



Legal and Contractual Framework

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Contents

1. Introduction
2. Key contract principles
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- Sub-surface resources belong to the State
- Foreign and domestic companies may explore and obtain production from these resources under an Exploration and Production Contract with the ANH
- Contracts are granted by the ANH through various mechanisms, including bidding rounds

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Key contract principles

- Investments at the risk and cost of the Contractor
- Contractors responsible for the activities of their subcontractors
- Contractor performance standard of “best industry practice” E&P contract covers exploration and production phases
- E&P contract includes two stages: exploration and production

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- Exploration phases
 - 6 years + up to 4 extension years

- Extensions
 - Up to 4 years, if discovery conditions justify:
 - development difficulties,
 - lack of transport infrastructure, or
 - market development needs

Exploration stage (II)

- First and second phases:
 - At least seismic acquisition
 - 2D or 3D at pre-defined conversion rate
 - Exploration well

- Additional exploration activity may be credited against following exploration phase obligations
 - Subject to ANH approval

- Each exploration phase requires guarantee acceptable to ANH (standby letter of credit)

Evaluation Period

- An evaluation plan must be submitted within 6 months of discovery
- 1 years maximum duration of evaluation
 - 2 years if appraisal wells included
- Additional 2 year extension may be requested in the case of natural gas or heavy oil
 - to allow further evaluation of commercial options
- Results of evaluation must be submitted to ANH within 3 months of completion
 - with clear indication of commerciality

- Must be submitted within 3 months of declaration of commerciality
- Must cover all aspects of field development and production
- Contents (among others)
 - Map of proposed production area
 - Estimation of reserves
 - Forecast of annual production

Production period

- Starts with declaration of commerciality
- 24 years of duration
- Contract can cover several fields
- Right to export production
- Automatic extension possible, subject to certain conditions

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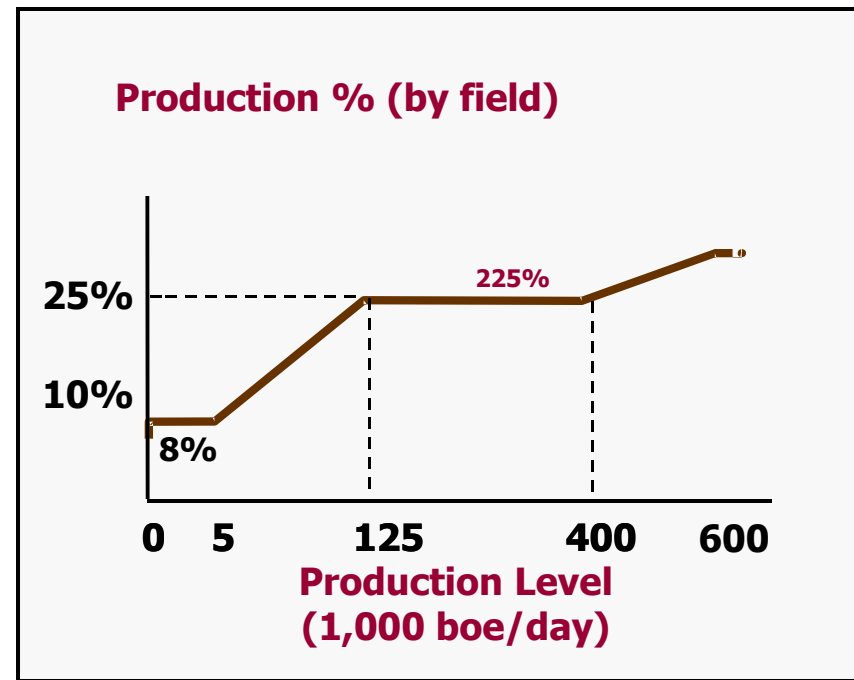
- Sliding Scale Royalties
 - Specific discounts for gas and heavy crude

- Participation of ANH
 - X% bid
 - High Price Participation

- Other Fees & Payments
 - Administration fees
 - Surface Rental Payments
 - Technology Transfer Payments

Sliding scale royalty

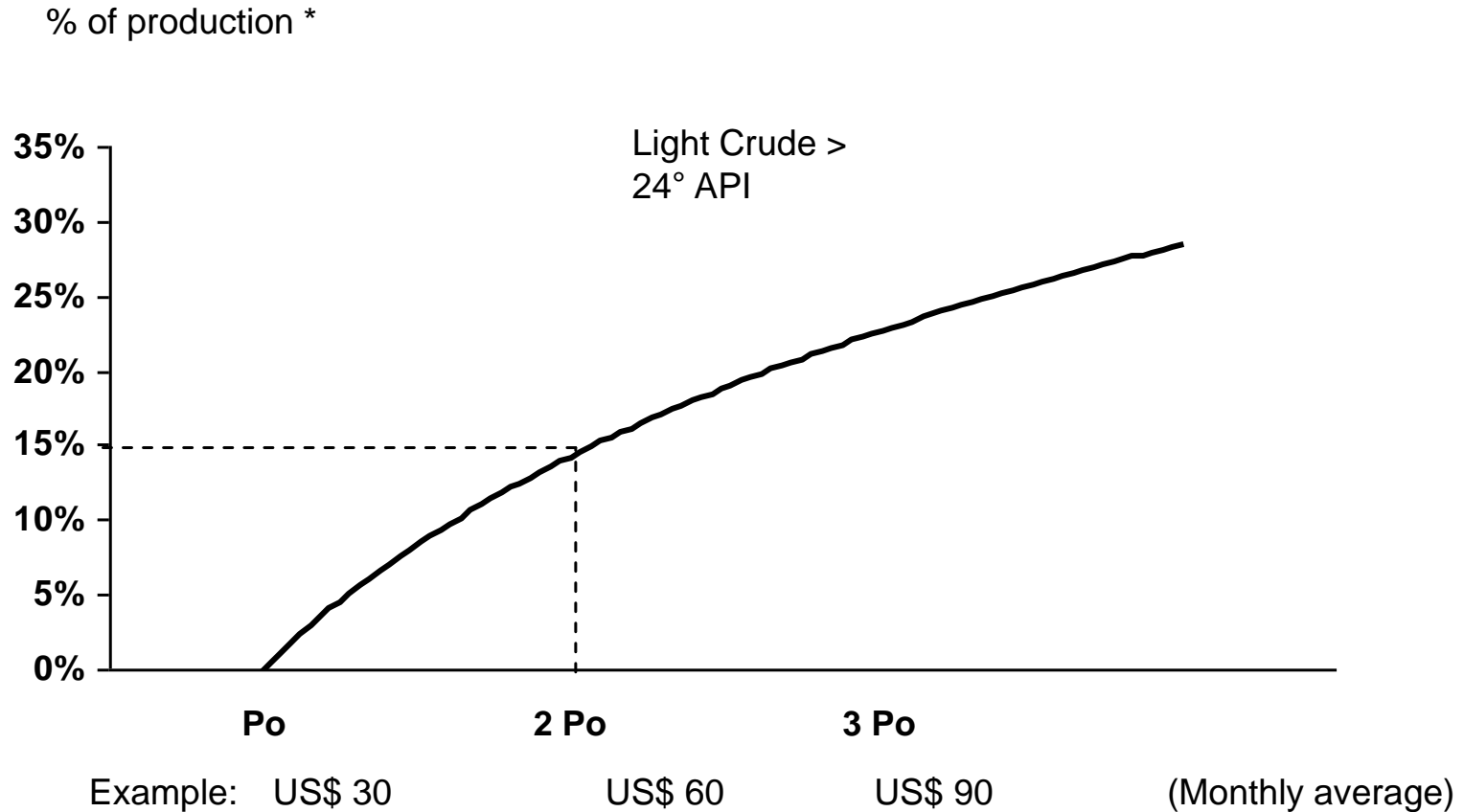
- Paid monthly
- Based on gross value of hydrocarbon production from each field (MME sets price)
- Paid in cash/kind at election of ANH
- Applicable to all fields throughout term of contract



Discount relative to light crude rates

Gas	- 20%
Heavy Crude	- 25%

High price participation



* At wellhead

** Updated annually with US PPI

High Price Participation – Oil

- Applicable where gross cumulative production has exceeded 5 million barrels AND price is in excess of P_o
- A share of production at well-head equivalent to:

$$0.3 * [(P - P_o) / P]$$

Where:

- $P =$ WTI, and
- $P_o =$ (see table)

API Gravity	P_o (2008)
Below 10°	N/A
10-15°	\$31.35/Bbl
>15 and ≤ 22	\$30.22/Bbl
>22 and ≤ 29	\$29.10/Bbl
>29	\$35.82/Bbl
Offshore Production from Depth > 300m	\$34.77/Bbl

High Price Participation – Gas

- Applicable after 5 years from start of production; AND where gas is for export; AND where Henry Hub benchmark exceeds base price (P_0)

- A share of production at well-head equivalent to:

$$0.3 * [(P - P_0) / P]$$

Where:

P = Price at Henry Hub, and

P_0 = (see table)

Straight-line distance between Delivery Point and point of receipt in destination country (kms)	US\$/MMBtu (2007)
>0 and \leq 500	\$6.72
>500 and \leq 1000	\$7.83
>1000 or LNG plant	\$8.95

Surface fees

- Unit payment (per ha.) from second exploration phase, in US\$

Size of area	First 100,000 Ha.		After 100.000 Ha.	
	< 12 months	> 12 months	< 12 months	> 12 months
Onshore	\$0.5	\$0.75	\$0.75	\$1.0

- Excluding any areas under a development plan
- Adjusted annually by U.S. inflation index (PPI - Finished Goods WPUSOP 3000)

Technology transfer payment

- Funds intended for investment in petroleum industry-related training, research, education, etc.
- Calculated as 25% of applicable surface rental payments (annually from phase 1)
- Maximum US\$ 100,000 per year

- Duties are applicable on imported equipment and expendables
 - Temporary import license for capital equipment
 - Some duty exemptions apply for oil and gas E&P activities

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Guarantees

- Exploration stage
 - ❑ First phase: 100% of the minimum and additional exploration program (mandatory)
 - ❑ Second phase: 50% of the minimum exploration program (mandatory)
 - ❑ Remain phases: 10% of the minimum exploration program (mandatory)

- Abandonment Fund

- Drilling and development reports to MME
- Monthly production report to ANH
- Executive report, each semester
- Annual reports
 - Reserves
 - Production plan
 - Changes to development plan

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- ANH only verifies contract compliance
- Approval is deemed granted if no objection/request for additional information by ANH is issued
- During its execution, the Development Plan can be modified by the contractor, with prior notice to ANH
- Standard of approval – best industry practice, consistent with Colombian law

- All data acquired (seismic, logs, cores, etc.), with interpretations, must be handed over to the ANH by end of each exploration phase, and by year-end during production phase

- Data subject to confidentiality
 - Seismic 5 years
 - Well logs 5 years
 - Interpreted information 20 years

Or until contract termination

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- Mandatory verification of presence of ethnic minorities in the project's area of influence, requires prior consultation
- Environmental processes for each activity:
 - Seismic requires Environmental Plan
- Environmental license for drilling and production activities

- In case of mergers or acquisitions, notification to ANH is sole requirement
 - No previous authorization required

- Assignment subject to prior approval of ANH (and qualification of assignee, if applicable)

- Mandated by law when applicable
- Principle is that neighboring contractors sharing a discovery agree to a joint development approach
 - In absence of such agreement, MME will decide
- Where field extends into open areas, ANH may grant additional area subject to certain conditions

- Contractor free to commercialize production in international markets
- If ordered by MME to supply domestic market, up to 50% of production must be dedicated to supply the domestic market
- Pricing for internal refining based on international market conditions as established in MME Resolution 18-1709/2003
 - In no event will the price be less than that used for the calculation of royalty or ANH participation (windfall price or the X% bid)

- Arbitration under Colombian law:
 - Technical/accounting issues – 3 member expert panel, 30 days to resolve
 - Legal - Arbitration with rules of the Bogotá Chamber of Commerce, 3 arbitrators, Colombian law, Spanish language

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Contract termination

- End of exploration stage w/o discovery
- End of the production stage w/o extension
- Exercise of op-out option at end of an exploration phase
- At any time during production stag
- Mutual agreement
- Declaration of default by ANH unilateral termination of contract by ANH
- Other, as stated by law

Abandonment

- In compliance with obligations in the development plan, Colombian law and Best Practices of the Petroleum Industry
- Commence capitalization of a fund 30 days after production starts, in the form of a trust, bank guarantee or other instrument acceptable to ANH
 - Required annual level to Abandonment Fund (AMA)

$$A_{MA} = (P_{AH} \div R_{IH})^2 \times C_{AB}$$

Where:

PAH = Accumulated Production;

RIH = Proved reserves, and

CAB = Abandonment Cost

- Existence of fund does not waive contractor liability for full and proper abandonment

Thank you!

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