This contract is entered in by the African National Oil Company and The United States East Coast Exxon Mobil African National Oil Company hereinafter referred to as ANOC an oil company based in Africa and the United States East Coast Exxon Mobil a Company with Headquarters in Houston, the United States of America The object of this contract is in the definition win accordance with the public law and other applicable legislation in relation with the contract of Production Sharing contract between Africa National Oil Company and the United States East Coast Exxon Mobil Except as stated in this contract the costs and expenditures related to the exploration process and other operations including all risks and losses shall be accounted for by the United States East Coast Exxon Mobil. ANOC will not be liable for the repayment of any agreed costs and expenditures.

Duration of the contract and relinquishment

In persuasion of an agreed decree there will be an initial exploration face of 25 years which shall start from the effective date. An optional exploration face may follow the initial exploration provided United States East Coast Exxon Mobil gives a note to ANOC 30 days before the expiration of the contract that its is willing to extend the contract after the initial exploration. This contract shall be valid and in force for 25 years unless prior to the year of completion an event occurs that in the terms of the contract allows for termination or the law allows for its termination.

Company Infrastructure and equipment

The Exxon Mobil company shall take up the responsibility of drilling 150 wells; developing the field infrastructure of pipelines, dehydration plants and condensate recovery facilities; • laying a 220 kilometer pipeline to the coast building a new liquefied natural gas (LNG) terminal; Building the specialized LNG vessels required to ship the gas to an existing terminal. This is because ANOC does not have the funds needed to conduct the project.

Production required for cost recovery

In order to recover the costs used in the oil exploration. There should be a production of an optimum amount of the gas in order to generate revenue that will recover the amount of money used in the investment i.e. to get the total cost used in the exploration in a given financial period. In order to determine the production required for cost recovery, there is need to compute the break-even point so as to determine the point where the revenue and the cost applied are equal (McGladery Institute of Accounting 2010, par 5).

Estimated annual operating cost is 200million United States dollars

Amount of liquefied gas to be produced to recover operation costs =USD 200 Million ×1000

The cost of liquefied gas per a thousand cubic feet USD$6.80

The amount of production to recover the annual operating costs is approximately 29411764700 cubic feet per annum. This is the break even point; therefore any more gas sold past this point shall constitute the gross profit of the company during the financial year (McGladery Institute of Accounting 2010, par 5).

Allocation of profit and profit sharing

Keeping in mind the cost of the investment and the amount of the operations cost. It is good to share the profit in way that will see to it that all the cost incurred and the capital employed and the operation costs are recovered (Fortune 2010, par 12). Considering the amount of revenue expected and the costs incurred the most considerate profit sharing ration is 35% ANOC and 65% US East Coast Exxon Mobil (Fortune 2010, par 15). This is because at the initial stage of the enterprise the investor needs to recover the capital and other operations costs incurred (Fortune 2008, par 4). The profit sharing ratio can be revised at the end of a given period to reflect the prevailing circumstances of the enterprise (Fortune 2008, par 5).

The profit realized will be shared after deduction of the interest on capital by the investor i.e. United States East Coast Exxon Mobil (Chin, 2010). This is because every investment has interest at the end of each financial year. In the first four years of the investment there will be no revenue realized by the company this is because the company will need to set up a capital of eight billion United States dollars before commencement of operations. Therefore the profit sharing ratios will start to apply from the fifth to the 25th year of the production period. The profits will be shared between the two companies after the recovery of the production cost and payment of the set tax and royalty (McGladery Institute of Accounting 2010, par 5).

Cash flow for current quarter = (Interest rate) × Cost recovery - income tax – expenditures

100 %

The interest should be divided by four in order to reflect the quarterly interest rate (McGladery Institute of Accounting 2010, par 5)

Royalty and tax charged on profit

The company will be required to pay taxes depending on the amount of profit generated. Currently the tax charged on petroleum and gas is 30% of the net profit. Before calculating the net cash flow attributed to the company there will be need to deduct the profit. There is also royalty which would be charged on the profit made (Business times 2010, par 10).

Accounting Standards

The international accounting standards shall be upheld in order to ensure that integrity is preserved. The annual financial reports shall be prepared in accordance with International Financial Reporting Standards (Hoyos 2010, par 2). The financial statement shall also be audited by independent auditors in order to establish if they display a true and fair view. This is to ensure compliance with international Standards of Accounting standards and also international Auditing Standard. For convenience purposes the main trading currency will be the dollar since it is universally accepted and can be used to trade anywhere (The University of Texas 2010, p 12)

Local developments

To improve transportation from the mining area the US East Coast Exxon Mobil will have to develop a comprehensive road network that will also serve the locals. The road will also ensure that the company is not faced transportation problems (Offshore Magazine 2007, par 5). The company

will also have to build facilities such as hospitals around the extraction area in order to take care of emergencies. The company should also ensure that there is a comprehensive communication and network coverage around in order to boost aspects such as transportation and acquiring of information. The above developments will not be made for the benefit of the company and the mining process only but will also be of great use to the locals. (Business times 2010, par 10)