

## **INCOME TAX COMMISSIONER'S BULLETIN**

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## INCOME TAX COMMISSIONER'S BULLETIN

### ARTICLE I GENERAL PROVISIONS

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|--|-----|--|
| <b>DEFINITIONS</b>                     | 1.1 | The Accounting Procedure described herein is to be followed and observed in the performance of both parties' obligations under this Agreement. The definitions appearing in Article I of the Agreement shall also apply to this Exhibit.   |
| <b>INCONSISTENCY</b>                   | 1.2 | In the event of any inconsistency or conflict between the provisions of this Exhibit and the other provisions of this Agreement, then the other provisions of this Agreement shall prevail.  |
| <b>ACCOUNTING RECORDS AND REPORT</b>   | 1.3 | <p><b>(a)</b> The Contractor shall establish and maintain at its business office in Belize complete accounts, books and records of all revenues, costs and expenses relating to all Petroleum Operations hereunder in accordance with generally accepted procedures and standards in the international petroleum industry. Such account books, records and reports will be available for the inspection and use of the Government and its representatives in carrying out its supervisory function under the Agreement.</p> <p><b>(b)</b> Within thirty (30) days of the Effective Date of this Agreement, the Contractor shall submit to and discuss with the Government a proposed outline of charts of accounts, books, records and reports, which outline shall be in accordance with generally accepted and recognized accounting systems and consistent with modern petroleum industry practices and procedures. Within ninety (90) days of receiving the above submission, the Government shall either indicate its approval of the proposal or request revisions to the proposal. Within one hundred and eighty (180) days after the Effective Date of the Agreement, the Contractor and the Government shall agree on the outline of charts of accounts, books, records and reports which shall describe the basis of the accounting system and procedure to be developed and used under this Agreement. Following such agreement, the Contractor shall expeditiously prepare and provide the Government with formal copies of the comprehensive charts of accounts and manuals related to the accounting, recording and reporting functions, and procedures which are, and shall be, observed under this Agreement.</p> <p><b>(c)</b> All reports and statements will be prepared in accordance with this Agreement, the laws of Belize, and where there are no relevant provisions of either of these, in accordance with generally accepted practices in the international petroleum industry.</p> |
| <b>LANGUAGE - AND UNITS OF ACCOUNT</b> | 1.4 | Unless otherwise agreed, all accounts, records, books and reports shall be maintained and prepared in the English language and shall be recorded in United States dollars.   |

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| <b>TAX ACCOUNTING PROCEDURES</b>                       | 1.5   | The following tax accounting principles shall apply:   |
|  | 1.5.1 | In the event that the Contractor at any time comprises more than one corporation, individual or entity, in the form of a partnership, joint venture, unincorporated association or other combination of entities or individuals, Income Tax shall in all cases be calculated and assessed on the basis of the Net Taxable Income of each corporation, individual, partner, joint venture, associate or other entity comprising the Contractor.   |
| <b>CARRY FORWARD OF LOSSES</b>                         | 1.5.2 | Commencing with the Calendar Year in which Initial Commercial Production first occurs, any allowable deductions for Income Tax purposes with respect to Petroleum Operations Expenditures, the Production Payment and the Government's share of Crude Oil production which remain unrecovered in any Calendar Year from Gross Revenue shall be treated as an operating loss and may be carried forward as an allowable deduction to subsequent Calendar Years until fully recovered from Gross Revenues. In the event that an operating loss remains unrecovered upon the termination of this Agreement, such loss may be carried over and deducted from other revenues of the Contractor from Petroleum Operations in Belize  |
| <b>ACCRUAL BASIS</b>                                   | 1.6   | All books, accounts and records shall be prepared on an accrual basis. Revenues shall be attributed to the accounting period in which they are earned, and costs and expenses to the accounting period in which they are incurred, without the need to distinguish whether cash is received or disbursed in connection with a particular transaction. Costs and expenses shall be deemed to have been incurred, in the case of physical items, in the accounting period when title thereto passes, and in the case of services, in the accounting period when such services are performed.   |
| <b>DEFINITION OF PETROLEUM OPERATIONS EXPENDITURES</b> | 1.7   | Petroleum Operations Expenditures may consist of capital and operating expenditures as follows:  |
| <b>CAPITAL EXPENDITURES</b>                            | 1.7.1 | <p>Capital expenditures are those Petroleum Operations Expenditures for assets that normally have a useful life which extends beyond the year in which the assets was acquired.</p> <p>In addition to expenditures relating to assets that normally have a useful life beyond the year in which the asset was acquired, the costs of development and production drilling operations, as described in paragraph 1.7.1 (e) of this Exhibit, will be classified as capital expenditures.</p> <p>Capital expenditures include, but are not limited to, the following:</p> <p><b>(a)</b> Construction utilities, but are not limited to, the following: water facilities, warehouses, and field roads. Cost of Crude Oil treating plants and equipment, secondary recovery systems, natural gas</p> |

plants and steam systems,

**(b)** Construction housing and welfare housing - recreational facilities and other tangible property incidental to construction,

**(c)** Production facilities - production rigs (including the costs of labor, fuel, hauling and supplies for both the offsite fabrication and onsite installation of rigs, and other construction costs in erecting rigs and installing pipelines), wellhead equipment, subsurface lifting equipment, production tubing, sucker rods, surface pumps, flow lines, gathering equipment, delivery lines and storage facilities,

**(d)** Movables - surface and subsurface drilling and production tools, equipment and instruments, barges, floating craft, automotive equipment, aircraft, construction equipment, furniture and office equipment and miscellaneous equipment,

**(e)** Development and production drilling - labor, materials and services used in drilling wells with the object of penetrating a proven reservoir, including the drilling of delineation wells as well as re-drilling, deepening or recompleting wells, and access roads, if any, leading directly to wells,

**OPERATING  
EXPENDITURES**

1.7.2

Operating expenditures are all Petroleum Operations Expenditures other than capital expenditures.

Operational expenditures include, but are not limited to, the following:

**(a)** Exploration drilling - labor, materials and services used in the drilling of wells with the object of finding unproven reservoirs of crude oil and natural gas, and access roads, if any, leading directly to wells.

**(b)** Surveys - labor, materials and services used in aerial, geological, topographical, geophysical and seismic surveys, and core hole drilling, and

**(c)** Other exploration expenditures -auxiliary or temporary facilities having lives of one year or less used in exploration and purchased geological and geophysical information.

**DEPRECIATION**

1.8

Capital expenditures, as defined in paragraph 1.7 of this Exhibit, shall be depreciated only for the purpose of the calculation of Income Tax. For the purpose of determining the amount of depreciation which is allowable as a deduction in each calendar year, the following principles shall apply,

1.8.1

Capital expenditures will be depreciated using the straight line method over five (5) years,

1.8.2

A full year's depreciation may be taken in the first calendar year in which such depreciation is allowable,

1.8.3

Deductions with respect to depreciation of capital expenditures incurred shall be allowable commencing

with (A) the calendar year in which the capital asset is placed into service, or, if the capital expenditure does not relate to an asset that normally has a useful life beyond the year in which it is placed in service, the calendar year in which the capital expenditure is incurred, or (B) the calendar year in which Initial Commercial Production first occurs, whichever is later.

**ARM'S LENGTH  
TRANSACTIONS**

1.9 Except as may be otherwise agreed in writing between the Government and the Contractor, all transactions giving rise to revenues, costs or expenses which will be credited or charged to the books, accounts, records and reports prepared, maintained or submitted hereunder shall be conducted at arm's length or on such a basis as will assure that all such revenues, costs or expenses will not be higher or lower, as the case may be, than would result from a transaction conducted at arm's length on a competitive basis with third parties.

**GENERAL  
EXCLUSIONS**

1.10 The following expenditures shall not be included in Petroleum Operations Expenditures:

(a) costs and expenses incurred at any time prior to the Effective Date,

(b) costs relating to petroleum marketing or transportation beyond the Delivery Point,

(c) contributions and donations except those approved by the Government,

(d) gifts or rebates to suppliers, and gifts or commissions to intermediaries arranging service or supply contracts,

(e) any interest, fines, monetary corrections or increases in expenses resulting from the Contractor's failure to comply with its obligations under this Agreement, applicable law or agreements with third parties, and

(f) any other expenditures not directly related to Petroleum Operations or not in compliance with the provisions of this Exhibit.

**CURRENCY EXCHANGE  
RATES**

1.11 For conversion purposes between any other currency and United States dollars, the average of the buying and selling rate of exchange shall be used as issued by the Central Bank of Belize on the first day of the month in which the revenues, costs or expenses are recorded. Any realized or unrealized gains or losses from the exchange of currency shall be charged or credited to Petroleum Expenditures. A record of the exchange rates used in converting other currencies into United States dollars shall be kept by the Contractor.

**REVISION OF  
THE ACCOUNTING  
PROCEDURE**

1.12 By mutual agreement between the Government and the Contractor this Accounting Procedure may be revised from time to time.

**ACCEPTANCE OF COSTS** 1.13 The acceptance by the Government of the values and treatment proposed by the Contractor relating to all costs and expenses may be conditional upon the presentation by the Contractor, following a request by the Government or its representatives, of all records and original documents supporting such costs and expenses, such as invoices, cash vouchers, debit notes, price lists or similar documentation verifying the value and treatment proposed.

**ARTICLE II  
PETROLEUM OPERATIONS EXPENDITURE**

**DEFINITION FOR THE PURPOSE OF DETERMINING COMPLIANCE WITH THE MINIMUM EXPLORATION EXPENDITURE COMMITMENT** 2.1 In determining the Contractor's compliance with the minimum Exploration Expenditures obligations undertaken pursuant to this Agreement, Petroleum Operations Expenditures shall include all costs and expenses incurred in the performance of exploration operations in accordance with approved work programmes, but excluding those incurred in the performance of development and production operations in the contract year in question without the need to distinguish, between capital and operating expenditures, provided, however, that expenditures incurred in training nationals of Belize pursuant to paragraphs 20.1 and 20.2 of this Agreement and the value of stock listed in inventory shall be excluded from petroleum operations expenditures for the purpose of this subparagraph.

**DEFINITION FOR THE PURPOSE OF ARTICLE IX** 2.2.1 For each calendar year, including any calendar year prior to the calendar year in which initial commercial production first occurs, petroleum operations expenditures, for the purposes of Article IX of this Agreement, shall include all petroleum operations expenditures incurred in that calendar year in the contract area.

2.2.2 The following costs and expenses shall not be included in petroleum operations expenditures for the purposes of Article IX of this Agreement:

(a) surface rentals payable pursuant to Article XIII of this Agreement,

(b) any costs relating to the provision of the security described in paragraph 6.1.6 of this Agreement including payments made to the Government pursuant to such security or otherwise for failure to incur the minimum exploration expenditures in accordance with paragraph 6.1 of this Agreement, and

(c) any interest, fees, duties, taxes and other financial charges, referred to in paragraph 3.7 of this Exhibit, relating to loans and credits obtained by the Contractor to acquire funds for the execution of its obligations under this Agreement.

**DEFINITION FOR THE  
PURPOSE OF THE  
INCOME TAX**

2.3 For each calendar year, commencing with the calendar year in which initial commercial production first occurs, petroleum operations expenditures which shall be deductible for the purpose of the calculation of Income Tax payable shall consist of the sum of:

the current calendar year's operating expenditures incurred, including the current calendar year's allowable deductions for depreciation of capital expenditures determined in accordance with subparagraphs 1.5.2 of this Exhibit.

**ARTICLE III  
ACCOUNTING METHODS AND PRINCIPLES**

Petroleum operations expenditures incurred hereunder shall be calculated and accounted for in a manner consistent with the following principles and definitions and shall include:

**LABOUR COSTS**

3.1 Costs of salaries and wages of the Contractor's employees directly engaged in petroleum operations, including costs of holidays, vacations, sickness, living and housing allowances, travel time, bonuses and other established plans for employee benefits customarily granted to the Contractor's employees and their families in similar ventures,

**MATERIAL COSTS**

3.2 Costs of materials, equipment, machines, tools and any other goods of a similar nature used or consumed in petroleum operations subject to the following:

(a) Acquisition - the Contractor shall only supply or purchase materials for use in petroleum operations that may be used in the foreseeable future. The accumulation of surplus stocks and inventory shall be avoided. Inventory levels shall, however, take into account the time lag for replacement, emergency needs and similar considerations,

(b) Components of costs - costs of materials purchased by the Contractor for use in petroleum operations may include, in addition to the invoice price (subtracting the discounts given, if any), freight costs and costs of transportation between the supply point and delivery point (provided that such costs are not included in the invoice price), inspection costs, insurance, custom duties, taxes and other items that may be charged to imported materials or to materials purchased in the Belize,

(c) Accounting - such materials costs shall be charged to the accounting records and books based on the "First in-First Out" (FIFO) method,

(d) Supply of Materials by Affiliated Companies - materials supplied by the Contractor's Affiliated Companies shall be charged to the accounting records and books at prices no higher than the prices comparable material purchased on a competitive basis from third party suppliers. This criterion shall apply to both new and used materials,

(e) Inventories - the Contractor shall maintain both a physical and accounting inventory of all materials in stock in accordance with generally accepted practices in the international petroleum industry. The Contractor shall make a physical inventory of all such materials at least twice in any Contract Year. The Government may carry out total or partial inventories whenever it deems it necessary. The costs of non capital items purchased for inventory shall be charged to operating expenditure when issued from stock for consumption,

**TECHNICAL SERVICE COSTS**

3.3

The value of technical services costs relating to Petroleum Operations shall be:

(a) In the case of technical services performed by third parties directly subcontracted, including outside consultants, contractors and utilities, the price paid by the Contractor, provided that such prices are no higher than the prices charged by other suppliers for comparable work and services, and

(b) In the case of technical services performed by the Contractor or its Affiliated Companies, prices which are no higher than the most favorable prices charged to other Affiliated Companies of the Contractor and to third parties for comparable services.

**INSURANCE AND CLAIMS**

3.4

Costs relating to insurance, provided such insurance is customary, affords prudent protection against risks and is at a premium no higher than that charged on a competitive basis by insurance companies which are not Affiliated Companies of the Contractor. The proceeds of any insurance or claim shall be credited against Petroleum Operations Expenditures. Except in cases where insurance coverage is required pursuant to Article XXV of this Agreement, if no insurance is carried for a particular risk, all costs incurred by the Contractor in settlement of any related loss, claim, damage or judgment, including legal services, shall be includable in Petroleum Operations Expenditures provided that such costs did not result from the Contractor's gross negligence.

**LEGAL AND LITIGATION COSTS**

3.5

Costs and expenses of litigation and legal or related services necessary or expedient for the protection of the Contract area. Any damages or compensation received shall be credited against Petroleum Operations Expenditures. Under no circumstances may the Contractor's costs incurred in the course of arbitration, entered into under Article XXII of this Agreement, be included in Petroleum Operations Expenditures,

**GENERAL ADMINISTRATION AND SERVICES OVERHEAD COSTS**

3.6

General services and administrative costs, other than direct costs, including, but not limited to:

(a) The Contractor's personnel and services costs, outside of Belize relating to administration, legal, accounting, treasury, auditing, taxation, planning, employee relations, purchasing and other functions required for Petroleum Operations under this Agreement, and



(b) Reasonable travel expenses of the Contractor's personnel in the general and administrative categories listed in (a) above for the purpose of inspection and supervision of Petroleum Operations in Belize shall be allocable to Petroleum Operations Expenditures according to methods agreed to by the Contractor and the Government. The methods agreed shall result from a detailed study and the methods selected following such study shall be applied each year consistently unless otherwise agreed by the parties. In the case of Exploration Operations, these general administration and services overhead costs shall not exceed three percent (3%) of the direct costs incurred in such operations in each Calendar Year. Following the date of declaration of Commercial Discovery in the first Field, the Government and the Contractor shall agree upon the level of General Administration and Services Overhead Costs which may be allocable to Petroleum Operations Expenditures and the percentage of direct costs ceiling shall be reduced accordingly.

**INTEREST, ETC.**

3.7

Interest, fees, duties, taxes and other financial charges relating to loans and credits obtained by the Contractor to acquire funds for the execution of its obligations under this Agreement at rates not exceeding the prevailing commercial rates may be charged to Petroleum Operations Expenditures. Details of any financing plan, and amounts thereof, shall be included in each annual Work Programme Budget

**OFFICE COSTS, ETC. IN BELIZE**

3.8

Staffing and maintenance of the Contractor's head office in Belize and other offices in Belize, including rent, telephone, telex and radio expenses, as well as the expenses of general facilities such as shore bases, warehouses, water, power and communications systems, roads and bridges.

**EXAMPLE OF PRODUCTION SHARING CALCULATION**

3.9

The examples below shows the application of the Production Sharing scale for a field producing 360,000 bbls per day on an average in the course of a quarter.

Example-1 (offshore)

Production Share Table

| Daily Average Production<br>(bbl/d) | Government Share<br>(%) | Contractor Share<br>(%) |
|-------------------------------------|-------------------------|-------------------------|
| 0 - 50,000                          | 10                      | 90                      |
| 50,000 - 150,000                    | 15                      | 85                      |
| 150,000 - 250,000                   | 20                      | 80                      |
| 250,000 - 350,000                   | 25                      | 75                      |
| >350,000                            | 30                      | 70                      |

|   |                       |
|---|-----------------------|
| Gross Value of 360,000 bbl/d @ \$20/bbl | \$ 7,200,000          |
| 100% Recovery of expenses               | <u>- \$ 2,880,000</u> |
| Balance in dollars                      | \$ 4,320,000          |

Government's Share of the Balance:  
 [(50,000 bbls x 10% + 100,000 bbls x 15%  
 +100,000 bbls x 20% + 100,000 bbls x 25%  
 + 10,000 bbls x 30%) / (360,000 bbls)]  
 x \$ 4,320,000 = \$ 816,000

Contractor's Share  
 \$ 4,320,000 - \$ 816,000 = \$3,504,000

Example-2 (onshore)

Production Share Table

| Daily Average Production<br>(bbl/d) | Government Share<br>(%) | Contractor Share<br>(%) |
|-------------------------------------|-------------------------|-------------------------|
| 0 - 50,000                          | 10                      | 90                      |
| 50,000 - 100,000                    | 20                      | 80                      |
| 100,000 - 150,000                   | 30                      | 70                      |
| > 150,000                           | 40                      | 60                      |

|   |                      |
|---|----------------------|
| Gross Value of 360,000 bbl/d @ \$20/bbl | \$7,200,000          |
| 100% Recovery of Expenses               | <u>- \$1,620,000</u> |
| Balance in dollars                      | \$5,580,000          |

Government's Share of the Balance:  
 [(50,000 bbls x 10% + 50,000 bbls x 20% +  
 50,000 bbls x 30% + 210,000 bbls x 40%)/360,000 bbls]  
 x \$5,580,000 = \$1,767,000

Contractor's Share  
 \$5,580,000 - \$1,767,000 = \$3,813,000