

OPERATING AGREEMENT

BETWEEN

TURKIYE PETROLLERI ANONIM ORTAKLIGI

AND

ARCO TURKEY INC.

COVERING:

WESTERN BLACK SEA

REPUBLIC OF TURKEY

Handwritten initials and signatures in the bottom left corner.

Handwritten initials and signatures in the bottom right corner.

TABLE OF CONTENTS

<u>ARTICLE</u>		<u>PAGE</u>
I	Definitions	2
II	Effective Date and Term	10
III	Participating Interest	11
	3.1 Participating Interest	11
	3.2 Ownership, Obligations and Liabilities	11
	3.5 Annual Rentals and Royalties	12
IV	Operator	13
	4.1 Designation of Operator	13
	4.2 Rights and Duties of Operator	13
	4.3 Employees of Operator	15
	4.4 Information Supplied by Operator	15
	4.5 Settlement of Claims and Lawsuits	16
	4.6 Liability of Operator	17
	4.7 Insurance Obtained by Operator	17
	4.8 Funds	19
	4.9 Resignation of Operator	19
	4.10 Removal of Operator	19
	4.11 Appointment of Successor	20
V	Operating Committee	22
	5.1 Establishment of Operating Committee	22
	5.2 Powers and Duties of Operating Committee	22
	5.3 Authority to Vote	22
	5.4 Subcommittees	22
	5.5 Notice of Meeting	23
	5.6 Contents of Meeting Notice	23
	5.7 Location of Meetings	23
	5.8 Operator's Duties for Meetings	24
	5.9 Voting Procedure	24
	5.10 Record of Votes	24
	5.11 Minutes	24
	5.12 Voting in Lieu of Meeting	25
	5.13 Effect of Vote	26
VI	Work Programs and Budgets	28
	6.1 Exploration and Appraisal	28
	6.2 Development	29
	6.3 Production	30
	6.4 Consolidation of Budgets	30
	6.5 Contract Awards	31
	6.6 Authorization for Expenditure ("AFE") Procedure	32
	6.7 Overexpenditures of Work Programs and Budgets	33
VII	Operations By Less Than All Parties	34
	7.1 Limitation on Applicability	34
	7.2 Procedure to Propose Exclusive Operations	35
	7.3 Responsibility for Exclusive Operations	37
	7.4 Consequences of Exclusive Operations	38
	7.5 Premium to Participate in Exclusive Operations	41
	7.6 Order of Preference of Operations	43
	7.7 Stand-By Costs	44
	7.8 Special Considerations/Deepening and Sidetracking	45
	7.9 Miscellaneous	46

Handwritten initials and signatures in the bottom left corner.

Handwritten initials and signatures in the bottom right corner, including a large signature and the letters 'ck'.

(table of contents cont)

<u>ARTICLE</u>		<u>PAGE</u>
VIII	Default	49
	8.1 Default and Notice	49
	8.2 Operating Committee Meetings and Data	49
	8.3 Allocation of Defaulted Accounts	49
	8.4 Elections Relating to Defaulting Party's Interests	50
	8.5 Abandonment	52
	8.6 Sale of Hydrocarbons	52
	8.7 No Right of Set Off	53
IX	Disposition of Production	54
	9.1 Right and Obligation to Take in Kind	54
	9.2 Offtake Agreement for Crude Oil	54
	9.3 Separate Agreement for Natural Gas	55
X	Abandonment of Wells	56
	10.1 Abandonment of Wells Drilled as Joint Operations	56
	10.2 Abandonment of Exclusive Operations	57
XI	Surrender, Extensions and Renewals	58
	11.1 Surrender	58
	11.2 Extension of the Term	58
XII	Transfer of Interest or Rights	60
	12.1 Obligations	60
	12.2 Rights	62
XIII	Withdrawal from Agreement	63
	13.1 Right of Withdrawal	63
	13.2 Partial or Complete Withdrawal	63
	13.3 Voting	64
	13.4 Obligations and Liabilities	64
	13.5 Emergency	65
	13.6 Assignment	65
	13.7 Approvals	65
	13.8 Abandonment Security	66
	13.9 Withdrawal or Abandonment	66
XIV	Relationship of Parties and Tax	67
	14.1 Relationship of Parties	67
	14.2 Tax	67
	14.3 United States Tax Election	67
XV	Confidential Information - Proprietary Technology	69
	15.1 Confidential Information	69
	15.2 Continuing Obligations	71
	15.3 Separately Owned Information	71
	15.4 Data Exchanges	71
XVI	Force Majeure	72
	16.1 Obligations	72
XVII	Notices	73
XVIII	Applicable Law and Dispute Resolution	75
	18.1 Applicable Law	75
	18.2 Dispute Resolution	75

(table of contents cont)

Operating Agreement 9/28/95

iii

Handwritten initials and signatures:
A 199
WA

Handwritten initials and signatures:
iii
CIC
JL
JLP

XIX	Allocation of Cost Recovery Rights	77
	19.1 Allocation of Total Production	77
	19.2 Allocation of Production in the case of an Exclusive Operation.....	78
XX	Natural Gas.....	79
XXI	General Provisions	80
	21.1 Conflicts of Interest	80
	21.2 Public Announcements	80
	21.3 Successors and Assigns	81
	21.4 Waiver	81
	21.5 Severance of Invalid Provisions	81
	21.6 Modifications	82
	21.7 Headings	82
	21.8 Singular and Plural	82
	21.9 Gender	82
	21.10 Counterpart Execution	82
	21.11 Entirety	82
	Signature Page	83

Exhibit "A" Accounting Procedure

Exhibit "B" Contract Area

AK
A *JP* *RA*

iv
AK *AK*
AK

OPERATING AGREEMENT

THIS AGREEMENT is made as of the Effective Date among **TURKIYE PETROLLERI ANONIM ORTAKLIGI**, a company incorporated in the Republic of Turkey (hereinafter referred to as TPAO) and **ARCO TURKEY INC.**, a company incorporated in Liberia (hereinafter referred to as ARCO). The companies named above may sometimes individually be referred to as "Party" and collectively as the "Parties".

WITNESSETH:

WHEREAS, TPAO has entered into a Reconnaissance Permit (Permit No. 82) with the Government of the Republic of Turkey covering that certain area in the Black Sea, referred to as the Contract Area, and more particularly described in Exhibit B to this Agreement; and

WHEREAS, the Parties desire to define their respective rights and obligations with respect to their operations under the Contract.

WHEREAS, the Parties have entered into a Farmout Agreement dated 31 August, 1995, whereby TPAO agreed to assign to ARCO an undivided forty-nine percent (49%) Participating Interest in the Contract; and

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements and obligations set out below and to be performed, the Parties agree as follows:

mc
A *MP* *bu*

A *SK*
CLP
Delo

ARTICLE I - DEFINITIONS

As used in this Agreement, the following words and terms shall have the meaning ascribed to them below:

- 1.1 **Accounting Procedure** means the rules, provisions and conditions set forth and contained in Exhibit A to this Agreement.
- 1.2 **AFE** means an authorization for expenditure pursuant to Article 6.6.
- 1.3 **Affiliate** means as to a Party, a company, partnership or other legal entity which controls, or is controlled by, or which is controlled by an entity which controls, such Party. Control means the legal or beneficial ownership, directly or indirectly, of more than fifty (50) percent of the shares conferring upon the holder the right to vote for or appoint the directors or officers of such company, partnership or other legal entity.
- 1.4 **Agreed Interest Rate** means interest compounded on a monthly basis, at the rate per annum equal to the one (1) month term, London Interbank Offered Rate for U.S. dollar deposits ("LIBOR"), determined as follows:
- a) from the due date of payment until the last day of the then current calendar month, the rate shall be LIBOR as last published preceding the due date of payment by The Wall Street Journal or if not published, then by the Financial Times of London plus one percent (1%); and,
 - b) thereafter, as first published in each succeeding calendar month by The Wall Street Journal or if not published, then by the Financial Times of London, plus one percent (1%).
- If the aforesaid rate is contrary to any applicable usury law, the rate of interest to be charged shall be the maximum rate permitted by such applicable law.
- 1.5 **Agreement** means this agreement, together with the exhibits attached to this agreement.
- 1.6 **Appraisal Well** means a well located and drilled for the purpose of delimiting the size, potential reserves and productive capacity of a Discovery.

om
A mp *ll*

AK
ELR
SP

- 1.7 **Barrel** means a quantity consisting of forty-two (42) United States gallons, corrected to a temperature of sixty (60) degrees Fahrenheit under one (1) atmosphere of pressure.
- 1.8 **Business Day** means days on which the banks in Ankara, Turkey are customarily open for business.
- 1.9 **Calendar Quarter** means a period of three (3) months commencing with January 1 and ending on the following March 31, a period of three (3) months commencing with April 1 and ending on the following June 30, a period of three (3) months commencing with July 1 and ending on the following September 30, or a period of three (3) months commencing with October 1 and ending on the following December 31 according to the Gregorian Calendar.
- 1.10 **Calendar Year** means a period of twelve (12) months commencing with January 1 and ending on the following December 31 according to the Gregorian Calendar.
- 1.11 **Cash Call** means a request for the advancement of funds made by the Operator pursuant to this Agreement.
- 1.12 **Cash Premium** means the payment made pursuant to Article 7.5(B) by a Non-Consenting Party to reinstate its rights to participate in an Exclusive Operation.
- 1.13 **Commercial Discovery** means any Discovery which is determined to be commercial by the Operating Committee or, where the context so requires, by a Consenting Party.
- 1.14 **Completion** means an operation intended to complete a well through the christmas tree as a producer of Hydrocarbons in one or more Zones, including, but not limited to, the setting of production casing, perforating, stimulating the well and production Testing conducted in such operation. Complete and other derivatives shall be construed accordingly.
- 1.15 **Condensate** means the hydrocarbon liquid that is separated from natural gas due to changes in pressure and temperature as the gas from the reservoir is stabilized at normal temperatures and pressures in surface separators. Specifically, condensates can include butanes and heavier hydrocarbon components.

ca
A J W

~~JP~~
ave
LP

- 1.16 **Consenting Party** means a Party who agrees to participate in and pay its share of the cost of an Exclusive Operation.
- 1.17 **Contract** means that certain Reconnaissance Permit (Permit No. 82) granted by the Government of Turkey to TPAO originally dated January 27, 1990, as extended, as well as any License or Lease eventually obtained by the Parties covering all or a portion(s) of the area covered thereby, and any extension, renewal or amendment of such Permit, License or Lease.
- 1.18 **Contract Area** means the area which is subject to the Contract as such area may vary from time to time during the term of validity of the Contract.
- 1.19 **Covered Liability** means all costs, expenses, (including reasonable attorneys' fees) and liabilities incident to claims, demands or causes of action of every kind and character brought by or on behalf of any person or entity for damage to or loss of property or the environment, or for injury to, illness or death of any person which damage, loss, injury, illness or death arises out of or is incident to any act or failure to act by the Indemnitees in the conduct of or in connection with Joint Operations. Indemnitees means Operator, its Affiliates, and its or their employees, officers, directors, agent and consultants.
- 1.20 **Crude Oil** means all natural Hydrocarbons produced from the Contract Area existing in a liquid or solid state at the wellhead or separator and freed of water, sand or other foreign substances which the Parties chose to remove therefrom including condensate.
- 1.21 **Day** means a calendar day unless otherwise specifically provided.
- 1.22 **Defaulting Party** means any Party that fails to pay when due its Participating Interest share of Joint Account expenses including cash advances and interest.
- 1.23 **Deepening** means an operation whereby a well is drilled to an objective Zone below the deepest Zone in which such well was previously drilled, or below the deepest Zone proposed in the associated AFE, whichever is the deeper. Deepen and other derivatives shall be construed accordingly.
- 1.24 **Development Plan** means a plan for the development and recovery of Hydrocarbons from all or a portion of the Contract Area.

FA CLR
3/27

- 1.16 **Consenting Party** means a Party who agrees to participate in and pay its share of the cost of an Exclusive Operation.
- 1.17 **Contract** means that certain Reconnaissance Permit (Permit No. 82) granted by the Government of Turkey to TPAO originally dated January 27, 1990, as extended, as well as any License or Lease eventually obtained by the Parties covering all or a portion(s) of the area covered thereby, and any extension, renewal or amendment of such Permit, License or Lease.
- 1.18 **Contract Area** means the area which is subject to the Contract as such area may vary from time to time during the term of validity of the Contract.
- 1.19 **Covered Liability** means all costs, expenses, (including reasonable attorneys' fees) and liabilities incident to claims, demands or causes of action of every kind and character brought by or on behalf of any person or entity for damage to or loss of property or the environment, or for injury to, illness or death of any person which damage, loss, injury, illness or death arises out of or is incident to any act or failure to act by the Indemnities in the conduct of or in connection with Joint Operations. Indemnities means Operator, its Affiliates, and its or their employees, officers, directors, agent and consultants.
- 1.20 **Crude Oil** means all natural Hydrocarbons produced from the Contract Area existing in a liquid or solid state at the wellhead or separator and freed of water, sand or other foreign substances which the Parties chose to remove therefrom including condensate.
- 1.21 **Day** means a calendar day unless otherwise specifically provided.
- 1.22 **Defaulting Party** means any Party that fails to pay when due its Participating Interest share of Joint Account expenses including cash advances and interest.
- 1.23 **Deepening** means an operation whereby a well is drilled to an objective Zone below the deepest Zone in which such well was previously drilled, or below the deepest Zone proposed in the associated AFE, whichever is the deeper. Deepen and other derivatives shall be construed accordingly.
- 1.24 **Development Plan** means a plan for the development and recovery of Hydrocarbons from all or a portion of the Contract Area.

au
A
lu

~~AK~~
CIR
AB

- 1.25 **Development Well** means any well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive for the purpose of producing from said stratigraphic horizon, or a service well drilled to support producing operations in a field. Service wells may be drilled outside the proved area of the field or to a stratigraphic horizon other than that which is being produced. Specific purposes of service wells include gas injection, water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for in-situ combustion.
- 1.26 **Discovery** means establishing the existence of an accumulation of Hydrocarbons recoverable at the surface in a natural or artificially assisted flow through appropriate production test methods.
- 1.27 **Effective Date** means the date this Agreement comes into effect as stated in Article II.
- 1.28 **Entitlement** means a quantity of Hydrocarbons of which a Party has the right and obligation to take delivery pursuant to the Contract or, if applicable, an Offtake Agreement, and shall be derived from that Party's Participating Interest in the Hydrocarbons produced after adjustment for overlifts and underlifts. Offtake Agreement means the agreement between the Parties pursuant to which each Party's Entitlement is determined.
- 1.29 **Exclusive Operation** means those operations and activities carried out pursuant to Article VII of this Agreement, the costs of which are chargeable to less than all the Parties.
- 1.30 **Exclusive Well** means a well drilled pursuant to an Exclusive Operation.
- 1.31 **Exploitation Area** means that part of the Contract Area which is established pursuant to the Contract or if the Contract does not establish an Exploitation Area, then that part of the Contract Area which is delineated in a Development Plan.
- 1.32 **Exploitation Period** means any and all periods of exploitation during which the production and removal of Hydrocarbons is permitted under the Contract.
- 1.33 **Exploration Period** means any and all periods of exploration set out in the Contract.

ca
A J lb

W
AS
CWR
LB

- 1.34 **Exploration Well** means any well drilled to find oil or gas in an unproved area or to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir. An Exploration Well is any well that is not an Appraisal Well or Development Well as those wells are defined.
- 1.35 **G & G Data** means geological, geophysical and geochemical data and other information that is not obtained through a well bore.
- 1.36 **Government** means the government of the Republic of Turkey and any agency, bureau, body, department, office, tribunal or authority, whether national, provincial, state or local, having jurisdiction over the Contract, the Contract Area, or operations conducted thereon.
- 1.37 **Hydrocarbons** mean all substances including Crude Oil, Condensate, and Natural Gas which are subject to and covered by the Contract.
- 1.38 **Investment Recovery Oil** means that portion of the production of Hydrocarbons available for recovery of exploration, appraisal and development expenditures in accordance with Article XIX.
- 1.39 **Joint Account** means the accounts maintained by Operator in accordance with the provisions of this Agreement and of the Accounting Procedure for Joint Operations.
- 1.40 **Joint Operations** mean those operations and activities carried out by Operator pursuant to this Agreement, the costs of which are chargeable to all Parties.
- 1.41 **Jointly Owned Information** means any information, data, plans, reports manuscripts, procedures, schedules, drawings, specifications, results, models, computer programs, or other products which are received or ascertained, directly or indirectly, originated or otherwise acquired by a party, its employees, representatives, or subcontractors, including but not limited to G&G Data as well as data obtained through the wellbore and including all intellectual property therein for which the cost has been a direct charge to the Joint Account.
- 1.42 **Joint Property** means, at any point in time, all wells, facilities, equipment, materials, funds and the property held for the Joint Account.

MC
A J lb

Handwritten signatures and initials, including a large signature and the letters "AK" and "OK".

- 1.43 **Minimum Work Obligations** mean those work and/or expenditure obligations specified in the Contract which must be performed in order to satisfy the obligations of the Contract.
- 1.44 **Natural Gas** means all natural Hydrocarbons and/or non-hydrocarbons produced from the Contract Area which are in a gaseous state at atmospheric temperature and pressure, excluding Condensate extracted from Natural Gas.
- 1.45 **Non-Consenting Party** means a Party who elects not to participate in an Exclusive Operation.
- 1.46 **Non-Operator(s)** means the Party or Parties to this Agreement other than Operator.
- 1.47 **Operating Committee** means the committee constituted in accordance with Article V.
- 1.48 **Operator** means a Party to this Agreement designated as such in accordance with this Agreement.
- 1.49 **Participating Interest** means the undivided percentage interest of each Party in the rights and obligations derived from the Contract and this Agreement.
- 1.50 **Party** means any of the entities named in the first paragraph to this Agreement and any respective successors or assigns in accordance with the provisions of this Agreement.
- 1.51 **Petroleum Costs** means all costs incurred in connection with petroleum operations under the Contract.
- 1.52 **Petroleum Law** means the Petroleum Law of Turkey, No. 6326, of March 7, 1954, as subsequently amended, together with the regulations and decrees promulgated thereunder.
- 1.53 **Plugging Back** means a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone. Plug Back and other derivatives shall be construed accordingly.
- 1.54 **Profit Oil** means that portion of gross production available for distribution to the Parties in accordance with Article XIX hereof.

AK
A mp W

AK
AK

- 1.55 **Recompletion** means an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore. Recomplete and other derivatives shall be construed accordingly.
- 1.56 **Reworking** means an operation conducted in the wellbore of a well after it is Completed to secure, restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include, but are not limited to, well stimulation operations, but exclude any routine repair or maintenance work, or drilling, Sidetracking, Deepening, Completing, Recompleting, or Plugging Back of a well. Rework and other derivatives shall be construed accordingly.
- 1.57 **Separately Owned Information** shall include any information, data, plans, reports, manuscripts, procedures, schedules, drawings, specifications, results, models, computer programs, or other products which are received or ascertained, directly or indirectly, originated or otherwise acquired by a party, its employees, representatives, or subcontractors including but not limited to G&G Data as well as data obtained through the wellbore and including all intellectual property therein not held for Joint Account nor for which the cost has been a direct charge to the Joint Account.
- 1.58 **Sidetracking** means the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or to drill around junk in the hole or to overcome other mechanical difficulties. Sidetrack and other derivatives shall be construed accordingly.
- 1.59 **Testing** means an operation intended to evaluate the capacity of a Zone to produce Hydrocarbons. Test and other derivatives shall be construed accordingly.
- 1.60 **Willful Misconduct** means any act or failure to act (whether sole, joint or concurrent) by a person which was intended to cause, or which was in reckless disregard of or wanton indifference to, harmful consequences such person knew such act or failure to act would have on the safety or property of another person or entity, but shall not include any error of judgment or mistake made by such person in the exercise in good faith.

u
A J kh

~~SK~~
CK
AD

- 1.61 **Work Program and Budget** means a work program for Joint Operations and budget corresponding thereto as described and approved in accordance with Article VI.
- 1.62 **Zone** means an underground accumulation of petroleum fluids in a single and separate natural reservoir (ordinarily a porous sandstone or limestone). It is characterized by a single natural-pressure system so that production of petroleum fluids from one part of the zone affects the reservoir pressure throughout its extent. In all directions, a zone is so bounded by geologic barriers (such as impermeable strata, geologic structural conditions, and water in the rock formations) that it is effectively separated from any other zones that may be present in the same area, or on the same geologic structure.

~~JA~~ ^{gr}
Cox
ALP

cu
A ^{mg} ₇ ₇ ₇

ARTICLE II - EFFECTIVE DATE AND TERM

2.1 This Agreement shall have effect from the date of Assignment Approval (as defined in the Farmout Agreement) and shall, subject always to the Parties' continuing obligations under Article XV, continue in effect until all of the following shall have occurred:

- i) the Contract (including the Reconnaissance Permit and any eventual License and/or Lease) terminates;
- ii) all Joint Property has been removed and disposed of;
- iii) all wells have been plugged and abandoned in compliance with local requirements;
- iv) all liabilities incident to claims, demands, or causes of action of every kind and character arising in connection with Joint Operations have been settled or discharged; and
- v) final settlement has been made among the Parties.

cu
A ✓ Wk

4/2
cut
Ab

ARTICLE III - PARTICIPATING INTEREST

3.1 Participating Interest

(A) The Participating Interests of the Parties as of the Effective Date are:

TPAO	51%
ARCO	49%

(B) If a Party transfers all or part of its Participating Interest pursuant to the provisions of this Agreement and the Contract, the Participating Interests of the Parties shall be revised accordingly.

(C) Notwithstanding the above, ARCO shall pay one hundred percent (100%) of the drilling costs of the Option Well described in Articles 4.2.1 and 4.3 of the Farmout Agreement dated 31 August 1995, up to a maximum of six million U.S. Dollars (\$6,000,000). All costs of the Option Well in excess of six million U.S. Dollars (\$6,000,000) as well as all other costs and expenditures hereunder shall be paid pursuant to the Participating Interests set forth in this Article.

3.2 Ownership, Obligations and Liabilities

(A) Unless otherwise provided in this Agreement, all the rights and interests in and under the Contract, all Joint Property and any Hydrocarbons produced from the Contract Area shall, subject to the terms of the Contract, inure to the benefit of the Parties in accordance with their respective Participating Interests.

(B) Unless otherwise provided in this Agreement, the obligations of the Parties under the Contract and all liabilities and expenses incurred in connection with Joint Operations shall be charged to the Joint Account. All credits to the Joint Account shall be shared by the Parties in accordance with their respective Participating Interests.

(C) Each Party shall pay when due, in accordance with the Accounting Procedure, its Participating Interest share of Joint Account expenses, including cash advances and interest, accrued pursuant to this Agreement.

Handwritten initials: A, 1995, hh

Handwritten signatures: JH, 46, 1012, [Signature]

The Accounting Procedure shall govern the accrual and satisfaction of the respective obligations, liabilities and credits among the Parties.

- (D) Subject to the limitations stated in Article XV, each Party shall have an irrevocable, paid-up, non-exclusive, world-wide license to make, use, sell, copy, modify, disclose, distribute and license under any and all patent, copyright, trade secret and other proprietary rights owned or controlled by the Party, its parent or subsidiaries to the extent needed for making, using, selling equipment, materials or other goods according to Jointly Owned Information or to produce, copy, modify, distribute and use copyrighted works based on or using Jointly Owned Information. No Party shall be under any obligation to any other Party to make an accounting for any fees obtained from the copying, modification, distribution or use of Jointly Owned Information to the extent that same is permitted under this Agreement.

3.3 Annual Rentals and Royalties

If any rentals or royalties shall become due and payable under the Contract in relation to any Exploitation Area(s), the Parties shall contribute to such payment obligation(s) in proportion to their respective Participating Interests in any such Exploitation Area(s) determined as of the date any such payment obligation accrues.

cu
A *J* *lu*

JH *HC* *OK*
SL

ARTICLE IV - OPERATOR

4.1 Designation of Operator

TPAO is designated as Operator, and agrees to act in accordance with the terms and conditions of the Contract and this Agreement, which terms and conditions shall also apply to any successor Operator. Operator may assign its role as Operator to any Affiliate to which it has assigned all or any portion of its Participating Interest.

In the event the Operator elects to assign its role to an Affiliate as provided above, the Operator and, respectively, the Affiliate shall execute an assignment in writing and furnish a copy thereof to all Parties to this Agreement.

4.2 Rights and Duties of Operator

- (A) Subject to the terms and conditions of this Agreement, Operator has exclusive charge of and shall conduct all Joint Operations. Operator may employ independent contractors and/or agents in such Joint Operations. Notwithstanding the previous sentence, the drilling of the Option Well pursuant to the Farmout Agreement dated 31 August 1995 shall be supervised by a drilling superintendent provided by ARCO.
- (B) In the conduct of Joint Operations, Operator shall:
- (1) Perform Joint Operations in accordance with the provisions of the Contract, this Agreement and the instructions of the Operating Committee;
 - (2) Conduct all Joint Operations in a diligent, safe, environmentally sound and efficient manner in accordance with good and prudent oil field practices and conservation principles generally followed by the international petroleum industry under similar circumstances;
 - (3) Neither gain a profit nor suffer a loss as a result of being the Operator in its conduct of Joint Operations;
 - (4) Perform the duties for the Operating Committee set out in Article V, and prepare and submit to the Operating Committee the

u
A *JKS* *u*

JA *4c* *OK*
AB

proposed Work Programs, and Budgets and AFEs as provided in Article VI;

- (5) Acquire all permits, consents, approvals, surface or other rights that may be required for or in connection with the conduct of Joint Operations;
- (6) Permit the representatives of any of the Parties to have at all reasonable times and at their own risk and expense reasonable access to the Joint Operations with the right to observe all such Joint Operations and to inspect all Joint Property and to conduct financial audits as provided in the Accounting Procedure;
- (7) Maintain the Contract in full force and effect. Operator shall promptly pay and discharge all liabilities and expenses incurred in connection with Joint Operations and use its reasonable efforts to keep and maintain the Joint Property free from all liens, charges and encumbrances arising out of Joint Operations;
- (8) Pay to the Government for the Joint Account, within the periods and in the manner prescribed by the Contract and all applicable laws and regulations, all periodic payments, royalties, taxes, fees and other payments pertaining to Joint Operations, but excluding any taxes measured by the incomes of the Parties;
- (9) Carry out the obligations of Contractor pursuant to the Contract, including, but not limited to, preparing and furnishing such reports, records and information as may be required pursuant to the Contract;
- (10) Have in accordance with the decisions of the Operating Committee, the exclusive right and obligation to represent the Parties in all meetings and dealings with the Government with respect to matters arising under the Contract and Joint Operations. Operator shall notify the other Parties as soon as possible of such meetings. Non-Operators shall have the right to attend such meetings but only in the capacity of observers. Nothing contained in this Agreement shall restrict any Party from holding discussions with the Government with respect to any issue peculiar to its particular

au
A J tk

~~JK~~ ^{JK}
JK

business interests arising under this Agreement, but in such event such Party shall promptly advise the Parties, if possible, before and in any event promptly after such discussions, provided that such Party shall not be required to divulge to the Parties any matters discussed to the extent the same involve proprietary information on matters not affecting the Parties; and

- (11) Take all necessary and proper measures for the protection of life, health, the environment and property in the case of an emergency; provided, however, that Operator shall immediately notify the Parties of the details of such emergency and measures.

4.3 Employees of Operator

Subject to the Contract and this Agreement, Operator shall determine the number of employees, the selection of such employees, the hours of work and the compensation to be paid all such employees in connection with Joint Operations. Operator shall employ only such employees, agents and contractors as are reasonably necessary to conduct Joint Operations.

4.4 Information Supplied by Operator

- (A) Operator shall provide each Non-Operator with one (1) copy of the following Jointly Owned Information:
 - (1) Hard copies and digital versions of all electrical logs or surveys;
 - (2) Daily drilling progress reports including mud logs;
 - (3) Copies of all drill stem tests and core analysis reports;
 - (4) Copies of the plugging reports;
 - (5) Copies of the final geological and geophysical maps and reports;
 - (6) Engineering studies, development schedules and annual progress reports on development projects;
 - (7) Field and well performance reports, including reservoir studies and reserve estimates;

ll
A J ll

ll
ll
ll

- (8) Copies of all reports relating to Joint Operations furnished by Operator to the Government, except magnetic tapes which shall be stored by Operator and made available for inspection and/or copying at the sole expense of the Non-Operator requesting same;
 - (9) Other reports as frequently as is justified by the activities or as instructed by the Operating Committee; and
 - (10) Subject to Article 15.3, such additional information as Non-Operators may request, provided that the requesting Party or Parties pay the costs of preparation of such information and that the preparation of such information will not unduly burden Operator's administrative and technical personnel. Only Non-Operators who pay such costs shall receive such additional information.
- (B) Operator shall give Non-Operators access at all reasonable times to all other Jointly Owned Information acquired in the conduct of Joint Operations. Any Non-Operator may make copies of such materials at its sole expense.

4.5 Settlement of Claims and Lawsuits

- (A) Operator shall promptly notify the Parties of any and all claims or suits, or related series of claims or suits, which relate in any way to Joint Operations for which the amount claimed exceeds one hundred thousand U.S. dollars (\$100,000). Operator shall represent the Parties and defend or oppose the claim or suit. Operator may in its sole discretion compromise or settle any such claim or suit or any related series of claims or suits for an amount not to exceed the equivalent of one hundred thousand U.S. dollars (\$100,000) exclusive of legal fees. Operator shall obtain the approval and direction of the Operating Committee on amounts in excess of the above stated amount. Each Non-Operator shall have the right to be represented by its own counsel at its own expense in the settlement, compromise or defense of any claims or suits.
- (B) Any Non-Operator shall promptly notify the other Parties of any claim made against such Non-Operator by a third party relating to or which may affect the Joint Operations and insofar as such claim relates to or affects the Joint Operations such Non-Operator shall defend or settle the same in

lh
A *MS* *lh*

SA *lh* *CLF*
AP

accordance with any directions given by the Operating Committee and such costs, expenses and damages as are payable pursuant to such defense or settlement shall be for the Joint Account.

- (C) Each Party shall have the right to participate in the prosecution, defense or settlement of any such suit conducted in accordance with Article 4.5(A) and Article 4.5(B) at its sole cost and expense.

4.6 Liability of Operator

- (A) Except as set out in this Article 4.6, the Party designated as Operator shall bear no cost, expense or liability resulting from performing the duties and functions of the Operator. Nothing in this Article shall, however, be deemed to relieve the Party designated as Operator from any cost, expense or liability for its Participating Interest share of Joint Operations.
- (B) The Parties shall be liable in proportion to their Participating Interests for all Covered Liabilities (as hereinafter defined) and shall jointly and severally defend and indemnify Indemnitees (as hereinafter defined) from any and all Covered Liabilities less those amounts which are attributable to Operator's Participating Interests **EVEN THOUGH CAUSED IN WHOLE OR IN PART BY A PRE-EXISTING DEFECT, THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), WILLFUL MISCONDUCT, STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY INDEMNITEE.**

4.7 Insurance Obtained by Operator

- (A) Operator shall procure and maintain or cause to be procured and maintained for the Joint Account all insurance in the types and amounts required by the Contract and applicable laws, rules and regulations.
- (B) Operator shall obtain such further insurance as the Operating Committee may from time to time require.
- (C) Any Party may elect not to participate in the insurance to be procured under Article 4.7(B) provided such Party:
 - (1) gives notice to that effect to Operator prior to the effective date of the insurance procured by Operator;

AK
A *MS* *WA*

AK
MS
WA

- (2) does nothing which may interfere with Operator's negotiations for such insurance for the other Parties; and
 - (3) obtains and maintains such insurance (in respect of which an annual certificate of adequate coverage from a reputable insurance broker shall be sufficient evidence) or other evidence of financial responsibility which fully covers its Participating Interest share of the risks that would be covered by the insurance procured under Article 4.7 (B), and which the Operating Committee may determine to be acceptable. No such determination of acceptability shall in any way absolve a non-participating Party from its obligation to meet each Cash Call including any Cash Call in respect of damages and losses and/or the costs of remedying the same in accordance with the terms of this Agreement. If such Party obtains other insurance, such insurance shall contain a waiver of subrogation in favor of all the other Parties and the Operator, but only in respect of their interests under this Agreement.
- (D) The cost of insurance in which all the Parties are participating shall be for the Joint Account and the cost of insurance in which less than all the Parties are participating shall be charged to the Parties participating in proportion to their respective Participating Interests.
- (E) Operator shall, in respect of all insurance obtained pursuant to this Article:
- (1) promptly inform the participating Parties when such insurance is obtained and supply them with copies of the relevant policies when the same are issued;
 - (2) arrange for the participating Parties, according to their respective Participating Interests, to be named as co-insureds on the relevant policies with waivers of subrogation in favor of all the Parties; and
 - (3) duly file all claims and take all necessary and proper steps to collect any proceeds and credit any proceeds to the participating Parties in proportion to their respective Participating Interests.
- (F) Operator shall use its reasonable efforts to require all contractors performing work in respect of Joint Operations to obtain and maintain any

u
A J u

JA 4/11/95
u
u

and all insurance in the types and amounts required by any applicable laws, rules and regulations or any decision of the Operating Committee and shall use its reasonable efforts to require all such contractors to name the Parties as additional insureds on contractor's insurance policies or to obtain from their insurers waivers of all rights or recourse against Operator and Non-Operators.

4.8 Funds

- (A) Operator shall keep separate records for the monies which it receives from or for the Joint Account pursuant to this Agreement. The Operator shall account to the Non-Operators for the monies of a Non-Operator advanced or paid to Operator, whether for the conduct of Joint Operations or as proceeds from the sale of production under this Agreement. Such monies shall be applied only to their intended use and shall in no way be deemed to be funds belonging to Operator.
- (B) Operator shall credit the Non-Operators with any interest earned on Non-Operators funds held for use in the Joint Operations.

4.9 Resignation of Operator

Subject to Article 4.11, Operator may resign as Operator at any time by so notifying the other Parties at least one hundred and twenty (120) Days prior to the effective date of such resignation.

4.10 Removal of Operator

- (A) Subject to Article 4.11, Operator shall be removed upon receipt of notice from any Non-Operator if:
- (1) An order is made by a court or an effective resolution is passed for the dissolution, liquidation, winding up, or reorganization of Operator;
 - (2) Operator dissolves, liquidates or terminates its corporate existence;
 - (3) Operator becomes insolvent, bankrupt or makes an assignment for the benefit of creditors; or
 - (4) A receiver is appointed for a substantial part of Operator's assets.

u
A J u

JH
4/
CR
u

- (B) Subject to Article 4.11, Operator may be removed by the decision of the Non-Operators if Operator has committed a material breach of this Agreement which Operator has failed to commence to rectify within thirty (30) Days of receipt of a notice from Non-Operators detailing the alleged breach. Any decision of Non-Operators to give notice of breach to Operator or to remove Operator under this Article 4.10(B) shall be made by an affirmative vote of Non-Operators holding a combined Participating Interest of at least seventy-five (75%) percent of the Participating Interests held by all the Non-Operators.
- (C) If Operator together with any Affiliate of Operator is or becomes the holder of a Participating Interest of less than fifty percent (50%), then Operator shall promptly notify the other Parties. The Operating Committee shall then vote within sixty (60) Days of such notification on whether or not a successor Operator should be named pursuant to Article 4.11.

4.11 Appointment of Successor

When a change of Operator occurs pursuant to Article 4.9 or Article 4.10:

- (A) The Operating Committee shall meet as soon as possible to appoint a successor Operator pursuant to the voting procedure of Article 5.9. However, no Party may be appointed successor Operator against its will.
- (B) If the Operator disputes commission of or failure to rectify a material breach alleged pursuant to Article 4.10(B) and proceedings are initiated pursuant to Article XVIII, no successor Operator may be appointed pending the conclusion or abandonment of such proceedings.
- (C) If an Operator is removed, other than in the case of Article 4.10(C), neither Operator nor any Affiliate of Operator shall have the right to vote for itself on the appointment of a successor Operator, nor be considered as a candidate for the successor Operator.
- (D) A resigning or removed Operator shall be compensated out of the Joint Account for its reasonable expenses directly related to its resignation or removal, except in the case of Article 4.10(B).
- (E) The Operating Committee shall arrange for the taking of an independent inventory of all Joint Property and Hydrocarbons, and an audit of the

cu
A *NP* *uh*

4/1
CR
AK
AL

Operator's books and records pertaining to the Joint Account. Such inventory and audit shall be completed, if possible, no later than the effective date of the change of Operator. The liabilities and expenses of such inventory and audit shall be charged to the Joint Account.

- (F) The resignation or removal of Operator and its replacement by the successor Operator shall become effective upon receipt of any necessary governmental approvals.
- (G) Upon the effective date of the resignation or removal, the successor Operator shall succeed to all duties, rights and authority prescribed for Operator. The former Operator shall transfer to the successor Operator custody of all Joint Property, books of account, records and other documents maintained by Operator pertaining to the Contract Area and to Joint Operations. The former Operator shall be released and discharged from all obligations and liabilities as Operator accruing after such date only upon delivery of the above described property and data and after the written confirmation to all Non-Operators regarding the same.

cu
A J UA

JK
CUK
AK

ARTICLE V - OPERATING COMMITTEE

5.1 Establishment of Operating Committee

To provide for the overall supervision and direction of Joint Operations, there is established an Operating Committee composed of representatives of each Party holding a Participating Interest. Each Party shall appoint one (1) representative and one (1) alternate representative to serve on the Operating Committee. Each Party shall as soon as possible after the date of this Agreement give notice to the other Parties of the name and address of its representative and alternate representative to serve on the Operating Committee. Each Party shall have the right to change its representative and alternate at any time by giving proper notice to such effect to the other Parties.

5.2 Powers and Duties of Operating Committee

The Operating Committee shall have power to authorize and supervise Joint Operations.

5.3 Authority to Vote

The representative of a Party, or in his absence his alternate representative, shall be authorized to represent and bind such Party with respect to any matter which is within the powers of the Operating Committee and is properly brought before the Operating Committee. Each such representative shall have a vote equal to the Participating Interest of the Party such person represents. Each alternate representative shall be entitled to attend all Operating Committee meetings but shall have no vote at such meetings except in the absence of the representative for whom he is the alternate. In addition to the representative and alternate representative, each Party may also bring to any Operating Committee meetings such technical and other advisors as it may deem appropriate.

5.4 Subcommittees

The Operating Committee may establish such subcommittees, including technical or financial subcommittees, as the Operating Committee may deem appropriate. The functions of such subcommittees shall be in an advisory capacity or as otherwise determined unanimously by the Parties.

Handwritten initials: *AK*, *J*, *AK*

Handwritten initials: *AK*, *AK*, *AK*

5.5 Notice of Meeting

- (A) Operator may call a meeting of the Operating Committee or Subcommittee by giving notice to the Parties of a date at least twenty-one (21) Days from time of receipt of such notice.
- (B) Any Non-Operator may request a meeting of the Operating Committee and/or subcommittees by giving proper notice to the Operator. Upon receiving such request, Operator shall call such meeting for a date not less than twenty-one (21) Days nor more than twenty-eight (28) Days after receipt of the request.
- (C) The notice periods above may only be waived with the unanimous consent of all the Parties.

5.6 Contents of Meeting Notice

- (A) Each notice of a meeting of the Operating Committee and Subcommittees as provided by Operator shall contain:
 - (1) The date, time and location of the meeting; and
 - (2) An agenda of the matters and proposals to be considered and/or voted upon.
- (B) A Party, by notice to the other Parties given not less than seven (7) Days prior to a meeting, may add matters to the agenda for a meeting.
- (C) On the request of a Party, and with the unanimous consent of all Parties, the Operating Committee may consider at a meeting a proposal not contained in such meeting agenda.

5.7 Location of Meetings

All meetings of the Operating Committee and Subcommittees shall be held in Ankara, Turkey, or elsewhere as may be decided by the Operating Committee.

ac
A *ms* *lh*

46
ck
ck
ck

5.8 Operator's Duties for Meetings

(A) With respect to meetings of the Operating Committee and any Subcommittee, Operator's duties shall include, but not be limited to:

- (1) Timely preparation and distribution of the agenda;
- (2) Organization and conduct of the meeting; and
- (3) Preparation of a written record or minutes of each meeting.

(B) Operator shall have the right to appoint the chairman of the Operating Committee and all Subcommittees.

5.9 Voting Procedure

Except as otherwise expressly provided in this Agreement, all decisions, approvals and other actions of the Operating Committee on all proposals coming before it under this Agreement shall be decided by the affirmative vote of two (2) or more Parties, which are not Affiliates, having collectively at least seventy-five percent (75%) of the Participating Interests.

5.10 Record of Votes

The chairman of the Operating Committee shall appoint a secretary who shall make a record of each proposal voted on and the results of such voting at each Operating Committee meeting. Each representative shall sign and be provided a copy of such record at the end of such meeting and it shall be considered the final record of the decisions of the Operating Committee.

5.11 Minutes

The secretary shall provide each Party with a copy of the minutes of the Operating Committee meeting within fifteen (15) Days after the end of the meeting. Each Party shall have fifteen (15) Days after receipt of such minutes to give notice of its objections to the minutes to the secretary. A failure to give notice specifying objection to such minutes within said fifteen (15) Day period shall be deemed to be approval of such minutes. In any event, the votes recorded under Article 5.10 shall take precedence over the minutes described above.

Handwritten initials: A, W, J, W

Handwritten initials: J, W, OLS, W

5.12 Voting in Lieu of Meeting

- (A) In lieu of a meeting, Operator may submit any proposal for a decision of the Operating Committee by giving each representative notice in writing by facsimile or telex describing the proposal so submitted. Each Party shall communicate its vote by written notice to Operator and the other Parties within one of the following appropriate time periods after receipt of Operator's notice:
- (1) Twenty-four (24) hours in the case of operations which involve the use of a drilling rig that is standing by in the Contract Area.
 - (2) Fifteen (15) Days in the case of all other proposals.
 - (3) Thirty (30) Days in the case of an AFE or supplemental AFE if submitted for approval pursuant to Article 6.6(A).
- (B) Except in the case of Article 5.12(A)(1), any Non-Operator may by notice delivered to all Parties within seven (7) Days of receipt of Operator's notice request that the proposal be decided at a meeting. In such an event, that proposal shall be decided at a meeting duly called for that purpose.
- (C) Except as provided in Article X, any Party failing to communicate its vote in a timely manner shall be deemed to have voted against such proposal.
- (D) If a meeting is not requested, then at the expiration of the appropriate time period prescribed in 5.12(A), Operator shall give each Party a confirmation notice stating the tabulation and results of the vote.

cu
A
1993
llk

4/5
llk
llk

5.13 Effect of Vote

All decisions taken by the Operating Committee pursuant to this Article, shall be conclusive and binding on all the Parties, except that:

- (A) Any operation, which can, for the time being, be conducted as an Exclusive Operation under the provisions of Article VII and which has been properly proposed as a Joint Operation to, but not approved by, the Operating Committee may be proposed by any Party, in accordance with Article VII, to be conducted as an Exclusive Operation provided that any such proposal is made within the period specified below:
- (1) For proposals involving the use of a drilling rig that is standing by in the Contract Area, such right shall be exercisable for twenty-four (24) hours after the time specified in Article 5.12(A)(1) has expired;
 - (2) For proposals to develop a Discovery, such right shall be exercisable for ten (10) Days after the date the Operating Committee was required to consider such proposal pursuant to Article 5.6 or Article 5.12;
 - (3) For all other proposals, such right shall be exercisable for five (5) Days after the date the Operating Committee was required to consider such proposal pursuant to Article 5.6 or Article 5.12.
- (B) If a Party voted against any matter or proposal which was approved by the Operating Committee and which could be conducted as an Exclusive Operation pursuant to Article VII relating to Minimum Work Obligations, then such Party shall have the right not to participate in the operation contemplated by such approval. Any such Party wishing to exercise its right of non-consent must give notice of non-consent to all other Parties within ten (10) Days (or within forty-eight (48) hours if the drilling rig to be used in such operation is standing by in the Contract Area) following Operating Committee approval of such matter or proposal. The Parties that were not entitled to give or did not give notice of non-consent shall be Consenting Parties as to the operation contemplated by the Operating Committee approval, and shall conduct such operation as an Exclusive Operation under Article VII. Any Party that gave notice of non-consent shall be a Non-Consenting Party as to such Exclusive Operation.

Handwritten initials: A, au, 1/13, tk

Handwritten initials: AK, CLK, AS

- (C) If the Consenting Parties to an Exclusive Operation arising under Article 5.13(A) or 5.13 (B) concur, then the Operating Committee may, at any time pursuant to this Article, reconsider and approve, decide or take action on any proposal that the Operating Committee declined to approve earlier, or modify or revoke an earlier approval, decision or action.
- (D) Notwithstanding the decision of the Operating Committee, the Operator may discontinue any Joint Operation or Exclusive Operation if:
- (1) an impenetrable substance or other condition in the hole is encountered which in the reasonable judgment of Operator causes the continuation of such operation to be impractical; or
 - (2) other circumstances occur which in the reasonable judgment of Operator causes the continuation of such operation to be unwarranted and after notice the Operating Committee within the period required under Article 5.12(A)(1) approves discontinuing such operation.

On the occurrence of either of the above, Operator shall promptly notify the Parties that such operation is being discontinued pursuant to the foregoing, and any Party shall have the right to propose in accordance with Article VII an Exclusive Operation to continue such operation.

m
A *JK* *uk*

Ar
CS *CLB*
OP

ARTICLE VI - WORK PROGRAMS AND BUDGETS

6.1 Exploration and Appraisal

- (A) Within one hundred twenty (120) Days after the date of execution of this Agreement, Operator shall deliver to the Parties a proposed Work Program and Budget detailing the Joint Operations to be performed in the Contract Area for the remainder of the current Calendar Year and, at Operator's discretion, for the following Calendar Year. Within sixty (60) Days of such delivery, the Operating Committee shall meet to consider and to endeavor to agree on a Work Program and Budget.
- (B) On or before the 1st Day of July of each Calendar Year, Operator shall submit to the Parties a general description of the anticipated Work Program and Budget for the following Calendar Year. On or before the 1st Day of September of each Calendar Year, Operator shall deliver to the Parties a proposed Work Program and Budget detailing the Joint Operations to be performed in the Contract Area for the following Calendar Year. Within forty-five (45) Days of such delivery, the Operating Committee shall meet to consider and to endeavor to agree on a Work Program and Budget.
- (C) If the Operating Committee determines that a Discovery has been made, Operator shall as soon as possible submit to the Parties a report containing available details concerning the Discovery and Operator's recommendation as to whether the Discovery merits appraisal. If the Operating Committee determines that the Discovery merits appraisal, Operator within one hundred eighty (180) Days, shall deliver to the Parties a proposed Work Program and Budget for the appraisal of the Discovery. Within forty-five (45) Days of such delivery, the Operating Committee shall meet to consider, modify and then either approve or reject the appraisal Work Program and Budget
- (D) The Work Program and Budget shall include at least that part of such Minimum Work Obligations required to be carried out during the Calendar Year in question under the terms of the Contract. If within the time periods prescribed in this Article the Operating Committee is unable to agree on such Work Program and Budget, Operator shall take such actions, but only such actions which are consistent with the proposed Work Program and Budget which receives the greatest Participating Interest

Handwritten signatures and initials:
A, C, H, W

Handwritten signatures and initials:
A, C, H, W

support, on behalf of the Joint Account as shall be necessary to maintain the Contract in full force and effect, including the commencement of a Work Program and Budget to fulfill the Minimum Work Obligations required for the given Calendar Year.

- (E) Subject to Article 6.7, approval of any such Work Program and Budget, which includes an Exploration Well or an Appraisal Well, whether by drilling, Deepening or Sidetracking, shall include approval only for expenditures necessary for drilling and open-hole Testing of such well (unless the Minimum Work Obligations require the Testing and Completing of such well). When an Exploration Well or an Appraisal Well has reached its authorized depth, all logs, cores and other approved tests have been conducted and the results furnished to the Parties, Operator shall submit to the Parties in accordance with Article 5.12(A)(1) an election to Complete such well. Operator shall include in such submission Operator's recommendation on such Completion attempt and an AFE for such Completion Costs.
- (F) Any Party desiring to propose a Completion must do so within the time period provided in Article 5.12(A)(1) by notifying all other Parties. Any such proposal shall include an AFE for such Completion costs.

6.2 Development

- (A) If the Operating Committee determines that a Discovery may be commercial, the Operator shall, as soon as practicable, deliver to the Parties a Development Plan together with the Project AFE and the first annual Work Program and Budget, which shall contain, *inter alia*:
- (1) Details of the proposed work to be undertaken, personnel required and expenditures to be incurred, including the timing of same, on a Calendar Year basis;
 - (2) An estimated date for the commencement of production;
 - (3) A delineation of the proposed Exploitation Area; and
 - (4) Any other Jointly Owned Information requested by the Operating Committee.

u
A
JP
GK

u
cu
AB

- (B) After receipt of the Development Plan, or earlier if necessary to meet any applicable deadline under the Contract, the Operating Committee shall meet to consider, modify and then either approve or reject the Development Plan and the first annual Work Program and Budget for the development submitted by Operator. If the Development Plan is approved by the Operating Committee, Operator shall, as soon as possible, deliver any notice of Commercial Discovery required under the Contract and take such other steps as may be required under the Contract to secure the required approval(s) (if any) of the Development Plan by the Government.
- (C) After the Development Plan and corresponding Work Program and Budget are approved by the Operating Committee, Operator shall, on or before the 1st Day of July of each Calendar Year, and whenever required under Article 6.7(B), submit a revised Work Program and Budget for the Exploitation Area. Within forty-five (45) Days after such submittal, the Operating Committee shall endeavor to agree on appropriate revisions to said Work Program and Budget.

6.3 Production

On or before the 1st Day of July of each Calendar Year, Operator shall submit to the Parties a general description of the anticipated Work Program and Budget for the following Calendar Year. On or before the 1st Day of September of each Calendar Year, Operator shall deliver to the Parties a proposed Work Program and Budget detailing the Joint Operations to be performed in the Exploitation Area and the projected production schedule for the following Calendar Year. Within forty-five (45) Days of such delivery, the Operating Committee shall agree upon a Work Program and Budget.

6.4 Consolidation of Budgets

- (A) When exploration and appraisal, development, and production or any combination of these operations are being undertaken simultaneously, the operator shall consolidate the appropriate annual Work Program and Budgets into a single consolidated budget for submittal to the Parties on or before the 1st Day of September of each Calendar Year.

u
A
u

9/28/95
CLB
u

Within forty-five (45) Days following such submittal, the Operating Committee shall agree on the Work Program and Budget for the following Calendar Year.

- (B) Each Work Program and Budget and Development Plan submitted by Operator shall contain an itemized estimate of the costs of Joint Operations and all other expenditures to be made for the Joint Account stated by Calendar Year.
- (C) The Work Program and Budget shall designate the portion or portions of the Contract Area in which Joint Operations itemized in such Work Program and Budget are to be conducted and shall specify the kind and extent of such operations in such detail as the Operating Committee may deem suitable.

6.5 Contract Awards

Operator shall award each contract for approved Joint Operations on the following basis:

Procedure A

\$0 to \$250,000

Procedure B

over \$250,000

Procedure A:

Operator shall award the contract to the Contractor which Operator considers to be the best qualified as determined by cost and ability to perform the contract without the obligation to tender and without informing or seeking the approval of the Operating Committee, except that before entering into contracts with Affiliates of the Operator exceeding fifty thousand U.S. dollars (U.S. \$50,000), Operator shall obtain the approval of the Operating Committee.

Procedure B:

Operator shall:

- (1) Provide the Parties with a list of the entities whom Operator proposes to invite to tender for the said contract;

Handwritten initials: A, m, 2, tk

Handwritten initials: J, C, B, and a signature

- (2) Add to such list any entity whom a Party requests to be added within fourteen (14) Days of receipt of such list;
- (3) Complete the tendering process within a reasonable period of time;
- (4) Inform the Parties of the entities to whom the contract has been awarded, provided that before awarding contracts to Affiliates of the Operator which exceed fifty thousand U.S. dollars (\$50,000), Operator shall obtain the approval of the Operating Committee;
- (5) Make available to the Parties a competitive bid analysis; and
- (6) Upon the request of a Party, provide such Party with a copy of the final version of the contract awarded.

6.6 Authorization for Expenditure ("AFE") Procedure

- (A) Prior to making any commitment or incurring any expenditure, which is estimated to be:
 - (1) In excess of two hundred fifty thousand U.S. dollars (\$250,000) in an exploration or appraisal Work Program and Budget;
 - (2) In excess of one million U.S. dollars (\$1,000,000) in a development Work Program and Budget; and
 - (3) In excess of one million U.S. dollars (\$1,000,000) in a production Work Program and Budget.

Operator shall send to each Non-Operator an AFE containing Operator's best estimate of the total funds required to carry out such work; the estimated timing of expenditures, and any other necessary supportive information.

- (B) Before incurring any commitments or making expenditures estimated to be in excess of the amounts specified in Article 6.6 (A) for the appropriate category, Operator shall obtain the approval of the Operating Committee to such AFE, save for expenditures which Operator may make under Article 4.2(B)(11); provided that if the operation described in any such AFE is work which the Operator is required to perform in order to maintain the Contracts in full force and effect as provided in Article 6.1 (D) of this

A
cu
gh

gh
cu
gh

Agreement and the Operating Committee fails to approve such AFE, then any Party may submit a new or revised AFE for the work to be performed for consideration by the Operating Committee, and the AFE receiving the greatest level of Participating Interest support shall be deemed approved by the Operating Committee. If no additional or revised AFE is furnished by any Party within two (2) weeks following failure of the Operating Committee to approve the original AFE, then the AFE originally submitted by the Operator shall be deemed approved by the Operating Committee.

- (C) The restrictions contained in this Article shall be without prejudice to Operator's rights to make expenditures as set out in Article 4.2(B)(11).

6.7 Overexpenditures of Work Programs and Budgets

- (A) For expenditures on any line item of an approved Work Program and Budget, Operator shall be entitled to incur without furnishing a supplemental AFE an overexpenditure for such line item up to ten percent (10%) of the authorized amount for such line item; provided that cumulative total of all overexpenditures for a Calendar Year shall not exceed five percent (5%) of the total Work Program and Budget in question.
- (B) At such time that Operator is certain that the limits of Article 6.7(A) will be exceeded, Operator shall submit a revised Budget and, if applicable, a supplemental AFE for the estimated over expenditure to the Operating Committee for its approval and shall provide the Parties with full details of such overexpenditures. Operator shall promptly give notice of the amounts of overexpenditures when actually incurred.

Handwritten initials: A, J, tk

Handwritten initials: J, tk, and a large signature

ARTICLE VII - OPERATIONS BY LESS THAN ALL PARTIES

7.1 Limitation on Applicability

- (A) No operations may be conducted in furtherance of the Contracts except as Joint Operations under Article V, or as Exclusive Operations under this Article. No Exclusive Operation shall be conducted which conflicts with or adds costs to a Joint Operation.
- (B) Operations which are required, or which may serve, to fulfill the Minimum Work Obligations must be proposed and conducted as Joint Operations under Article V, and may not be proposed or conducted as Exclusive Operations under this Article. Except for Exclusive Operations relating to Deepening, Testing, Completing, Sidetracking, Plugging Back, Recompleting or Reworking of a well drilled to fulfill the Minimum Work Obligations, no Exclusive Operations may be proposed or conducted until all Minimum Work Obligations which cannot be avoided other than by relinquishment of the Contract have been fulfilled.
- (C) No Party may propose or conduct an Exclusive Operation under this Article, unless and until such Party has properly exercised its right to propose an Exclusive Operation pursuant to Article 5.13, or is entitled to conduct an Exclusive Operation pursuant to Article X.
- (D) Subject to this Article, only operations to acquire G & G Data, operations to drill, Deepen, Test, Complete, Sidetrack, Plug Back, Recomplete or Rework an Exploration Well or an Appraisal Well or operations to develop an undeveloped Discovery may be proposed and conducted as an Exclusive Operation:
- (E) Unless the Parties who voted against a proposal to develop a Discovery which has been discovered and/or appraised as a Joint Operation otherwise concur, no proposal to Develop a Discovery as an Exclusive Operation may be made other than during the final three (3) month period during which the Parties have the right to declare to the Government their intention to Develop said Discovery.

ac
A *J* *uk*

2/5
ck
ck

7.2 Procedure to Propose Exclusive Operations

- (A) Subject to Article 7.1, if any Party proposes to conduct an Exclusive Operation, such Party shall give notice of the proposed operation to all Parties, other than Parties who have relinquished their Participating Interest in the Exploitation Area in which the proposed operation is to be conducted. Such notice shall specify that such operation is proposed as an Exclusive Operation, the work to be performed, the location, the objectives, and estimated cost of such operation.
- (B) Any Party entitled to receive such notice shall have the right to participate in the proposed operation.
- (1) For proposals to Deepen, Test, Complete, Sidetrack, Plug Back, Recomplete or Rework involving the use of a drilling rig that is standing by in the Contract Area, any such Party wishing to exercise such right must so notify Operator within twenty-four (24) hours after receipt of the notice proposing the Exclusive Operation.
- (2) For proposals to develop a Discovery, any Party wishing to exercise such right must so notify the Party proposing to develop within twenty (20) Days after receipt of the notice proposing the Exclusive Operation; provided that if the proposal to develop a Discovery is made during the final fifty-five (55) Days during which the Parties have the right to declare to the Government their intention to develop such Discovery, said Notice must be given no later than ten (10) Days prior to the date beyond which the Parties lose their right to declare their intention to develop such Discovery.
- (3) For all other proposals, any such Party wishing to exercise such right must so notify Operator within ten (10) Days after receipt of the notice proposing the Exclusive Operation.
- (C) Failure of a Party to whom a proposal notice is delivered to properly reply within the period specified above shall constitute an election by that Party not to participate in the proposed operation.
- (D) If all Parties properly exercise their rights to participate, then the proposed operation shall be conducted as a Joint Operation. The Operator shall

A *au*
uh

45
chr
Sh

commence such Joint Operation as promptly as practicable and conduct it with due diligence.

- (E) If less than all Parties entitled to receive such proposal notice properly exercise their rights to participate, then:
- (1) Immediately after the expiration of the applicable notice period set out in Article 7.2(B), the Operator shall notify all Parties of the names of the Consenting Parties and the recommendation of the proposing Party as to whether the Consenting Parties should proceed with the Exclusive Operation.
 - (2) Concurrently, Operator shall request the Consenting Parties to specify the Participating Interest each Consenting Party is willing to bear in the Exclusive Operation.
 - (3) Within twenty-four (24) hours after receipt of such notice, each Consenting Party shall respond to the Operator stating that it is willing to bear a Participating Interest in such Exclusive Operation equal to:
 - (a) Only its Participating Interest as stated in Article 3.1(A);
 - (b) A fraction, the numerator of which is such Consenting Party's Participating Interest as stated in Article 3.1(A) and the denominator of which is the aggregate of the Participating Interests of the Consenting Parties as stated in Article 3.1(A); or
 - (c) The total of its Participating Interest as contemplated by Article 7.2(E)(3)(b) plus all or any part of the difference between one hundred percent (100%) and the total of the Participating Interests subscribed by the other Consenting Parties.
 - (4) Any Consenting Party failing to advise Operator within the response period set out above shall be deemed to have elected to bear the Participating Interest set out in Article 7.2(E)(3)(b) as to the Exclusive Operation.

ca
A *J* *gh*

4/5
ck
AB

- (5) If within the response period set out above, the Consenting Parties subscribe less than one hundred percent (100%) of the Participating Interest in the Exclusive Operation, the Party proposing such Exclusive Operation shall be deemed to have withdrawn its proposal for the Exclusive Operation, unless within twenty-four (24) hours of the expiry of the response period set out in Article 7.2(E)(3), the proposing Party notifies the other Consenting Parties that the proposing Party shall bear the unsubscribed Participating Interest.
- (6) If one hundred percent (100%) subscription to the proposed Exclusive Operation is obtained, Operator shall promptly notify the Consenting Parties of their Participating Interests in the Exclusive Operation.
- (7) As soon as any Exclusive Operation is fully subscribed pursuant to Article 7.2(E)(6) Operator (subject to Article 7.9(G)), shall commence such Exclusive Operation as promptly as practicable and conduct it with due diligence in accordance with this Agreement.
- (8) If such Exclusive Operation has not been commenced within one hundred eighty (180) Days (excluding any extension specifically agreed by all Parties or allowed by the force majeure provisions of Article XVI), the right to conduct such Exclusive Operation shall terminate; except that where the Exclusive Operation is to Deepen, Test, Complete, Sidetrack, Plugback, Recomplete, or Rework involving the use of a drilling rig that is standby in the Contract Area, said period shall be reduced to ninety (90) days. If any Party still desires to conduct such Exclusive Operation, notice proposing such operation must be resubmitted to the Parties in accordance with Article V, as if no proposal to conduct an Exclusive Operation had been previously made.

7.3 Responsibility for Exclusive Operations

- (A) The Consenting Parties shall bear in accordance with the Participating Interests agreed under Article 7.2(E) the entire cost and liability of conducting an Exclusive Operation and shall indemnify the Non-Consenting Parties from any and all costs and liabilities incurred incident to

cu
A *2/13* *lh*

45
AK *cur*
JS

such Exclusive Operation (including but not limited to all costs, expenses or liabilities for environmental, consequential, punitive or any other similar indirect damages or losses arising from business interruption, reservoir or formation damage, inability to produce petroleum, loss of profits, pollution control and environmental amelioration or rehabilitation) and shall keep the Contract Area free and clear of all liens and encumbrances of every kind created by or arising from such Exclusive Operation.

- (B) Notwithstanding Article 7.3(A), each Party shall continue to bear its Participating Interest share of the cost and liability incident to the operations in which it participated, including but not limited to plugging and abandoning and restoring the surface location, but only to the extent those costs were not increased by the Exclusive Operation.

7.4 Consequences of Exclusive Operations

- (A) With regard to any Exclusive Operation, for so long as a Non-Consenting Party has the option to reinstate the rights it relinquished under Article 7.4(B) below, such Non-Consenting Party shall be entitled to have access concurrently with the Consenting Parties, to all data and other information relating to such Exclusive Operation, other than G & G Data obtained in an Exclusive Operation. Subject as may be otherwise provided in Article 7.5, if a Non-Consenting Party desires to receive and acquire the right to use such G & G Data, then such Non-Consenting Party shall have the right to do so by paying to the Consenting Parties two-hundred percent (200%) of such Non-Consenting Party's Participating Interest share as set out in Article 3.1 (A) of the cost incurred in obtaining such G & G Data.
- (B) With regard to any Exclusive Operation and subject to Article 7.4(C) and Article 7.8 below, each Non-Consenting Party shall be deemed to have relinquished to the Consenting Parties, and the Consenting Parties shall be deemed to own, in proportion to their respective Participating Interests in the Exclusive Operation:
- (1) All of each such Non-Consenting Party's right to participate in further operations on any Discovery made in the course of such Exclusive Operation; and

A
cc
wh

ak
cc
wh

- (2) All of each such Non-Consenting Party's right pursuant to the Contract to take and dispose of Hydrocarbons produced and saved:
- (a) From the well in which such Exclusive Operation was conducted, and
 - (b) From any wells drilled to appraise or develop a Discovery.
- (C) A Non-Consenting Party shall have the following and only the following options to reinstate the rights it relinquished pursuant to Article 7.4(B):
- (1) If the Consenting Parties decide to appraise a Discovery made in the course of an Exclusive Operation, the Consenting Parties shall submit to each Non-Consenting Party the approved appraisal program. For thirty (30) Days (or forty-eight (48) hours if the drilling rig which is to be used in such appraisal program is standing by in the Contract Area) from receipt of such appraisal program, each Non-Consenting Party shall have the option to reinstate the rights it relinquished pursuant to Article 7.4(B) and to participate in such appraisal program. The Non-Consenting Party may exercise such option by notifying Operator within the period specified above that such Non-Consenting Party agrees to bear its Participating Interest share of the expense and liability of such appraisal program, to pay the lump sum amount as set out in Article 7.5(A) and to pay the Cash Premium as set out in Article 7.5(B).
 - (2) If the Consenting Parties decide to develop a Discovery made or appraised in the course of an Exclusive Operation, the Consenting Parties shall submit to the Non-Consenting Parties a Development Plan substantially in the form intended to be submitted to the Government under the Contract. For sixty (60) Days from receipt of such Development Plan or such lesser period of time prescribed by the Contract, each Non-Consenting Party shall have the option to reinstate the rights it relinquished pursuant to Article 7.4(B) and to participate in such Development Plan. The Non-Consenting Party may exercise such option by notifying the Party proposing to act as Operator for such Development Plan within the period specified above that such Non-Consenting Party agrees to bear its Participating Interest share of the liability and expense of such

cu
A *cu*

AK *cu*
AK

Development Plan and such future operating and producing costs, to pay the lump sum amount as set out in Article 7.5(A) and to pay the Cash Premium as set out in Article 7.5(B).

- (3) If the Consenting Parties decide to Deepen, Test, Complete, Sidetrack, Plug Back, Recomplete or Rework an Exclusive Well and such further operation was not included in the original proposal for such Exclusive Well, the Consenting Parties shall submit to the Non-Consenting Parties the approved AFE for such further operation. For thirty (30) Days (or forty-eight (48) hours if the drilling rig which is to be used in such operation is standing by in the Contract Area) from receipt of such AFE, each Non-Consenting Party shall have the option to reinstate the rights it relinquished pursuant to Article 7.4(B) and to participate in such operation. The Non-Consenting Party may exercise such option by notifying the Operator within the period specified above that such Non-Consenting Party agrees to bear its Participating Interest share of the liability and expense of such further operation, to pay the lump sum amount as set out in Article 7.5(A) and to pay the Cash Premium as set out in Article 7.5(B).
- (D) If a Non-Consenting Party does not properly and in a timely manner exercise such option, including paying in a timely manner in accordance with Article 7.5, all lump sum amounts and Cash Premiums, if any, due to the Consenting Parties, such Non-Consenting Party shall have forfeited the options as set out in Article 7.4(C) and the right to participate in the proposed program, unless such program, plan or operation is materially modified or expanded.
- (E) A Non-Consenting Party shall become a Consenting Party with regard to an Exclusive Operation at such time as the Non-Consenting Party gives proper notice pursuant to Article 7.4(C); provided that such Non-Consenting Party shall in no way be deemed to be entitled to any lump sum amount Cash Premium or In Kind Premium paid incident to such Exclusive Operation. The Participating Interest of such Non-Consenting Party in such Exclusive Operation shall be its Participating Interest set out in Article 3.1(A). The Consenting Parties shall contribute in proportion to their respective Participating Interests in such Exclusive Operation, the

ac
A *ms* *GW*

AA *CLP*
20

Participating Interest of any Non-Consenting Party. If all Parties participate in the proposed operation, then such operation shall be conducted as a Joint Operation pursuant to Article V.

(F) If after the expiry of the period in which a Non-Consenting Party may exercise its option to participate in a Development Plan the Consenting Parties desire to proceed, the Party chosen by the Consenting Parties proposing to act as Operator for such development, shall give notice to the Government under the appropriate provision of the Contract requesting a meeting to advise the Government that the Consenting Parties consider the Discovery to be a Commercial Discovery. Following such meeting such Operator for such development shall apply for an Exploitation Area or Lease (if applicable in the Contract). Unless the Development Plan is materially modified or expanded prior to the commencement of operations under such plan, each Non-Consenting Party to such Development Plan shall:

- (1) If the Contract so allows, elect not to apply for an Exploitation Area covering such development and forfeit all interest in such Exploitation Area, or
- (2) If the Contract does not so allow, be deemed to have:
 - (a) Elected not to apply for an Exploitation Area covering such development;
 - (b) Forfeited all economic interest in such Exploitation Area;
 - (c) Assumed a fiduciary duty to exercise its legal interest in such Exploitation Area for the benefit of the Consenting Parties.

In either case such Non-Consenting Party shall be deemed to have withdrawn from this Agreement to the extent it relates to such Exploitation Area, even if the Development Plan is modified or expanded subsequent to the commencement of operations under such Development Plan.

7.5 Premium to Participate in Exclusive Operations

- (A) Within thirty (30) Days of the exercise of its option under Article 7.4(C), each such Non-Consenting Party shall pay in immediately available funds to the Consenting Parties who took the risk of such Exclusive Operations in

A
u
uk

uk
uk

proportion to their respective Participating Interests in such Exclusive Operations a lump sum amount payable in the readily convertible currency designated by such Consenting Parties. Such lump sum amount shall be equal to such Non-Consenting Party's Participating Interest share of all liabilities and expenses, including overhead, that were incurred in every Exclusive Operations relating to the Discovery, or well, as the case may be, in which the Non-Consenting Party desires to reinstate the rights it relinquished pursuant to Article 7.4(B), and that were not previously paid by such Non-Consenting Party. Operator shall be notified of all such payments for accounting purposes.

- (B) In addition to Article 7.5(A), if a Cash Premium is due, then within thirty (30) Days of the exercise of its option under Article 7.4(C) each such Non-Consenting Party shall pay to such Consenting Parties in proportion to their respective Participating Interests a Cash Premium equal to the total of the amounts listed below. Such payment shall be made in immediately available funds, in the currency in which each such Consenting Party maintains its books and records. Operator shall be notified of all such payments for accounting purposes.
- (1) Three hundred percent (300%) of such Non-Consenting Party's Participating Interest share of all liabilities and expenses, including overhead, that were incurred in any Exclusive Operations relating to the obtaining of the portion of the G & G Data which pertains to the Discovery, and that were not previously paid by such Non-Consenting Party; plus
 - (2) One thousand percent (1,000%) of such Non-Consenting Party's Participating Interest share of all liabilities and expenses, including overhead, that were incurred in any Exclusive Operations relating to the drilling, Deepening, Testing, Completing, Sidetracking, Plugging Back, Recompleting and Reworking of the Exploration Well which made the Discovery in which the Non-Consenting Party desires to reinstate the rights it relinquished pursuant to Article 7.4(B), and that were not previously paid by such Non-Consenting Party; plus

Handwritten initials: A, W, J, G

Handwritten initials: J, W, G, S

- (3) Five hundred percent (500%) of the Non-Consenting Party's Participating Interest share of all liabilities and expenses, including overhead, that were incurred in any Exclusive Operations relating to the drilling, Deepening, Testing, Completing, Sidetracking, Plugging Back, Recompleting and Reworking of the Appraisal Well(s) which delineated the Discovery in which the Non-Consenting Party desires to reinstate the rights it relinquished pursuant to Article 7.4(B), and that were not previously paid by such Non-Consenting Party.

7.6 Order of Preference of Operations

- (A) Except as otherwise specifically provided in this Agreement, if any Party desires to propose the conduct of an operation that will conflict with an existing proposal for an Exclusive Operation, such Party shall have the right exercisable for five (5) Days, or twenty-four (24) hours if the drilling rig to be used is standing by in the Contract Area, from receipt of the proposal for the Exclusive Operation, to deliver to all Parties entitled to participate in the proposed operation such Party's alternative proposal. Such alternative proposal shall contain the information required under Article 7.2(A).
- (B) Each Party receiving such proposals shall elect by delivery of notice to Operator within the appropriate response period set out in Article 7.2(B) for the last proposal received to participate in one of the competing proposals. Any Party not notifying Operator within the response period shall be deemed not to have voted.
- (C) The proposal receiving the largest aggregate Participating Interest vote shall have priority over all other competing proposals. In the case of a tie vote, the Operator shall choose among the proposals receiving the largest aggregate Participating Interest vote. Operator shall deliver notice of such result to all Parties entitled to participate in the operation within five (5) Days of the end of the response period, or twenty-four (24) hours if the drilling rig to be used is standing by in the Contract Area.
- (D) Each Party shall then have two (2) Days (or twenty-four (24) hours if the drilling rig to be used is standing by in the Contract Area) from receipt of such notice to elect by delivery of notice to Operator whether such Party

Handwritten initials: A, m, 1/15, kh

Handwritten initials: H, m, JCB, and a signature

will participate in such Exclusive Operation, or will relinquish its interest pursuant to Article 7.4(B). Failure by a Party to deliver such notice within such period shall be deemed an election not to participate in the prevailing proposal.

- (E) Notwithstanding the provisions of Article 7.4(B), if for reasons other than the encountering of granite or other practically impenetrable substance or any other condition in the hole rendering further operations impracticable, a well drilled as an Exclusive Operation fails to reach the deepest objective Zone described in the notice proposing such well, Operator shall give notice of such failure to each Non-Consenting Party who submitted or voted for an alternative proposal under this Article to drill such well to a shallower Zone. Each such Non-Consenting Party shall have the option exercisable for forty-eight (48) hours from receipt of such notice to participate in the initial proposed Completion of such well. Each such Non-Consenting Party may exercise such option by notifying the Operator that it wishes to participate in such Completion and by paying its share of the cost of drilling such well, calculated in the manner provided in Article 7.8(B)(1), to its deepest depth drilled in the Zone in which it is Completed. If any such Non-Consenting Party does not properly elect to participate in the first Completion proposed for such well, the relinquishment provisions of Article 7.4(B) shall continue to apply to such Non-Consenting Party's interest.

7.7 Stand-By Costs

- (A) When an operation has been performed, all tests have been conducted and the results of such tests furnished to the Parties, stand-by costs incurred pending response to any Party's notice proposing an Exclusive Operation for Deepening, Testing, Sidetracking, Completing, Plugging Back, Recompleting, Reworking or other further operation in such well (including the period required under Article 7.6 to resolve competing proposals) shall be charged and borne as part of the operation just completed. Stand-by costs incurred subsequent to all Parties responding, or expiration of the response time permitted, whichever first occurs, shall be charged to and borne by the Parties proposing the Exclusive Operation in proportion to their Participating Interests, regardless of whether such Exclusive Operation is actually conducted.

Handwritten initials: A, cu, mp, gh

Handwritten initials: 9/28/95, CWR, and a large signature.

- (B) If a further operation is proposed while the drilling rig to be utilized is on location, any Party may request and receive up to five (5) additional Days after expiration of the applicable response period specified in Article 7.2(B) within which to respond by notifying Operator that such Party agrees to bear all stand-by costs and other costs incurred during such extended response period. Operator may require such Party to pay the estimated stand-by time in advance as a condition to extending the response period. If more than one Party requests such additional time to respond to the notice, stand-by costs shall be allocated between such Parties on a Day-to-Day basis in proportion to their Participating Interests.

7.8 Special Considerations Regarding Deepening and Sidetracking

- (A) An Exclusive Well shall not be Deepened or Sidetracked without first affording the Non-Consenting Parties in accordance with this Article the opportunity to participate in such operation.
- (B) In the event any Consenting Party desires to Deepen or Sidetrack an Exclusive Well, such Party shall initiate the procedure contemplated by Article 7.2. If a Deepening or Sidetracking operation is approved pursuant to such provisions, and if any Non-Consenting Party to the Exclusive Well elects to participate in such Deepening or Sidetracking operation, said Non-Consenting Party shall, in lieu of any payment due under Article 7.5, pay the Consenting Parties an amount calculated as follows:
- (1) If the proposal is to Deepen or Sidetrack and is made prior to the Completion of such well as a Commercial Discovery, then payment shall be based on such Non-Consenting Party's Participating Interest share of the liabilities and expenses incurred in connection with drilling the Exclusive Well from the surface to the depth previously drilled which such Non-Consenting Party would have paid had such Non-Consenting Party agreed to participate in such Exclusive Well, plus the Non-Consenting Party's Participating Interest share of the liabilities and expenses of Deepening or Sidetracking and of participating in any further operations on such Exclusive Well in accordance with the other provisions of this Agreement; provided, however, all liabilities and expenses for Testing and Completing or attempting Completion of the well incurred by Consenting Parties

A *cu*
J *lh*

gr
CLR
SA
AS

prior to the commencement of actual operations to Deepen or Sidetrack beyond the depth previously drilled shall be for the sole account of Consenting Parties in the proportion their Participating Interest bears to the aggregate of their Participating Interests.

- (2) If the proposal is to Deepen or Sidetrack and is made for an Exclusive Well that has been previously Completed as a Commercial Discovery, but is no longer producing, then payment shall be based on the Non-Consenting Party's Participating Interest share of all costs of drilling and Completing said well from the surface to the depth previously drilled, calculated in the manner provided in Article 7.8(B)(1), less those costs recouped by the Consenting Parties from the sale of production from such Exclusive Well, plus the Non-Consenting Party's Participating Interest share of all costs of reentering said well, plus the Non-Consenting Party's proportionate part (based on the percentage of the Exclusive Well such Non-Consenting Party would have owned had it previously participated in such Exclusive Well) of the costs of salvageable materials and equipment remaining in the hole and salvageable surface equipment used in connection with such well shall be determined in accordance with the Accounting Procedure. If at the time such Deepening or Sidetracking operation is conducted the Consenting Parties have recouped from the Exclusive Well the amount calculated pursuant to Article 7.5, then a Non-Consenting Party may participate in the Deepening or Sidetracking of the Exclusive Well with no payment for liabilities and expenses incurred prior to reentering the well for Deepening or Sidetracking.

7.9 Miscellaneous

- (A) Each Exclusive Operation shall be carried out by the Consenting Parties acting as the Operating Committee, subject to the provisions of this Agreement applied *mutatis mutandis* to such Exclusive Operation and subject to the terms and conditions of the Contract.
- (B) The computation of liabilities and expenses incurred in Exclusive Operations, including the liabilities and expenses of Operator for

Handwritten initials: A, mh, and others.

Handwritten signatures and initials: A, mh, and others.

conducting such operations, shall be made in accordance with the principles set out in the Accounting Procedure.

- (C) Operator shall maintain separate books, financial records and accounts for Exclusive Operations which shall be subject to the same rights of audit and examination as the Joint Account and related records, all as provided in the Accounting Procedure. Said rights of audit and examination shall extend to each of the Consenting Parties and each of the Non-Consenting Parties so long as the latter are, or may be, entitled to elect to participate in such operations.
- (D) Operator, if it is not a Consenting Party and it is conducting an Exclusive Operation for the Consenting Parties, shall be entitled to request cash advances and shall not be required to use its own funds to pay any cost and expense and shall not be obliged to commence or continue Exclusive Operations until cash advances requested have been made, and the Accounting Procedure shall apply to Operator in respect of any Exclusive Operations conducted by it.
- (E) Should the submission of a Development Plan be approved in accordance with Article 5.9, or should any Party propose a development in accordance with Article VII, with either proposal not calling for the conduct of additional appraisal drilling, and should any Party wish to drill an additional Appraisal Well prior to development, then the Party proposing the Appraisal Well as an Exclusive Operation shall be entitled to proceed first, but without the right to future reimbursement of costs or to any Premium, pursuant to Article 7.5. If, as the result of drilling such Appraisal Well as an Exclusive Operation, the Party which proposed development decides to not develop the reservoir, then each Non-Consenting Party who voted in favor of such Development Plan prior to the drilling of such Appraisal Well shall pay to the Consenting Party the amount such Non-Consenting Party would have paid had such Appraisal Well been drilled as a Joint Operation. If the Development proceeds and the well has been located so that it may be used as a Development Well in accordance with the Development Plan, the Party who drilled the well as an Appraisal Well shall be entitled to reimbursement from the Party who participated in the Development Plan. If the Appraisal Well is not used in the Development, then the Party who drilled the Appraisal Well shall not be entitled to reimbursement.

A
cu
uh

for
car
for
car

- (F) In the case of any Exclusive Operation for Deepening, Testing, Completing, Sidetracking, Plugging Back, Recompleting or Reworking, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, that is not needed for Joint Operations, but the ownership of all such equipment shall remain unchanged. On abandonment of a well after such Exclusive Operation, the Consenting Parties shall account for all such equipment to the Parties who shall receive their respective Participating Interest shares, in value, less cost of salvage.
- (G) If the Operator is a Non-Consenting Party to an Exclusive Operation to develop a Discovery, then subject to obtaining any necessary Government approval the Operator shall resign on the request of the Consenting Parties, as Operator for the Exploitation Area for such Discovery and the Consenting Parties shall select a Party to serve as Operator.

A *cu*
L *fb*

cu
fb *cu*
fb

ARTICLE VIII - DEFAULT

8.1 Default and Notice

Any Party that fails to pay when due its Participating Interest share of Joint Account expenses including cash advances and interest, accrued pursuant to this Agreement (a "Defaulting Party") shall be in default under this Agreement. Operator, or any other Party in the case of the default of Operator, shall promptly give notice of such default to such Party and each of the non-Defaulting Parties. The amount not paid by the Defaulting Party shall bear interest from the date due until paid in full. Interest will be calculated using the Agreed Interest Rate.

8.2 Operating Committee Meetings and Data

After any default has continued for seven (7) Days from the date of notice of default under Article 8.1, and for as long thereafter as the Defaulting Party remains in default on any payment due under this Agreement, the Defaulting Party shall not be entitled to attend Operating Committee meetings or to vote on any matter coming before the Operating Committee during the period such default continues. Unless agreed otherwise by the non-Defaulting Parties, the voting interest of each non-Defaulting Party shall be in the proportion which its Participating Interest bears to the total of the Participating Interests of all the non-Defaulting Parties. Any matters requiring unanimous vote of the Parties shall be deemed to exclude the Defaulting Party. After the said seven (7) Days and while the Defaulting Party remains in default as aforesaid, the Defaulting Party shall not have access to any data or information relating to Joint Operations, and non-Defaulting Parties shall be entitled to trade data without such Defaulting Party's consent and the Defaulting Party shall have no right to any data received on such trade unless and until its default is remedied in full. Notwithstanding the foregoing, the Defaulting Party shall be deemed to have approved, and shall join with the non-Defaulting Parties in taking any action to maintain and preserve the Contract.

8.3 Allocation of Defaulted Accounts

- (A) Operator shall, either at the time of giving notice of default as provided in Article 8.1, or by separate notice, notify each non-Defaulting Party of the sum of money it is to pay as its portion (such portion being in the ratio that each non-Defaulting Party's Participating Interest bears to the Participating Interests of all non-Defaulting Parties) of such amount in default. Each

cu
A
uh

9/28
uh
cu
[Signature]

non-Defaulting Party shall, if such default continues, pay Operator, within seven (7) Days after receipt of such notice, its share of the amount which the Defaulting Party failed to pay. If any non-Defaulting Party fails to pay its share of the amount in default as aforesaid, such non-Defaulting Party shall thereupon be in default and shall be a Defaulting Party subject to the provisions of this Article. The non-Defaulting Parties which pay the amount owed by any Defaulting Party shall be entitled to receive their respective share of the principal and interest payable by such Defaulting Party pursuant to Article 8.1.

- (B) The total of all amounts paid by the non-Defaulting Parties for the Defaulting Party, together with interest accrued on such amounts shall constitute a debt due and owing by the Defaulting Party to the non-Defaulting Parties in proportion to such amounts paid. In addition the non-Defaulting Parties may in the manner contemplated by this Article, satisfy such debt (together with interest) and may accrue an amount equal to the Defaulting Party's Participating Interest share of the estimated cost to abandon any Joint Property.
- (C) A Defaulting Party may remedy its default by paying to Operator the total amount due, together with interest calculated as provided in Article 8.1, at any time prior to transfer of its interest pursuant to Article 8.4, and upon receipt of such payment Operator shall remit to each non-Defaulting Party its proportionate share of such amount.
- (D) The rights granted to each non-Defaulting Party pursuant to this Article, shall be in addition to, and not in substitution for any other rights or remedies which each non-Defaulting Party may have at law or equity or pursuant to the other provisions of this Agreement.

8.4 Elections Relating to Defaulting Party's Interests

- (A) Between the thirtieth (30th) and the sixtieth (60th) Day following the notice of default given under Article 8.1, unless the Defaulting Party shall have remedied all outstanding defaults, each non-Defaulting Party shall by notice to the Operator elect:
 - (1) to have assigned to it that proportion of the Defaulting Party's Participating Interest which such non-Defaulting Party's

Handwritten initials: A, J, uh

Handwritten initials: 9/28/95, AB, 200

Participating Interest bears to the Participating Interests of all non-Defaulting Parties; or

- (2) not to have assigned to it any proportion of the Defaulting Party's Participating Interests, but to continue to bear that proportion of the Defaulting Party's Participating Interest share of liabilities and expenses which such non-Defaulting Party's Participating Interest bears to the Participating Interests of all non-Defaulting Parties; or
- (3) not to have assigned to it any proportion of the Defaulting Party's Participating Interests nor to continue to bear any proportion of the Defaulting Party's Participating Interest share of liabilities and expenses.

A non-Defaulting Party who fails to notify Operator of its election as aforesaid shall be deemed to have made the election described in (3) above.

(B) If any non-Defaulting Party makes the election described in 8.4(A)(3), the non-Defaulting Parties shall attempt to agree on the allocation among them of:

- (1) transfers of the Defaulting Party's Participating Interest; or
- (2) the obligation to continue to bear the Defaulting Party's Participating Interest share of liabilities and expenses.

If by the seventy-fifth (75th) Day following the notice of default, the non-Defaulting Parties have not agreed on such allocation with respect to all of the Defaulting Party's Participating Interest, the Parties shall proceed under Article 8.5.

- (C) Any transfer of Participating Interests made by the Defaulting Party to a non-Defaulting Party pursuant to this Article 8.4 shall be without prejudice to any other rights of the non-Defaulting Parties to recover the amounts paid on behalf of the Defaulting Party, together with interest accrued on such amount.
- (D) The Defaulting Party shall do any and all acts required to be done by applicable law or regulation in order to render any transfer of Participating Interest under this Article 8.4 legally valid, including, without limitation,

CLR
S/T

Participating Interest bears to the Participating Interests of all non-Defaulting Parties; or

- (2) not to have assigned to it any proportion of the Defaulting Party's Participating Interests, but to continue to bear that proportion of the Defaulting Party's Participating Interest share of liabilities and expenses which such non-Defaulting Party's Participating Interest bears to the Participating Interests of all non-Defaulting Parties; or
- (3) not to have assigned to it any proportion of the Defaulting Party's Participating Interests or to continue to bear any proportion of the Defaulting Party's Participating Interest share of liabilities and expenses.

A non-Defaulting Party who fails to notify Operator of its election as aforesaid shall be deemed to have made the election described in (3) above.

- (B) If any non-Defaulting Party makes the election described in 8.4(A)(3), the non-Defaulting Parties shall attempt to agree on the allocation among them of:
 - (1) transfers of the Defaulting Party's Participating Interest; or
 - (2) the obligation to continue to bear the Defaulting Party's Participating Interest share of liabilities and expenses.

If by the seventy-fifth (75th) Day following the notice of default, the non-Defaulting Parties have not agreed on such allocation with respect to all of the Defaulting Party's Participating Interest, the Parties shall proceed under Article 8.5.

- (C) Any transfer of Participating Interests made by the Defaulting Party to a non-Defaulting Party pursuant to this Article 8.4 shall be without prejudice to any other rights of the non-Defaulting Parties to recover the amounts paid on behalf of the Defaulting Party, together with interest accrued on such amount.
- (D) The Defaulting Party shall do any and all acts required to be done by applicable law or regulation in order to render any transfer of Participating Interest under this Article 8.4 legally valid, including, without limitation,

me
A *J* *lh*

for
CSK
JH
ZB

the obtaining of all consents and approvals from the Government, and shall execute any and all documents and take such other actions as may be necessary in order to effect prompt and valid transfer of such Participating Interests, free of all liens and encumbrances. In the event all Government approvals are not timely obtained, the Defaulting Party shall hold its Participating Interest in trust for such non-Defaulting Parties who elected to receive an assignment of such Defaulting Party's Participating Interest.

- (E) Any non-Defaulting Party making the election described in 8.4(A)(2) shall accumulate all liabilities and expenses borne on behalf of the Defaulting Party as a debt pursuant to Article VIII. The Defaulting Party shall continue to be a Party subject to Article 8.2 and Article 8.6. Operator shall be entitled to retain and to set off against the Defaulting Party's Participating Interest share of any proceeds of Hydrocarbons, or proceeds or other credits or adjustments to the Joint Account, all amounts, together with accrued interest, due and owing from the Defaulting Party plus an accrued amount equal to the Defaulting Party's Participating Interest share of the estimated cost to abandon any Joint Property. Any surplus remaining after setting off the same as aforesaid shall be paid promptly to the Defaulting Party.

8.5 Abandonment

If, within seventy-five (75) Days after the notice of default given pursuant to Article 8.1, the non-Defaulting Parties have not agreed among themselves on the allocations described in Article 8.4(B), Joint Operations shall be abandoned subject to any necessary consents and notices being given, and each Party, including the Defaulting Party shall pay its Participating Interest share of all costs of abandoning and relinquishing the Contract. If abandonment occurs as aforesaid, all monies paid by the non-Defaulting Parties for the Defaulting Party pursuant to Article 8.3, together with interest accrued on such amount, shall remain a debt due and owing by the Defaulting Party.

8.6 Sale of Hydrocarbons

If a Party defaults after the commencement of commercial production and has not remedied the default by the thirtieth (30th) Day as aforesaid, then, during the continuance of such default, the Defaulting Party shall not be entitled to its Participating Interest share of Hydrocarbons which shall vest in and be the

CS
A
MS
lh

45
ck
JH
20

property of the non-Defaulting Parties, and Operator shall be authorized to sell such Hydrocarbons at the best price obtainable under the circumstances and, after deducting all costs, charges and expenses incurred by Operator in connection with such sale, pay the proceeds proportionately to the non-Defaulting Parties which proceeds shall be credited against all monies advanced pursuant to Article 8.3, together with interest accrued thereon. Any surplus remaining shall be paid to the Defaulting Party, and any deficiency shall remain a debt due from the Defaulting Party to the non-Defaulting Parties. Notwithstanding any such sales by Operator, the provisions of Article 8.4 shall continue to apply.

8.7 No Right of Set Off

Each Party acknowledges and accepts that a fundamental principle of this Agreement is that each Party pays its Participating Interest share of all amounts due under this Agreement as and when required. Accordingly, any Party which becomes a Defaulting Party undertakes that, in respect of either any exercise by the non-Defaulting Parties of any rights under or the application of any of the provisions of this Article, such Party shall not raise by way of set off or invoke as a defense, whether in law or equity, any failure to pay amounts due and owing under this Agreement or any alleged or unliquidated claim that such Party may have against Operator or any Non-Operator, whether such claim arises under this Agreement or otherwise. Such Party further undertakes not to raise by way of defense, whether in law or in equity, that the nature or the amount of the remedies granted to the non-Defaulting Parties is unreasonable or excessive.

Handwritten signatures and initials in the bottom left corner.

Handwritten signatures and initials in the bottom right corner.

ARTICLE IX - DISPOSITION OF PRODUCTION

9.1 Right and Obligation to Take in Kind

Except as otherwise provided in this Article, each Party shall have the right and obligation to own, take in kind and separately dispose of its Participating Interest share of total production available to the Parties pursuant to the Contract from any Exploitation Area, License or Lease in such quantities and in accordance with such procedures as may be set forth in the offtake agreement referred to in Article 9.2 or in the special arrangements for Natural Gas referred to in Article 9.3. Each Party shall be responsible for the payment of its Participating Interest share of any royalty in cash or in kind due the Government of the Republic of Turkey under any such Contract, License or Lease.

9.2 Offtake Agreement for Crude Oil

If Crude Oil is to be produced from an Exploitation Area, the Parties shall in good faith, and not less than three (3) months after the establishment of an Exploitation Area, negotiate and conclude the terms of an agreement to cover the offtake of Crude Oil produced under the Contract. This offtake agreement shall, to the extent consistent with the Contract, make provisions that include, but are not limited to:

- (A) The delivery point, at which title and risk of loss of Participating Interest shares of Crude Oil shall pass to the Parties interested (or as the Parties may otherwise agree);
- (B) Operator's regular periodic advice to the Parties of estimates of total available production for succeeding periods, Participating Interest shares, and grades of Crude Oil for as far ahead as is necessary for Operator and the Parties to plan offtake arrangements.
- (C) Nomination by the Parties to Operator of acceptance of their Participating Interest share of total available production for the succeeding period, as well as resolution of situations where nominations do not equal available volumes;
- (D) Resolution of overlifts and underlifts;

Handwritten initials: ca, A, W

Handwritten initials: SW, CLK, J, AD

- (E) Tanker size, draft, safety, environmental protection and insurance provisions;
- (F) Distribution to the Parties of Entitlements; any Government purchases of Hydrocarbons shall be done on a proportionate basis among the Parties according to their interests as set forth in Article 3.1 (A); and that each Party shall receive currently Entitlements of grades, gravities and qualities of Hydrocarbons similar to Hydrocarbons received by each other Party; and
- (G) The option and the right of the other Parties to sell an Entitlement which a Party fails to nominate for acceptance pursuant to (C) above or of which a Party fails to take delivery. Any right of the other Parties to sell an Entitlement shall only extend for such reasonable periods of time as are consistent with the minimum operational needs of the industry under the particular circumstances, but in no extent for a period in excess of twelve (12) months.
- (H) Measurement and Sampling procedures;
- (I) Notification procedures.

9.3 Separate Agreement for Natural Gas

If Natural Gas is discovered and is considered by the Operating Committee to be potentially economically marketable, or if it is determined by the Operating Committee that Natural Gas can potentially be economically evacuated from the Exploitation Area, the Parties shall have a period of twelve (12) months from the date of determination by the Operating Committee of such potential to carry out works and studies which would allow the Operating Committee to decide whether to undertake a Development Plan for the Exploitation Area. Such works and studies shall include technical evaluations as well as preliminary market studies to analyze the market (export and domestic) for Natural Gas.

Handwritten initials: CA, UB, and other illegible marks.

Handwritten initials: AS, AK, and other illegible marks.

ARTICLE X - ABANDONMENT OF WELLS

10.1 **Abandonment of Wells Drilled as Joint Operations**

- (A) Except as otherwise provided in Article 10.1(C), any well which has been drilled as a Joint Operation and which is proposed to be plugged and abandoned shall not be plugged and abandoned without the consent of all Parties.
- (B) In connection with any proposal to plug and abandon a well, the Operator shall advise the Non-Operators whether (i) Operator no longer considers the field in question to be economically exploitable, or (ii) whether Operator's proposal to abandon such well is part of a field management strategy pursuant to which the producing Zone in the well proposed to be abandoned will continue to be produced through other wells completed in such Zone. In the event that any Non-Operator disagrees with Operator's initial assessment regarding the economic exploitability of such field, such determination shall be referred to the Operating Committee for decision.
- (C) Should any such Party fail to reply within the period prescribed in Article 5.12(A)(1) or Article 5.12(A)(2), whichever is applicable, after delivery of notice of the Operator's proposal to plug and abandon such well, such Party shall be deemed to have consented to the proposed abandonment. If all the Parties consent to abandonment, or if less than all Parties consent to the proposed abandonment but the Operating Committee directs that such well shall be plugged and abandoned after a determination that the proposed abandonment is part of a field management strategy, then, notwithstanding anything in this Article X to the contrary, such well shall be plugged and abandoned in accordance with applicable regulations.
- (D) If all Parties do not agree to the abandonment of such well, those wishing to continue operations shall assume all costs, expenses, risks and liabilities associated with future operations in the well and shall be deemed to be Consenting Parties conducting an Exclusive Operation pursuant to Article VII. In the case of a producing well, the Consenting Parties shall be entitled to continue producing only from the Zone open to production at the time they assumed responsibility for the well.

Handwritten signatures and initials in the bottom left corner.

Handwritten signatures and initials in the bottom right corner.

- (E) Consenting Parties taking over a well as provided above shall tender to each of the Non-Consenting Parties such Non-Consenting Parties' Participating Interest share of the value of the well's salvageable material and equipment, determined in accordance with the Accounting Procedure, less the estimated cost of salvaging and the estimated cost of plugging and abandoning as of the date the Consenting Party assumed responsibility for the well; provided, however, that in the event the estimated cost of plugging and abandoning and the estimated cost of salvaging are higher than the value of the well's salvable material and equipment, each of the abandoning Parties shall continue to be liable pursuant to Article 7.3(B) for their respective Participating Interest shares of the estimated excess cost.
- (F) Each Non-Consenting Party shall be deemed to have relinquished to the Consenting Parties in proportion to its Participating Interest all of its interest in the wellbore of a produced well and related equipment in accordance with Article 7.4(B), insofar and only insofar as such interest covers the right to obtain production from that wellbore in the Zone then open to production.
- (G) Subject to Article 7.9(G), Operator shall continue to operate a produced well for the account of the Consenting Parties at the rates and charges contemplated by this Agreement, plus any additional cost and charges which may arise as the result of the separate allocation of interest in such well.

10.2 Abandonment of Exclusive Operations

This Article shall apply *mutatis mutandis* to the abandonment of an Exclusive Well or any well in which an Exclusive Operation has been conducted; provided that no well shall be permanently plugged and abandoned unless and until all Parties having the right to conduct further operations in such well have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article X.

Handwritten initials: A, J, LK

Handwritten signatures and initials: CLR, RB

ARTICLE XI - SURRENDER, EXTENSIONS AND RENEWALS

11.1 Surrender

- (A) If the Contract requires the Parties to surrender any portion of the Contract Area, Operator shall advise the Operating Committee of such requirement at least one hundred and twenty (120) Days in advance of the earlier of the date for filing irrevocable notice of such surrender or the date of such surrender and Operator shall provide the Operating Committee with its recommendation on the area to be surrendered. Prior to the end of such period, the Operating Committee shall determine the size and shape of the surrendered area, consistent with the requirements of the Contract. If a sufficient vote of the Operating Committee cannot be attained, then the proposal supported by a simple majority of the Participating Interests shall be adopted. If no proposal attains the support of a simple majority of the Participating Interests, then the proposal receiving the largest aggregate Participating Interest vote shall be adopted. In the event of a tie, the Operator shall choose among the proposals receiving the largest aggregate Participating Interest vote. The Parties shall execute any and all documents and take such other actions as may be necessary to effect the surrender. Each Party renounces all claims and causes of action against Operator and any other Parties on account of any area surrendered in accordance with the foregoing but against its recommendation if Hydrocarbons are subsequently discovered under the surrendered area.
- (B) A surrender of all or any part of the Contract Area which is not required by the Contract shall require the unanimous consent of the Parties.

11.2 Extension of the Term

- (A) A proposal by any Party to extend the term of the Exploration or Exploitation Period or any phase of the Contract, a proposal to enter into a new phase of the Exploration Period, and a proposal to extend the term of the Contract shall be brought before the Operating Committee pursuant to Article V.
- (B) If the Operating Committee shall fail to approve any such extension or the entering of a new phase under the Contract, any Party shall have the right to extend the term of the Exploration or Exploitation Period or any phase

CA
me
age
hh

me
me
me

of the Contract to enter into a new phase of the Exploration Period or extend the term of the Contract.

- (C) Any Party that has voted against and that does not wish to enter into such extension or new phase or term of the Contract shall withdraw from this Agreement pursuant to the provisions of Article XIII; provided that if the Contract or the Government shall so require, the withdrawing Party shall join in the execution of any and all documents and/or declarations as shall be necessary in order for the remaining Parties to secure any such extension or to enter a new phase under the Contract. In such event, the withdrawing Party shall be entitled to indemnification against costs and liabilities associated with the applicable extension or entry into a new phase of the Contract, as described in Article 7.3 hereof, as if such activities were Exclusive Operations conducted by the Parties securing such extension or entering such new phase.

A
cu
L
uh

to
one
A
one
one

ARTICLE XII - TRANSFER OF INTEREST OR RIGHTS

12.1 Obligations

- (A) Subject always to the requirements of the Contract, the transfer of all or part of a Party's Participating Interest shall be effective only if it satisfies the terms and conditions of this Article.
- (B) Except in the case of a Party transferring all of its Participating Interest, no transfer shall be made by any Party which results in the transferor or the transferee holding a Participating Interest of less than ten percent (10%).
- (C) The transferring Party shall, notwithstanding the transfer, be liable to the other Parties for any obligations, financial or otherwise, which have vested, matured or accrued under the provision of the Contract or this Agreement prior to such transfer. Such obligations shall include, without limitation, any proposed expenditure approved by the Operating Committee, prior to the transferring Party notifying the other Parties of its proposed transfer.
- (D) The transferee shall have no rights in and under the Contract, the Contract Area or this Agreement unless and until any necessary approvals are obtained from the Government and expressly undertakes in writing to perform the obligations of the transferor under the Contract and this Agreement in respect of the Participating Interest being transferred, to the satisfaction of the Parties and furnishes any guarantees required by the Government or the Contract.
- (E) The transferee shall have no rights in and under the Contract, the Contract Area or this Agreement unless each Party has consented in writing to such transfer, which consent shall not be unreasonably withheld.
- (F) Nothing contained in this Article shall prevent a Party from mortgaging, pledging, charging or otherwise encumbering all or part of its interest in the Contract Area and in and under this Agreement for the purpose of security relating to finance provided that:
 - (1) such Party shall remain liable for all obligations relating to such interest;

u
A *uh*

uh
uh
uh

- (2) the encumbrance shall be subject to any necessary approval of the Government and be expressly subordinated to the rights of the other Parties under this Agreement; and
 - (3) such Party shall ensure that any such mortgage, pledge, charge or encumbrance shall be expressed to be without prejudice to the provisions of this Agreement.
- (G) Any transfer of all or a portion of Participating Interest other than with or to an Affiliate, shall be subject to the following procedure:
- (1) Once the transferor Party and a proposed transferee (a third party or a Party) have fully reached agreement on terms and conditions of a transfer, such final terms and conditions shall be disclosed in detail to all Parties in a written notification from the transferor. Each Party shall have the right to acquire the Participating Interest from the transferor on the same terms and conditions agreed to by the proposed transferee if, within thirty (30) Days of transferor's written notification, such Party delivers to all other Parties a counter-notification that it accepts the agreed upon terms and conditions of the transfer without reservations or conditions. If no Party delivers such counter-notification, the transfer to the proposed transferee may be made, subject to the other provisions of this Article 12, under terms and conditions no more favorable to the transferee than those set forth in the notice to the Parties, provided that the transfer shall be concluded within one hundred eighty (180) Days from the date of the notice plus such reasonable additional period as may be required to secure governmental approvals.
 - (2) If more than one Party counter-notifies that it intends to acquire the Participating Interest which is the subject of the proposed transfer, then each such Party shall acquire a proportion of the Participating Interest to be transferred equal to the ratio of its own Participating Interest to the total Participating Interests of all the counter-notifying Parties, unless they otherwise agree; and
 - (3) In the event that a Party's proposed transfer of part or all of its Participating Interest involves consideration other than cash or involves other properties included in a wider transaction (package

ca
ca *lh*

ca
ca
ca

deal), then the consideration payable for the Participating Interest exclusively shall be allocated a reasonable and justifiable cash value by the transferor in any notification to the other Parties. Such other Parties may satisfy the requirements of this Article by agreeing to pay such cash value in lieu of the consideration payable in the third-party offer.

12.2 Rights

Each Party shall have the right, subject to the provisions of Article 12.1, to freely transfer its Participating Interest.

CA
JK *lh*

JK *30* *CR*
JP

ARTICLE XIII - WITHDRAWAL FROM AGREEMENT

13.1 Right of Withdrawal

- (A) Subject to the provisions of this Article, any Party may withdraw from this Agreement and the Contract by giving notice to all other Parties stating its decision to withdraw and specifying a proposed effective date of withdrawal which shall be at least sixty (60) Days, but not more than one hundred eighty (180) Days after the date of such notice. Such notice shall be unconditional and irrevocable when given.

- (B) Notwithstanding Article 13.1(A) a Party shall not have the right to withdraw from this Agreement and the Contract until the Minimum Work Obligation set forth in the Contract has been fulfilled. However, if the Operating Committee or any Party decides to accept new Minimum Work Obligations by voluntarily extending the current or entering into a new exploration period under the Contract, a Party that voted against such decision shall not be prevented from withdrawing; provided that such Party delivers notice of its withdrawal to all Parties within thirty (30) Days of such vote pursuant to Article 11.2 and fully satisfies its outstanding Minimum Work Obligation and/or its obligations under a Development Plan approved by the Operating Committee, if any.

- (C) Subject to Articles 13.1(A) and (B) and Article 13.5, the effective date of withdrawal for a withdrawing Party shall be the later of:
 - (1) The date proposed in the notice of withdrawal; or
 - (2) The date that the withdrawing Party has fulfilled its obligations under this Article.

13.2 Partial or Complete Withdrawal

- (A) Within thirty (30) Days of receipt of each withdrawing Party's notification, each of the other Parties may also give notice that it desires to withdraw from this Agreement and the Contract. Should all Parties give notice of withdrawal, the Parties shall proceed to abandon the Contract Area and terminate the Contract and this Agreement. If less than all of the Parties give such notice of withdrawal, then the withdrawing Parties shall take all steps to withdraw from the Contract and this Agreement on the earliest

ca
ca *lh*

4/1
AA CLR
[Signature]

possible date and execute and deliver all necessary instruments and documents to assign their Participating Interest to the Parties which are not withdrawing, without any compensation whatsoever, in accordance with the provisions of Article 13.6.

- (B) If any part of the withdrawing Party's Participating Interest remains unclaimed after sixty (60) Days from the date of the first notice of withdrawal, the Parties shall be deemed to have decided to withdraw from the Contract and this Agreement, unless at least one Party agrees to accept the unclaimed Participating Interest.
- (C) Any Party withdrawing under Article 11.2 or under this Article shall withdraw from all exploration activities under the Contract, but not from any Exploitation Area, Commercial Discovery, or Discovery whether appraised or not, made prior to such withdrawal. Such withdrawing Party shall retain its rights in the Joint Property but only insofar as they relate to any Exploitation Area, Commercial Discovery or Discovery whether appraised or not, and shall abandon all other rights in the Joint Property.

13.3 Voting

After giving its notification of withdrawal, a Party shall not be entitled to vote on any matters coming before the Operating Committee, other than matters for which such Party has financial responsibility.

13.4 Obligations and Liabilities

- (A) A withdrawing Party, prior to its withdrawal, shall satisfy all obligations and liabilities it has incurred or attributable to it prior to its withdrawal, including, without limitation, any expenditures budgeted and/or approved by the Operating Committee prior to its written notification of withdrawal (development projects included), and any liability for acts, occurrences or circumstances taking place or existing prior to its withdrawal. Furthermore, any liens, charges and other encumbrances which the withdrawing Party placed on such Party's Participating Interest prior to its withdrawal shall be fully satisfied or released, at the withdrawing Party's expense, prior to its withdrawal. A Party's withdrawal shall not relieve it from liability to the non-withdrawing Parties with respect to any obligations

Handwritten initials: A, m, J, lh

Handwritten initials: PA, CLR, OB

or liabilities attributable to the withdrawing Party which are not identified or identifiable at the time of withdrawal.

- (B) Notwithstanding the foregoing, a Party shall not be liable for any operations or expenditures it voted against if it sends notification of its withdrawal within five (5) Days (or within twenty-four (24) hours if the drilling rig to be used in such operation is standing by on the Contract Area) of the Operating Committee vote approving such operation or expenditure, nor shall such Party be liable for any operations or expenditures approved by the Operating Committee, excluding those approved pursuant to Article 13.5, after notice has been given pursuant to Article 13.1.

13.5 Emergency

A Party's notification of withdrawal shall not become effective if prior to the proposed date of withdrawal a well goes out of control or a fire, blow out, sabotage or other emergency occurs. The notification of withdrawal shall become effective only after the emergency has been contained and the withdrawing Party has paid, or has provided, security satisfactory to the Parties for its Participating Interest share of the costs of such emergency.

13.6 Assignment

A withdrawing Party shall assign its Participating Interest to each of the non-withdrawing Parties which shall be allocated to them in the proportion which each of their Participating Interests (prior to the withdrawal) bears to the total Participating Interests of all the non-withdrawing Parties (prior to the withdrawal), unless the non-withdrawing Parties agree otherwise. The expenses associated with the withdrawal and assignments shall be borne by the withdrawing Party.

13.7 Approvals

A withdrawing Party shall promptly join in such actions as may be necessary or desirable to obtain any Government or Government Oil Company approvals required in connection with the withdrawal and assignments, and any penalties or expenses incurred by the Parties in connection with such withdrawal shall be borne by the withdrawing Party.

CA
U
U

25
U
U
U

13.8 Abandonment Security

If under the terms of the Contract or applicable law, the Parties are or become obliged to pay or contribute to the cost of abandonment, the Parties shall negotiate and agree to a security agreement under which each Party will provide security to assure the payment of its share of obligatory abandonment costs.

13.9 Withdrawal or Abandonment by all Parties

In the event all Parties decide to withdraw or are required to do so, the Parties agree that they shall be bound by the terms and conditions of this Agreement for so long as may be necessary to wind up the affairs of the Parties with the Government, to satisfy any requirements of applicable law or to facilitate the sale, disposition or abandonment of property or interests held by the Joint Account.

CA
M
T
LK

3
CK
[Signature]

ARTICLE XIV - RELATIONSHIP OF PARTIES AND TAX

14.1 Relationship of Parties

The rights, duties, obligations and liabilities of the Parties under this Agreement shall be individual, not joint or collective. It is not the intention of the Parties to create, nor shall this Agreement be deemed or construed to create a mining or other partnership, joint venture, association or trust, or as authorizing any Party to act as an agent, servant or employee for any other Party for any purpose whatsoever except as explicitly set forth in this Agreement. In their relations with each other under this Agreement, the Parties shall not be considered fiduciaries except as expressly provided in this Agreement.

14.2 Tax

Each Party shall be responsible for reporting and discharging its own tax measured by the income of the Party and the satisfaction of such Party's share of all Contract obligations under the Contract and under this Agreement. Each Party shall protect, defend and indemnify each other Party from any and all loss, cost or liability arising from the indemnifying Party's failure or refusal to report and discharge such taxes or satisfy such obligations.

Notwithstanding the foregoing, if the rate of taxes based on profit or income is increased above the maximum rate of fifty five percent (55%) currently provided by law, or there is any change in the enforcement or interpretation of said law, the allocation of production under this Agreement shall be adjusted in a manner that will put ARCO in the economic position it would have been in had there been no such increase or change.

14.3 United States Tax Election

For United States federal income tax purposes, each Party hereto elects to be excluded from the application of all the provisions of Subchapter K, Chapter 1, Subtitle A of the United States Internal Revenue Code of 1986, as amended (the Code), as permitted and authorized by Section 761(a) of the Code and the regulations promulgated thereunder. ARCO shall be the Tax Matters Partner as defined in Section 6231(a)(7) of the Code and is authorized and directed to execute such election on behalf of all of the Parties and to file the election with the proper United States Government officer or agency; and the Tax Matters Partner is

CA
cu
1993
hk

9/28/95
CR
[Signature]

further authorized and directed to file such additional information or further evidence of such election as may be required by U.S. Treasury Regulation 1.761-2 and 1.6031-1(d)(2) or similar provisions. Each Party further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any future income tax law of the United States contains provisions similar to those contained in Subchapter K, Chapter 1, Subtitle A of the Code under which an election similar to that provided by Code Section 761(a) is permitted, each Party hereby makes such election and/or agrees to make such election. In making an election hereunder, each Party states that the income derived by it from the operations under this Agreement can be adequately determined without the computation of partnership taxable income. The provisions of this Article shall not, in any way, create a partnership relationship or change, amend or affect the substantive rights, obligations or liabilities of the Parties under this Agreement. Nothing contained in this Agreement shall constitute or be construed as constituting a submission by any Party not presently subject to United States income tax laws to the taxation jurisdiction of the United States of America.

ca
ca
lh

42
ca
[Signature]

**ARTICLE XV - CONFIDENTIAL INFORMATION -
PROPRIETARY TECHNOLOGY**

15.1 Confidential Information

- (A) Subject to the provisions of the Contract, the Parties agree that all Jointly Owned Information shall not be disclosed to any person or entity not a Party of this Agreement during the term of the Contract and for a period of five (5) years after expiration of the Contract, except:
- (1) To an Affiliate, provided such Affiliate maintains confidentiality as provided in this Article;
 - (2) To a governmental agency or other entity when required by the Contract;
 - (3) To the extent such Jointly Owned Information is required to be furnished in compliance with any applicable laws or regulations, or pursuant to any legal proceedings or because of any order of any court binding upon a Party provided that said Party shall promptly advise all other Parties in writing of full details of each request, demand, order, etc. for such Jointly Owned Information to whom disclosure is to be made and the law, regulation or order requiring such disclosure and shall take all actions and assist in taking all actions as permitted by applicable laws and regulations to obtain such disclosures and to require the confidential treatment of the Jointly Owned Information which must be disclosed.
 - (4) Subject to Article 15.1(B), to potential contractors, contractors, consultants and attorneys employed by any Party where disclosure of such Jointly Owned Information is essential to such contractor's, consultant's or attorney's work;
 - (5) Subject to Article 15.1(B), to a bona fide prospective transferee of a Party's Participating Interest (including an entity with whom a Party or its Affiliates is conducting bona fide negotiations directed toward a merger, consolidation or the sale of a majority of its or an Affiliate's shares);

ced
u
lk

4w
CR
AS
2/2

- (6) Subject to Article 15.1(B), to a bank or other financial institution to the extent appropriate to a Party arranging for funding for its obligations under this Agreement;
 - (7) To the extent such Jointly Owned Information must be disclosed pursuant to any rules or requirements of any government or stock exchange having jurisdiction over such Party, or its Affiliates or over the securities of such Party or of its Affiliates; provided that said Party shall promptly advise all other Parties in writing of full details of each request, demand, order, etc. for such Jointly Owned Information to whom disclosure is to be made and the law, regulation or order requiring such disclosure and shall take all actions and assist in taking all actions as permitted by applicable laws and regulations to obtain such disclosures and to require the confidential treatment of the Jointly Owned Information which must be disclosed; provided that if any Party desires to disclose information in an annual or periodic report to its or its Affiliates' shareholders and to the public and such disclosure is not required pursuant to any rules or requirements of any government or stock exchange, then such Party shall comply with Article 21.2;
 - (8) To its respective employees for the purposes of Joint Operations, subject to each Party taking customary precautions to ensure such Jointly Owned Information is kept confidential;
 - (9) Where any Jointly Owned Information which, through no fault of a Party, becomes a part of the public domain.
- (B) Disclosure as pursuant to Article 15.1(A)(4), (5), and (6) shall not be made unless prior to such disclosure the disclosing Party has obtained a written undertaking from the recipient party to keep the Jointly Owned Information strictly confidential and not to use or disclose the Jointly Owned Information except for the express purpose for which disclosure is to be made.

Handwritten initials: "ca", "m", "gh"

Handwritten initials: "9/25", "AK", "DLP", "CH"

15.2 Continuing Obligations

Any Party ceasing to own a Participating Interest during the term of this Agreement shall nonetheless remain bound by the obligations of confidentiality and any disputes shall be resolved in accordance with Article XVIII.

15.3 Separately Owned Information

Nothing in this Agreement shall require a Party to disclose or to provide any rights to copy, modify, distribute, make, use or sell any Separately Owned Information to the other Parties.

15.4 Data Exchanges

Notwithstanding the foregoing provisions of this Article XV, Operator may enter into agreements with third Parties for the exchange of Jointly Owned Information, including but not limited to G&G Data and data taken through the well bore. Any data or information received by Operator under such agreements shall become Jointly Owned Information.

ca
ur
tk

70
CLP
SP

ARTICLE XVI - FORCE MAJEURE

16.1 Obligations

For the purposes of this Agreement, "Force Majeure" shall mean any event or circumstance which is unforeseeable, irresistible, beyond the reasonable control of the Party concerned and not due to such Party's negligence. If as a result of Force Majeure any Party is rendered unable, wholly or in part, to carry out its obligations under this Agreement, other than the obligation to pay any amounts due or to furnish security, then the obligations of the Party giving such notice, to the extent that the obligations are affected by such Force Majeure, shall be suspended during the continuance of any inability so caused. The Party claiming Force Majeure shall notify the other Parties of the Force Majeure situation within thirty (30) Days. Such notice shall give reasonably full particulars of the Force Majeure, and also an estimate of the duration of the Force Majeure. The affected Party shall use all reasonable diligence to remove or overcome the Force Majeure situation as quickly as possible in an economic dispute except on terms acceptable to it and all such disputes shall be handled within the sole discretion of the affected Party.

A
cc
ms *gh*

40
cur
JP

ARTICLE XVII - NOTICES

17.1 Except as otherwise specifically provided, all notices authorized or required between the Parties by any of the provisions of this Agreement, shall be in writing, in English and delivered in person or by courier service or by any electronic means of transmitting written communications which provides confirmation of complete transmission, and addressed to such Parties as designated below. The originating notice given under any provision of this Agreement shall be deemed delivered only when received by the Party to whom such notice is directed, and the time for such Party to deliver any notice in response to such originating notice shall run from the date the originating notice is received. The second or any responsive notice shall be deemed delivered when received. "Received" for purposes of this Article with respect to written notice delivered pursuant to this Agreement shall be actual delivery of the notice to the address of the Party to be notified specified in accordance with this Article. Each Party shall have the right to change its address at any time and/or designate that copies of all such notices be directed to another person at another address, by giving notice thereof to all other Parties. Nothing in this provision shall be deemed to modify the requirements of Turkish Law concerning legal notice.

CA
ll
Uk

42
CLP
AP

TURKIYE PETROLLERI ANONIM ORTAKLIGI

Mustafa Kemal Mah.

2. Cadde No. 86

06250 - Ankara, Turkey

Attention: Exploration Group Manager

Telephone: 90-312-286-9004

Facsimile: 90-312-286-9049

Telex: 42044 TPAN.TR

ARCO TURKEY INC.

2300 W. Plano Parkway

Plano, Texas 75075 USA

Attention: Exploration Manager, Turkey

Telephone: 1-214-509-3464

Facsimile: 1-214-509-3090

Telex: 163511 AIOGC PLNO

COPY TO: ARCO TURKEY INC.

Kader Sokak 43/2

G.O.P. 06700, Ankara, Turkey

Attention: Resident Manager

Telephone: 90-312-436-6030

Facsimile: 90-312-437-9202

Telex: 46972 ARTI TR

CA
uh

for
CLP

ARTICLE XVIII - APPLICABLE LAW AND DISPUTE RESOLUTION

18.1 Applicable Law

This Agreement shall be governed by, construed, interpreted and applied in accordance with the Substantial and Procedural Law of the Republic of Turkey, excluding any choice of law rules which would refer the matter to the laws of another jurisdiction.

18.2 Dispute Resolution

- (A) Any dispute, controversy or claim arising out of or in relation to or in connection with this Agreement or the operations carried out under this Agreement, including without limitation any dispute as to the construction validity, interpretation, enforceability or breach of this Agreement, shall be exclusively and finally settled by arbitration, and any Party may submit such a dispute, controversy or claim to arbitration.
- (B) The arbitration shall be heard and determined by three impartial arbitrators who shall be individuals who do not have any financial interest in any Party to the dispute, or in the dispute, controversy or claim.
- (C) Unless otherwise expressly agreed in writing by the Parties to the arbitration proceedings:
- (1) The arbitration proceedings shall be held in London, England.;
 - (2) The arbitration proceedings shall be conducted in the English language and the arbitrator shall be fluent in the English language;
 - (3) The arbitrators shall be and remain at all times wholly independent and impartial;
 - (4) The arbitration proceedings shall be conducted in accordance with the Arbitration Rules of the International Chamber of Commerce;
 - (5) Any procedural issues not determined under the arbitral rules selected pursuant to Article 18.2(C)(4) shall be determined by the law of the place of arbitration, other than those laws which would refer the matter to another jurisdiction;

A
7
lh

ck
ck
ck

- (6) The costs of the arbitration proceedings (including attorneys' fees and costs) shall be borne in the manner determined by the arbitrators;
- (7) The decision of the arbitrators shall be reduced to writing; final and binding without the right of appeal; the sole and exclusive remedy regarding any claims, counterclaims, issues or accountings presented to the arbitrators; made and promptly paid in U.S. dollars free of any deduction or offset; and any costs or fees incident to enforcing the award, shall to the maximum extent permitted by law, be charged against the Party resisting such enforcement;
- (8) Consequential, punitive or other similar damages shall not be allowed among the Parties *inter se*; provided, that no Party shall be relieved hereby of the obligation to bear its Participating Interest share of any liabilities for consequential, punitive or other similar damages awarded to third parties;
- (9) The award shall include interest from the date of any breach or violation of this Agreement, as determined by the arbitral award, and from the date of the award until paid in full, at the Agreed Interest Rate; and
- (10) Judgment upon the award may be entered in any court having jurisdiction over the person or the assets of the Party owing the judgment or application may be made to such court for a judicial acceptance of the award and an order of enforcement, as the case may be.
- (11) Whenever the Parties are of more than one nationality, the single arbitrator or the presiding arbitrator, as the case may be, shall not be of the same nationality as any of the Parties or their ultimate parent entities.

Handwritten initials:
A
J
u
G

Handwritten initials:
A
u
J

ARTICLE XIX - ALLOCATION OF COST RECOVERY RIGHTS

19.1 Allocation of Total Production

For the purposes of recovery of Petroleum Costs, the total quantity of Hydrocarbons which are produced and saved from all Exploitation Areas within the Contract Area in a Calendar Quarter and to which the Parties are entitled under the Contract shall be designated as either Royalty Oil, Operating Costs Oil, Investment Recovery Oil or Profit Oil.

Hydrocarbon production shall be allocated in the following sequence and proportions:

- (A) Royalty Oil: An amount of Hydrocarbons sufficient to satisfy each Party's obligation under the Petroleum Law to pay royalties (in cash or kind) to the Government of the Republic of Turkey ("Royalty Oil") with respect to operations in the Contract Area shall be allocated to the Parties in accordance with their Participating Interests in the Contract Area.
- (B) Operating Costs Oil: Operating costs actually incurred in connection with operations in the Contract Area shall be converted to an amount of Hydrocarbons, valued at the Market Price, as defined in the Petroleum Law, ("Operating Costs Oil") and such amount of Hydrocarbons shall be allocated to the Parties in accordance with their Participating Interests in the Contract Area.
- (C) Investment Recovery Oil: The amount of Hydrocarbons remaining after allocation for Royalty Oil and Operating Costs Oil ("Investment Recovery Oil") shall be available for recovery of exploration, appraisal and development expenditures (investment and expense) actually incurred in connection with operations in the Contract Area in the following sequence:
 - (i) Investment Recovery Oil, valued at the Market Price, shall be allocated to the Parties for the recovery of exploration expenditures in accordance with the ratio of the expenditures incurred by each of the Parties while conducting exploration activities in the Contract Area. Such exploration expenditures will include the investments and expenses incurred by TPAO for drilling and seismic prior to and the investments and expenses made by ARCO subsequent to

Handwritten initials: A, cu, rf, gh

Handwritten initials: cu, ARCO, AB

the signing of the Farmout Agreement, dated August 31, 1995. ARCO's direct charges, chargeable to the Joint Account pursuant to Article 2.13 of the Accounting Procedure attached hereto as Exhibit A, shall also be considered as exploration expenditures for purposes of Investment Recovery Oil. The investments and expenses incurred by TPAO prior to August 31, 1995 are agreed to be U.S.\$ 8,000,000; and

(ii) The remaining Investment Recovery Oil, valued at the Market Price, shall be allocated to the Parties for the recovery of appraisal and development expenses in accordance with the ratio of the expenses incurred by each of the Parties while conducting appraisal and development activities in the Contract Area.

(D) Profit Oil: The amount of Hydrocarbons remaining after allocation of Royalty Oil, Operating Costs Oil and Investment Recovery Oil shall be designated as Profit Oil and shall be allocated to the Parties in accordance with their Participating Interests in the Contract Area.

19.2 Allocation of Production in the case of an Exclusive Operation

In the event that a Party elects to conduct an Exclusive Operation in accordance with Article VII above, the allocation provided for in Articles 19.1(C) and (D) above shall be modified so that each Party receives the share of production that it would have received if the Contract applied separately to each Exploitation Area in the Contract Area.

Handwritten initials: A, au, J, LK

Handwritten initials: Z, CR, P

ARTICLE XX - NATURAL GAS

- 20.1 The Operator shall have the right to use Natural Gas produced from the Contract Area for operations hereunder, including pressure maintenance and other enhanced recovery operations, without charge.

- 20.2 If Natural Gas is discovered whether in connection with a Commercial Discovery of Crude Oil or otherwise, the Operator shall prepare and present to the Operating Committee a study of the feasibility and cost of developing such discovery or otherwise commercially utilizing the Natural Gas pursuant to Article 9.3. Any Party may request the Operator to obtain or provide additional information on the feasibility and cost of developing or otherwise utilizing such Natural Gas. If the Operating Committee approves the development or commercial utilization of such Natural Gas, the Operator shall undertake a Development Plan. If the Operating Committee does not approve the development and/ or commercial utilization of such Natural Gas, any Party shall have the right to initiate sole risk operations in accordance with the provisions of Article VII above.

- 20.3 In the course of Operations hereunder, flaring of associated and/or non-associated Natural Gas, except short term flaring necessary for testing or other operational reasons, is prohibited except upon prior authorization of the Government following a request by the Operating Committee. Such request shall include an evaluation of alternatives to flaring that have been considered along with information on the amount and quality of gases involved and the duration of the requested flaring.

- 20.4 Expenses incurred in connection with the utilization of Natural Gas in Joint Operations shall be considered expenses of Development and Production.

Handwritten initials: A, M, J, GA

Handwritten initials: 36, J, O, and a large signature

ARTICLE XXI - GENERAL PROVISIONS

21.1 Conflicts of Interest

- (A) Each Party undertakes that it shall avoid any conflict of interest between its own interests (including the interests of Affiliates) and the interests of the other Parties in dealing with suppliers, customers and all other organizations or individuals doing or seeking to do business with the Parties in connection with activities contemplated under this Agreement.
- (B) The provisions of the preceding paragraph shall not apply to:
 - (1) A Party's performance which is in accordance with the local preference laws or policies of the host government; or
 - (2) A Party's acquisition of products or services from an Affiliate, or the sale thereof to an Affiliate, made in accordance with rules and procedures established by the Operating Committee.
- (C) No Party shall make any payments, loans, gifts or promises or offers of payments, loans or gifts, directly or indirectly, to or for the use or benefit of any official or employee of the Government or to any other person if it knows, or has reason to believe that any part of such payments, loans or gifts, or promise or offer, would violate the laws or regulations of the Government or of any sovereign government having jurisdiction over a Party. Each Party shall respond promptly, and in reasonable detail to any notice from another Party or its auditors pertaining to the above stated undertaking, and shall furnish adequate documentary support for such response upon request.

21.2 Public Announcements

- (A) Operator shall be responsible for the preparation and release of all public announcements and statements regarding this Agreement or the Joint Operations; provided that, no public announcement or statement shall be issued or made unless prior to its release all the Parties have been furnished with a copy of such statement or announcement and the approval of at least two (2) non-affiliated Parties holding fifty percent (50%), or more, of the Participating Interests has been obtained. Where a public announcement or statement becomes necessary or desirable because of danger to or loss of

Handwritten initials: A, M, J, L.H.

Handwritten signatures and initials: J.H., C.H., and a large signature.

life, damage to property or pollution as a result of activities arising under this Agreement, Operator is authorized to issue and make such announcement or statement without prior approval of the Parties, but shall promptly furnish all the Parties with a copy of such announcement or statement.

- (B) If a Party wishes to issue or make any public announcement or statement regarding this Agreement or the Joint Operations, it shall not do so unless prior to its release, such Party furnishes all the Parties with a copy of such announcement or statement, and obtains the approval of at least two (2) non-affiliated Parties holding fifty percent (50%) or more of the Participating Interests; provided that, notwithstanding any failure to obtain such approval, no Party shall be prohibited from issuing or making any such public announcement or statement if it is necessary to do so in order to comply with the applicable laws, rules or regulations of any government, legal proceedings or stock exchange having jurisdiction over such Party as set forth in Articles 15.1(A)(3) and (7).

21.3 Successors and Assigns

Subject to the limitations on transfer contained in Article XII, this Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Parties.

21.4 Waiver

No waiver by any Party of any one or more defaults by another Party in the performance of this Agreement shall operate or be construed as a waiver of any future default or defaults by the same Party, whether of a like or of a different character. Except as expressly provided in this Agreement no Party shall be deemed to have waived, released or modified any of its rights under this Agreement unless such Party has expressly stated, in writing, that it does waive, release or modify such right.

21.5 Severance of Invalid Provisions

If and for so long as any provision of this Agreement shall be deemed to be judged invalid for any reason whatsoever, such invalidity shall not affect the validity or operation of any other provision of this Agreement except only so far as shall be

CA
mg
gh

~~for~~
cur
SP

necessary to give effect to the construction of such invalidity, and any such invalid provision shall be deemed severed from this Agreement without affecting the validity of the balance of this Agreement.

21.6 Modifications

Except as is provided in Article 20.5, there shall be no modification of this Agreement except by written consent of all Parties.

21.7 Headings

The topical headings used in this Agreement are for convenience only and shall not be construed as having any substantive significance or as indicating that all of the provisions of this Agreement relating to any topic are to be bound in any particular Article.

21.8 Singular and Plural

Reference to the singular includes a reference to the plural and vice versa.

21.9 Gender

Reference to any gender includes a reference to all other genders.

21.10 Counterpart Execution

This Agreement may be executed in any number of counterparts and each such counterpart shall be deemed an original Agreement for all purposes; provided no Party shall be bound to this Agreement unless and until all Parties have executed a counterpart

21.11 Entirety

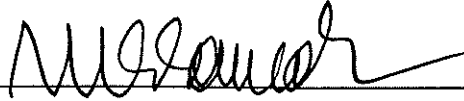
This Agreement is the entire agreement of the Parties and supersedes all prior understandings and negotiations of the Parties.


Handwritten initials: *UA*, *AG*, *mp*, *GA*

Handwritten initials: *40*, *CR*, *OP*

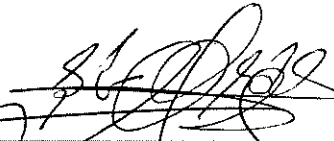
IN WITNESS of their agreement each Party has caused its duly authorized representative to sign this instrument on the date indicated below such representative's signature.

TURKIYE PETROLLERI ANONIM ORTAKLIGI

By: 
Title: M. Sıtkı SANCAR
Date: Genel Müdür

By: 
Title: Mustafa MURATHAN
Date: Genel Müdür Yardımcısı
12 Eylül 1995

ARCO TURKEY INC.

By: SELAMI E. URAS 
Title: Resident Representative
Date: September 29, 1995

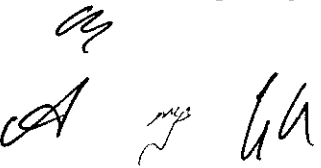




EXHIBIT A

ACCOUNTING PROCEDURE

Attached to and made part of the Operating Agreement, hereinafter called the "Agreement," by and between TURKIYE PETROLLERI ANONIM ORTAKLIGI and ARCO TURKEY INC.

SECTION I.

GENERAL PROVISIONS

- 1.1 **Purpose.** The purpose of this Accounting Procedure is to establish equitable methods for determining charges and credits applicable to operations under the Agreement which reflect the actual costs of Joint Operations to the end that the Operator shall neither gain nor lose in relation to other Parties.
- 1.2. **Conflict with Agreement.** In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the Agreement to which this Accounting Procedure is attached as an exhibit, the provisions of the Agreement shall prevail.
- 1.3. **Definitions.** The definitions contained in Article I of the Agreement to which this Accounting Procedure is attached as an exhibit shall apply to this Accounting Procedure and have the same meanings when used herein. Certain terms herein are defined as follows:
- 1.3.1 **"Business Day"** shall mean a day on which the banks in Ankara, Turkey are customarily open for business.
- 1.3.2 **"Country of Operations"** shall mean the Republic of Turkey.
- 1.3.3 **"Development Phase"** shall mean that period of time after the day of approval of a Development Plan by the Operating Committee until 7:00 a.m. on the first day of production from that part of the Contract Area delineated in a Development Plan.
- 1.3.4 **"Exploration Phase"** shall mean that period of time from the beginning of exploration activity on the Contract Area until the day of approval of a Development Plan by the Operating Committee.
- 1.3.5 **"Material"** shall mean any equipment, machinery, supplies, and consumables acquired and held for use in Joint Operations.

9/28/95

- 1 -

Handwritten initials: A, M, J, BA

Handwritten initials: 45, CR, A, J

1.3.6 **"Production Phase"** shall mean that period of time commencing after 7:00 a.m. on the first day of production from that part of the Contract Area delineated in a Development Plan.

1.4 **Joint Account Records and Currency Exchange.**

1.4.1. Operator shall at all times maintain and keep true and correct records of the production and disposition of all liquid and gaseous Hydrocarbons, and of all costs and expenditures incurred under the Agreement, as well as other data necessary or proper for the settlement of accounts between the Parties hereto in connection with their rights and obligations under the Agreement and to enable Parties to comply with their respective applicable income tax and other laws. Operator shall comply with the requirements for the keeping of accounting and tax records in compliance with the chart of accounts uniform in Turkey as well as observing the same in billings to Non-Operator.

1.4.2. Operator shall maintain accounting records pertaining to Joint Operations in accordance with its normal practices and any applicable statutory obligations of the Country of Operations as well as the provisions of the Contract and the Agreement.

1.4.3. Joint Account records maintained by Operator shall be described in English and expressed in United States currency and in Turkish Lira. Any necessary purchase of foreign currency shall be recorded at the rate actually experienced in that conversion. Currency translations for expenditures and receipts shall be recorded at the exchange rate being applied by the Directorate General of Petroleum Affairs which currently is the buying exchange rate of the Central Bank of Turkey on the 14th day of the month in which the expenditures are incurred.

1.4.4. Any currency exchange gains or losses actually incurred shall be credited or charged to the Joint Account, except as otherwise specified in this Accounting Procedure.

1.4.5. This Accounting Procedure shall apply (mutatis mutandis) to Exclusive Operations in the same manner that it applies to Joint Operations; provided however, that the charges and credits accruing separately to Consenting Parties shall be distinguished by an Exclusive Operation Account.

1.4.6. The "accrual" basis for accounting shall be used in preparing accounts concerning the Joint Operations or Exclusive Operations. Accruals shall be separately identified to facilitate Non-Operator's accounting. If a "cash" basis for accounting is used, Operator shall show accruals as memorandum items.

9/28/95

- 2 -

Handwritten initials: A, W, J, H

Handwritten initials: H, W, J, H, and a large signature

1.5. Statements and Billings.

1.5.1. Unless otherwise agreed by the Parties, Operator shall submit monthly to each Party, on or before the 20th day of each month, invoices and statements of the costs and expenditures incurred during the prior month, indicating by appropriate classification the nature thereof, the corresponding budget category, and the portion of such costs charged to each of the Parties, and containing the following information:

- advances of funds setting forth the currencies received from each Party
- the share of each Party in total expenditures separately denoting cash and accrued expenditures.
- the current account balance of each Party
- summary of costs, credits, and expenditures on a current month, year-to-date or other periodic basis as agreed by Parties.

Operator shall recognize that there is an exemption in Turkey for VAT insofar as "exploration activities" are concerned and that any VAT as may have been paid inadvertently or due to the supplier of goods and services having added VAT to the price, cannot be entered as expense. The Operator shall exercise care in segregating such VAT payments and shall identify and report VAT separately in its billings to Non-Operator.

1.5.2. Operator shall, upon request by Non-Operator, furnish a description of the accounting classifications used by it.

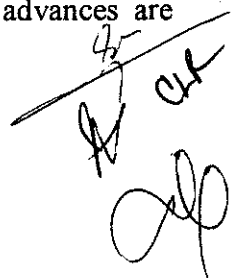
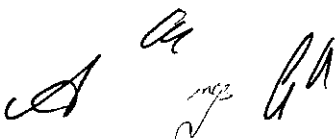
1.5.3. Each Party shall be responsible for preparing its own accounting and tax reports to meet the requirements of the Country of Operations and of all other countries to which it may be subject. Operator, to the extent that the information is reasonably available from the Joint Account records, shall provide Non-Operators with the necessary statements to facilitate the discharge of such responsibility.

1.6. Payments and Advances.

1.6.1. If Operator so requests, each Non-Operator shall advance its share of estimated cash requirements for the succeeding month's operations. Each such cash call shall be equal to the Operator's estimate of the money to be spent in the currencies required to perform its duties under the Agreement. For informational purposes the cash call shall contain an estimate of the funds required for the succeeding two (2) months. Operator shall provide reconciliation of the joint account with the cash call statements on a monthly basis.

1.6.2. Each such cash call, detailed by major budget categories, shall be made in writing and delivered to all Non-Operators by the seventh work day of the preceding month for which the advances are

9/28/95



required. The due date for payment of such advances shall be five Business Days following receipt by Non-Operator. All advances shall be made without bank charges. Any charges related to receipt of advances from a Non-Operator shall be borne by that Non-Operator.

1.6.3. Each Non-Operator shall wire transfer its Participating Interest share of the full amount of each such cash call to Operator on or before the due date to a bank designated by Operator. All cash call payments shall be made in Turkish Lira except for cash calls for payments made by Operator to third parties in currencies other than Turkish Lira. Operator shall report all expenditures in the currencies actually expended. If currency provided by a Non-Operator is other than the requested currency, then the entire cost of converting to the requested currency shall be charged to that Non-Operator .

1.6.4. Notwithstanding the provision of Section 1.6.2, should Operator be required to pay any sums of money for Joint Operations, which were unforeseen at the time of providing the Non-Operators with said estimates of its requirements, the Operator may make a written request of the Non-Operators for special advances covering the Non-Operators' share of such payments. Said requests shall be accompanied by appropriate accounting details. Each such Non-Operator shall make its proportional special advances within ten (10) Days after receipt of such notice.

1.6.5. If a Non-Operator's advances exceed its share of actual expenditures, the next succeeding cash advance requirements, after such determination, shall be reduced accordingly. A Non-Operator may request that its excess advances be refunded provided that the amount is in excess of the succeeding cash advance requirements. Operator shall make such refund within ten (10) Days after receipt of the Non-Operator's request.

1.6.6. If Non-Operator's advances are less than its share of expenditures, the deficiency shall be added to subsequent cash advance requirements.

1.6.7. If under the provisions of the Agreement the Operator is required to segregate funds received from the Parties, any interest earned on such funds shall be applied against the next succeeding cash call or, if directed by the Operating Committee, distributed at year end. The interest thus received shall be allocated to the Non-Operator(s) on an equitable basis taking into consideration date of funding by each Party to the accounts in proportion to the total funding into the account.

1.6.8. If Operator does not request Non-Operators to advance their share of estimated cash requirements, each Non-Operator shall pay its share of cash expenditures within ten (10) Days following receipt of Operator's billing.

1.6.9. Payments of advances or billings shall be made on or before the due date. If these payments are not received by the due date the unpaid balance shall bear and accrue interest from the due date until the

9/28/95

- 4 -

Handwritten initials: CA, U, GH, MS
Accounting Procedures

Handwritten initials: ~~3-~~, J, C, P

date the payment is received by Operator at the Agreed Interest Rate. For the purpose of determining the unpaid balance and interest owed, Operator shall translate to U.S. currency all amounts owed in other currencies using the currency exchange rate readily available to Operator at the close of the last Business Day prior to the due date for the unpaid balance as quoted by the applicable authority identified in Section 1.4.3. of this Section I. If Operator maintains records in currency other than U.S. dollars, the agreed interest rate should be the applicable rate for the recording currency.

1.6.10. Subject to governmental regulation, Operator shall have the right, at any time and from time to time, to convert the funds advanced or any part thereof to other currencies to the extent that such currencies are then required for operations. The cost of any such conversion shall be charged to the Joint Account.

1.6.11. Operator shall endeavor to maintain funds held in bank accounts for the Joint Account at a level consistent with that required for the prudent conduct of Joint Operations. Any interest earned on funds shall be allocated to the Non-Operator(s) in accordance with the provisions of Section 1.6.7.

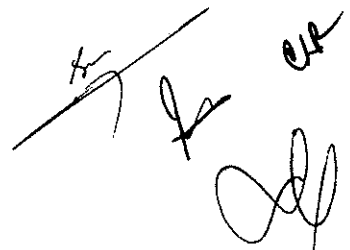
1.7. **Adjustments.** Payments of any advances or billings shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any Calendar Year shall conclusively be presumed to be true and correct after twenty-four (24) Months following the end of such Calendar Year, unless within the said twenty-four (24) Month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of a Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of the Property as provided for in Section VI. The Operator shall be allowed to make adjustments to the Joint Account after such twenty-four (24) Month period only if these adjustments result from audit exceptions outside of this agreement, or third party claims, or Government requirements. Any such adjustments shall be subject to audit within the time period specified in Section 1.8.1.

1.8. **Audits.**

1.8.1. A Non-Operator, upon at least sixty (60) Days advance notice in writing to Operator and all other Non-Operators, shall have the right to audit the Joint Accounts and records of Operator relating to the accounting hereunder for any Calendar Year within the twenty-four (24) month period following the end of such Calendar Year. The cost of each such audit shall be borne by Non-Operators. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

9/28/95

- 5 -



Accounting Procedures

Operator shall make every reasonable effort to cooperate with Non-Operator(s)' auditors and provide all necessary facilities and assistance to the extent possible.

1.8.2. At the conclusion of each audit, the Parties shall jointly protocolise the results thereof. If the Non-Operator conducting the audit has encountered matters which it believes need to be addressed and resolved, it will prepare and circulate a written report to all the Parties, within 60 days of the conclusion of each audit. The report shall include all claims arising from such audit, together with comments pertinent to the operation of the accounts and records. Operator shall reply to the report in writing as soon as possible and in any event no later than 30 days following receipt of the report. Should any of the Non-Operators consider that the report or reply (or lack of reply) requires further investigation of any item therein, said Non-Operator(s) shall have the right to conduct further investigation in relation to such matter notwithstanding that the said period of twenty-four (24) months, as provided in Article 1.7, may have expired. Such further investigations shall be concluded within one hundred and twenty (120) days of the circulation of the original report or within thirty (30) days of the receipt of the Operator's reply, if any, whichever is earlier.

1.8.3. Operator shall endeavor to produce information from Affiliates reasonably necessary to support charges from those Affiliates to the Joint Account. If an Affiliate considers such information confidential or proprietary, or if such Affiliate will not allow the Non-Operators to audit its accounts, the Affiliate's statutory auditor shall be used to confirm the details and facts as required, provided such statutory auditor is an internationally recognized firm of public accountants. The auditing Non-Operator may instruct the statutory auditor on the scope of such confirmation, however the scope shall be subject to the prior written approval of the Operator and the Affiliates in question. Such approval in the case of the Operator is not to be unreasonably withheld. Costs of audits performed by public accountants shall be for the account of Non-Operators.

1.8.4. Any information obtained by a Non-Operator under the provisions of this Section 1.8 which does not relate directly to the Joint Operations shall be kept confidential and shall not be disclosed to any party, except as would otherwise be permitted by Article 15.1(A)(3) and (9) of the Agreement.

1.8.5. In the event that the Operator is required by law to employ a public accounting firm to audit the Joint Account and records of Operator relating to the accounting hereunder, the cost thereof shall be a charge to the Joint Account, and a copy of the audit shall be furnished to each Party.

1.8.6 All adjustments resulting from an audit agreed between the Operator and the Non-Operator conducting the audit shall be reflected promptly in the Joint Account by the Operator and reported to the Non-Operators. If any dispute shall arise in connection with an audit, it shall be discussed by the Operating Committee, and shall be resolved by a vote in accordance with Section 5.9 of the Agreement for items less than \$100,000. If agreement is not reached, disputed items in excess of \$100,000 shall be

9/28/95

- 6 -

CA
CH
lh

Accounting Procedures

as
CH
CP

referred to arbitrators, according to the Agreement (Section 18.2). The arbitrators' decision will be final. The costs of the arbitrators shall be for the Joint Account.

1.9 Allocations. If employees are engaged in activities for other accounts in addition to the Joint Operations, the cost of such activities shall be allocated on an equitable basis. Upon request, Operator shall attain an independent certification of the allocation process and furnish a report to Non-Operator.

SECTION II.

DIRECT CHARGES

Operator shall charge the Joint Account with all costs and expenditures incurred in connection with Joint Operations. It is also understood that charges for services provided by Operator's Affiliates shall reflect the cost to the Affiliate, excluding profit, for performing such services, except as otherwise provided in Section 2.6, and 2.9.1.

The costs and expenditures shall be recorded as required for the settlement of accounts between the Parties hereto in connection with the rights and obligations under this Agreement and to facilitate compliance with the applicable tax laws. Without in any way limiting the generality of the foregoing, chargeable costs and expenditures shall include:

2.1. Licenses, Permits, Etc. All costs attributable to the acquisition, maintenance, renewal or relinquishment of licenses, permits, contractual and/or surface rights acquired for Joint Operations and bonuses paid in accordance with the Contract when paid by Operator in accordance with the provisions of the Agreement.

2.2. Salaries, Wages and Related Costs. The services of employees of the Operator and its Affiliates directly engaged in Joint Operations for the benefit of the Joint Account whether temporarily or permanently assigned and irrespective of where such work is performed. Pursuant to Article 1.8, Operator shall make all personnel records available for audit purposes.

2.2.1. Salaries and wages shall include everything constituting the employees' total compensation and all compensation adjustments provided in the Operator or Affiliate's expatriate policy. To the extent not included in salaries and wages, the Joint Account shall also be charged with the cost, or burden rate which approximates the cost, to Operator of holiday, vacation, sickness, disability benefits, living and housing allowances, travel time, bonuses, and other customary allowances applicable to the salaries and wages chargeable hereunder, as well as costs to Operator for employee benefits, including but not limited to employee group life insurance, group medical insurance, hospitalization, retirement,

29/9/95

- 7 -

A M
JP UK

Accounting Procedures

[Handwritten signature]
[Handwritten signature]

2.2.2. Expenditures or contributions made pursuant to assessments imposed by governmental authority for payments with respect thereto or on account of such employees.

2.2.3. Salaries and wages may be charged in accordance with Operator's usual practice either on an actual basis, when and as paid or accrued, or on a basis of the Operator's average cost per employee for each job category as established in the Price List. The Price List is a list of employee salaries and wages in US Dollars by job category as approved in advance by the Operating Committee. The Price List may be adjusted annually based upon adjustments in the United States Producer Price Index unless the Operating Committee otherwise agrees to a different adjustment. Payment to Operator for such salaries and wages shall be in Turkish Lira, at the exchange rate being applied by the Directorate General of Petroleum Affairs which currently is the buying exchange rate of the Central Bank of Turkey on the 14th day of the month in which the expenditures are incurred. Cost for salary and wages shall be supported by time sheets.

2.2.4. Reasonable expenses (including related travel costs) of those employees whose salaries and wages are chargeable to the Joint Account under Section 2.2.1. of this Section II and for which expenses the employees are reimbursed under the usual practice of Operator.

2.2.5. If employees are engaged in activities for other accounts in addition to the Joint Operations, the cost of such employees shall be allocated on an equitable basis, based on time sheets as provided in Section 2.2.3.

2.3. **Employee Relocation Costs.**

2.3.1. Except as provided in Section 2.3.3., Operator's cost of employees' relocation to or from the Contract Area vicinity or location where the employees will reside or work, whether permanently or temporarily assigned to the Joint Operations. If such employee is engaged in activities for other accounts in addition to the Joint Operations, such relocation costs shall be allocated on an equitable basis.

2.3.2. Such relocation costs shall include transportation of employees, families, personal and household effects of the employee and family, transit expenses, and all other related costs in accordance with Operator's usual practice.

2.3.3. Relocation costs from the vicinity of the Contract Area to another location classified as a foreign location by Operator shall not be chargeable to the Joint Account unless such foreign location is the point of origin of the relocated employee.

9/28/95

- 8 -

A *u* *GA*

25
GA *OK*
[Signature]

2.4. **Offices, Camps, and Miscellaneous Facilities.** Cost of maintaining any offices, sub-offices, camps, warehouses, housing, and other facilities of the Operator and/or Affiliates directly serving the Joint Operations. If such facilities serve other operations in addition to the Joint Operations the costs shall be allocated to the properties served on an equitable basis.

2.5. **Material and Equipment.** Costs, net of discounts taken by Operator, of Material purchased or furnished by Operator shall include, but are not limited to, export brokers' fees, transportation charges, loading, unloading fees, export and import duties and license fees associated with the procurement of Material and equipment and in-transit losses, if any, not covered by insurance. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for, and the cost thereof charged to, the Joint Account as may be required for planned operations.

2.6. **Exclusively-Owned Equipment and Facilities of Operator and Affiliates.** Charges for exclusively-owned equipment, facilities, and utilities of the Operator and its Affiliates at rates not to exceed the average commercial rates of non-affiliated third parties. On request, Operator shall furnish Non-Operators a list of rates and the basis of application. Such rates shall be revised from time to time if found to be either excessive or insufficient, but not more than once every six months. Drilling tools and other equipment lost in the hole or damaged beyond repair may be charged at replacement cost less depreciation plus transportation costs to deliver like equipment to the location where used.

2.7. **Insurance.** Premiums paid for insurance required by law or by the Agreement to be carried for the benefit of the Joint Operations.

2.8. **Damages and Losses to Property.**

2.8.1. All costs or expenditures necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause. Operator shall furnish Non-Operators written notice of damages or losses incurred in excess of One hundred thousand U.S. Dollars (U.S. \$100,000) as soon as practical after report of the same has been received by Operator.

2.8.2. Credits for settlements received from insurance carried for the benefit of Joint Operations and from others for losses or damages to Joint Property or Materials. Each Party shall be credited with its share thereof except where such receipts are derived from insurance purchased by Operator for less than all Parties in which event such proceeds shall be credited to those Parties for whom the insurance was purchased in the proportion of their respective contributions toward the insurance coverage.

9/28/95

- 9 -

A *m* *gh*

50
CR
[Signature]

2.8.3. Expenditures incurred in the settlement of all losses, claims, damages, judgments and other expenses for the benefit of Joint Operations.

2.9. Services.

2.9.1. The cost of services provided by third parties other than Affiliates of Operator.

2.9.2. The cost of services performed by Operators and its Affiliates technical and professional staffs, not located within the Country of Operations. Costs shall include salaries and wages of such technical and professional personnel, lost time, governmental assessments, employee benefits, and reasonable expenses. Costs shall also include all support costs necessary for such technical and professional personnel to perform such services, such as, but not limited to, rent, utilities, secretaries, drafting, telephone and other communications expenses, computer support, supplies, and depreciation. Examples of such services include, but are not limited to, the following:

- Geologic Studies and Interpretation
- Seismic Data Processing
- Well Log Analysis, Correlation and Interpretation
- Laboratory Services
- Well Site Geology
- Project Engineering
- Source Rock Analysis
- Petrophysical Analysis
- Geochemical Analysis
- Drilling Services
- Development Evaluation
- Accounting and Professional Business Services
- Other Data Processing
- Legal
- Tax
- Human Resources
- Purchasing and Transportation Services
- Computing or Information Services
- Other Services that may be required for benefit of the Joint Operations

2.10. Litigation and Legal Expenses. The costs and expenses of litigation and legal services necessary for the protection of the Joint Operations under this Agreement as follows:

9/28/95

Handwritten initials: A, m, J, GH

Handwritten initials: 9/28, CLR, TX, JLP

2.10.1. Legal services necessary or expedient for the protection of the Joint Operations, and all costs and expenses of litigation, arbitration, or other alternative dispute procedure, including reasonable attorneys' fees and expenses, together with all judgments obtained against the Parties or any of them arising from the Joint Operations.

2.10.2. If Operator's legal staff handle legal claims of actions, the costs thereof shall be charged to the Joint Account as specified in paragraph 2.9 of Section II of this Accounting Procedure. Such claims of actions may be handled by the legal staff of a Non-Operator if the parties agree. Cost for handling claims of actions should not exceed cost for a similar outside firm.

2.11. **Taxes and Duties.** All taxes, duties, assessments and governmental charges, of every kind and nature, assessed or levied upon or in connection with the Joint Operations, other than any that are measured by or based upon the revenues, income and net worth of a Party. If Operator or an Affiliate is subject to income or withholding tax as a result of services performed at cost for the operations under the Agreement, its charges for such services may be increased by the amount of such taxes incurred (grossed up).

2.12. **Other Expenditures.** Any other costs and expenditures incurred by the Operator for the necessary and proper conduct of the Joint Operations in accordance with approved Work Programs and Budgets and not covered in this Section II or in Section III.

2.13. **ARCO's Direct Charges.** ARCO shall charge the Joint Account with all costs and expenditures incurred by ARCO, its Affiliates and third parties in connection with operations and activities directly related to the Contract Area from 31 August 1995 through the completion of all drilling and related activities for the drilling of the Option Well as set out in Article 4.3 of the Farmout Agreement dated 31 August 1995 by and between TPAO and ARCO. Charges pursuant to this Section which do not come within the definition of Drilling Costs in Article 1.6 of the Farmout Agreement shall not be counted toward the \$6,000,000 maximum expenditure referred to in Article 4.3 of the Farmout Agreement.

SECTION III.

INDIRECT CHARGES

3.1. Operator shall charge the Joint Account monthly for the cost of indirect services and related office costs of Operator and its Affiliates not otherwise provided in this Accounting Procedure. These cost are for executive, technical, and administrative functions not directly identified to a specific operation but are for services which provide Operator and its Affiliates with needed and necessary resources which Operator requires and provide a real benefit to the Joint Operation.

9/28/95

- 11 -

Handwritten signatures and initials in the bottom left corner.

Handwritten signatures and initials in the bottom right corner.

3.2. The charge under Section 3.1 above during the phases shown below, shall be calculated as a percentage of the Operator's annual expenditures during the month; adjusted to an annual basis, as follows in the currency maintained in the Operator's records or U. S. dollars:

3.2.1. Exploration Phase

(a) one percent (1%) of Operator's annual expenditures for exploratory costs.

3.2.2. Development Phase

(a) one percent (1%) of Operator's annual expenditures for development costs.

3.2.3. Producing Phase

(a) one percent (1%) of Operator's annual expenditures for operating costs.

The exploration, development and producing phases may be concurrent; therefore, the aggregate overhead charge may be the sum of the amount computed as specified for each phase. All capital and expense expenditures shall be used to calculate the monthly indirect charges except as otherwise provided in Section 3.3.

A minimum amount of ten thousand U.S. dollars (US \$ 10,000.) shall be assessed each month.

3.3. The expenditures used to calculate the monthly indirect charge, shall not include the indirect charge (calculated either as a percentage of expenditures or as a minimum monthly charge), rentals on surface rights acquired and maintained for the Joint Account, guarantee deposits, concession acquisition costs, bonuses paid in accordance with the Contract, royalties and taxes paid under the Contract, settlement of claims and proceeds from the sale of assets (including division in kind) amounting to more than U.S. \$25,000 per transaction, and similar items mutually agreed upon by the Parties. Credits arising from any government subsidy payments and disposition of Joint Account property shall not be deducted from total expenditures in determining such charge.

3.4 The indirect rates and related calculation method for development operations and for production operations shall be agreed upon by the Parties prior to the submission of the first annual proposed budget for that respective phase of operation.

3.5. The indirect charges provided for in this Section III may be amended periodically by mutual agreement between the Parties if, in practice, these charges are found to be insufficient or excessive.

9/28/95

- 12 -

Handwritten initials: A, cu, j, gh

Handwritten initials: 9/28, CLR, and a signature

SECTION IV.

ACQUISITION OF MATERIAL

4.1. **Acquisitions.** Materials purchased for the Joint Account shall be charged at net cost paid by the Operator. The price of Materials purchased shall include, but shall not be limited to export broker's fees, insurance, transportation charges, loading and unloading fees, import duties and license fees associated with the procurement of Materials and applicable taxes, less all discounts taken by Operator.

4.2. **Materials furnished by Operator.** Materials required for operations shall be purchased for direct charge to the Joint Account whenever practical, except the Operator may furnish such Materials from its stock under the following conditions:

4.2.1. **New Materials (Condition "1").** New Materials transferred from the warehouse or other properties of Operator shall be priced at net cost determined in accordance with Section 4.1. above but not exceeding current market value, as if Operator had purchased such new Material just prior to its transfer.

4.2.2. **Used Materials (Conditions "2" and "3").**

4.2.2.1. Material which is in sound and serviceable condition and suitable for use without repair or reconditioning shall be classed as Condition "2" and priced at seventy-five percent (75%) of such new purchase net cost at the time of transfer.

4.2.2.2. Materials not meeting the requirements of Section 4.2.2.1. above, but which can be made suitable for use after being repaired or reconditioned, shall be classed as Condition "3" and priced at fifty percent (50%) of such new purchase net cost at the time of transfer. The cost of reconditioning shall also be charged to the Joint Account provided that Material so classified meet the requirements for Condition "2" Material upon being repaired or reconditioned.

4.2.2.3. Material which cannot be classified as Condition "2" or Condition "3", shall be priced at a value commensurate with its use.

4.2.2.4. Tanks, derricks, buildings, and other items of Material involving erection costs, if transferred in knocked-down condition, shall be graded as to condition as provided in this Section 4.2.2. and priced on the basis of knocked-down price of like new Material.

9/28/95

- 13 -

Handwritten initials and marks:
A
m
f/h

Handwritten initials and marks:
Zw
A
CLP
A

4.3. **Premium Prices.** Whenever Material is not readily obtainable because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred procuring such Material, in making it suitable for use, and moving it to the Contract Area.

4.4. **Warranty of Material Furnished by Operators.** Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until Operator has received adjustment from the manufacturers or their agents.

SECTION V.

DISPOSAL OF MATERIALS

Operator shall be under no obligation to purchase the interest of Non-Operators in new or used surplus Materials. Operator shall have the right to dispose of Materials but shall advise and secure prior agreement of the Operating Committee of all proposed dispositions of Materials valued in the aggregate of One hundred thousand U.S. Dollars (U.S. \$100,000) or more per year. When Joint Operations are relieved of Material charged to the Joint Account, Operator shall advise each Non-Operator of the original cost of such Material to the Joint Account so that the Parties may eliminate such costs from their asset record. Credits for Material sold by the Operator shall be made to the Joint Account in the month in which payment is received for the Material. No guarantees or warranties shall be given with respect to any Material sold or disposed of under this Section. However, if any claims by the purchaser arise, they shall be charged to the Joint Account if and when paid. Costs and expenditures incurred by Operator in the disposition of Materials shall be charged to the Joint Account.

5.1. **Material Purchased by Operator or Non-Operator.** Material purchased by either Operator or Non-Operator shall be credited by Operator to the Joint Account after payment has been received. Material shall be valued as provided in Section 4.2 unless otherwise agreed by the Operating Committee

5.2 **Division in Kind.** Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each Party will thereupon be charged individually with the value of the material received or receivable by each Party, and corresponding credits will be made by Operator to the Joint Account. Such credits shall appear in the monthly statement of operations.

5.3 **Sales to Third Parties.** Sale of material from the Joint Property to third parties shall be credited by Operator to the Joint Account at the net amount collected by Operator from the purchaser when received.

9/28/95

- 14 -

CA
9/28/95
GA

9/28/95
JRS
AK
JRS

SECTION VI.

INVENTORIES

6.1. **Periodic Inventories -- Notice and Representation.** At reasonable intervals, and at least annually, inventories shall be taken by Operator of all controllable Material or the Material the Operator normally records, controls, and inventories. The expense of conducting periodic inventories shall be charged to the Joint Account. Operator shall give Non-Operators written notice at least thirty Days (30) in advance of its intention to take inventory, and Non-Operators, at their sole cost and expense, shall each be entitled to have a representative present. The failure of any Non-Operator to be represented at such inventory shall bind such Non-Operator to accept the inventory taken by Operator, who shall in any event furnish each Non-Operator with a reconciliation of overages and shortages. Inventory adjustments to the Joint Account shall be made by Operator for overages and shortages. Any adjustment equivalent to one hundred thousand U.S. Dollars (U.S. \$100,000.) or more shall be brought to the attention of the Operating Committee.

6.2. **Special Inventories.** Whenever there is a sale or change of interest in the Agreement, a special inventory may be taken by the Operator provided the seller and/or purchaser of such interest agrees to bear all of the expense thereof. In such cases, both the seller and the purchaser shall be entitled to be represented and shall be governed by the inventory so taken.

SECTION VII.

CAPITAL ASSET BASE

7.1. **ARCO's Capital Asset Base.** The Parties agree that ARCO is entitled to include all assets imported into Turkey pursuant to the Farmout Agreement, dated 31 August 1995, by and between TPAO and ARCO in the calculation of ARCO's capital asset base, pursuant to the Petroleum Law (Number 6326, as amended) of the Republic of Turkey. TPAO shall render every reasonable assistance to ARCO (including, if necessary, the registry of ARCO's rights as a limitation over TPAO's Reconnaissance Permit, as soon as possible, but in any event no later than the actual commencement of the seismic program) in order to maximize the benefits that may be available to ARCO pursuant to the Petroleum Law.

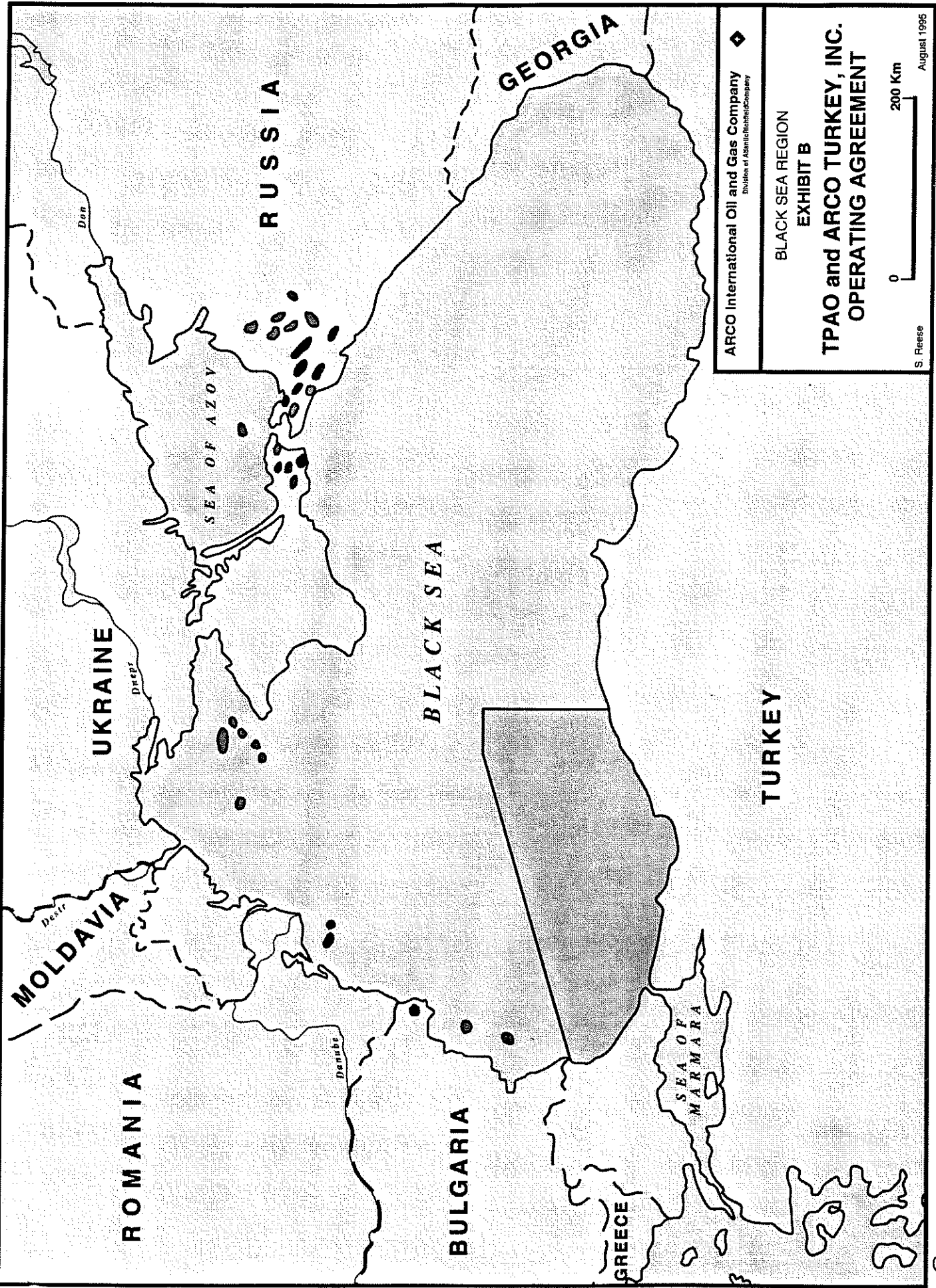
9/28/95

- 15 -

CA
C
N
G

9/28/95
CR
CR

Romania00015



ARCO International Oil and Gas Company
Division of AtlanticRichfieldCompany

BLACK SEA REGION
 EXHIBIT B

TPAO and ARCO TURKEY, INC.
 OPERATING AGREEMENT

0 200 Km

S. Reese

August 1995

Handwritten signatures and initials at the bottom left.

Handwritten signatures and initials at the bottom right.