

II. CONCESSION TERMS:

The granting of concessions is a regulatory role placed in the Ministry of Energy and Mines through PETROECUADOR offices. Terms in the past round of concessions included: "Production Sharing Contracts", "Risk Contracts" or "Profit Sharing Contracts".

Historically, any oil company does not own petroleum rights nor does it lease them because Ecuadorian law stipulates that all hydrocarbon reserves found within the country's territory belong to the state and the state oil company shall explore and exploit such reserves, directly or through association and service contracts with other national or foreign companies.

Any oil company contracts to explore, produce and sell oil & gas for the government of Ecuador. An oil company negotiates for a concession area and commits to do a negotiated amount of exploratory work within an agreed time frame. If the company is successful in finding petroleum in commercial quantities, it has a fixed time to develop its discovery and recuperate its investment. In any event, if an oil company wishes to exploit a discovery, it submits a development and production plan to PETROECUADOR, which is subject to be approval or rejection. After that, the operating revenue is shared with PETROECUADOR as agreed in the concession negotiations. A contract expires after 20 years and the facilities revert to PETROECUADOR. In the past concessions contracts have been complicated by a variety of fees and bonuses which are subject to negotiation to a greater or lesser extent.

Nevertheless, given the recent experience that no new contracts have been negotiated in the last 5 years, and has become obvious that Ecuador will not be able to maintain its export capability without new investment in exploration, this administration is in the process of reviewing the terms of concessions, with the aim to make enough attractive to oil companies trying to conduct business in Ecuador.