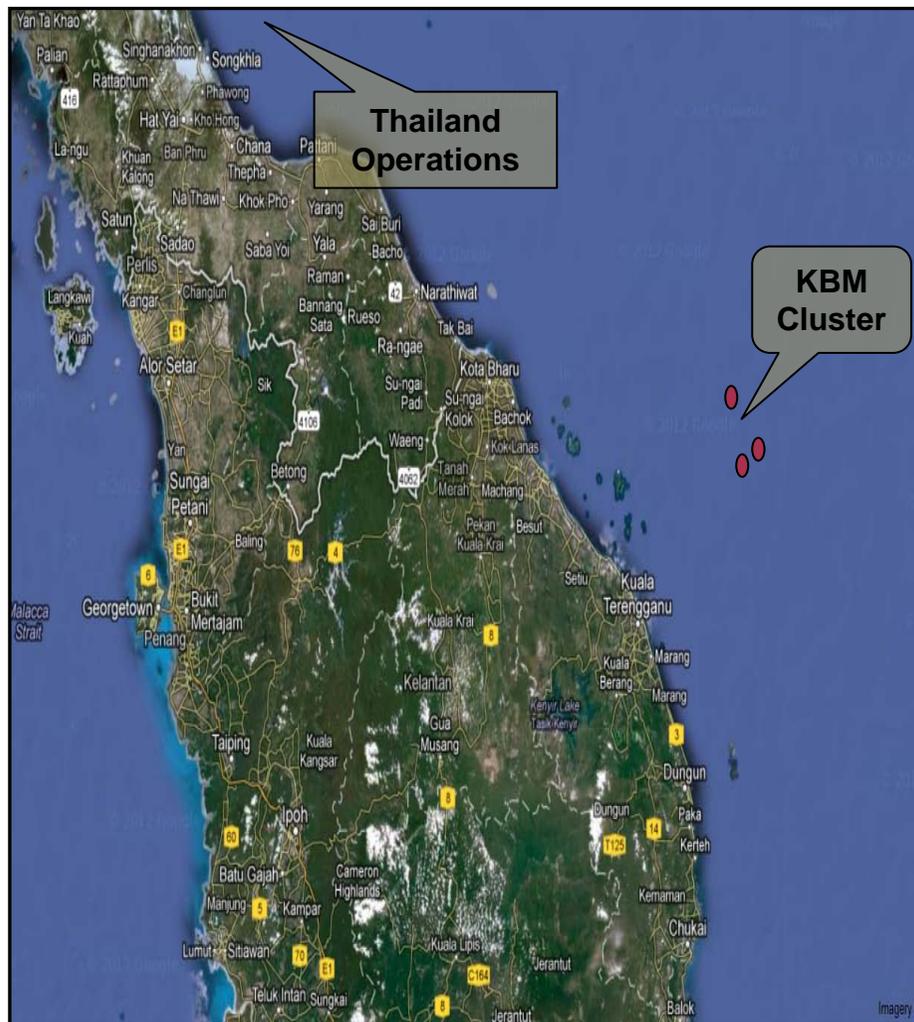




# Malaysian Risk Service Contract

July 2012

# Background



- Coastal entered into a Risk Service Contract with PETRONAS for the development of the Kapal, Banang and Meranti fields (KBM) offshore Peninsular Malaysia
- Coastal will be a 70% partner and a local Malaysian contractor (to be named later) will be a 30% partner
- The contract requires the drilling of 17 wells: 10 wells at Kapal, 4 wells at Banang and 3 wells at Meranti
- Once the wells are drilled, Coastal will operate the production facilities and coordinate oil liftings, operating cost disbursements, etc.
- There are existing discoveries at each field. Coastal estimates recoverable oil could be anywhere from 15 to 35 Mm bbl
- Additional upside from exploration prospects

# Overview of Terms

- The contract duration is 8 years ; the KBM SFRSC model strikes a balance in sharing of risks with fair returns for development and production of already discovered fields
- PETRONAS remains the project owner while Contractors (Coastal and partners) are the service provider
- Contractor will incur upfront costs for Petroleum Development and Operations and will be reimbursed upon first commercial production; the contractor will also be entitled to a Remuneration Fee per barrel from a pre-determined percentage of the field revenue
- The reimbursement and remuneration are tied to cost and production performances; priority of payment shall be cost reimbursement of CAPEC and OPEX, followed by Remuneration Fee
- Contractors are subjected to the Corporate Income Tax Act (CITA) and not the Petroleum Income Tax Act (PITA). Corporate tax payable by the Contractor Group under CITA is at the prevailing rate of 25%

# Comparison Between PSC and SFRSC

Detail	PSC	SFRSC
<b>Production Entitlement</b>	Contractor shares production entitlement from cost recovery and profit oil/gas	100% of production volume belongs to PETRONAS
<b>Cost Recovery/ Reimbursement</b>	Contractor recovers the cost in kind up to specified percentage of production	PETRONAS pays Contractor the cost in cash from the allocated revenue of the field
<b>Contractor's Profit</b>	Contractor is entitled to the specified profit share from the remaining production after royalty and cost recovery	PETRONAS pays Contractor an agreed Remuneration Fee for the service provided, subject to actual performance. Some upside potential exists depending on both production and CAPEX performance
<b>Contractor's Tax</b>	Under PITA *	Under CITA **
<b>Abandonment &amp; Research Cess</b>	Contractor pays Abandonment and Research Cess	Abandonment obligation remains with PETRONAS No provision for Research Cess

\* Petroleum Income Tax Act

\*\*Corporate Income Tax Act

# Anticipated Costs / Timeline

- First oil from Kapal field is expected at the end of Q2, 2013
- The Capital Expenditure (CAPEX) of KBM Cluster is estimated to be USD320 million over 3 years
- Coastal expects to fast track development of the fields using MOPUs and FSOs similar to how it has fast tracked development of its Gulf of Thailand assets

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