

ANNEX B

TO THE.....

**PRODUCTION SHARING
CONTRACT**

ACCOUNTING PROCEDURE

Date: _____

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ARTICLE B.1

GENERAL PROVISIONS

1.1 Purpose

The purpose of this Accounting Procedure is to draw up a list of Petroleum Costs, classify such costs by category and set forth the methods and rules for recording the **CONTRACTOR's** accounting, which shall be according to generally accepted rules of accounting in the international petroleum industry unless specifically stated otherwise, and approving same.

1.2 Definitions

For purposes of this Accounting Procedure, the terms and expressions defined in the Contract have the same meaning as used therein.

'Contract' means the Production Sharing Contract between the Republic of Cameroon and ----- dated -----, and annexes attached thereto, of which this Accounting Procedure forms an integral part.

"OHADA" : means Organization for the Harmonization of Business Law in Africa

1.3 Inconsistencies

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

1.4 Accounting Records and Reports

- 1.4.1 During the Exploration Phase of the Contract, and for up to one hundred and eighty (180) Days thereafter, the **CONTRACTOR** shall maintain in ----- or in any other city in Cameroon designated by the **CONTRACTOR**, complete accounts as well as books and records of all Petroleum Costs, and other records and costs the Contractor deems relevant, in accordance with generally accepted rules of accounting in the international petroleum industry and in accordance with the chart of accounts adopted under the provisions of Article 1.4.2 below. Upon a Commercial Discovery and approval of a plan of development for such Commercial Discovery, the **CONTRACTOR** shall maintain thereafter at its head office in Cameroon accounting books and records pertaining to all Petroleum Operations, including Petroleum Costs incurred, in accordance with generally accepted rules of accounting in the international petroleum industry and the chart of accounts referred to in Article 1.4.2 below.
- 1.4.2 Within sixty (60) Days after the Effective Date, the **CONTRACTOR** shall submit to the **STATE** for its review and approval an outline of its chart of accounts and the organization of its accounting. Such outline shall be consistent in all respects with generally accepted rules of accounting in the international petroleum industry and with the standards applicable to Petroleum Operations carried out by the **CONTRACTOR** and principles of OHADA.

Within ninety (90) Days after the above-mentioned submittal, the **STATE** shall either notify the **CONTRACTOR** of its approval or shall request in writing revisions appropriate to the **CONTRACTOR**'s proposal. In the absence of a written response within the ninety (90) day period such submittal is deemed approved. Within one hundred and eighty (180) Days after the Effective Date, the **CONTRACTOR** and the **STATE** shall agree on the general outline of the chart of accounts, which shall contain a description of the accounting system and procedures to be followed in the context of performance of the Contract. Following such agreement, the **CONTRACTOR** shall expeditiously prepare and provide the **STATE** with a final copy of the chart of accounts and the terms for its utilisation for purposes of accounting, recording and reporting requirements pursuant to the Petroleum Regulation and the Contract.

1.4.3 Notwithstanding the general scope of the preceding paragraph, the **CONTRACTOR** shall, if applicable, submit at annual, quarterly and/or monthly intervals statements related to the Petroleum Operations as follows:

- (a) A Production statement (see Article 6 of this Accounting Procedure).
- (b) A statement of the monetary value of Production and pricing utilised (see Article 7 of this Accounting Procedure).
- (c) A Production-sharing statement (see Article 8 of this Accounting Procedure).
- (d) A statement of expenditures and revenue (see Article 9 of this Accounting Procedure).
- (e) Summary end-of-year statements of the accounts (see Article 10 of this Accounting Procedure).
- (f) An annual Budget statement (see Article 11 of this Accounting Procedure).

1.4.4 The reports and statements shall be prepared in accordance with this Accounting Procedure and the Petroleum Legislation, and, where these are silent on a particular point, in accordance with generally accepted rules of accounting in the international petroleum industry.

1.4.5 The **CONTRACTOR** shall maintain its accounts according to generally accepted rules of accounting in the international petroleum industry and in such form as to allow the Parties, once statements have been received, to record in a normal fashion in their books of accounts the Petroleum Costs pertaining to the Petroleum Operations that **CONTRACTOR** has incurred. Entries shall be recorded in accordance with generally accepted rules in the international petroleum industry and principles of OHADA.

1.4.6 The **CONTRACTOR** shall record separately in its books and accounts all transactions arising out of business interests of the **CONTRACTOR** that are separate from those chargeable to the Joint Account.

1.5 Language and Units of Account

Unless otherwise decided by the Operating Committee, the accounting, records and reports shall be prepared and maintained in English, using the U.S. Dollar as the currency of account.

1.6 Audit and Inspection Rights of the STATE

- 1.6.1 Provided it shall have notified the **CONTRACTOR** thirty (30) Days in advance, the **STATE** shall have the right to proceed with any onsite inspection and audit, during normal business hours, of any accounting records and documents in support of Petroleum Costs, including, without limitation, the **CONTRACTOR's** books of account, accounting archives and records, invoices, payment vouchers, debit notes, price lists and similar documentation in relation to the Petroleum Operations. The length of each such audit shall not exceed thirty (30) Days. If necessary, this time period may be extended by agreement of the Parties.
- 1.6.2 All audits pertaining to Petroleum Operations shall be conducted in -----, or any location in Cameroon agreed by the Parties, provided however that a complete duplicate set of the books of accounts, and accounting records and documents shall be maintained and updated at the **CONTRACTOR's** head office in Cameroon. The **CONTRACTOR** is moreover obligated to make available in Cameroon all records necessary to the audit.
- 1.6.3 One audit shall be conducted for the initial Exploration Period and one audit for each renewal period of the Exploration Phase. Each audit shall be commenced within six (6) months after the end of the relevant period.
- 1.6.4 After the end of the Exploration Phase, audits by the **STATE** may be conducted annually, limited however to only one audit per year. The **STATE** shall have a period of two (2) years following the end of the Calendar Year in question to commence any audit procedure. If the **STATE** does not conduct the audit within the time periods established in Articles 1.6.1 and 1.6.3 above, the **CONTRACTOR's** accounts shall be deemed approved by the **STATE**, and the **STATE** shall not be allowed to request any adjustments thereafter. The **STATE** may carry out the audits itself or through the intermediary of a competent auditing firm in the audit of international oil companies, authorised for such purpose and consistent with the regulations in force in Cameroon pertaining to the conduct of audits.
- 1.6.5 In the event of an audit, the transport costs by the most direct route to the site of the audit, housing and a reasonable per diem allowance for two (2) auditors for a maximum period of six (6) weeks shall be invoiced to and paid by the **CONTRACTOR** to the **STATE**, as further defined in Article 1.7.3 below, unless otherwise agreed by the parties.
- 1.6.6 The costs of the audits, which shall not exceed market prices in the region, shall be borne by the **CONTRACTOR** and shall constitute Petroleum Costs recoverable as Exploitation Costs.
- 1.6.7 Any auditing exceptions shall be made in writing and include copies of documentation substantiating the audit exception notified to the **CONTRACTOR** within a period of ninety (90) Days after the end of the audit, and shall be the subject of an exchange of letters between the **CONTRACTOR** and the **STATE**. Failure to notify one or more exceptions within the above-referenced time frame shall be deemed to be an acknowledgement that the **CONTRACTOR's** accounting records are dependable and correct.

- 1.6.8 During an audit, the **STATE** may examine and verify all charges and credits solely relating to Petroleum Costs, including books of account, marginal entries, supporting records and inventories, vouchers, invoices and other documents and correspondence which the **STATE** deems necessary for purposes of conducting an audit and verifying costs and credits. Furthermore, the auditors may, within the context of carrying out their duties, inspect the job sites, work areas, warehouses and offices of the **CONTRACTOR** directly or indirectly serving the Petroleum Operations, and make any relevant written inquiry to the appropriate person. Where the **STATE** requires verification of charges made by an Affiliate of the **CONTRACTOR**, the **STATE** may require an auditing certification from an internationally recognised auditing firm, which shall be the **CONTRACTOR**'s statutory auditor.
- 1.6.9 The **CONTRACTOR** shall respond to any notices of exception under Article 1.6.7 above within a period of ninety (90) Days after receipt of such notice. Where the **CONTRACTOR** has, after such period, failed to answer a notice of exception, the exception shall be deemed accepted.
- 1.6.10 All accepted adjustments resulting from an audit and all those agreed upon exceptions shall be immediately made in the **CONTRACTOR**'s books of account. Any consequential payments due to the **STATE** shall be made within thirty (30) Days following this acceptance.
- 1.6.11 If the **CONTRACTOR** and the **STATE** are unable to reach an agreement on the proposed auditing adjustments to be made to the accounting entries, they may, by mutual agreement, refer their dispute for resolution by an expert accounting firm, which is a member of the Institute of Chartered Accountants in Cameroon agreed to by both of them. In such case, the expert's decision shall bind the Parties and shall be deemed made by mutual agreement. In the event of disagreement as to recourse to expert resolution, the dispute shall be settled pursuant to the arbitration procedure provided for by Article 27 of the Contract. When unresolved issues persist with respect to the audit, the **CONTRACTOR** shall retain the documents pertaining to the audit but shall permit their inspection for as long as the issue remains unresolved. The costs of expert dispute resolution shall constitute recoverable Petroleum Costs.

1.7 Payments

- 1.7.1 Unless otherwise agreed, all payments between the Parties shall be made in U.S. dollars to any bank account designated by the receiving party within thirty (30) Days from the receipt date of the invoice.
- 1.7.2 In the event of a late payment due by one Party to the other under the Contract, the amounts due shall bear interest at the LIBOR rate plus two (2) percentage points, starting from the date that they were due and owing.
- 1.7.3 Regarding payment for business travel and related costs required by, contained in an approved Work Program and Budget, or as otherwise mutually agreed by the Parties to the Contract, including audits: the **CONTRACTOR** may reimburse the **STATE** or provide, at its option, reasonable living quarters and transportation including airfare, and ; reimburse the **STATE** for miscellaneous and other travel expenses not included above for each Day that the **STATE** employee is engaged in approved activities or in travel related thereto. Except as provided above, this per diem shall be the only

payment that the **CONTRACTOR** shall be required to make in respect of the costs and expenses of the **STATE** employee. At the request of the **STATE** and subject to satisfactory documentation, the **CONTRACTOR** shall advance a portion of the per diem as indicted on an official **STATE** invoice to the STATE employee, with such advance creditable against payment of the per diem obligation to the **STATE**. All cost and expense incurred with regard to an approved activity, including but not limited to the above listed expenses and allocated overhead cost are deemed Petroleum Costs. The maximum per diem amounts may be periodically revised by the Operating Committee.

1.8 Arm's-Length Transactions

Unless otherwise provided for in the Contract, all transactions giving rise to revenues or costs which will be credited or debited shall be conducted at arm's length, in such a way that such credits or debits are neither higher nor lower than those which would result from a transaction conducted under normal commercial conditions on a competitive basis between third parties.

1.9 Currency Exchange Rates

Transactions in currencies other than the U.S. Dollar shall be recorded when transacted at the average monthly European Central Bank fixing rate for the month in question. Currency purchases shall be recorded at the actual exchange rate. Any exchange rate gain or loss shall be recorded.

1.10 Revision of the Accounting Procedure

This Accounting Procedure may be amended by written agreement signed by the Parties.

1.11 Accrual Basis

The **CONTRACTOR** shall produce financial statements including a balance sheet, income statement, and a cash flow statement, as well as a listing of resource suppliers including the total of purchases, no later than seventy five (75) Days following the closing of the fiscal year in question. It shall abide by the governing principles pertaining to maintenance and production of its books of account. The **CONTRACTOR** shall maintain a separate accounting for the Petroleum Operations pertaining to this Contract.

The books of account shall be kept and all reporting made on an accrual basis and according to generally accepted rules of accounting in the international petroleum industry. Receipts shall be allocated to the accounting period during which they are earned, while costs and expenses shall be recorded as they are incurred, as opposed to accounting on a cash basis. Costs and expenses shall be deemed to have been incurred during the accounting period when title passes to the **CONTRACTOR** for tangible items, and during the period when services are performed, for services rendered. Work in progress shall be valued at cost. The reports referred to in Article 1.4.3 above shall be prepared on an accrual basis.

ARTICLE B.2
CLASSIFICATION, DEFINITION AND ALLOCATION
OF PETROLEUM COSTS

2.1 Allocation of Petroleum Costs

Petroleum Costs shall be recorded separately in accordance with the purpose of the expense. Qualifying items are those which have been written into the approved Work Program and corresponding Budget for the year during which the expense is incurred. All allowable Petroleum Costs under the provisions of this Accounting Procedure shall be classified and categorised as set out below. Accounting of Petroleum Exploitation Costs shall be recorded so as to enable their allocation to each Exploitation Area.

2.2 Exploration Costs

Exploration Costs are all direct and indirect Petroleum Costs incurred in Exploration Operations within the Contract Area, including:

2.2.1 Geophysical, aeromagnetic, geochemical, paleontological, geological and topographical studies and seismic surveys as well as related studies and their interpretations.

2.2.2 Coring and exploration drilling.

2.2.3 Labour, materials, supplies, and services used in drilling and testing of Exploration wells or appraisal wells that are not completed as producing wells.

2.2.4 Equipment used exclusively in support of the items described in Articles 2.2.1, 2.2.2 and 2.2.3 above, including access roads and acquired geological and geophysical information.

2.2.5 That portion of general overhead costs chargeable to Exploration Costs, as determined by the proper allocation of all the Petroleum Costs (including General Overhead) between Exploration Costs and the aggregate of Petroleum Costs except for General Overhead.

2.2.6 All other Petroleum Costs incurred for Exploration between the Effective Date and the Date of First Production of Commercial Hydrocarbons that are not covered under Article 2.3 below.

2.3 Development Costs

Development Costs are all direct and indirect Petroleum Costs, incurred in Development Operations within the Contract Area, including:

2.3.1 Development and production drilling, including wells drilled for the injection of water or gas for the purpose of enhanced recovery of Hydrocarbons.

2.3.2 Wells completed by installation of casing or equipment after a well has been drilled for the purpose of completing it as a producing well or as a well for the

injection of water or gas in order to enhance the rate of Hydrocarbons recovery.

2.3.3 Costs for equipment connected with production, transport and storage, such as pipelines, flow lines, production and processing units, wellhead equipment, subsurface equipment, enhanced recovery systems, offshore platforms, storage facilities, export terminals, port facilities and other related equipment, as well as access roads for production activities.

2.3.4 Engineering and design studies for equipment referred to in Article 2.3.3 above.

2.3.5 That portion of general overhead chargeable to Development Costs, as determined by the ratio of Development Costs to total Petroleum Costs, excluding General Overhead.

2.4 Exploitation Costs

Exploitation Costs are all direct and indirect Petroleum Costs, incurred within the Contract Area, excluding those that are Exploration Costs, Development Costs or otherwise included in 2.2 or 2.3 above. Exploitation Costs shall without limitation include:

- Reserves and accruals created for the purpose of addressing losses or changes, particularly the reserve for Abandonment costs which was deposited in full into the escrow account opened for the purpose of financing Abandonment operations.
- The portion of general overhead that was not allocated to Exploration Costs or to Development Cost shall be included in the Exploitation Costs.

2.5 General Overhead

General Overhead includes the costs of:

2.5.1 The running of main offices, field offices and general overhead incurred in Cameroon including, without limitation, costs incurred for supervision, accounting, and relations with employee services, subcontractors and the public.

2.5.2 A compensatory payment called "head office overhead" for expenses incurred for services rendered by the Affiliate outside of Cameroon in order to assist and manage Petroleum Operations (hereafter, "Affiliate Company Overhead").

2.5.2.1 Affiliate Company Overhead will be deemed to cover the actual costs listed in Article 2.5.2.2 below and which meet all of the following conditions:

2.5.2.1.1 They are incurred by the departments of the Affiliate of the **CONTRACTOR**, including, without limitation, the Exploration department, the production department, finance department, taxation and legal departments, communications,

computer services, administrative departments and research and engineering facilities;

2.5.2.1.2 They shall not, by virtue of their nature, be entered into accounting, audited, measured, analysed and controlled under any of the provisions of this Accounting Procedure, except by means of increased manpower and financial resources which are out of proportion to the objective being sought. Such operations may also disclose confidential data belonging to the Affiliate of the **CONTRACTOR**; and

2.5.2.1.3 They are properly chargeable to Petroleum Operations.

2.5.2.2 (i) Salaries, wages and labour burden, employee benefits, travel, hotel and other reimbursable expenses paid by the **CONTRACTOR** during the period in question to the Affiliate in accordance with usual practice in the international oil and gas industry; and

(ii) An amount for the services that are necessary for the operation and maintenance of the offices of the departments of the company referred to in Article 2.5.2.1.1 above.

2.5.2.3 It is understood, however, that services performed by the departments listed in Article 2.5.2.1.1 above and the other departments of the Affiliate which constitute services directly benefiting Petroleum Operations shall be recorded as direct costs in accordance with Article 3 of this Accounting Procedure.

2.5.2.4 In respect of the costs of **CONTRACTOR**'s Affiliate Company Overhead, as defined above, **CONTRACTOR** may charge the Joint Account monthly for an amount equal to the total of the following sums:

The **CONTRACTOR** shall be entitled to an annual charge that may not exceed a specified sliding-scale percentage, to be charged monthly to Petroleum Operations. The basis for calculating this percentage shall be the total of Petroleum Costs during each Calendar Year or fraction thereof.

For Affiliated Company Overhead applicable to Exploration Costs, the sliding-scale applicable for each fraction in question is as follows:

- For the first million U.S. Dollars : 4%
- For the next three million U.S. Dollars : 3%
- For the next four million U.S. Dollars : 2%
- For amounts exceeding eight million U.S. Dollars : 1%

For Affiliate Company Overhead applicable to Development Costs and Exploitation Costs, the sliding-scale applicable for each fraction in question is as follows:

- For the first ten (10) million U.S. Dollars: three percent (3.0%)
- For the next twenty (20) million U.S. Dollars: one point five percent (1.5%)
- For amounts exceeding thirty (30) million U.S. Dollars: one percent (1.0%)

The foregoing percentages may be revised as needed but not more than once annually. The new percentages shall not be applied retroactively.

The General Overhead costs shall be charged in accordance with the following guidelines:

- (a) **CONTRACTOR's** charges shall be booked as direct charges or technical services charges whenever possible. Affiliate Company Overhead exists only to compensate **CONTRACTOR's** Affiliates for costs which are properly and reasonably chargeable to Petroleum Operations and which may not, for either practical reasons or reasons of confidentiality, be measured or charged under any other provision of this Accounting Procedure. General Overhead costs are billed monthly. They shall be reasonably commensurate with services rendered and be based on actual cost studies or, in the case of Affiliate Company Overhead may not exceed an amount calculated as a percentage of Petroleum Costs.
- (b) The maximum percentages may be revised by mutual agreement but not more than once annually. The percentage applicable as from the Date of First Production of Commercial Hydrocarbons and the description of the Petroleum Costs upon which such percentage is calculated shall be as stated in 2.4 above until otherwise revised and agreed as soon as the Parties are in possession of reliable estimates concerning Development and Exploitation Costs in the Exploitation Area.
- (c) Overhead charges are not auditable by the **STATE**. However, the **CONTRACTOR's** Affiliates shall maintain accounting records that enable certification as mentioned below and an analysis of annual costs so as to determine the General Overhead chargeable to Petroleum Operations. If the applicable amount is less than the amount billed, the difference shall be credited to Petroleum Operations. If it is greater than the amount billed, the difference shall be debited to Petroleum Operations, but in no case shall the final amount billed by the **CONTRACTOR** exceed the

maximum amount calculated pursuant to Article 2.5.2.4 above.

(d) **CONTRACTOR** shall annually provide to the **STATE** a certification from its statutory or independent auditors attesting that general overhead charges do not constitute a double charge, and that the method used to allocate a portion of Affiliated Company Overhead to the Petroleum Operations, in relation to other activity, is proper and in keeping with the generally accepted rules of accounting in the international petroleum industry.

(e) The **CONTRACTOR** shall enter a general overhead item into the Budget.

2.5.3 All General Overhead shall be allocated in accordance with the provisions of Articles 2.2.5, 2.3.5 and 2.4 above between Exploration Costs, Development Costs and Exploitation Costs respectively.

2.6 Abandonment Account and Abandonment Reserve

2.6.1 The Abandonment Account opened by **CONTRACTOR** in accordance with the terms of Article 21.5 of the Contract shall be funded by **CONTRACTOR** through cash deposits in the form of bank wires on the first business Day of each Quarter, in an amount equivalent to twenty-five (25) percent of the Abandonment provision determined for the given year in the calculation in Article 2.6.3 below and as contained in the Petroleum Costs account.

The funding shall cease on the day the Abandonment reserves reach the total estimated cost of the Abandonment work as provided for in the Abandonment Plan, subject to later revisions of the said Plan.

2.6.2 Each entity constituting the **CONTRACTOR** shall have the right to collect, up to the amount of its contribution to the Abandonment provisions, the interest produced by these amounts wired by the **CONTRACTOR** to the Abandonment Account.

2.6.3 The Abandonment reserves shall be determined on the basis of the estimated total cost of the Abandonment work as it may be revised pursuant to the procedure approved by the Operating Committee. They shall be calculated at the end of each Calendar Year, in accordance with the following formula, based on the prospective depletion method:

$$D_n = (K_n - F_n) \times P_n / R_n$$

Where:

D_n = the corresponding annual reserve deposited into the Abandonment Account.

K_n = the estimated cost of the Abandonment Operations as provided in the Abandonment Plan at the end of the Calendar Year n-1.

F_n = the total of the Abandonment reserves already created at the end of Calendar Year n.

P_n = the total production in Barrels for Calendar Year n.

R_n = the remaining reserves at the beginning of Calendar Year n.

2.6.4 The Abandonment Account, in which the funds are the joint property of the entities constituting the **CONTRACTOR** in proportion to their contributions to the Abandonment work, shall be followed by the banking entity selected by the **CONTRACTOR** in accordance with Article 21.5 of the Contract and an escrow account agreement to be created taking into account the following principles:

- the Abandonment Account funds corresponding to the Abandonment reserves shall be dedicated exclusively to financing the expenses pertaining to the Abandonment work and cannot be used for any other purpose;
- the currency of account is the U.S. Dollar.

2.6.5 Upon completion of the Abandonment Work carried out by the **CONTRACTOR** and when the total of the connected expenses are settled, any balance in the Abandonment Account shall be redistributed:

- a) to the **CONTRACTOR** to the extent that contributions to the Abandonment Account were not recovered after tax deduction taken on these reserves;
- b) to the **STATE** if the total of the contributions to the Abandonment Account has been recovered by the **CONTRACTOR**.

ARTICLE B.3

COSTS, EXPENSES, AND PROCEEDS OF THE CONTRACTOR

3.1 Costs that are Recoverable without Further Approval of the STATE

Petroleum Costs incurred by the **CONTRACTOR** under the Contract shall be classified under the headings referred to in Article 2 of this Accounting Procedure and shall be recoverable for purposes of Articles 13 and 22 of the Contract (except as otherwise provided in Article 4.2.2 below or in any other article of this Accounting Procedure, and with the understanding they remain subject to audit).

Petroleum Costs include the following costs:

3.1.1 Surface Royalties

The direct costs of acquisition, renewal or relinquishment of surface rights that were acquired and kept in force for the purposes of the Contract.

3.1.2 Labour and Associated Labor Costs

(a) Locally recruited employees based in Cameroon

Costs of all the **CONTRACTOR**'s locally recruited employees who are directly employed in the conduct of Petroleum Operations in Cameroon. Such costs shall include employee benefits and labour burden paid for the benefit of employees and which are due by the **CONTRACTOR** in its employer capacity. Costs for transportation and relocation within the national territory for the employee and members of his family (limited to one spouse and dependent children). If such employees render services in Cameroon that are not related to Petroleum Operations, the costs which are chargeable for the employee shall be apportioned on a time sheet basis according to generally accepted rules of accounting in the international petroleum industry.

(b) Expatriate Employees

The cost of salaries and wages of expatriate employees of the **CONTRACTOR** directly employed in the conduct of the Petroleum Operations, irrespective of the location of such employees or whether employed full-time, temporarily or permanently, it being understood that in the case of personnel whose working time is only partly dedicated to Petroleum Operations, only that portion of applicable salaries, wages, and other costs referred to in paragraphs 3.1.2 (c), (d), (e), (f) and (g) below shall be charged to the Joint Account. The basis for such allocation of costs shall be specified and transparent.

(c) Costs incurred by the **CONTRACTOR** with regard to paid holidays, vacation, sickness and disability benefits, miscellaneous payments added to salaries and benefits, chargeable under paragraph 3.1.2(b) above.

(d) Expenses and contributions made pursuant to assessments or obligations imposed by Cameroonian legislation which are applicable to the **CONTRACTOR**'s costs with regard to salaries, chargeable under paragraph 3.1.2 (b) above.

(e) Costs incurred by the **CONTRACTOR** in accordance with its company plans for the benefit of employees, such as life insurance, hospitalisation, pension, stock purchases, savings plan, and other similar benefit plans, provided that such costs incurred comply with generally accepted standards in the international petroleum industry, applicable to salaries which are chargeable under paragraph 3.1.2 (b) above.

(f) Transportation and lodging expenses of employees of the **CONTRACTOR** on company business, in the performance of Petroleum

Operations, including those for travel and relocation of the expatriate families and their personal effects, when such employees are transferred to Cameroon and their salaries and benefits constitute a Petroleum Cost under paragraph 3.1.2(b) above.

The actual cost for transportation expenses of personnel transferred to Petroleum Operations from their country of origin is considered a Petroleum Cost. The cost for transportation of personnel transferred from Cameroon to a country that is not their country of origin shall not be considered a Petroleum Cost. Transportation costs shall mean the costs incurred for freight and passenger service, meals, lodging, insurance and other expenditures related to vacation and transfer travel and normally authorised under the **CONTRACTOR**'s customary company policy. The **CONTRACTOR** shall ensure that all expenditures related to transportation are equitably allocated between the activities that have benefited from the services of the personnel concerned.

- (g) Costs incurred by personnel whose salaries and wages constitute Petroleum Costs under paragraph 3.1.2 (b) above, when such expenses are reimbursable under **CONTRACTOR**'s usual policy. In the event that such expenses are not wholly incurred for the benefit of Petroleum Operations, only the applicable portion thereof shall be charged.

3.1.3 The cost for transportation of persons, equipment, and consumable materials not covered in paragraph 3.1.2 (g) above which are necessary for the conduct of the Petroleum Operations under the Contract along with other related costs such as, but not limited to, customs duties and ancillary taxes, unloading charges, and inland and ocean freight charges.

3.1.4 Charges for Services

For purposes of this Article, a company which is not an Affiliate of the **CONTRACTOR** shall be considered to be a third party.

- (a) Third Parties

The actual total cost of service contracts, contracts for consulting services (including experts provided for in the Contract), public services and other services necessary for the conduct of the Petroleum Operations incurred by third parties other than Affiliates of the **CONTRACTOR**, provided that the transactions which give rise to such costs are properly carried out in accordance with Article 1.8 of this Accounting Procedure.

- (b) Affiliates

- 1. Professional and Administrative Costs

Costs of professional and administrative services provided by Affiliates of the **CONTRACTOR** for the direct benefit of Petroleum Operations or required by Cameroon law and/or regulation, including, but not limited, to services in respect of

Exploration and production, legal, financial, insurance, computer and accounting services (other than those covered by paragraphs 3.1.4 (b) 2. and 3.1.6 below. When the **CONTRACTOR** has chosen to utilise outside services rather than have such services provided by its own employees, the amounts charged shall reflect the actual cost of such services and shall not include any element of profit and shall be no less favorable than charges for similar operations carried out directly by the **CONTRACTOR** or by its Affiliates. Costs charged shall include all costs incidental to the employment of such personnel. Where the work is performed outside of the country of origin, the daily rate shall be charged as from the date that such personnel leaves the city where they usually work in their country of origin, up to their return thereto, including Days which are not business Days in the country where the work is performed, excluding any holiday entitlements.

2. Equipment and facilities

The use of equipment and facilities owned by the **CONTRACTOR's** Affiliates; provided, however, that such rates shall not exceed those currently prevailing for the supply of like equipment and facilities, such as they are in the Contract Area. The equipment and facilities referred to shall exclude major investment items such as, but not limited to, drilling rigs, production platforms, Hydrocarbons processing plants, Hydrocarbons loading, unloading and transportation systems, and storage facilities, rates for which shall be subject to separate approval by the Operating Committee under the Contract.

3.1.5 Communications

Cost of acquiring, leasing, installing, operating, maintaining and repairing the principal communication systems including radio and short wave between the Contract Area and the **CONTRACTOR's** main onshore base.

3.1.6 Offices, Job-Sites and Miscellaneous Facilities

Net cost to the **CONTRACTOR** of establishing, maintaining and operating in the Republic of Cameroon any office, temporary office, job-site, warehouse, housing or other facilities intended to serve the Petroleum Operations, including land. If any such facility services areas outside of the Contract Area, the net costs thereof shall be allocated on an equitable basis.

3.1.7 Ecology and Environment

Costs incurred in the Contract Area in compliance with current legislation and regulation and/or company policy, whichever is more stringent, for archaeological and geophysical studies and surveys intended to identify and protect the cultural and/or natural heritage, as well as ecological studies and surveys that may be required by the competent authorities. Costs to provide or make available anti-pollution equipment, plus costs resulting from pollution

control and cleanup following Hydrocarbons spills, in accordance with the current legislation and regulation, also fall into this category.

3.1.8 Costs for Materials and Supplies

The costs for materials, supplies, equipment, machines, tools and other goods used or consumed in the performance of Petroleum Operations.

3.1.9 Rentals, Duties and Other Assessments

Costs for rentals, production payments (royalty), taxes, charges, fees, contributions and other assessments of any type for the benefit of a governmental or tax authority in connection with the Petroleum Operations, and paid directly by the **CONTRACTOR** (unless otherwise provided in the Contract) with the exception of the company tax and payments made under Article 13 of the Contract.

3.1.10 Insurance and Losses

The cost for insurance policies for the losses referred to in Title XIX of the Petroleum Regulation as regard to insurance premiums paid to local and/or foreign insurance companies as well as the cost of damages for non-insured losses.

3.1.11 Legal Expenses

Lawyers' fees and court costs incurred in the performance of Petroleum Operations.

3.1.12 Claims

Costs incurred in the settlement or indemnification of any loss, damage, judgment or other expense arising out of Petroleum Operations, except as may otherwise be provided in this Accounting Procedure.

3.1.13 Professional Training

All costs incurred by the **CONTRACTOR** for the training of its Cameroonian employees assigned to Petroleum Operations.

3.1.14 General Overhead

The costs referred to in paragraph 2.5.1 above and the charge referred to in paragraph 2.5.2 of this Accounting Procedure.

3.1.15 Reserves for Abandonment work

The amounts corresponding to the reserves for Abandonment work deposited in the Abandonment Account pursuant to Article 21 of the Contract and, if applicable, the amount of actual expenses for Abandonment work not covered by the Reserves.

3.1.16 Other Costs

Other justified and reasonable costs not specifically addressed under the foregoing provisions of this Article 3 that are necessarily, incurred by the **CONTRACTOR** for the economical and efficient performance of Petroleum Operations.

3.2 Credits and Miscellaneous Proceeds

The proceeds from Petroleum Operations under the Contract, other than commercial sales of Hydrocarbons from the Petroleum Operations, including, without limitation, the items listed below which shall be credited to the Joint Account:

- 3.2.1 The proceeds received from insurance companies, or from settlement of claims, or arising out of judicial awards in connection with Petroleum Operations and any assets charged to the Joint Account where such assets have been reimbursed and the corresponding insurance premiums have been charged to the Joint Account.
- 3.2.2 Legal expenses charged to the Joint Account under paragraph 3.1.11 of this Accounting Procedure and subsequently recovered by the **CONTRACTOR**.
- 3.2.3 Revenue received from third parties for the use of property or assets, the cost of which has been charged to the Joint Account.
- 3.2.4 Any rebate received by the **CONTRACTOR** from suppliers or their agents for defective material, the cost of which was previously charged to the Joint Account by the **CONTRACTOR**.
- 3.2.5 Proceeds from rentals, refunds or other credits received by the **CONTRACTOR** corresponding to a charge to the Joint Account, but excluding any award granted to the **CONTRACTOR** under arbitration or expert determination proceedings referred to in paragraph 4.2.2(g) of this Accounting Procedure.
- 3.2.6 Amounts charged to the Joint Account for goods subsequently exported from Cameroon without having being used in Petroleum Operations.
- 3.2.7 Proceeds from the sale or exchange by the **CONTRACTOR** of equipment or facilities from a Exploitation Area, the acquisition costs of which have been charged to the Joint Account for the corresponding Exploitation Area.
- 3.2.8 Proceeds from the sale or exchange of petroleum rights (which do not constitute an assignment under the Contract).
- 3.2.9 Proceeds from the sale of petroleum data which relate to the Contract Area if the acquisition costs of such data have been charged to the Joint Account.
- 3.2.10 Proceeds derived from the sale or license deriving from intellectual property, the Development Costs of which were charged to the Joint Account.

3.2.11 Proceeds from the sale, exchange, lease or transfer in any manner whatsoever of any item the costs of which have been charged to the Joint Account.

3.3 Duplication of Charges and Credits

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

ARTICLE B.4

PETROLEUM COSTS

4.1 Definitions for purposes of Article 6.9 of the Contract

For the purpose of revising the estimated expenditure amounts in Article 6.1, 6.2 and 6.3 of the Contract, as applicable, Exploration Costs shall consist only of costs actually incurred during the performance of Exploration Operations in accordance with the approved Work Program for the period in question.

4.2 Definitions for purposes of Articles 13 and 22 of the Contract

4.2.1 For purposes of Articles 13 and 22 of the Contract, Petroleum Costs shall include, for each Exploitation Area and for each Calendar Year, including the Calendar Year prior to the year in which the Date of First Production of Commercial Hydrocarbons occurs, the following:

- (a) All Petroleum Costs incurred during the year in question in the Exploitation Area; plus
- (b) The **CONTRACTOR**'s share in all Exploration Costs incurred in the Contract Area, provided that such Exploration Costs have not been included, for purposes of Article 13, in the Petroleum Costs incurred in respect of another Exploitation Area in the Contract Area.

4.2.2 For purposes of Articles 13 and 22 of the Contract, the following costs and expenses shall not be included in Petroleum Costs:

- (a) the training budget referred to in Article 19 and any bonus payment made in accordance with Articles 15.1 or 15.2 of the Contract;
- (b) any payment made to the **STATE** for failure to fulfill a minimum Work Programme pursuant to Article 6 of the Contract;
- (c) costs incurred prior to the Effective Date;
- (d) interest and finance charges in respect of loans made to finance Petroleum Operations;

- (e) costs of marketing and transportation of Hydrocarbons beyond the Delivery Point;
- (f) the cost of any letter of guarantee or surety required under the Contract and any other penalties paid for failure to meet a contractual obligation;
- (g) court costs, attorneys' fees and experts' fees, except for the costs identified in Article 1.6.11 above related to any dispute resolution procedure under Article 27 of the Contract in which the **STATE** is the ultimate prevailing party ;
- (h) fines and penalties imposed under the applicable legislation and regulation.

4.2.3 For purposes of Articles 13 and 22 of the Contract, all proceeds under the Contract received in accordance with Article 3.2 of this Accounting Procedure shall be credited to the Joint Account.

4.2.4 The fiscal loss reported for a given fiscal period can be carried forward for a period of four (4) years after the Date of First Production of Commercial Hydrocarbons.

4.2.5 The Petroleum Costs incurred by the **CONTRACTOR** for its Petroleum Operations which are recorded in conformity with the Accounting Procedure shall be admitted as fiscal charges for the calculation of the Company Tax provided for by Article 14.2.2 of the Contract.

ARTICLE B.5

ACCOUNTING RECORDS AND VALUATION OF ASSETS

5.1 Accounting Records

The **CONTRACTOR** shall maintain detailed accounting records of property used for Petroleum Operations in accordance with generally accepted rules of accounting in the international petroleum industry.

5.2 Inventories during the Initial Period of the Exploration Phase

Before the approval phase of the first Work Programme and Budget prepared pursuant to Article 10 of the Contract, the **CONTRACTOR** shall prepare an annual schedule (to be included in the statement referenced in Article 10 of this Accounting Procedure) of all property used for Petroleum Operations and its value as shown in the **CONTRACTOR's** accounting records.

5.3 Inventories for Subsequent Operations

After the date of approval of the first Work Programme and Budget referred to in Article 10.1 of the Contract, inventories of property in use for Petroleum Operations under the Contract shall be taken periodically (but at least once a year with respect to movable assets and once every three (3) years with respect to real property). The **CONTRACTOR** shall notify the **STATE** at least thirty (30) Days in advance of its intention to take such inventory and the **STATE** shall have the right to be represented

when such inventory is taken. The **CONTRACTOR** shall clearly state the principles upon which valuation of the inventory has been based. The **CONTRACTOR** shall make reasonable efforts to provide to the **STATE** a full report of each inventory within thirty (30) Days after completion of the inventory. When an assignment of rights under the Contract takes place, the **CONTRACTOR** may, at the request of the assignee, take a special inventory, provided that the costs of such inventory are borne by the assignee and are not charged as a Petroleum Cost.

ARTICLE B.6

PRODUCTION STATEMENT

6.1 Production Data

As of the Date of First Production of Commercial Hydrocarbons, the **CONTRACTOR** shall submit a monthly production statement to the **STATE** that shall separately highlight the following information for each Exploitation Area and for the entire Contract Area:

- 6.1.1 The Crude Petroleum production volumes available for sale.
- 6.1.2 The technical characteristics of each grade of Crude Petroleum extracted.
- 6.1.3 The Natural Gas production volumes for sale.
- 6.1.4 The technical characteristics for each grade of Natural Gas extracted.
- 6.1.5 The quantities of Crude Petroleum and Natural Gas used as fuel for Drilling and production operations and for pumping to storage units.
- 6.1.6 The quantities of Crude Petroleum and Natural Gas lost for reasons beyond the control of the **CONTRACTOR**.
- 6.1.7 The quantities of Natural Gas flared or vented.
- 6.1.8 The quantities of Hydrocarbons in stock at the beginning of the month in question.
- 6.1.9 The quantities of Hydrocarbons in stock at the end of the month in question.
- 6.1.10 The quantities of Natural Gas re-injected into the natural reservoir.

All quantities shown in this statement shall be expressed in both volumetric terms (Barrels of Crude Petroleum and cubic meters of Natural Gas) and by weight (metric Tons).

6.2 Due Date for Submission of Production Statement

The production statement referred to in Article 6.1 shall be submitted to the **STATE** not later than fifteen (15) Days after the end of each calendar month.

ARTICLE B.7

MONETARY VALUE OF PRODUCTION AND PRICING

7.1 Monetary Value of Production and Pricing Statement

The **CONTRACTOR** shall for purposes of Article 16 of the Contract and Title XIII of the Petroleum Regulation, prepare a statement containing calculations of the value of the Available Production during each Quarter.

This statement shall contain the following information:

7.1.1 The quantities, prices and receipts obtained for such quantities by the **CONTRACTOR** as a result of sales of Crude Petroleum to third parties during the Quarter in question.

7.1.2 The quantities, prices and receipts obtained for such quantities by the **CONTRACTOR** as a result of sales of Crude Petroleum made during the Quarter in question to entities which are not third parties.

7.1.3 The value of Hydrocarbons stocks at the end of the Quarter preceding the Quarter in question.

7.1.4 The value of Hydrocarbons stocks at the end of the Quarter in question.

7.1.5 Any information the **CONTRACTOR** possesses which is required in order to implement Article 92 of the Petroleum Regulation concerning the competitive price of Crude Petroleum placed in the market by the main producing and exporting countries in the region, including the prices of the Contract, rebates and premiums, as well as prices obtained on the spot market.

7.2 Due Date for Submitting the Statement of the Monetary Value of Production and Pricing

The statement of the monetary value and pricing shall be submitted to the **STATE** not later than thirty (30) Days after the end of each Quarter.

ARTICLE B.8

PRODUCTION-SHARING STATEMENT

8.1 Quarterly Statement

The **CONTRACTOR** shall prepare for each Quarter a statement containing the following information for purposes of Articles 13 and 22 of the Contract with respect to the **STATE's** share of Compensation Oil (Profit Oil) or Compensation Gas (Profit Gas) for each Exploitation Area:

8.1.1 Petroleum Costs that have not yet been recovered and any payments of company tax carried forward from the previous Quarter.

- 8.1.2 Petroleum Costs to be recovered and payments of company tax to be made for the Quarter in question.
- 8.1.3 Cumulative Petroleum Costs and payments for company tax for the Quarter in question (paragraphs 8.1.1 and 8.1.2 of this Accounting Procedure).
- 8.1.4 Gross receipts (including proceeds carried forward from the previous Quarter).
- 8.1.5 Gross receipts (including credits for the Quarter in question).
- 8.1.6 The share of Compensation Oil (Profit Oil) or Compensation Gas (Profit Gas) due to the **STATE**.

The quarterly statement referred to in this article shall be submitted within thirty (30) Days after the end of each Quarter.

8.2 Annual Statement

The annual statement furnished pursuant to Articles 13 and 22 of the Contract shall contain separate categories of information as per Article 8.1 above for the year in question and shall set out the financial statements as of the beginning and at the end of the Calendar Year in question for each Contract Area. The annual statement shall be submitted to the **STATE** not later than sixty (60) Days after the end of the year.

8.3 Allocation of Petroleum Costs

In both quarterly and annual reports, Exploration Costs, Development Costs, Exploitation Costs and company tax payments shall be allocated and separately identified for each Contract Area. The **CONTRACTOR** shall specify the method for allocation of the shared costs and payments.

8.4 Accounting Principles

The accounting kept only for production sharing shall show costs and receipts on a cash flow basis.

ARTICLE B.9

STATEMENT OF COSTS AND RECEIPTS

9.1 Statement of Cost and Receipts

The **CONTRACTOR** shall prepare a statement of costs and revenues incurred for each Quarter. The statement shall distinguish between Exploration Costs, Development Costs and Exploitation Costs and shall separately identify all significant sub-categories of expenditure incurred in each category. If the **STATE** is not satisfied with the degree of segregation within each of these categories, it shall be entitled to ask for a more detailed breakdown. The statement shall highlight the following items:

- 9.1.1 Expenditures and receipts for the Quarter in question.

- 9.1.2 Cumulative expenditures and receipts for the budget year in question.
- 9.1.3 Latest forecasts of cumulative Petroleum Costs at the end of the Calendar Year.
- 9.1.4 Variations between the Budget and the latest forecasts and an explanation for the difference.

9.2 Quarterly Statement

The quarterly statement of costs and receipts for each Quarter shall be submitted to the **STATE** not later than thirty (30) Days after the end of such Quarter.

ARTICLE B.10

END - OF - YEAR STATEMENT

The **CONTRACTOR** shall prepare an end-of-year statement for each Calendar Year. Such statement shall contain aggregated information in the same format as required for the production statement, the statement of the monetary value of production and pricing, the production-sharing statement, and the statement of costs and receipts referred to above, with the understanding that it shall be based on the quantities of Hydrocarbons produced and expenses committed to. Such annual statement shall be used in support of any necessary adjustment in financial transactions provided for in the Contract. The end-of-year statement for each Calendar Year shall be submitted to the **STATE** not later than ninety (90) Days after the close of such Calendar Year.

ARTICLE B.11

ANNUAL BUDGET STATEMENT

11.1 Annual Budget Statement

The **CONTRACTOR** shall prepare an annual budget statement. This statement shall distinguish between the Budgeted amounts for Exploration, development and Exploitation Costs and shall highlight the following items:

- 11.1.1 Estimated costs and receipts for the budget year in question.
- 11.1.2 Cumulative costs and receipts at the end of the budget year.
- 11.1.3 A schedule showing the most important individual items of Petroleum Costs for the Budget year.

11.2 Annual Budget Statement Due Date

The Budget Statement shall be submitted to the **STATE** for each Budget year pursuant to the provisions of Articles 10.1 and 10.2 of the Contract.