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April 22, 2009

Mr. Richard D. Fritz
Executive Director
The American Association of
Petroleum Geologists
P. O. Box 979
Tulsa, OK 74101

Re: Reorganization of AAPG as an International Organization

Dear Rick:

AAPG has been exploring, and continues to explore, organizational changes which AAPG might consider as it becomes more international in character.

One of the possible forms of governance for AAPG as an international organization is an umbrella international organization with its members being entities (or offices) formed in various regions of the world. Those regional entities would be corporations or other limited liability entities and their areas of operation might conform approximately to the boundaries of the current AAPG Regions.

To learn the procedures which would be involved in forming an entity in The Hague to become AAPG's international umbrella corporation, in 2006 AAPG contacted Mr. Marius Rijntjes, a lawyer in Amsterdam recommended to me by a law firm in Washington, D.C., specializing in advice to tax-exempt non-profit organizations. I provided Mr. Rijntjes with a description of the current organization of AAPG and asked that he provide AAPG with advice as to the formation of an entity in The Hague which would have each of AAPG and its Regions as members. Mr. Rijntjes provided AAPG with an analysis of how such an entity could be formed under Dutch law, an outline of the governance of such an entity, and a brief discussion of applicable Dutch law. A copy of Mr. Rijntjes' memorandum is enclosed with this letter.

In addition to the contact with the Dutch lawyer, AAPG has retained lawyers in the United Kingdom, Bahrain, and Singapore in connection with the formation of AAPG controlled entities to conduct AAPG's business in those jurisdictions. An entity has been formed in the United Kingdom and AAPG is in the process of forming entities in Bahrain and Singapore.

AAPG's experience in forming these entities is part of the learning curve in its exploration of possible international organizations.

AAPG has also spent considerable time in reviewing the organization and governance of the Society of Petroleum Engineers, which is an international organization in the Netherlands with four regional organizations as members.

Over the past three years I have discussed a myriad of matters with you and David Lange related to the possible reorganization of AAPG as it becomes more international in nature. Some, but certainly not all, of those matters are:

Whether the current AAPG corporation should be reorganized as the umbrella organization.

Whether a separate entity should be formed to include only the non-US entities (such as the current Regions), leaving the current AAPG corporation as the entity of which US residents would be members.

Whether a new entity should be formed, perhaps in The Hague, to have as its members the current AAPG corporation as the entity for US members and the Regions as the entities for AAPG members outside of the US.

Whether the Regions should be incorporated and, if so, where such incorporations should take place.

The impact of the various possible reorganizations on United States restrictions on relations with nations subject to United States sanctions.

What amendments to the current AAPG Constitution and Bylaws would be required to accomplish various alternative organizational changes.

Who would operate AAPG activities.

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If you desire further information as to my involvement with AAPG's consideration of its reorganization as it becomes more international in nature, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Craig Blackstock". The signature is written in a cursive style with a large initial "C".

Craig Blackstock

CB:sc
enclosure

MEMO

To : Mr. Craig Blackstock
From : Marius Rijntjes, Honoré van Schuppen, Stephanie Westrik
Re : Incorporation of Dutch Association of Petroleum Geologists
Date : 3/10/2006

Introduction

The America Association of Petroleum Geologists (hereinafter: "AAPG") is a non-profit organization, with its purpose to advance the profession of petroleum geology. We have been informed by AAPG's attorney (Mr. Craig Blackstock) that AAPG intends to form an umbrella organization for AAPG and the AAPG international regions. In that respect AAPG would like to be informed about the feasibility of the formation of a non-profit entity under Dutch law.

The envisaged entity under Dutch law shall have members who will be the AAPG itself and any other AAPG corporations in the international regions, which have been or shall be incorporated. Also, the AAPG would like to have direct or indirect control of the Dutch corporation. Finally, the Dutch corporation's seat will be in The Hague but the operational activities shall be conducted at AAPG's headquarters in Tulsa, Oklahoma (USA).

Purpose

The purpose of the memo is to provide information about the entity under Dutch law suitable to AAPG's requirements with respect to such Dutch entity.

This memo outlines in general (i) the requirements for incorporation such entity, (ii) the legal and operation requirements for the entity, (iii) the annual costs for maintaining the entity and (iv) in short the tax rules and regulations in general that may apply.

I Incorporation

The most suitable entity under Dutch law that meets AAPG's requirements is the *vereniging* ("association").

Under Dutch law, the association is an entity with members, which entity is aimed at a certain purpose other than providing for tangible needs for its members. An association is not allowed to distribute profits amongst its members. In its bylaws, the purpose must be stated, which can be various matters (as long as it does not include the distribution of profits).

With respect to an association under Dutch law, a distinction can be made between an informal and a formal association. An informal association is an entity with bylaws that have not been laid down in a notarial deed. Such informal association lacks full power to act as a legal entity. Also, each of the managing directors is jointly and severally liable for the debts, which have become due during their management period.

Contrary to the informal association, the formal association is considered a legal entity, which does have full power to act as such. Consequently, each of the managing directors is in principle not jointly and severally liable for the association's debts. In view of the liability of the managing directors, we assume that the AAPG would like to incorporate a formal association.

An (formal) association is incorporated by executing a deed by a Dutch notary. This deed includes the incorporation of the association itself as well as the bylaws. The executed deed must be in the Dutch language. Naturally the notary may provide for an English translation.

With respect to the name of the association, it is not stipulated that such must be in the Dutch language. However the name must indicate the Dutch (legal) nature of the association. The name "*Association for the Advancement of Petroleum Geoscientists*" could imply (by the use of the language) that this entity has an Anglo-American nature. Thus, a different name (for example adding "*Dutch*" to the name) may be advisable.

The incorporated association must be registered in the (local) Chamber of Commerce (in The Hague). This is an obligation of the board of directors of the association. As long as the board does not comply with this obligation, each managing director is jointly and severally liable for debts made on behalf of the association.

II Legal and operational requirements

The applicable rules and regulations for the associations are laid down in the Dutch civil Code, Book 2, title 2 and in the bylaws. The bylaws may deviate from these rules and regulations, except in the event that these rules are mandatory law.

The association has two legal bodies, being the board of directors and the general meeting of members. If desirable, a supervisory board can be instated.

In short these bodies have the following obligations/authorities (which are laid down in the bylaws as well as in the Dutch Civil Code):

board of directors

- managing the association;
- convening the general meeting of members;
- draft the annual report regarding the policy conducted and draft annual accounts; the general and financial affairs of the association;
- keeping the administrative records of association.

general meeting of members

- appointing the managing directors (please note that the bylaws may stipulate that the general meeting of members may only appoint managing directors out of binding list of candidates. Thus, via a binding list of candidates the AAPG can have direct or indirect control of the Dutch association. However the general meeting can deprive the binding character of the list via adopting a resolution to that extend¹);

¹ Such resolution can only be passed with at least 2/3 of all votes.

- resolve to change/revise the bylaws;
- resolutions with respect to the annual accounts.

supervisory directors

- supervision on the financial affairs of the association.

Please note that under Dutch law the members of the association may be legal entities and that special requirements may apply in order to become a member. The board of directors may decide whether someone may be admitted as a member.

As for the operational requirements, the board of directors must convene a general meeting of members at least once a year in order to resolve on the annual accounts. Furthermore, Dutch law does not stipulate that the meetings must be held in a specific place (or country). However, if the association would have Dutch members, these member must have the opportunity / ability to be present at the meeting held. If the meetings were to be held in Tulsa, these members may in fact be prevented to be present at such meeting or at least be hindered to be present at such meeting. In that case it would be advisable to hold the meetings in the Netherlands. However, resolutions outside the general meeting of members can be adopted under the condition that such resolution is taken unanimously.

As stated above, the board of directors are obligated to keep records of the association (e.g. register of members, financial records, resolutions of the board of directors, minutes of meetings of members etc). These records may be kept in Tulsa (USA).

In the event that the association carries on a business that accumulates during two consecutive years a yearly net turnover of € 3,650,000 or more, the annual accounts must be drafted in accordance with the Dutch accounting and reporting rules. These regulations, amongst others, stipulate that the annual accounts must be filed with the chamber of commerce.

We assume that the envisaged Dutch association will not carry on a business nor will accumulate substantial revenues. Should these conditions not be met, the annual accountants must include auditor's report. This statement is however not required if the association has a financial committee, which investigates the annual report of the board of directors and reports its findings to the general meeting of members. Such committee must consist of at least two persons (who are not already appointed as managing directors). The members of the committee are appointed by the general meeting.

III Costs

The estimated costs for incorporating and maintaining a Dutch association are:

- ε 2.000 - ε 4.000; notaries fees, depending on the complexity of the required bylaws);
- a yearly contribution of ε 50,-- for registration with the chamber of commerce;
- auditor's fees (for financial statements and/or auditor's report)
- fees for other external advisors (lawyers etc).

IV Dutch taxation

Below in short the Dutch taxation that may apply in general in respect of a Dutch resident association. Please note that we do not have sufficient information to provide you with detailed information regarding all Dutch taxation that may apply to the Dutch association to be incorporated. We advise you therefore, to seek further Dutch tax advice should you decide to incorporate the Dutch association. In addition, we advise you to seek advance certainty with the Dutch tax authorities prior to the incorporation of the Dutch association. We would be pleased to inform you in detail regarding the Dutch taxation once we have received more information, amongst others, about the particulars of the specific activities performed by the Dutch association to be incorporated.

Dutch corporate income tax

On the basis of article 2, d, in conjunction with article 4, a, Dutch Corporate Income Tax Act (*Wet op de vennootschapsbelasting 1969*) an association is subject to Dutch corporate income tax if and insofar the association carries on a business. Whether an association carries on a business is, in principle, subject to a facts and circumstances test.

However, should the association act in competition with entrepreneurs, it is deemed to carry on a business. From case law can be derived that an association acts in competition with entrepreneurs, and will therefore be subject to Dutch CIT, if the acting of the association may influence (indirectly) the commercial business of (other) entrepreneurs. Therefore, even if the association itself does not make any profits, its acting may influence (indirectly) the commercial business of (other) entrepreneurs as a consequence whereof the association will be subject to Dutch CIT. This may for example be the case if the association provides for education and/or magazines that is/are also provided for by (other) commercial entrepreneurs. If the association is subject to Dutch CIT, the contribution paid by its members, should not be subject to Dutch CIT provided that the contribution does not, in anyway, relate to the services rendered or the goods supplied by the association.

Dutch VAT

Article 7 Dutch VAT (*Wet op de omzetbelasting 1968*) defines an entrepreneur for Dutch VAT purposes as 'everybody that carries on a business'. Whether a business is carried on, is (also) for Dutch VAT purposes subject to a facts and circumstances test. However, for Dutch VAT purposes, this test is rather met easily. An organization of labour and capital with a goal to participate in society is, in principle, subject to Dutch VAT. Contrary to the Dutch CIT, for Dutch VAT purposes, an association may qualify as entrepreneur even if it has not a profit making purpose nor competes with entrepreneurs.

Should the association be subject to Dutch VAT, it should charge Dutch VAT in respect of its services rendered and its goods supplied. Dutch VAT amounts to generally 19% (6% rate applies for certain services and goods). Whether the contribution paid by the members of the association is subject to Dutch VAT, depends on the qualification of the contribution. If the contribution is a fixed contribution, i.e. not depending on the level of services rendered nor goods supplied to its members, the contribution should, in

principle, not be subject to Dutch VAT. In addition, should the association be subject to Dutch VAT, it may apply for refund of the input VAT paid by the association.

A Dutch VAT return should be filed with the Dutch tax authorities, normally every quarter and the Dutch VAT charged should be paid to the Dutch tax authorities. However, input VAT paid by the association can be deducted from the Dutch VAT due. Consequently, should the costs that are subject to Dutch VAT, incurred by the association exceed its turnover that is subject to Dutch VAT, the association may apply for a VAT refund.

Dutch stamp duties

The incorporation of an association in the Netherlands is not subject to Dutch stamp nor capital duties nor registration fees other than those mentioned above under 'Costs'.
