referred to in paragraphs (a), (b) and (c) above shall be paid within thirty (30) days following the expiry of the reference period of thirty (30) consecutive days.

- 13.3. The amounts referred to in Articles 13.1 and 13.2 shall not be recoverable and shall therefore in no event be considered as Petroleum Costs.

## ARTICLE 14

### VALUATION OF CRUDE OIL

- 14.1. The unit selling price of Crude 011 to be considered under this Contract shall be the F.O.B. "Market Price" at the Delivery Point expressed in Dollars per Barrel and payable thirty (30) days after the date of the bill of lading, as determined hereinafter for each Quarter.

A Market Price shall be established for each type of Crude Oil or Crude Oil mix.

- 14.2. The Market Price applicable to lifting of Crude Oil during a Quarter shall be calculated at the end of that Quarter and shall be equal to the weighted average of the prices obtained by the Contractor and the Government for Crude Oil sold to Third Parties during that Quarter, adjusted to reflect the variances in quality, gravity, as well as F.O.B. delivery terms and conditions of payment, provided that the quantities so sold to Third Parties during that Quarter represent at least thirty per cent (30%) of the total quantities of Crude Oil obtained from all the Exploitation Perimeters under this Contract and sold during said Quarter.
- 14.3. In the event such sales to Third Parties are not made during the Quarter in question, or represent less than thirty per cent (30%) of the total quantities of Crude Oil obtained from all the Exploitation Perimeters granted under this Contract and sold during said Quarter, the Market Price shall be determined by comparison with the "Current International Market Price", during the Quarter in question, of Crude Oils produced in the Islamic Republic of Mauritania and the neighbouring producing countries, taking into account the variances in quality, gravity, transportation and payment conditions.

The term "Current International Market Price" means the price which permits the Crude Oil sold to reach, at the treatment or consumption places, a competitive price equivalent to that of Crude Oils of same quality coming from other regions and delivered under comparable commercial conditions, including quantities as well as destination and utilization of such Crude Oils, taking into account the market conditions and the type of contracts.

- 14.4. The following transactions shall, inter alias, be excluded from the calculation of the Market Price:
- (a) sales in which the buyer is an Affiliated Company of the seller as well as sales between entities constituting the Contractor;
  - (b) sales in exchange for other than payment in freely convertible currencies and sales fully or partially made for reasons other than the usual economic incentives involved in Crude Oil sales on the international market (such as exchange contracts, sales from government to government or to government agencies).
- 14.5. A committee headed by the Minister or his deputy and consisting of representatives from the Administration and representatives from the Contractor shall meet upon request from its president in order to establish in accordance with the provision of this Article 14 the Market Price of the Crude Oil produced, which shall apply to the preceding Quarter. The decisions of the committee shall be taken unanimously.

In the event no decision is taken by the committee within thirty (30) days after the end of the Quarter in question, the Market Price of the Crude 011 produced shall be definitely determined by a worldwide recognized expert appointed by mutual agreement upon the Parties, or, failing such agreement, by the International Center for Technical Expertise from the International Chamber of Commerce. The expert shall establish the price in accordance

with the provisions of Article 14 within twenty (20) days from his appointment. The expertise costs shall be shared equally by the Parties.

- 14.6. Pending the determination of the price, the Market Price provisionally applicable to a Quarter shall be the Market Price of the preceding Quarter. Any necessary adjustment shall be made no later than thirty (30) days after the determination of the Market Price for the Quarter in question.
- 14.7. The Contractor shall measure all Petroleum produced after extraction of the water and associated substances, using, with the agreement of the Direction of Mines and Geology, instruments and procedures in keeping with the international petroleum industry methods. The Direction of Mines and Geology shall have the right to examine these measurements and to inspect the instruments and procedures used. If during exploitation, the Contractor wishes to change said instruments and procedures, it shall obtain the prior consent of the Direction of Mines and Geology.

## **ARTICLE 15**

### **NATURAL GAS**

#### **15.1. Non Associated Natural Gas**

- 15.1.1 In the event of a Non-Associated Natural Gas discovery, the Contractor shall engage discussions with the Minister with a view to determining whether the appraisal and exploitation of said discovery have a potentially commercial nature.
- 15.1.2. If the Contractor, after the above-mentioned discussions, considers that the appraisal of such Non-Associated Natural Gas discovery is justified, it shall undertake the appraisal work program for said discovery, in accordance with the provisions of Article 9.

The Contractor shall have the right, for purposes of assessing the commerciality of the Non-Associated Natural Gas discovery, if it so requests at least thirty (30) days prior to the expiry of the third exploration period set forth in Article 3.2, to be granted an extension of the exclusive exploration authorization concerning only the portion of the Exploration Perimeter encompassing the presumed area of the abovementioned discovery, for a term of four (4) years from the expiry of said third exploration period.

In addition, the Parties shall jointly assess the possible outlets for the Natural Gas from the discovery in question, both on the local market and for export, together with the necessary means for its marketing, and they shall consider the possibility of a joint marketing of their shares of production in the event the Natural Gas discovery would not otherwise be commercially exploitable.

- 15.1.3. Following completion of appraisal work, in the event the Parties should jointly decide that the exploitation of that discovery is justified to supply the local market, or in the event the Contractor should undertake to develop and produce that Natural Gas for export, the Contractor shall submit prior to the expiry of the abovementioned four (4) years' period an application for an exclusive exploitation authorization

which the Government will grant under the terms provided in Article 9.6.

The Contractor shall then proceed with the development and production of that Natural Gas in accordance with the development and production program submitted and approved pursuant to the provisions of Article 9.5, and the provisions of this Contract applicable to Crude Oil shall apply, *mutates mutandis*, to Natural Gas, unless otherwise specifically provided under Article 15.3.

- 15.1.4. If the Contractor considers that the appraisal of the Non-As associated Natural Gas discovery concerned is not justified, the Government may, with a twelve (12) month's prior notice which may be reduced with the Contractor's consent, require the Contractor to relinquish its rights on the area encompassing said discovery.

In the same manner, if the Contractor, after completion of appraisal work, considers that the Non-Associated Natural Gas discovery is not commercial, the Minister may, with a three (3) month' prior notice, require the Contractor to relinquish its rights on the area encompassing said discovery.

In both cases, the Contractor shall forfeit its rights in all Petroleum which could be produced from said discovery, and the Government may then carry out, or cause to be carried out, ail the appraisal, development, production, treatment, transportation and marketing work relating to that discovery, without any compensation for the Contractor, provided, however, that said work shall not cause prejudice to the performance of the Petroleum Operations by the Contractor.

## 15.2. Associated Natural Gas

- 15.2.1. In the event of a commercial discovery of Crude Oil, the Contractor shall state in the report referred to in Article 9.5 if it considers that the production of Associated Natural Gas is likely to exceed the quantities necessary for the requirements of the Petroleum Operations related to the production of Crude Oil (including reinjection operations), and if it considers that such excess is capable of being produced in commercial quantities. In the event the Contractor has informed the Government of such an excess, the Parties shall jointly assess the possible outlets for that excess of Natural Gas, both on the local market and for export (including the possibility of joint marketing of their shares of production of that excess of Natural Gas in the event such excess would not otherwise be commercially exploitable), together with the means necessary for its marketing.

In the event the Parties should decide that the development of the excess of Natural Gas is justified, or in the event the Contractor would wish to develop and produce that excess for export, the Contractor shall indicate in the development and production program referred to in Article 9.5 the additional facilities necessary for the development and exploitation of that excess and its estimate of the costs related thereto.

The Contractor shall then proceed with the development and exploitation of that excess in accordance with the development and production program submitted and approved by the Minister pursuant to the provisions of Article 9.5, and the provisions of this Contract applicable to Crude Oil shall apply, *mutates mutandis*, to the excess

of Natural Gas, unless otherwise specifically provided under Article 15.3.

A similar procedure shall be applicable if the sale or marketing of Associated Natural Gas is decided during the exploitation of a Field.

15.2.2. In the event the Contractor should not consider the exploitation of the excess of Natural Gas as justified and if the Government, at any time, would wish to utilize it, the Minister shall notify the Contractor thereof, in which event:

- (a) the Contractor shall make available to the Government free of charge at the Crude Oil and Natural Gas separation facilities all or part of the excess that the Government wishes to lift;
- (b) the Government shall be responsible for the gathering, treatment, compression and transportation of that excess from the above-mentioned separation facilities, and shall bear any additional costs related thereto;
- (c) the construction of the facilities necessary for the operations referred to in paragraph (b) above, together with the lifting of that excess by the Government, shall be carried out in accordance with good international petroleum industry practice and in such a manner as not to hinder the production, lifting and transportation of Crude Oil by the Contractor.

15.2.3. Any excess of Associated Natural Gas which would not be utilized under Articles 15.2.1 and 15.2.2, shall be reinjected by the Contractor. However, the Contractor shall have the right to flare said gas in accordance with good international petroleum industry practice, provided that the Contractor furnishes the Minister with a report demonstrating that said gas cannot be economically utilized to improve the rate of recovery of Crude Oil by means of reinjection pursuant to the provisions of Article 9.15, and provided, further, that the Minister approves said flaring, which approval shall not be unreasonably withheld.

15.3. Provisions common to Associated and Non- Associated Gas

15.3.1. The Contractor shall have the right to dispose of its share of production of Natural Gas, in accordance with the provisions of this Contract. It shall also have the right to proceed with the separation of liquids from all Natural Gas produced, and to transport, store as well as to sell on the local market or for export its share of liquid

Petroleum 50 separated, which will be considered as Crude Oil for purposes of sharing thereof between the Parties under Article 10.

15.3.2. For purposes of this Contract, the Natural Gas Market price, expressed in Dollars per million BTU, shall be equal to:

- (a) with respect to Natural Gas export sales to Third Parties, the price obtained from purchasers;
- (b) with respect to sales on the local market of Natural Gas as a fuel, such price as

the Government (or the national entity that the Government would set up for the distribution of Natural Gas on the local market) and the Contractor would mutually agree upon.

- 15.3.3. For purposes of Articles 10.3 and 13.2, the quantities of available Natural Gas, after deduction of the quantities used for the requirements of the Petroleum Operations, reinjected or flared, shall be expressed in a number of Barrels of Crude Oil such as one hundred and sixty five (165) cubic meters of Natural Gas as measured at the temperature of 15°C and at the atmospheric pressure of 1.01325 bar are deemed to be equal to one Barrel of Crude Oil, unless otherwise agreed upon by the Parties.

## **ARTICLE 16**

### **TRANSPORTION OF PETROLEUM BY PIPELINES**

- 16.1. If the Contractor wishes to proceed with the transportation of Petroleum by pipelines, it shall request the prior approval by the Minister of the project for the pipelines and related facilities and the granting of a transportation authorization.
- 16.2. Notwithstanding any legislative or regulatory provision to the contrary, the Contractor shall have the right, during the term of the Contract and under the conditions provided in this Article 16, to process and transport in its own facilities within the territory of the Islamic Republic of Mauritania as well as on the continental shelf and in the exclusive economic zone related thereto and in the waters above, or to cause to be processed and transported, while keeping the ownership thereof, the products of the exploitation or of its share of said products, to the gathering, treatment, storage, loading or major consumption points.

In the event the Islamic Republic of Mauritania would enter into conventions with other states for purposes of allowing or facilitating the transportation of Petroleum by pipelines through said states, the Contractor shall be granted without discrimination all advantages which may arise from the execution of said conventions in favour of the Contractor.

- 16.3. The rights provided for in Article 16.2 may be individually or jointly transferred by the Contractor under the conditions set forth in this Contract. The possible transfers to a third party shall be subject to prior approval by the Minister.

The beneficiaries of such transfers shall comply with the conditions set forth in this Article 16 regarding the construction and operation of pipelines and facilities set forth therein; they shall also comply with the conditions required to the Contractor under this Contract.

- 16.4. The Contractor or the beneficiaries of the above-mentioned transfers and other producers may associate in order to undertake the joint transportation of the products extracted from their exploitations subject to the provisions of Article 16.5 below.

They may also associate with qualified Third Parties, including the Government, either directly or through a public entity or a State company, for the construction and operation of

pipelines and facilities.

Any protocol, agreement or contract entered into by the persons concerned regarding, inter alia, the performance of the construction and operation, the sharing of charges, of the financial results and of the assets in the event of liquidation of the association, shall be subject to prior approval by the Minister.

- 16.5. The route and characteristics of pipelines and facilities shall be drawn up so as to ensure the gathering, transportation and lifting of the products extracted from the fields under the best technical and economic conditions, and in particular 50 as to ensure the sale of said products under the best pricing conditions ex-field and 50 as to allow the protection of the environment and the optimum development of the fields.
- 16.6. In the event of several Petroleum discoveries in the same geographical region, the Contractor shall reach amicable agreement with the other producers for the joint construction and/or utilization of pipelines and/or facilities which shall allow to lift all or part of their respective production. Any protocol, agreement or contract entered into for this purpose shall be subject to prior approval by the Minister.

In the event no amicable agreement can be reached, the Minister may demand the Contractor to associate with the other producers for the joint construction and/or utilization, under the best technical and economic conditions, of pipelines and/or facilities, provided that such request shall not give rise for the Contractor to investments greater than those which the Contractor would have borne if the Contractor had carried out the transportation project by itself.

In the event no amicable agreement can be reached between the Parties in question, the dispute shall be subject to arbitration in accordance with the procedure set forth in Article 29 of this Contract.

- 16.7. The authorization for transportation of Petroleum by pipelines shall be granted by decree. It shall include the approval of the project of construction of pipelines and facilities attached to the application therefore and shall grant to the execution thereof

the nature of public interest. Such authorization shall also declare the project to be in the public interest.

Occupation of land necessary for pipelines and facilities shall be made under the conditions provided in Article 7 of this Contract.

The transportation authorization shall also include the right for the Contractor to erect pipelines and facilities on land which it does not own. The owners of land subject to rights of way shall undertake to refrain from doing any action which could hinder the normal operation of pipelines and facilities. Such landowners, in the case of private land, shall be entitled to a compensation which shall be determined, in the event no amicable agreement can be reached, by the authority competent with determination of expropriation compensation.

Where the pipelines or facilities hinder the normal utilization of land and where the landowner 50 requests, the holder shall proceed to the acquisition of said land. The value thereof shall be, in the event no amicable agreement can be reached, determined as for purposes of expropriation.

- 16.8. Unless under Force Majeure, the authorization for transportation of Petroleum shall become null and void when the Contractor or the beneficiaries of a transfer as set forth in Article 16.3 have not commenced or cause to be commenced the scheduled work within one (1) year from the approval of the project.
- 16.9. The company which operates a pipeline for transportation of Petroleum or facilities erected under this Article 16 may, in the event no amicable agreement can be reached, be requested by the Minister to accept, within the limit and the duration of its excess transportation capacity, the transportation of products coming from exploitations other than that which have given rise to the approval of the project.

Such products shall not be the purpose of any discrimination regarding the transportation tariff, under similar conditions of quality, regularity and flow.

- 16.10. The transportation tariffs shall be established by the company in charge of the transportation, in accordance with international petroleum industry practice, and subject to approval of the Minister. For this purpose, the tariffs shall be sent to the Minister at least four (4) months prior to the production start-up, together with the methods of determination thereof and all necessary information. Any subsequent change in the tariff shall be notified and justified to the Minister at least two (2) months prior to its effectiveness. During these time periods, the Minister may oppose to the proposed tariffs.

Such tariffs shall include, inter alias, with respect to a given rate of utilization of the works, a margin for the depreciation of the pipelines and facilities and a profit margin comparable to such as generally admitted in the international petroleum industry with respect to pipelines and facilities of this type and operating under similar conditions.

In the event of significant variances in the components of the tariffs, new tariffs taking into account such variances shall be established in accordance with the methods provided for above.

- 16.11 In the event the holder or one of the holders of an authorization for transportation of Petroleum by pipelines infringes the provisions of this Article 16, or the provisions regarding public safety or protection of environment, the Minister shall serve a formal notice on him to comply with such provisions within a time period of at least three (3) months, unless in the event public safety or national defense would demand an immediate application of such provisions.

In the event the holder concerned does not comply with such demand, the Minister may order, as the case may be, for the only share of the holder concerned in the association, the State management of the operation, at the concerned holder's sole risk and expense.

If after a period of three (3) months following such State management, the holder concerned has not fulfilled his obligations, the revocation of the authorization with respect to such holder, shall be stated and the rights of the holder concerned shall be transferred to the State, free of charge.

- 16.12 Any company which proceed with transportation of Petroleum by pipelines, whatever the reason thereof, shall be subject, with respect to the construction and operation of pipelines and

facilities, to the obligations and rights provided in this Article, as well as to the taxation regime applicable to the Contractor, as provided in this Contract.

## **ARTICLE 17**

### **OBLIGATION TO SUPPLY DOMESTIC MARKET WITH CRUDE OIL**

- 17.1. The Contractor shall meet in priority the needs of the domestic Crude Oil consumption in the Islamic Republic of Mauritania, in the event the Government cannot meet such needs from the share(s) of production which the Government is entitled to.
- 17.2. For this purpose, the Contractor undertakes to sell to the Government or to the beneficiary designated by the Government, if the Government 50 requests, from the Crude Oil production in the Islamic Republic of Mauritania which the Contractor is entitled to, the portion necessary to meet the needs of the domestic consumption in the country, which shall be equal at the maximum to the percentage which the quantity of Crude Oil produced by the Contractor during a Calendar Year represents compared with the total quantity of Crude Oil produced in the Islamic Republic of Mauritania during said Year.
- 17.3. The Minister shall notify the Contractor in writing, no later than the first day of October of each Calendar Year, of the quantities of Crude Oil which he desires to purchase under this Article for the subsequent Calendar Year. Delivery shall be made to the Government or to the beneficiary designated by the Government, in reasonably equal amounts and at regular time intervals during said Calendar Year according to procedures to be agreed upon by the Parties.
- 17.4. The price of the Crude Oil 50 sold by the Contractor to the Government shall be the Market Price established in accordance with the provisions of Article 14 and it shall be payable in Dollars.

## **ARTICLE 18**

### **IMPORT AND EXPORT**

- 18.1. The Contractor shall have the right to import to the Islamic Republic of Mauritania, in its own name or on behalf of its subcontractors, all the goods, materials, machinery, equipment, spare parts and consumable directly necessary for the proper conduct of the Petroleum Operations.

It is understood that the Contractor and its subcontractors agree to effect the aforesaid imports only to the extent the materials and equipment are not available in the Islamic Republic of Mauritania in equivalent conditions of price, quantity, quality, conditions of payment and delivery term.

The foreign employees and their families assigned to work in the Islamic Republic of Mauritania for the account of the Contractor or its subcontractors shall have the right to import to the Islamic Republic of Mauritania, upon their first year of settlement, their household appliances and personal effects.

- 18.2. All the goods referred to in Article 18.1 which the Contractor, its subcontractors and expatriate employees and their families have the right to import shall be entirely exempt from all taxes and duties.

However, the consumable products and goods shall be subject to the generally applicable regime.

The applicable administrative formalities shall be those of the following regimes specified in the Code of Customs, as the case may be:

- (a) items finally imported shall be exempt from all customs taxes and duties;
- (b) re-exportable items shall be cleared under the temporary entry regime with provision of a surety, in suspension of customs taxes and duties.

However, the household appliances and personal effects shall be exempted only if they are imported in a single shipment at the time of change of residence.

- 18.3. The Contractor and its subcontractors, for their own account and for the account of the persons mentioned in Article 18.1, shall have the right to re-export from the Islamic Republic of Mauritania, at any time and free of any taxes and duties, all the items imported according to Article 18.1, except the items the ownership of which is transferred to the Government in accordance with Article 24.
- 18.4. The Contractor and its subcontractors shall have the right to sell the imported goods, materials, machinery, equipment, spare parts and consumables in the Islamic Republic of Mauritania when they are no longer being used for the Petroleum Operations, provided they inform the Government in advance of their intention to do so. It is understood that in this case the seller will be required to fulfil all the formalities prescribed by then-current legislation and to pay all duties and taxes applicable on the transaction date.
- 18.5. For the term of this Contract, the Contractor, its clients and their carriers shall have the right to freely export the portion of Petroleum to which the Contractor is entitled under the terms of this Contract at the export point selected for that purpose, at any time, free of any duties and taxes, after having deducted all the deliveries made to the Government. However, the Contractor agrees at the Government's request not to sell Mauritanian oil or gas to countries declared hostile to the Islamic Republic of Mauritania.
- 18.6. All imports and exports under this Contract shall be subject to the formalities required by customs, but shall not give rise to any payment except as provided in Article 18.2, due to the customs regime applicable to the Contractor.

## **ARTICLE 19**

### **FOREIGN EXCHANGE**

- 19.1. The Contractor shall be subject to the foreign exchange control regulations in force in the Islamic Republic of Mauritania, it being understood that the Contractor and its subcontractors shall benefit during the term of this Contract from the following guarantees regarding exclusively Petroleum Operations:
- (a) the right to open and operate bank accounts outside the Islamic Republic of Mauritania;
  - (b) the right to contract abroad the bans necessary for the performance of their activities in the Islamic Republic of Mauritania;
  - (c) the right to receive and retain abroad all the amounts acquired or borrowed abroad, including the proceeds of sales of Petroleum, and to freely dispose thereof, to the extent such amounts exceed their fiscal obligations and domestic requirements for the Petroleum Operations in the Islamic Republic of Mauritania;
  - (d) the right to freely remit outside the Islamic Republic of Mauritania the proceeds of sales of Petroleum which the Contractor is entitled to under this Contract as well as the dividends and proceeds of any kind arising from the Petroleum Operations;
  - (e) the right to pay *directly* abroad the foreign enterprises which provide for goods and services necessary for the performance of the Petroleum Operations;
  - (f) the right to exchange, for purposes of Petroleum Operations, national currency and foreign convertible currencies, through banks and agents established in the Islamic Republic of Mauritania and officially authorized, at exchange rates which are no less favourable to the Contractor or its subcontractors than either the current daily rate or the rate generally applicable in the Islamic Republic of Mauritania to other enterprises on the day the exchange transactions occur.
- 19.2. The Contractor shall submit to the Minister in charge of Finance, no later than forty-five (45) days after the end of each Quarter, a report with details of the exchange transactions made under this Contract during the preceding Quarter, including the transactions on accounts opened abroad made in accordance with the provisions of Article 19.1(a) above.
- 19.3. The Contractor's expatriate employees shall have the right, in accordance with the regulations then in force in the Islamic Republic of Mauritania, to freely exchange and to freely transfer to their country of origin the savings arising from their salaries, as well as the retirement and social contributions paid by or for said employees, provided they have fulfilled their tax obligations in the Islamic Republic of Mauritania.

## **ARTICLE 20**

### **BOOKKEEPING, MONETARY UNIT, ACCOUNTING**

- 20.1. The Contractor shall maintain its records and books in accordance with the regulations in force and the Accounting Procedure attached hereto as Appendix 2.
- 20.2. Records and books shall be maintained in the French language and expressed in Dollars. They shall be supported by detailed documents demonstrating the expenses and receipts of the Contractor under this Contract.

Such records and books shall be used, inter alia, to determine the gross income, Petroleum Costs and net profits of the Contractor and to establish the Contractor's tax return. They shall include the Contractor's accounts showing the sales of Petroleum under this Contract.

For information purposes, the profit and loss accounts and balance sheets shall also be maintained in Ouguiyas.

- 20.3. Until the Contractor is granted the first exclusive exploitation authorization, the originals of the principal records and books referred to in Article 20.1 may be kept at the Contractor's main office with at least one copy in the Islamic Republic of Mauritania. As from the month when the Contractor is granted the first exclusive exploitation authorization, said records and books shall be maintained in the Islamic Republic of Mauritania.
- 20.4. After notifying the Contractor in writing, the Minister may cause to be examined and audited the records and books relating to Petroleum Operations by experts of its election or by its own agents. The Minister will have a period of five (5) years from the end of a given Calendar Year to perform such examinations or audits with respect to said Year and submit its objections to the Contractor for any contradictions or errors found during such examinations or audits.

The Contractor shall provide any necessary assistance to the persons designated by the Minister for that purpose and facilitate their performance. Reasonable audit expenses shall be reimbursed by the Contractor to the Government and shall be considered as Petroleum Costs and recoverable under the provisions of Article 10.2.

- 20.5. The amounts due to the Government or to the Contractor shall be paid in Dollars or in any other convertible currency mutually agreed upon by the Parties.

In the event of delay in a payment, the amounts payable shall bear interest at a rate of \_\_\_\_\_ percent ( \_\_\_\_ %) per year from the day such amounts should have been paid up to the day on which they are paid, with monthly capitalization of interests if the delay is greater than thirty (30) days.

## **ARTICLE 21**

### **GOVERNMENT PARTICIPATION**

- 21.1. The Government shall have the option of participating in the risks and results of the Petroleum Operations arising from this Contract starting on the date of granting the first exclusive exploitation authorization. The Government, as a result of its participation and in proportion thereto, will be the beneficiary of the same rights and subject to the same obligations as the Contractor under this Contract, subject to the provisions of this Article 21.
- 21.2. The Government may exercise such participation either directly or through a national company controlled by the Mauritanian State which may be a company created for the management of national interests in the petroleum sector or a public establishment existing or created for that purpose.

- 21.3. The Government's participation in an Exploitation Perimeter will represent a share of undivided interest the maximum percentage of which will be determined in accordance with the following provisions:
- (a) \_\_\_\_\_per cent (----%) initially as provided in Article 21.4;
  - (b) \_\_\_\_\_per cent (----%) when the regular production from said Exploitation Perimeter shall have reached \_\_\_\_\_(-----) Barrels per day, as provided in Article 21.7.

- 21.4. Within six (6) months after the date of granting the exclusive exploitation authorization with respect to an Exploitation Perimeter, the Government shall notify the Contractor in writing of its desire to exercise its option of initial participation in said Exploitation Perimeter, specifying the selected percentage of initial participation.

The initial participation shall become effective on the date on which the Government notifies it exercises its option.

- 21.5. From the effective date of its initial participation, the Government shall participate in the Petroleum Costs in the Exploitation Perimeter in question in proportion to its percentage of initial participation, and shall reimburse to the Contractor a percentage, equal to its percentage of initial participation, of the Petroleum Costs (except operating costs and financial costs) not yet recovered, incurred by the Contractor with respect to the Exploitation Perimeter in question from the Effective Date of this Contract to the effective date of the Government's initial participation.

- 21.6. Due to the financial risks taken by the Contractor for the development of the Petroleum resources of the Islamic Republic of Mauritania, the Government will pay to the Contractor, with respect only to the Petroleum exploration Costs excluding Petroleum appraisal, development and production Costs, an amount equal to one hundred per cent (100%) of said Petroleum exploration Costs, no yet recovered, to be reimbursed by the Government under Article 21.5.

- 21.7. Within six (6) months after the date on which the level of production of Crude Oil from an Exploitation Perimeter set forth in paragraph (b) of Article 21.3 will have been reached on average during a period of thirty (30) consecutive days, the Government shall notify the Contractor in writing of its desire to exercise its option of corresponding additional participation in said Exploitation Perimeter, specifying the selected percentage of additional participation.

The additional participation shall become effective on the date on which the Government notifies it exercises its option.

- 21.8. From the effective date of its additional participation, the Government shall participate in the Petroleum Costs in the Exploitation Perimeter in question in proportion to its percentage of participation 50 increased and shall reimburse to the Contractor a percentage, equal to the difference between its percentage of participation after such increase and its percentage of initial participation, of the Petroleum Costs (except operating costs and financial costs), not yet recovered, incurred by the Contractor with respect to the Exploitation Perimeter in question, from the effective date of the Government's initial participation to the effective date of its additional participation.

- 21.9. The Government will not be required as a result of its participation, whether initial or additional, to reimburse or finance any portion of the amount paid by the Contractor under Article 13 of this Contract.
- 21.10. The reimbursements and payments which will be made by the Government under the provisions of Articles 21.5 and 21.8 within eighteen (18) months from the effective date of the corresponding option shall not bear interest and shall be paid in Dollars.

Upon expiry of said eighteen (18) months' period, the Government may, at its option, reimburse the Contractor either in Dollars or in kind, for the outstanding balance of reimbursement, by paying to the Contractor an amount equivalent to \_\_\_\_\_ percent (\_\_\_%) of the annual share of production to which the Government is entitled under its participating interest, valued in accordance with the provisions of Article 14, until the value of such reimbursement amounts to \_\_\_\_\_ percent (\_\_\_%) of the amount due. In the event of reimbursement in kind, the Contractor shall lift in priority at the Delivery Point the share of production to which it is entitled for each type of Petroleum produced.

The Contractor will not be subject to any tax of any nature whatsoever in respect of such reimbursements. The gains which may be realized by the Contractor in connection with the Government's participation will be exempt from the direct income tax.

- 21.11 The national company on the one hand and the entities constituting the Contractor on the other hand will not be jointly liable for the obligations resulting from this Contract. The national company will be individually liable to the Government for its obligations as provided in this Contract.

Any failure by the national company to perform any of its obligations will not be considered as default of the other entities constituting the Contractor and can in no case be invoked by the Government to terminate this Contract.

The association between the national company and the Contractor will in no case cancel or affect the rights of the other entities constituting the Contractor to resort to the arbitration clause provided in Article 29 which is not applicable to disputes between the Government and the national company, but only to disputes between the Government or the national company and the entities constituting the Contractor.

- 21.12. The terms of such participation as well as the relationships between the participants shall be defined in a Joint Operating Agreement which shall be executed between the participants and shall become effective upon the effective date of Government's participation set forth in Article 21.4.

## **ARTICLE 22**

### **ADDITIONAL RIGHTS OF THE FIRST PRODUCER**

- 22.1. In order to encourage the development of resources in the Islamic Republic of Mauritania and to favour the development of petroleum activities, the Government

shall grant additional advantages to the Contractor in accordance with the provisions of this Article, in the event the Contractor is the first producer of Petroleum in the country.

- 22.2. For purposes of this Article, the Contractor shall be considered to be the first producer in the Islamic Republic of Mauritania in the event the average production rate of an Exploitation Perimeter over a period of sixty consecutive (60) days shall reach twenty thousand (20,000) Barrels per day before an identical average production rate shall have been reached by another company or group of companies on another exploitation perimeter in the Islamic Republic of Mauritania.
- 22.3. For purposes of this Article, the Contractor will be granted the following additional advantages:
- (a) a premium, not to exceed \_\_\_\_\_ ( \_\_\_ ) Dollars, equal to \_\_\_\_\_ percent( .%) of the Petroleum Costs with respect only to the Petroleum exploration Operations (excluding, inter alia, Petroleum appraisal and development Operations) incurred by the Contractor under this Contract prior to the date of granting of the exclusive exploitation authorization with respect to the Exploitation Perimeter set forth in Article 22.2, shall be added to the Petroleum Costs recoverable by the Contractor under the provisions of Article 10.2.;
  - (b) the option to increase the Government's participation provided in paragraph (b) of Article 21.3, with respect to the Exploitation Perimeter set forth in Article 22.2, shall be exercised only after a period of eighteen (18) months following the date on which the production level set forth in said paragraph (b) of Article 21.3 has been reached.

## **ARTICLE 23**

### **ASSIGNMENT**

- 23.1. The rights and obligations arising from this Contract shall not be assigned, in whole or part, by any of the entities constituting the Contractor without prior approval of the Minister.

If, within three (3) months after notice to the Minister of a projected assignment accompanied with all the necessary information in support of the technical and financial capacities of the assignee, as well as with the draft assignment deed and the terms and conditions of such assignment, the Minister has not notified his justifiable refusal, said assignment shall be deemed to have been approved by the Minister upon the end of said time period of three (3) months.

As from the date of approval, the assignee shall acquire the quality of Contractor and shall fulfil the obligations prescribed to the Company under this Contract, to which he shall adhere prior to the assignment.

If one of the entities constituting the Contractor submits to the Minister for approval a projected assignment to an Affiliated Company, the Minister will authorize said assignment within the above-mentioned time period of three (3) months; as the case may be, the provisions of Article 25.4 shall be applicable.

23.2. The Contractor or any entity constituting the Contractor shall also subunit to the Minister for prior approval:

- (a) Any project which may give rise to a change in the control of the Contractor or the entity in question, in particular through a new sharing of the registered shares.

The following shall be considered as elements of control of the Contractor or of an entity : sharing of registered capital, nationality of the major shareholders, as well as statutory provisions concerning the head *office* and the rights and obligations related to the registered shares as regards the majority required in the general meetings.

However, assignment of registered shares to Affiliated Companies shall be free, subject to prior notice to the Minister for information purposes and subject to the application of the provisions of Article 25.4, as the case may be.

As regards assignment of registered shares to new shareholders, they shall be subject to approval of the Minister only if they have the effect to assign to them more than thirty percent (30%) of the capital of the enterprise.

- (b) Any project of constitution of sureties with respect to assets and facilities allocated to Petroleum Operations.

The projects set forth in paragraphs (a) and (b) shall be notified to the Minister. if within three (3) months after said notice, the Minister has not notified the Contractor or the entity in question of his justifiable refusal with respect to said projects, they shall be deemed to be approved upon the end of said time period of three (3) months.

23.3. Where the Contractor consists of several entities, it shall provide forthwith the Minister with a copy of the joint operating agreement which binds the entity constituting the Contractor, and of any changes which may be made thereto, while specifying the name of the enterprise appointed as "Operator" for the conduct of Petroleum Operations; any change in the Operator shall be subject to approval of the Minister in accordance with the provisions of Article 6.2.

23.4. Assignments made in breach of the provisions of this Article shall be null and void.

## **ARTICLE 24**

### **OWNERSHIP AND TRANSFER OF ASSETS UPON TERMINATION**

24.1. The Contractor shall be the owner of the assets, whether movable or immovable, which it has acquired for purposes of Petroleum Operations, subject to the following provisions.

24.2. Upon termination, relinquishment or cancellation of this Contract, whatever the reason therefore, with respect to all or part of the Exploration Perimeter or an Exploitation Perimeter, the assets belonging to the Contractor and necessary for Petroleum Operations in the relinquished area shall become the ownership of the Government,

free of charge, unless they shall be used by the Contractor for purposes of exploitation of other fields located in the Islamic Republic of Mauritania. Such transfer of ownership shall cause, as the case may be, the automatic cancellation of any surety or security concerning filose assets or which those assets constitute.

If the Minister decides not to use said assets, he shall have the right to require Contractor to remove them at the latter's expense, it being understood that abandonment operations shall be carried out by the Contractor in accordance good international petroleum industry practice, and in accordance with the schedule and conditions defined in the abandonment plan which WÍll have approved.

- 24.3. During the term of this Contract, the wells which are considered by mutual agreement as inappropriate to production may be taken back by the Government, upon request from the Minister, for purposes of being converted into water wells. The Contractor shall then undertake to keep in place the casings along the requested depth as well as, as the case may be, the wellhead, and to perform at its expense the plugging of the well along the requested depth.

## **ARTICLE 25**

### **RESPONSIBILITY AND INSURANCE**

- 25.1. The Contractor shall indemnify and compensate any person, including the Government, for any damage or loss which the Contractor, its employees or subcontractors and their employees may cause to the person, the property or the rights of other persons, caused by or resulting from Petroleum Operations.

The Contractor shall indemnify, defend and hold harmless the Government against all claims, losses or damage whatsoever caused by or resulting from Petroleum Operations.

- 25.2. The Contractor shall take out and maintain in force, and cause to be taken out and maintained in force by its subcontractors, *all* insurances with respect to Petroleum Operations, of the *type* and for such amounts customarily used in the international petroleum industry, including, inter alias, third party liability insurances and insurances to cover damage to property and environment, without prejudice to such insurances as may be required under the Mauritanian legislation.

The Contractor shall provide the Minister with the certificates justifying the subscription and maintenance of the above-mentioned insurances.

- 25.3. Where the Contractor consists of several entities, the obligations and responsibilities of filose entities under this Contract shall be several except their obligations relating to the income tax.
- 25.4. If one of the entities constituting the Contractor 15 a subsidiary, its parent-company shall submit to the Minister for approval an undertaking guaranteeing the proper performance of the obligations arising from this Contract.

## **ARTICLE 26**

### **TERMINATION OF THE CONTRACT**

- 26.1. This Contract may be terminated, without compensation, under one of the following occurrences
- (a) Material breach or recurrent breach by the Contractor of the provisions of Ordinance No.88.151 of November 13, 1988, stating the legal and fiscal regime applicable to the exploration for and exploitation of Petroleum, and of the provisions of this Contract;
  - (b) Delay exceeding three (3) months incurred by the Contractor with respect to a payment due to the Government;
  - (c) Stoppage of development work with respect to a field during six (6) consecutive months;
  - (d) After commencement of production from a field, stoppage of the exploitation thereof during at least six (6) months, decided without the Minister' s consent;
  - (e) Failure of the Contractor to comply, within the prescribed time period, with an arbitration award rendered in accordance with the provisions of Article 29 ; or
  - (f) Bankruptcy, composition with creditors or liquidation of assets of the Contractor or its parent company.
- 26.2. Except with respect to the occurrence set forth in paragraph (f) above, the Minister shall pronounce the forfeiture provided for in Article 26.1 only after having served formal notice on the Contractor, by registered mail with acknowledgment of receipt, to remedy the breach in question within three (3) months (or within six (6) months with respect to the occurrences set forth in paragraphs (c) and (d) above) from the date of receipt of such notice.

Should the Contractor fail to comply with such prescription within the prescribed time period, the Minister may pronounce ipso jure the termination of this Contract.

Any dispute as to whether any ground exists to justify the termination of the Contract pronounced by the Government due to the forfeiture may be subject to arbitration in accordance with the provisions of Article 29. In that event, the Contract shall remain in force until the execution of the arbitration award by the Parties.

Termination of this Contract shall automatically give rise to the cancellation of the exclusive exploration authorization and the exclusive exploitation authorizations then in force.

## **ARTICLE 27**

### **APPLICABLE LAW AND STABILITY OF CONDITIONS**

- 27.1. This Contract and the Petroleum Operations carried out under said Contract shall be governed

by the laws and regulations in force in the Islamic Republic of Mauritania.

- 27.2. The Contractor shall be subject at any time to the laws and regulations in force in the Islamic Republic of Mauritania.
- 27.3. The Contractor shall not be subject to any legislative provision which would give rise to an aggravation, whether directly or indirectly, in the charges and obligations arising from this Contract and from the legislation and regulations in force on the date of signing this Contract, unless as mutually agreed upon by the Parties.

## **ARTICLE 28**

### **FORCE MAJEURE**

- 28.1. Any obligation arising from this Contract which either Party is prevented from performing whether in whole or part, except with respect to the payments such Party is liable to, shall not be considered as a breach of this Contract if said non-performance is caused by a case of Force Majeure, provided, however, that there is a direct cause-and effect relationship between the non-performance and the case of Force Majeure invoked.
- 28.2. For purposes of this Contract, cases of Force Majeure are considered to include all events which are unforeseeable, irresistible and beyond the control of the Party which invokes it, such as earthquake, strike, riot, insurrection, civil disturbances, sabotage, acts of war or acts attributable to war. The intent of the Parties is that the term Force Majeure shall be interpreted in accordance with the principles and practice of international law.
- 28.3. Where either Party considers it is prevented from performing any of its obligations due to a case of Force Majeure, it shall immediately notify the other Party thereof, stating the grounds for establishing such case of Force Majeure, and it shall, in agreement with the other Party, take all necessary and useful action to assure the resumption of the obligations affected by the case of Force Majeure upon termination of that case of Force Majeure. The obligations other than those affected by the case of Force Majeure shall continue to be performed in accordance with the provisions of this Contract.
- 28.4. If the performance of any of the obligations of the Contract is delayed due to a case of Force Majeure, the duration of the resulting delay together with such time period as may be required for the repair of any damage caused by the case of Force Majeure, shall be added to the period provided for in the Contract and that of the exclusive exploration authorization and the exclusive exploitation authorizations then in force.

## **ARTICLE 29**

### **ARBITRATION AND EXPERTISE**

- 29.1. In the event of any dispute between the Government and the Contractor regarding the interpretation or execution of the provisions of this Contract, the Parties shall make their best efforts to settle such dispute amicably.

If, within three (3) months from the date of notice of such dispute, the Parties have not reached

amicable settlement, the dispute shall be submitted, upon request of the most diligent Party, to the International Center for Settlement of Investment Disputes (ICSID) in order to be settled by arbitration in accordance with the rules set forth by the Convention on the Settlement of Investment disputes between States and National s of other States.

- 29.2. The seat of arbitration shall be Paris, France. The language used during the arbitration proceedings shall be the French language and the applicable law shall be the laws of the Islamic Republic of Mauritania as well as the rules and practice of international law applicable on the subject matter.

The arbitration tribunal shall consist of three (3) arbitrators. No arbitrator shall be a national of the countries to which either Party belongs.

The arbitration award shall be final; it shall be binding on the Parties and immediately enforceable.

Thee arbitration expenses shall be borne equally by the Parties, subject to the decision of the tribunal regarding the sharing thereof.

- 29.3. The Parties shall conform to any measure of conservation prescribed or recommended by the arbitration tribunal.
- 29.4. A request to arbitration shall give rise to the suspension of the contractual provisions concerning the subject matter of the dispute, but ail other rights and obligations of the Parties under this Contract shall not be suspended.
- 29.5. In the event of any difficulty arising from the execution of this Contract, the Parties hereby agree, prior to any arbitration or failing to reach amicable settlement, to request an expert to provide assistance for the amicable settlement of such dispute. Such expert shall be appointed by mutual agreement between the Parties or, failing such agreement, by the International Center for Technical Expertise of the International Chamber of Commerce, in accordance with its Regulations for Technical Expertise. The expert expenses and fees shall be shared equally by the Parties, or borne by the Contractor until granting the first exclusive exploitation authorization.

### **ARTICLE 30**

#### **CONDITONS FOR APPLICATION OF THE CONTRACT**

- 30.1. The Parties hereby agree to cooperate in any possible manner to achieve the objectives of this Contract.

The Government will facilitate the performance of the Contractor's activities by granting it ail permits, licenses and access rights necessary for the requirements of the Petroleum Operations, and by making available to it all the appropriate services with respect to said Operations of the Contractor, its employees and agents in the territory of the Islamic Republic of Mauritania.

No Government authorizations required under this Contract or any other law or regulation pertaining thereto shall be withheld without legitimate grounds.

30.2. All notifications or other communications with respect to this Contract shall be made in writing and shall be deemed to be valid as soon as they are delivered by hand upon receipt to a qualified representative from the Party involved at the location of its main office in the Islamic Republic of Mauritania, or delivered by prepaid registered mail, with acknowledgement of receipt, or sent by telex or by fax confirmed by a letter and after acknowledgement of receipt by the addressee, to the addresses indicated below:

- For the Government:

Director des Mines et de la Geology  
BP 199  
Nouakchott  
Mauritania  
Telex : SNIM 531 A MTN  
Fax: 222.25.32.25

- For the Contractor:

Notifications shall be deemed to be delivered on the date the addressee receives them pursuant to the acknowledgement of receipt.

30.3. The Government and the Contractor may at any time change their authorized representative, or modify the addresses mentioned in Article 30.2, subject to at least ten (10) days' prior notice.

30.4. This Contract may be modified only in writing and by mutual agreement of the Parties.

30.5. Any waiver of the Government concerning the execution of an obligation of the Contractor shall be in writing and signed by the Minister, and no waiver shall be considered as a precedent if the Government does not exercise any of the rights which it is entitled to under this Contract.

30.6. Headings in this Contract are inserted for purposes of convenience and reference and in no event shall define, restrict or describe the scope or object of the Contract or of any of its clauses.

30.7. Appendices 1 and 2 attached hereto are an integral part of this Contract.

## **ARTICLE 31**

### **EFFECTIVE DATE**

After execution by the Parties, this Contract shall become effective upon the date on which it is approved by law, such date herein referred to as the Effective Date, and this Contract shall then be binding for the Parties.

In witness whereof, the Parties have signed this Contract in \_\_\_\_\_ (\_\_) copies.

At Nouakchott, \_\_\_\_\_

FOR THE ISLAMIC REPUBLIC  
OF MAURITANIA,

The Minister of Mines and Industry

FOR \_\_\_\_\_

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## **APPENDIX 1**

Attached to and made an integral part of this Contract between the Islamic Republic of Mauritania and the Contractor.

### **EXPLORATION PERIMETER**

Upon the Effective Date, the initial Exploration Perimeter covers an area deemed equal to Approximately \_\_\_\_\_ (\_\_\_\_\_) square kilometres.

Said Perimeter is described on the attached map.

The points \_\_\_\_\_ indicated on said map are defined below, by reference to the Greenwich meridian, through their geographic coordinates:

## **MAP OF THE EXPLORATION PERIMETER**

## **APPENDIX 2**

Attached to and made an integral part of this Contract between the Islamic Republic of Mauritania and the Contractor.

### **ACCOUNTING PROCEDURE**

#### **ARTICLE 1**

##### **GENERAL PROVISIONS**

###### **1.1. Scope**

This Accounting Procedure shall be used and observed for the performance of the obligations of the Contract to which it is attached.

The scope of this Accounting Procedure is to establish the rules and methods of accounting for determining the costs and expenses incurred by the Company with respect to the Petroleum Operations (hereinafter referred to as 'Petroleum Costs'<sup>1</sup>).

###### **1.2. Accounts and Statements**

The Contractor shall record in separate accounts all transactions related to the Petroleum Operations and shall permanently maintain the accounts, books and registers which will set apart, inter alia, exploration expenditures, appraisal expenditures with respect to each discovery, and, as the case may be, development expenditures, production costs and financial costs with respect to each Exploitation Perimeter, as well as general and administrative expenses.

The Contractor's accounts, books and registers shall be maintained in accordance with the rules of the chart of accounts in force in the Islamic Republic of Mauritania and the rules and methods customarily used in the international petroleum industry.

In accordance with the provisions of Article 20.2 of the Contract, the Contractor's accounts, books and registers shall be maintained in the French language and expressed in Dollars.

Whenever it is necessary to convert into Dollars the expenses and receipts paid or received in any other currency, such expenses and receipts shall be valued on the basis of the exchange rate quoted at the Paris exchange market, in accordance with methods to be mutually agreed upon.

###### **1.3. Interpretation**

The definitions of the terms used in this Appendix 2 shall be the same as those of the corresponding terms set forth in the Contract.

In the event of any conflict between the provisions of this Accounting Procedure and the Contract, the provisions of the Contract shall prevail.

#### **1.4. Modifications**

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

The Parties hereby agree that if any provision of the Accounting Procedure proves inequitable to either Party, such provision shall be modified in good faith by the Parties in order to avoid any unfairness.

## **ARTICLE 2**

### **PETROLEUM COSTS**

The Contractor shall maintain a Petroleum Costs Account which will record in detail the Petroleum Costs incurred by the Contractor in the performance of the Petroleum Operations, and the following costs and expenses shall be charged to the debit of such account:

#### **2.1. Personnel expenses**

AH payments made or expenses incurred to cover the salaries and wages of employees of the Contractor and its Affiliated Companies who are directly assigned either temporarily or continuously to the Petroleum Operations in the territory of the Islamic Republic of Mauritania, including costs of legal and social insurance benefits as well as all additional costs or expenses provided for in the individual or collective employment contracts or as provided for in the administrative policies of the Contractor.

#### **2.2. Buildings**

Building costs, maintenance and related costs, as well as rents paid for all offices, houses, warehouses and buildings, including housing and recreational facilities for employees, and the costs of equipment, furniture, fixtures and supplies necessary for the operation of such buildings required for the performance of the Petroleum Operations.

#### **2.3. Materials, equipment and rentals**

The costs of equipment, materials, machinery, articles, supplies and facilities purchased or supplied for the requirements of the Petroleum Operations, as well as rentals or compensations paid or incurred for the use of any equipment and facilities required for the Petroleum Operations, including equipment belonging to the Contractor.

#### **2.4. Transportation**

Transportation of employees, equipment, materials and supplies within the Islamic Republic of Mauritania, as well as between the Islamic Republic of Mauritania and other countries, required for the Petroleum Operations. The costs of transportation of employees shall include the moving expenses for the employees and their families paid by the Contractor in accordance with its policies.

## **2.5. Services rendered by subcontractors**

The costs of services rendered by subcontractors, consultants, experts, as well as the costs related to the services rendered by the Government or any other Mauritanian authority.

## **2.6. Insurance and claims**

Premiums paid for insurance policies customarily subscribed for the Petroleum Operations to be performed by the Contractor as well as ail expenses incurred and paid for the settlement of ail losses, claims, compensations and other expenses, including those related to legal services, not recovered by the insurer and ail expenses arising from court decisions.

If, after approval of the Minister, no insurance is subscribed with respect to a specific risk, ail expenses incurred and paid by the Contractor for the settlement of ail losses, claims, compensations, court decisions and other expenses.

## **2.7. Legal expenses**

Ail expenses for the conduct, review and settlement of disputes or claims arising from the Petroleum Operations, or the expenses required to defend or recover assets acquired in the performance of the Petroleum Operations, including, inter alias, lawyer fees, court expenses, costs of investigations or inquiries and amounts paid in settlement or satisfaction of such disputes or claims. If such actions are to be conducted by the legal staff of the Contractor, a reasonable compensation shall be included in the Petroleum Costs, which shall not exceed in any case the cost of supplying said service usually charged by a Third Party.

## **2.8. Financial costs**

Ail interests and adios paid by the Contractor with respect to the bans contracted from Third Parties and advances obtained from Affiliated Companies, provided that those bans and advances shall be intended to finance the Petroleum Costs related only to the Petroleum development Operations with respect to a commercial field (excluding, inter alias, the Petroleum exploration and appraisal Operations), and shall not exceed seventy five per cent (75 %) of the total amount of those Petroleum development Costs. Those bans and advances shall be submitted to the approval of the Administration.

In the event such financing is provided by Affiliated Companies, the allowable interest rates shall not exceed the rates customarily used in the international financial markets for bans of a similar nature.

## **2.9. General and administrative expenses ("Overheads")**

- (a) Overheads in the Islamic Republic of Mauritania shall represent the wages and expenses of the Contractor' s employees engaged in the Petroleum Operations in the Islamic Republic of Mauritania, whose work time is not directly allocated thereto, as well as the costs of maintaining and operating in the Islamic Republic of Mauritania a main administrative office and sub-offices necessary for the Petroleum Operations.
- (b) The Contractor shall add a reasonable amount as foreign overheads necessary for the performance of the Petroleum Operations and borne by the Contractor and its Affiliated

Companies ; such amounts shall correspond to the costs of the services rendered for the benefit of the Petroleum Operations.

The amounts charged shall be provisional amounts established on the basis of the experience of the Contractor and shall be adjusted annually according to the actual costs burns by the Contractor, provided, however, such amounts shall not exceed the following limits:

- (i) prior to the granting of the first exclusive exploitation authorization: \_\_\_\_\_ percent (\_\_\_%) of the Petroleum Costs excluding Overheads;
- (ii) from the granting of the first exclusive exploitation authorization: \_\_\_\_\_ percent (\_\_\_%) of the Petroleum Costs excluding financial costs and Overheads.

### **2.10. Other expenses**

All expenses incurred by the Contractor to ensure the proper conduct of the Petroleum Operations, other than the expenses covered and set forth by the foregoing provisions of this Article 2 of this Appendix 2, and other than the expenses excluded from the Petroleum Costs in accordance with the provisions of the Contract.

## **ARTICLE 3**

### **COST EVALUATION BASIS FOR SERVICES, MATERIALS AND EQUIPMENT USED IN THE PETROLEUM OPERATIONS**

#### **3.1. Technical services**

A reasonable rate shall be charged for the technical services rendered by the Contractor or its Affiliated Companies for the benefit of the Petroleum Operations carried Out under this Contract, such as gas, water, core analyses and any other analyses and tests, provided that such rates shall not exceed those normally charged by independent technical service companies and Laboratories for like services.

#### **3.2. Purchase of materials and equipment**

The materials and equipment purchased and the services rendered necessary for The Petroleum Operations shall be charged to the Petroleum Costs Account at the "Net Cost" incurred by the Contractor.

"Net Cost" shall include the cost of purchasing (after deduction of discounts and reductions obtained, if any) and such items as taxes, shipping agent fees, transportation, loading and unloading costs, license fees related to the Supply of materials and equipment, as well as transit losses not recovered through insurance.

#### **3.3. Utilization of equipment and facilities owned by the Contractor**

Equipment and facilities owned by the Contractor and used in the Petroleum Operations shall be charged to the Petroleum Costs Account at a rental rate which shall cover maintenance,

repairs, depreciation and services required for the Petroleum Operations, provided such costs shall not exceed those normally charged in the Islamic Republic of Mauritania for like services.

### **3.4. Valuation of material**

All material transferred from the warehouses of the Contractor or its Affiliated Companies, or by any entity constituting the Contractor or their Affiliated Companies, shall be valued as follows:

**(a) *New material***

New material (condition "A") means new material which has never been used one hundred percent (100%) of the Net Cost defined in Article 3.2 above.

**(b) *Material in good condition***

Material in good conditions (condition "B") means material in good condition which is still usable for its initial purpose without repair : seventy-five percent (75%) of the Net Cost of new material as defined in paragraph (a).

**(c) *Other used material***

Other used material (condition "C") means material still usable for its initial purpose, but only after repairs and reconditioning : fifty percent (50%) of the Net Cost of new material as defined in paragraph (a).

**(d) *Material in poor condition***

Material in poor conditions (condition "D") means material no longer usable for its initial purpose, but still usable for other purposes: twenty-five percent (25%) of the Net Cost of new material as defined in paragraph (a).

**(e) *Scrap and discard***

Scrap and discard (condition "E") means material beyond usage and repair prevailing price of scrap material.

### **3.5. Materials and equipment disposed by the Contractor**

(a) Materials, equipment and consumables purchased by all the entities constituting the Contractor or shared among them in kind shall be valued in accordance with the principles defined in Article 3.4 above.

(b) Materials and equipment purchased by any entity constituting the Company or by Third Parties shall be valued at the sales price received which shall in no event be less than the price determined in accordance with the principles defined in Article 3.4 above.

(c) The corresponding amounts shall be credited to the Petroleum Costs Account.

## ARTICLE 4

### DEPRECIATION OF CAPITAL EXPENDITURES AND EXPLORATION EXPENDITURES

#### 4.1. Capital expenditures

For purposes of determining the taxable net profit arising from all the Petroleum Operations carried out by the Contractor in the territory of the Islamic Republic of Mauritania, as provided for in Article 11 of the Contract, capital expenditures

incurred by the Contractor and necessary for the Petroleum Operations shall be depreciated under a straight-line basis.

The maximum depreciation rates are specified hereafter according to the category of capital expenditures, and shall be applicable from the Calendar Year during which such capital expenditures are incurred, or from the Calendar Year during which the assets corresponding to said capital expenditures are put into normal service, whichever is later, pro rata temporis for the first Calendar Year in question.

<b>Nature of the capital asset to be depreciated</b>	<b>Annual depreciation rate</b>
Permanent buildings	5%
Temporary buildings	33.3%
Office and home furniture and fixtures	20%
Productive wells	20%
Production and delivery equipment	20%
Drilling equipment	33.3%
Pipelines	10%
Automotive equipment	33.3%
Marine and aviation equipment	12.5%
All other capital assets	20%

#### 4.2. Exploration expenditures

Petroleum exploration expenditures incurred by the Contractor in the territory of the Islamic Republic of Mauritania, including, inter alia, geological and geophysical exploration costs and exploratory well drilling costs (excluding productive exploratory well costs which shall be capitalized under the provisions of Article 4.1 above) shall be considered as charges entirely deductible upon the year they are incurred or may be depreciated under a depreciation regime selected by the Contractor.

## ARTICLE 5

### INVENTORIES

#### 5.1. Frequency

The Contractor shall keep permanent inventories both in quantity and value of all materials used in the Petroleum Operations and shall proceed at reasonable intervals, at least once a year, with the physical inventories such as required by the Parties.

## 5.2. Notification

A written notice of intent to conduct an inventory shall be sent by the Contractor at least sixty (60) days before the commencement of said inventory, so that the Minister

and the entities constituting the Company may be represented, at their expense, during the inventory operations.

## 5.3. Information

In the event the Minister or any entity constituting the Company shall not be represented during an inventory, said Party or Parties shall be bound by the inventory established by the Contractor, which shall then furnish to such Party or Parties a copy of said inventory.