Myanmar Upstream Oil & Gas Sector

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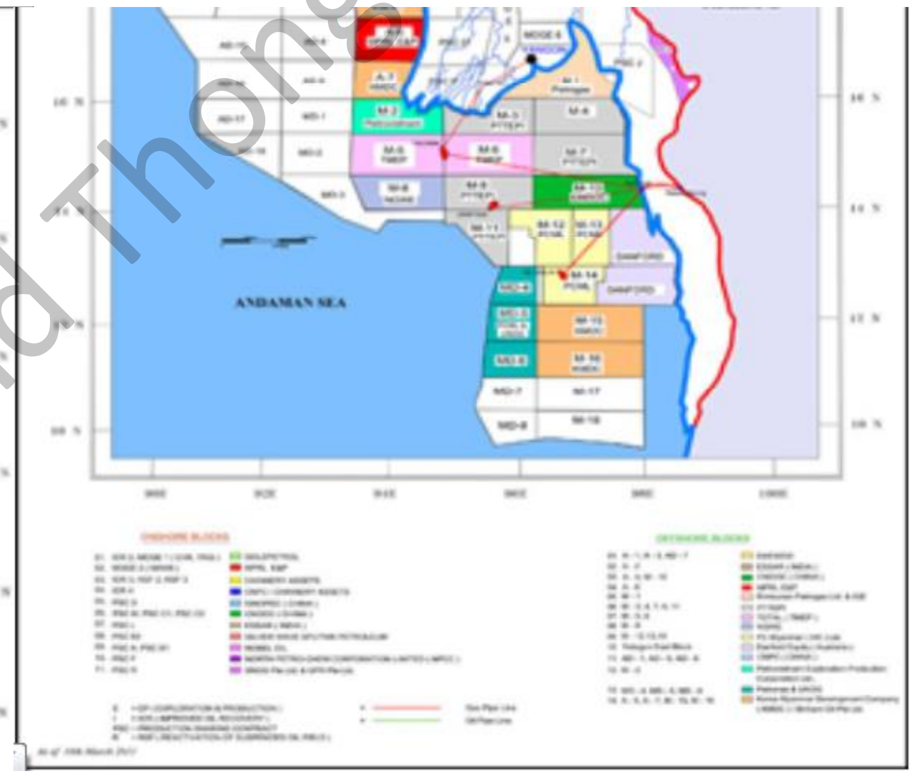
Overview

Oil production in Myanmar is more than 1,000 years old.

- The first export was in 1854.
- The Burmah Oil Company discovered the onshore Yenangyaung oil field in 1887.
- The O&G sector was nationalized in 1962.
- State-owned, Myanma Oil & Gas Enterprise (MOGE) has the exclusive right to carry out all oil and gas operations with private contractors.
- Investors should expect to enter into either a Production Sharing Contract (PSC) or a Improved Petroleum Recovery Contract (IPR) with MOGE when investing in a O&G project.
- Currently, there are 17 onshore blocks and 20 offshore blocks in production.
- The offshore Yadana (TOTAL, Chevron and PTTEP) and Yetagun (Petronas, PTTEP) natural gas projects started production in 1998 and 2000 respectively under gas sales contracts to the Thai state oil company PTT.
- The Daewoo (Daewoo and three partners) natural gas project started production in June 2013. Natural gas produced is sold to CNPC.
- The offshore Zawtika (PTTEP) natural gas project is targeted to commence production in 1Q 2014 to PTT.

Union of Myanmar
Petroleum Block Map
March 13, 2013



Recent Bid Rounds

- On 17 January 2013, MOGE announced a round of bidding for 18 onshore blocks: 3 IPRs and 15 PSCs.
  - Expressions of Interest were due on 16 March 2013.
  - 59 bidders were shortlisted for the second round of bidding.
  - 26 shortlisted bidders submitted 54 bids.
  - 10 companies were awarded 18 onshore blocks on 10 October 2013.

- On 11 April 2013, MOGE announced a new round of bidding for shallow water blocks (11 PSCs) and deep water blocks (19 PSCs).
  - Expressions of Interest were due on 14 June 2013.
  - 61 bidders were shortlisted for the second round of bidding.
  - 30 shortlisted bidders submitted bids on 15 November 2013.

- Potential bidders must cooperate with at least one Myanmar national owned company registered at the Energy Planning Department for onshore and shallow water blocks. As of September 2013, over 150 companies were registered with MOGE to serve as local partners. Bidders for deep offshore blocks may include a Myanmar nationally owned company.

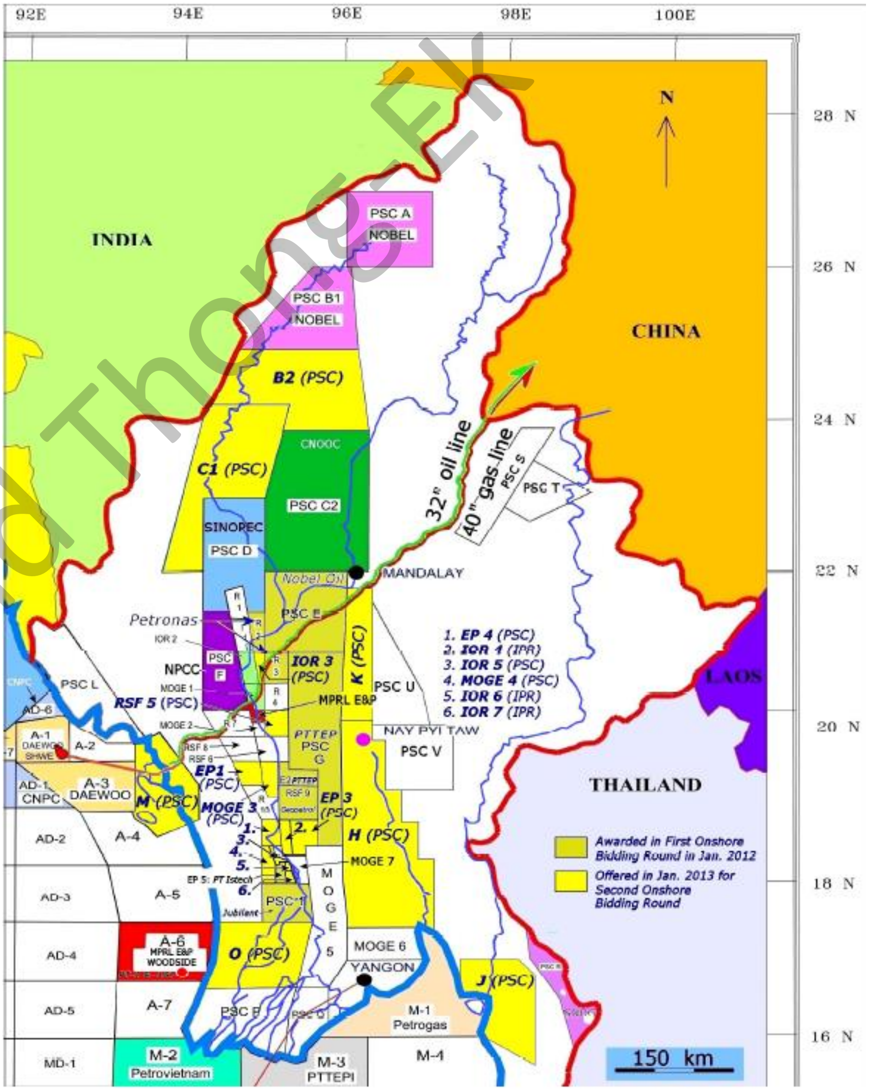
- For updates, we recommend monitoring the Ministry of Energy's website at www.energy.gov.mm.

Dated: 17 January 2013

Invitation for Bids to conduct Petroleum Operations in Myanmar Onshore Areas (2013)

2. The following Onshore blocks are available for bidding in this bidding round:-

No.	Block	Area	Type of Contract
(1)	PSC B2	(Zebyutaung-Nandaw)	PSC
(2)	PSC C1	(Indaw-Yenan)	PSC
(3)	PSC H	(Taungoo-Pyinmana)	PSC
(4)	PSC J	(Mawlamyine)	PSC
(5)	PSC K	(Yamethin)	PSC
(6)	PSC M	(Kyaukpyu)	PSC
(7)	PSC O	(Pathein)	PSC
(8)	EP 1	(Kyaukkyi-Mindon)	PSC
(9)	EP 3	(Thegon-Shwegu)	PSC
(10)	EP 4	(Mayaman)	PSC
(11)	RSF 5	(Ondwe)	PSC
(12)	IOR 3	(Tetma)	PSC
(13)	IOR 4	(Pyay)	IPR
(14)	IOR 5	(Htantabin)	PSC
(15)	IOR 6	(Myanaung)	IPR
(16)	IOR 7	(Shwepyitha)	IPR
(17)	MOGE 3	(Padaukpin-Natmi)	PSC
(18)	MOGE 4	(Myintha)	PSC



Dated: 11 April 2013

Invitation for Bids to conduct Petroleum Operations in Myanmar Offshore Areas (2013)

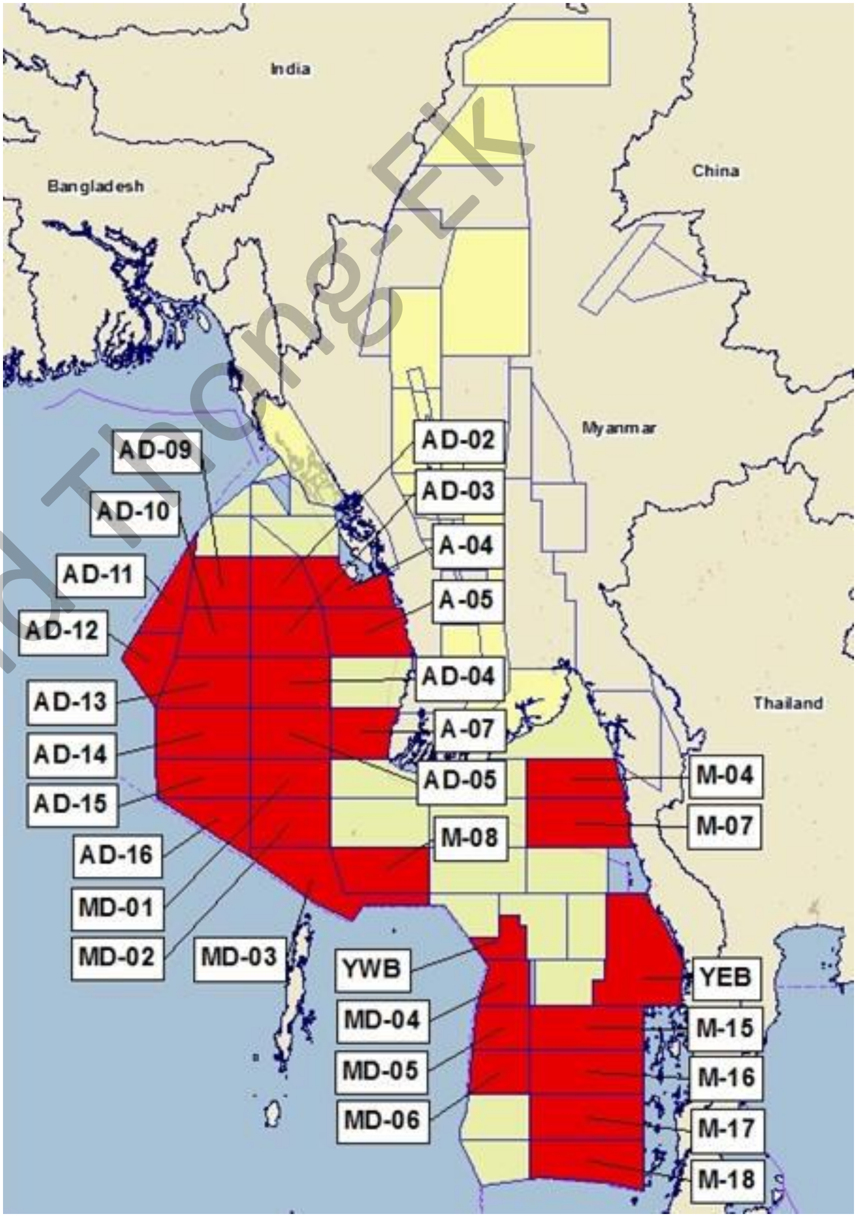
Blocks offered in the Myanmar Offshore Blocks First Bidding Round 2013

Offshore Shallow Water Blocks

Block name	Area	Type of contract
A-04	Rakhine Offshore Area	PSC
A-05	Rakhine Offshore Area	PSC
A-07	Rakhine Offshore Area	PSC
M-04	Moattama Offshore Area	PSC
M-07	Moattama Offshore Area	PSC
M-08	Moattama Offshore Area	PSC
M-15	Tanintharyi Offshore Area	PSC
M-16	Tanintharyi Offshore Area	PSC
M-17	Tanintharyi Offshore Area	PSC
M-18	Tanintharyi Offshore Area	PSC
YEB	Tanintharyi Offshore Area	PSC

Offshore Deep Water Blocks

Block name	Area	Type of contract
AD-02	Rakhine Offshore Area	PSC
AD-03	Rakhine Offshore Area	PSC
AD-04	Rakhine Offshore Area	PSC
AD-05	Rakhine Offshore Area	PSC
AD-09	Rakhine Offshore Area	PSC
AD-10	Rakhine Offshore Area	PSC
AD-11	Rakhine Offshore Area	PSC
AD-12	Rakhine Offshore Area	PSC
AD-13	Rakhine Offshore Area	PSC
AD-14	Rakhine Offshore Area	PSC
AD-15	Rakhine Offshore Area	PSC
AD-16	Rakhine Offshore Area	PSC
MD-01	Moattama Offshore Area	PSC
MD-02	Moattama Offshore Area	PSC
MD-03	Moattama Offshore Area	PSC
MD-04	Tanintharyi Offshore Area	PSC
MD-05	Tanintharyi Offshore Area	PSC
MD-06	Tanintharyi Offshore Area	PSC
YWB	Tanintharyi Offshore Area	PSC



Key Legislation

Current legislation governing oil and gas in Myanmar includes nine principal laws:

- The Oilfields Act 1918;
- The Oilfield Rules 1936;
- The Petroleum Act 1934;
- The Petroleum Rules 1937;
- The Essential Supplies and Services Act 1947;
- The Oilfields (Labour and Welfare) Act 1951;
- The Petroleum Resources (Development Regulation) Act 1957;
- The Law Amending the Petroleum Resources (Development Regulation) Act 1969; and
- The Myanmar Petroleum Concession Rules 1962.

These laws are mostly based upon British Law Codes of the pre-independence Indian statutes. Although the terms and conditions of PSCs largely govern E&P operations, the above mentioned Oilfields (Labour and Welfare) Act 1951 is of continuing importance to contractors and their service companies. A new petroleum law has been drafted and is under review by the Attorney General's office.

Of equal importance in the O&G sector are:

1. the State-Owned Economic Enterprises Law (under which MOGE is assigned responsibility for the E&P sector under PSCs with private companies), and

2. the Foreign Investment Law, Foreign Investments Rules, and MIC Notification 1/2013 (under which Permits are granted by the Myanmar Investment Commission (MIC) to approved terms and conditions of draft PSCs).

The old petroleum laws deal mainly with rights characterized as concessions. Although the above-mentioned laws relating to petroleum are still applicable, in practice, investors generally enter into PSCs, Performance Compensation Contracts (PCCs), IPRs, Improvement of Marginal Recovery Agreements and Reactivation Agreements. The terms and conditions of these contracts govern the process so long as they are not contrary to the laws in force.

We understand that a new Petroleum Act is being drafted.

Key Legislation (Cont' d)

The Constitution of the Republic of the Union of Myanmar, 2008, stipulates that the state is the ultimate owner of all natural resources, whether found above or below the ground, above or below the water, or in the atmosphere.

The Ministry of Energy is the primary government agency responsible for the oil and gas sector. Entities within the Ministry of Energy that are influential in energy projects are:

- the Energy Planning Department (EPD) (responsible for negotiating production sharing contracts with foreign oil companies), and

- MOGE, a state-owned enterprise responsible for exploration and production of petroleum within Myanmar, and with exclusive rights to carry out all O&G operations with private contractors.

Under current practice, three types of PSCs may be awarded: PSC for onshore blocks; PSC for shallow water offshore blocks; and PSC for deep water offshore blocks. Three IPR contracts are also expected to be awarded in the current round of onshore block bidding.

The last completed round of bidding for onshore blocks was opened on 17 January 2013, resulting in the award of 16 blocks to 10 companies in October 2013.

The current round of bidding for offshore blocks was opened on 11 April 2013. 30 shortlisted bidders submitted bids on 15 November 2013.

Onshore Block Terms

Current onshore PSCs in Myanmar have the following terms, based on the 2013 onshore model PSC:

1. Management: MOGE is responsible for management of operations. Contractor is responsible to MOGE for the execution of such operations and the costs thereof.
2. Preparatory Period: six months, which may be extended. EIA, SIA and EMP reports.
3. Exploration Period: initial term 3 years, 1st extension 2 years, and 2nd extension 1 year.
4. Seismic and well commitments: negotiable.
5. Production Period: 20 years from completion of development or according to sales contract, whichever is longer.
6. Signature bonus: payment within 30 days of signing PSC [amended to 30 days after start of Exploration Period].
7. Relinquishment: 100% at end of Exploration Period, less Discovery Areas and Development and Production Areas.
8. Royalty: 12.5% of available petroleum.
9. Cost recovery limit of 50%.
10. Production split: progressive per rate of production 60 to 90% for crude oil and natural gas.
11. Production bonus: progressive per rate of production. USD 0.5 million to 6.0 million.
12. Domestic requirements: 20% of crude oil and 25% of natural gas of Contractor's share of profit petroleum to be sold to the domestic market, at 90% of fair market prices.
13. Training fund: USD 25,000 per year during exploration; USD 50,000 per year during production.
14. Research and development fund: 0.5% of Contractors share of profit petroleum.
15. State participation: 15% with MOGE option to increase to 25%.
16. Governing law: Laws of the Republic of the Union of Myanmar.
17. Arbitration: Myanmar Arbitration Act, 1944. Venue: Yangon.
18. Contractor must include a local Myanmar national owned company.

Shallow Water Block Terms

Current shallow water PSCs in Myanmar have the following terms, based on the 2013 shallow water offshore model PSC:

1. Management: MOGE is responsible for management of operations. Contractor is responsible to MOGE for the execution of such operations and the costs thereof.
2. Preparatory Period: six months, which may be extended. EIA, SIA and EMP reports.
3. Study Period: 6-12 months.
4. Exploration Period: initial term 3 years, 1st extension 1 year, and 2nd extension 1 year.
5. Seismic and well commitments:
    - Year 1: seismic acquisition, processing, interpretation
    - Year 2: drill 1 well
    - Year 3: post-well evaluation and drill 1 well
    - Year 4: prospect evaluation
    - Year 5: drill 1 well
6. Production Period: 20 years from completion of development or according to sales contract, whichever is longer.
7. Signature bonus: payment within 30 days of signing PSC [amended to 30 days after start of Exploration Period].
8. Relinquishment: 100% at end of Exploration Period, less Discovery Areas and Development and Production Areas.
9. Royalty: 12.5% of available petroleum.
10. Cost recovery limit of 50% in water depths of 600 feet or less; 60% for water depths exceeding 600 feet.
11. Production split: progressive per rate of production 60 to 90% / 85% for crude oil more than 600 feet.
12. Production bonus: progressive per rate of production. USD 0.5 million to 10.0 million.
13. Domestic requirements: 20% of crude oil and 25% of natural gas of Contractor's share of profit petroleum to be sold to the domestic market, at 90% of fair market prices.
14. Training fund: USD 25,000 per year during exploration; USD 50,000 per year during production.
15. Research and development fund: 0.5% of Contractors share of profit petroleum.
16. State participation: 15% with MOGE option to increase to 25%.
17. Governing law: Laws of the Republic of the Union of Myanmar.
18. Arbitration: UNCITRAL Arbitration Rules. Venue: Singapore.
19. Contractor must include a local Myanmar national owned company.

Deep Water Block Terms

Current deep water offshore PSCs in Myanmar have the following terms, based on the 2013 deep water offshore model PSC:

1. Management: MOGE is responsible for management of operations. Contractor is responsible to MOGE for the execution of such operations and the costs thereof.
2. Preparation Period: six months, which may be extended. EIA, SIA and EMP reports.
3. Study Period: 2 years
4. Exploration Period: initial term 3 years, 1st extension 1 year, and 2nd extension 1 year.
5. Seismic and well commitments:
    - Year 1: seismic acquisition, processing, interpretation
    - Year 2: drill 1 well
    - Year 3: post-well evaluation and drill 1 well
    - Year 4: prospect evaluation
    - Year 5: drill 1 well
6. Production Period: 20 years from completion of development or according to sales contract, whichever is longer.
7. Signature bonus: payment within 30 days of signing PSC [amended to 30 days after start of Exploration Period].
8. Relinquishment: 100% at end of Exploration Period, less Discovery Areas and Development and Production Areas.
9. Royalty: 12.5% of available petroleum.
10. Cost recovery limit of 60% in water depths of 2,000 feet or less; 70% for water depths exceeding 2,000 feet.
11. Production split: progressive per rate of production 60 to 80/85% (crude oil) and 60 to 80/90% (natural gas).
12. Production bonus: progressive per rate of production. USD 0.5 million to 10.0 million.
13. Domestic requirements: 20% of crude oil and 25% of natural gas of Contractor's share of profit petroleum to be sold to the domestic market, at 90% of fair market prices.
14. Training fund: USD 50,000 per year during exploration; USD 100,000 per year during production.
15. Research and development fund: 0.5% of Contractors share of profit petroleum.
16. State participation: 20% with MOGE option to increase to 25%.
17. Governing law: Laws of the Republic of the Union of Myanmar.
18. Arbitration: UNCITRAL Arbitration Rules. Venue: Singapore.
19. Inclusion of a local Myanmar national company in the Contractor is not mandatory.

Current Bid Round Update (as of 15 December 2013)

See description of recent bid rounds on slide 4.

For the 2013 onshore and offshore bid rounds, EPD issued standard terms and conditions together with instructions stating that the terms were not subject to negotiation except work obligations, bonuses, etc.

However, the forms of PSC presented to winning bidders in the onshore bid round included a number of revisions, many editorial but some substantive:

- Inclusion of a stabilization clause (formerly in the Side Letter);
- Requirement for bank guarantee (10% of minimum work commitment);
- Reduction in period of customs duty exemption on imported goods.

Contractors under PSCs will have tax holidays and other incentives under the new 2012 Foreign Investment Law.
There will be no Side Letter, which was common in the past.
It is possible that winning bidders will be able to negotiate amendments to certain provisions.

Contractors may be concerned about lack of guidelines on EIAs, SIAs and EMPs, because rules under the Environmental Conservation Law have not been enacted.

Contractors have an obligation to collaborate with MOGE to implement EITI, a code of transparency which the government is in the process of adhering to.

Foreign Investors Concerns

Foreign investors will have a number of concerns about the scope of negotiation of terms and conditions of model PSCs which are allowed in practice, including the following:

Governing law. International investors would prefer a choice of law of another jurisdiction such as English law, due to the outdated legal and regulatory system in Myanmar.

Dispute resolution. The current model offshore PSCs provide for arbitration according to the UNCITRAL Arbitration Rules. Myanmar has deposited its instrument of accession without reservations to become a contracting state of the New York Convention on the Recognition and Enforcement of Foreign Arbitration Awards. However, before the convention can become effective, Myanmar must pass a new arbitration act, which is expected before the end of this year and will be based on the UNCITRAL model law. Investors may consider protections available under the FIL (e.g. guarantee against nationalization and expropriation, and any applicable bilateral investment protection treaty). Myanmar has investment promotion treaties with China, India, Laos, the Philippines, Thailand and Vietnam. The treaties with China, India, the Philippines and Thailand have come into force.

Model terms regarding work obligations, bonuses, production splits, etc. Investors will be interested in whether these and other terms of the model PSCs are negotiable.

Restrictions on foreign ownership. There are uncertainties arising out of the Foreign Investment Rules (Rule 17) and the MIC Notification No. 1/2013 (Category 3.1). One interpretation is that there is a 80% foreign ownership ceiling.

Pending Petroleum Act. It is unclear how the proposed law would impact the terms of PSCs.

International Sanctions

During 2012, Australia, Canada, the EU, the UK, and the US all relaxed various economic sanctions against Myanmar in light of recent reforms. However, attention must still be paid to the terms of the relaxation of sanctions, in particular the US prohibition against investments or provision of financial services to persons on the Treasury Department's Specially Designated Nationals and Blocked Persons List, and the new requirement for periodic reporting.

US citizens are required to report on a range of policies and procedures with respect to their investments in Myanmar, including:

- ❑ Human, labour, and land rights;
- ❑ Community consultations and stakeholder engagement;
- ❑ Environmental stewardship;
- ❑ Anti-corruption arrangements with security service providers;
- ❑ Risk and impact assessments and mitigation;
- ❑ Payments to the government; and
- ❑ An obligation to notify the Department of State of any investments with MOGE, and any contact with the military or non-state armed groups.

See www.state.gov/r/pa/prs/ps/2013/05/209869.htm and General License No. 17 for more information.

Extractive Industries Transparency Initiative (EITI)

EITI was introduced in 2002 to increase transparency over payments by oil and mining companies to the government and government-owned enterprises.

The Initiative has two core components:

- Transparency: Oil, gas and mining companies disclose their payments to the government, and the government discloses its receipts. The figures are reconciled and published in annual EITI Reports alongside contextual information about the extractive sector.
- Accountability: A multi-stakeholder group with representatives from government, companies and civil society is established to oversee the process and communicate the findings of the EITI Report.

A country wishing to become a member of EITI must meet 7 requirements. The core requirements are the establishment of a multi-stakeholder group to oversee implementation, EITI reporting, and raising awareness about the disclosed data.

Myanmar plans to join implement EITI with the process being overseen by U Soe Thein, Minister of the President's Office. On 15 June 2013, the U.S. and Myanmar announced a partnership where the United States will provide technical assistance for Myanmar to meet the EITI requirements.

Taxation

Royalties

12.5% of all available petroleum is payable by the Contractor as royalty.

MOGE's share of profit petroleum (after Contractor's allowable cost recovery) depends on the level of daily production and (for offshore blocks) the depth of the well. The MOGE's share of profit production ranges from 60% to 90%

Income tax

Companies in the oil and gas sector are subject to a 25% tax on profits under the Income Tax Law. There is a 5-year tax holiday under the 2012 FIL, beginning when the commercial production period starts in respect of PSC's approved under the 2012 FIL.

Taxation (Cont’ d)

Standard PSC terms grant MOGE a share of any capital gains from share transfers. The rates are as follows:

Profit (USD)	MOGE’ s Share
< 100 million	40%
100 – 150 million	45%
Over 150 million	50%

Depreciation of working capital may be deducted from a company’ s income tax liability at the following rates, subject to the applicable cost recovery limit:

Category:	Depreciation rate:
Plant and machinery, pipelines	5%
Oil rigs, survey equipment	10%
Shaft drilling equipment	20%

Under the commercial tax law, natural gas and crude petroleum are not taxed when sold.

Customs duty varies depending on the customs classification of the goods. Companies incorporated under the Foreign Investment Law may receive either an exemption or relief from the customs duty as an investment incentive.

State Participation

All three of the standard PSCs used by the EPD contain state buy-in provisions. For onshore blocks, the standard PSC reserves a 15% undivided interest for MOGE, with the option for the state to increase their share up to a 25% undivided interest in the project. For offshore blocks, MOGE has the right to buy-in to the project up to 20% upon a commercial discovery (increasing to 25% if the reserves are greater than 5 TCF).

Land Access

Similar to other former British colonies, the land tenure system in Myanmar recognizes freehold and leasehold title. Such title must be registered to be effective, and is subject to reservation, in favour of the government, of all mines, mineral products, and buried treasures. The government has the right to expropriate land with appropriate consideration. Foreigners, or companies with one or more shares owned by foreigners, are barred from acquiring land (or any interest in land) by way of a transfer, grant, lease or mortgage, except with government permission. In September 2011, a Notification was passed that a company operating under the old Foreign Investment Law may be granted a “right to use” government-owned land, or private land. The FIL allows the sublease or mortgage of land and buildings under a MIC permit within the term, only with the MIC’s approval.

Under the FIL, foreign companies may be granted a right to lease or use land for a period of up to 50 years, with two possible renewal terms of 10 years each. The MIC may grant a lease or right to use for a longer period in respect of investment in particularly under-developed regions.

Foreign Ownership Ceilings

The State-owned Economic Enterprises Law (SEE Law) states that the Government has the sole right to carry out the exploration, extraction and sale of petroleum and natural gas and the production of products of the same. However, the Government may, in the interest of the State, permit such activities to be carried out jointly between the government and a private or foreign investor, through MOGE, or solely through any other organizations. The energy plan recently announced by MOGE includes a push to increase and promote private participation in the oil and gas sector of Myanmar.

Myanmar's model PSC (2013) requires contractors to use 25% of its annual budget to procure goods and services either available in Myanmar or rendered by Myanmar nationals. The model contract also contains a general requirement that contractors give preference to Myanmar goods and services when they are available locally, and so long as they are of comparable quality, price, and availability.

The model contract also requires a contractor to employ qualified citizens of Myanmar to the maximum extent possible. Further, the FIL and the FIL Rules provide certain specific proportionate local employment thresholds to be complied with in stages during the first 6 years of operation under a MIC Permit (i.e. 25% of the skilled workforce must be Myanmar within the first years, 50% within the second year, and 75% within the third).

Previously, offshore oil exploration and production could be undertaken by a 100% foreign owned contractor. MOGE currently requires that the foreign contractor include a local joint venture partner holding a minority interest for both onshore and shallow water block projects. A deep water block project may be undertaken by a 100% foreign owned contractor. A list of possible joint venture partners is available on the website www.energy.gov.mm. In the 2011 bid round for onshore blocks, the local partners are believed to have 5 – 15% participation. No statistics are available on this point.

Environmental Regulations

Until 2012, there was no specific law protecting the environment in Myanmar. The 2008 Constitution contains provisions guaranteeing the conservation of natural resources and the prevention of environmental degradation. Environmental impact assessments were not required for any projects, governmental or private, and there were no laws controlling pollution of water or air.

Environmental protection generally falls under the aegis of the National Commission for Environmental Affairs (NCEA). The NCEA formulates the government's environmental policy and sets environmental standards. However, significant budget and resource constraints have compromised the ability of the NCEA to serve its stated purposes. In addition, lack of legislative attention has resulted in few guidelines and little support for NCEA action.

The Environmental Conservation Law 2012 was enacted in March 2012. Rules to implement the new law have not been announced.

MIC Notification 1/2013 requires an environmental impact assessment (EIA) for oil and gas projects.

One of the leading precedents in Myanmar for environmental and social programs is the 63-kilometer Yadana/Yatagun pipeline corridor through which the three natural gas pipelines from Yadana, Yetagun and Zawtika transit to the Thai border, for delivery to PTT. See www.cdain.com and www.chevron.com/globalissues/humanrights/myanmar for information on the Socio-Economic Program.