

REPUBLIC OF ECUADOR  
MINISTRY OF ENERGY AND MINES

MEMORANDUM OF UNDERSTANDING  
BETWEEN THE GOVERNMENT OF ECUADOR,  
PETROECUADOR AND TEXACO PETROLEUM COMPANY

This Memorandum of Understanding is made and entered into by the Government of Ecuador, through the Ministry of Energy and Mines, legally represented by the Minister, Eng. Gustavo Galindo Velasco, hereinafter the "Ministry," and the state company Petr6leos de Ecuador, PETROECUADOR, legally represented by its Executive President, Dr. Federico Vintimilla Salcedo, hereinafter "PETROECUADOR," as party of the first part; and by Texaco Petroleum Company, a Delaware corporation with offices at Av. 6 de Diciembre 2816 and J. Orton, Quito, legally represented by its Legal Representative in Ecuador, Mr. Rodrigo P6rez Pallares, and by Dr. Ricardo Reis Veiga, in his capacity of Vice President thereof, hereinafter "Texpet," as party of the second part.

I. OBJECTIVES

The objectives of this Memorandum of Understanding are the following:

- a) To set out the scope of the environmental remedial work to be conducted in the area of the former PETROECUADOR-TEXACO Consortium, concerning the biotic, abiotic, and socioeconomic aspects, which scope shall constitute the basis on which Texpet shall issue the corresponding request for bids;
- b) To formalize the authorization by the Ministry and PETROECUADOR to Texpet to select a Contractor for the performance of said environmental remedial work, from a list, previously approved by the Ministry and PETROECUADOR;
- c) To create procedures for the Ministry and PETROECUADOR to review and approve the environmental remedial work to be performed; and
- d) To establish the mechanisms by which Texpet is to be released from any claims that the Ministry and PETROECUADOR may have against Texpet concerning the environmental impact caused as a consequence of the operations of the former PETROECUADOR-TEXACO Consortium.

II., SCOPE OF WORK

The scope of the environmental remedial work for the

negative effects caused by the operations of the PETROECUADOR-TEXACO Consortium, once approved by the parties, based on the "Final Draft Proposal for Environmental Remediation" signed by the technical representatives of the parties on August 24, 1994, and issued under their own terms, shall constitute the basis on which Texpet shall issue a request for bids for contracting the environmental remedial work in the area of the former Consortium, and shall constitute an integral part of this Memorandum of Understanding.

III. SELECTION OF THE CONTRACTOR AND DETAILED REVISION OF THE SCOPE OF WORK BY THE MINISTRY AND PETROECUADOR

Texpet shall request bids before selecting the Contractor which shall carry out environmental remedial work, according to the scope of work indicated in Clauses I and II of this Memorandum. Texpet shall review and control the implementation of the contract, to assure that it complies with that set forth in the Scope of Work approved by the Ministry and PETROECUADOR. The contracted work must be carried out using technology compatible with the Amazonian Region. Although the Ministry and PETROECUADOR shall review and approve the detailed scope of work to be submitted by the selected contractor, the terms and conditions of the contract between Texpet and the Contractor shall not be shared with the Ministry and PETROECUADOR. Texpet shall submit to the Ministry and PETROECUADOR complete details of any remedial, alleviation or compensation action which may affect the operations currently carried out by PETROECUADOR, before beginning such action, and the parties shall negotiate in good faith in order to minimize the impact thereof, within the main objective and goal of completing the remedial work.

IV. RELEASE OF TEXPET FROM OBLIGATIONS

The parties shall negotiate the full and complete release of Texpet's obligations for environmental impact arising from the operations of the Consortium, based on the full completion of the remedial work agreed upon. Such release shall be implemented as follows:

- a) *TEXPET shall not be responsible for the environmental impact or effects not included in the Scope of Work, and shall be released from any liability concerning such impact upon execution of the Contract for Implementing Environmental Remedial Work and Release of Obligations.*
  
- b) *The release for the work to be performed in accordance with said Scope of Work shall discharge Texpet from any liability for environmental impact arising from the operations of the Consortium, and shall be effective upon the notification from the Contractor that it has performed the work, and by acceptance and certification issued by the Ministry and PETROECUADOR to the effect that the work has been performed. The acceptance and certification of the environmental remedial work shall be made on a site by site basis. The Ministry and PETROECUADOR shall accept the environmental remedial work at each site, and shall certify within the contractual terms, that the work was completed, after being notified of such completion. If no objections are raised within said terms, it shall be deemed that the Ministry and PETROECUADOR have accepted the completion of the work and have certified such fact. Any disagreement between the parties that cannot be resolved within 15 days after the date on which such disagreement has originated, shall be resolved with the intervention of a domestic or foreign independent consulting company previously selected by the parties from a list proposed by Texpet and approved by the Ministry and PETROECUADOR.*

**V. PROJECTS FOR SOCIO-ECONOMIC COMPENSATIONS**

*Texpet shall pledge to perform or carry out Projects for Socio-economic Compensation, designed to resolve the problems of this nature caused by the oil operations of the Consortium, identified in the Scope of Work set forth in Clauses I and II of this Memorandum, which projects shall be discussed, agreed upon and approved by the Ministry, PETROECUADOR and TEXPET. Such projects shall be part of the total proposal for environmental remedial work, and shall be carried out taking into consideration the inhabitants of the Oriente Region.*

- VI. *The implementation of the environmental remedial work shall be subject to the execution by the parties of the Contract for Implementing Environmental Remedial Work and Release of Obligations reflecting the provisions of the Scope of Work, and the principles and procedures set forth in this Memorandum of Understanding, which shall constitute a reference framework for the parties until the final execution of the Contract for Implementing Environmental Remedial Work and Release of Obligations.*

VII. APPLICATION OF ECUADORAN ENVIRONMENTAL LAWS

The environmental remedial work referred to in this Memorandum of Understanding must be performed subject to the provisions of the Political Constitution of the Republic, the Hydrocarbon Law, the Special Law for state company *Petróleos del Ecuador* (PETROECUADOR) and its Affiliates, the Law for Prevention and Control of Environmental Contamination, published in Registro Oficial No. 97 of May 31, 1976, the Law for Forestry and Preservation of Natural Areas and Forest Life, published in Registro Oficial No. 436 of February 22, 1983, the Law for the Creation of INEFAN, published in Registro Oficial No. 278 of September 27, 1992, the Regulation for Hydrocarbon Operations, issued by Decision No. 1311, published in Registro Oficial No. 681 of May 8, 1987, and the Environmental Regulation for Hydrocarbon Activities in Ecuador, issued by Decision No. 621, published in Registro Oficial No. 898 of March 6, 1992, as well as other legal and administrative regulations valid on the execution date of this Memorandum.

VIII. The provisions of this Memorandum of Understanding shall apply without prejudice to the rights possibly held by third parties for the impact caused as a consequence of the operations of the former PETROECUADOR-TEXACO Consortium.

In witness whereof the Parties accept the provisions set forth above, and sign this Memorandum of Understanding in Quito, on Dec. 14, 1994.

Eng. Gustavo Galindo Velasco  
MINISTER OF ENERGY AND  
MINES

Dr. Federico Vintimilla Salcedo  
EXECUTIVE PRESIDENT OF  
PETROECUADOR

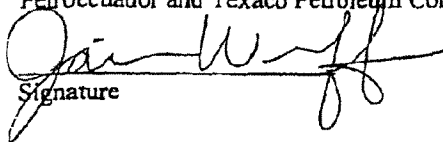
Dr. Rodrigo Pérez Pallares  
LEGAL REPRESENTATIVE OF  
TEXACO PETROLEUM COMPANY

Dr. Ricardo Reis Veiga  
VICE PRESIDENT OF TEXACO  
PETROLEUM COMPANY

DIR. LEG. CONS. DR. MPE  
JSM/  
CFS/NCG  
December 14, 94

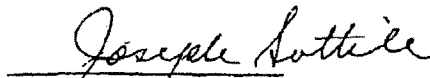
City of New York, State of New York, County of New York

I, Jaime Wengroff, am a competent translator of Spanish into English,  
and hereby certify that the following is, to the best of my knowledge and belief, a  
true and accurate translation from Spanish (5 pages) into English (4 pages) of  
the Memorandum of Understanding Between the Government of Ecuador,  
Petroecuador and Texaco Petroleum Company.

  
Signature

Sworn to before me this

16th day of December, 1994.

  
Signature, Notary Public

JOSEPH BOTTILE  
Notary Public, State of New York  
No. 31-4557435  
Qualified in New York County  
Commission Expires October 21, 1995  
Stamp, Notary Public