

Beijing, 5 November 2012

Mr. Tian
Vice President
China Development Bank Corporation ("CDB")

CONFIDENTIAL AND PRIVILEGED

By hand

RE: Closing of the Phase III line of credit between CDB and the Republic of Ecuador ("Ecuador")

Dear Mr. Tian:

Empresa Pública de Hidrocarburos del Ecuador EP PETROECUADOR ("PETROECUADOR") has completed all of the necessary steps and internal authorizations for signing the agreements relating to the Phase III line of credit between CDB and Ecuador, in accordance with the framework set forth in the Five Party Agreement, in the form agreed by the parties thereto on 6 September 2012. The relevant Phase III transaction documents have been approved by the Board of Directors of PETROECUADOR and, as the highest ranking executive of PETROECUADOR, I have travelled to Beijing to sign such documents on behalf of PETROECUADOR.

As a result, I was surprised to learn of the recent repeated inquiries raised by CDB regarding the arbitration proceedings before the International Centre for Settlement of Investment Disputes (the "ICSID") in the case between Occidental Petroleum Corporation ("Occidental") and Ecuador, and the proposal by CDB that the signing of the Phase III transaction be postponed until a later date. As you are aware, the Occidental arbitration has been ongoing since 2006: annulment proceedings are currently pending before the ICSID, the resolution of which may be expected to take from 1-3 years.

As we have repeatedly expressed throughout the negotiations of the Phase III transaction, any delay in signing the Phase III transaction documents would make it impossible to complete the commercial transaction for the sale of crude and fuel oil by PETROECUADOR to PetroChina International Company Limited ("PETROCHINA") and China International United Petroleum & Chemicals Company Limited ("Unipet"). Due to operational, commercial and legal constraints facing PETROECUADOR, the parties must sign the Phase III transaction documents in the coming days, or else PETROECUADOR will be forced to sell the crude oil previously allocated for the Phase III transaction on the international market. As a result, the Phase III transaction will become unfeasible for the foreseeable future.

The operational constraints of limited storage space at the port of loading prevent PETROECUADOR from stockpiling crude oil indefinitely, and the space available for holding volumes of crude oil in reserve for the Phase III transaction is rapidly diminishing. In reliance on the five party negotiations, PETROECUADOR has been reserving volumes of crude oil for the Phase III transaction since June, 2012 for scheduled delivery starting in November, 2012, and is rapidly running out of flexibility to continue reserving such volumes. To illustrate, under the Phase III transaction, PETROECUADOR will be delivering a total of 6 cargoes of crude oil to PETROCHINA and Unipet each month, for a total of approximately 2,000,000 barrels per month. In comparison, the total volume of storage space available at the port of loading is less than 2,700,000 barrels. Due to other ongoing operational storage requirements,

space for holding volumes of crude oil for the Phase III transaction will not be available if the signing is postponed until a later date. In 39 years of operations, PETROECUADOR has never ceased production or the flow of crude oil to the storage tanks at the port of loading. Accordingly, once those storage tanks begin approaching their maximum capacity, PETROECUADOR will be forced to sell volumes which have been allocated for the Phase III transaction since June of this year on the international market. Since chartering of vessels for transport of crude oil is typically done one month in advance of the loading date, PETROECUADOR will be forced to begin negotiations with alternative buyers immediately unless the Phase III transaction documents are signed.

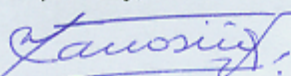
The commercial mandate of PETROECUADOR, based on Ecuadorian law and regulations, is to sell hydrocarbons at the most favorable price available on the international market. Once volumes of crude oil previously allocated for the Phase III transaction are released, then PETROECUADOR will be required to obtain the best price available, and will begin negotiations with other potential buyers, including crude oil refineries. It is imperative that PETROECUADOR obtain the best price possible for the sale of crude oil, because our contracts for sale of crude oil (including the contracts in the Phase I and Phase II transactions) use a price formula that incorporates a "differential", which is based on the average of all recent market prices. As a result, a single sub-optimal price would negatively affect the prices of crude oil. Due to operational reasons, refineries commonly plan their purchases 3 months in advance, so short-term sales would be commercially risky. Since buyers often prefer the stability of mid-term or long-term contracts, and are generally willing to pay a premium for stable supply, PETROECUADOR would be forced to enter into a mid-term commitment for the sale of crude oil previously allocated for the Phase III transaction. As a result, PETROECUADOR would not have sufficient availability of crude oil to support the Phase III transaction for the foreseeable future.

Legal constraints and internal policies of PETROECUADOR will also require PETROECUADOR to begin negotiating contracts for sale of the crude oil currently allocated for the Phase III transaction unless the transaction documents are signed in the coming days. The only legal mechanism by which PETROECUADOR can sell crude oil is pursuant to duly executed contracts conforming to the laws and regulations of Ecuador. Without signed contracts as contemplated under the Phase III transaction, PETROECUADOR will not be able to deliver crude oil to PETROCHINA or Unipetec.

As explained above, unless the Phase III transaction documents are signed in the coming days, the operational, commercial and legal constraints facing PETROECUADOR will require PETROECUADOR to begin negotiations with third parties to sell the crude oil which is currently allocated for the Phase III transaction. In the hopes of avoiding this result, I have extended my stay in Beijing with the goal of signing the relevant transaction documents early this week on behalf of PETROECUADOR.

I hope that the information above is helpful for understanding why the execution of the Phase III transaction documents in the coming days is required in order to preserve the availability of crude oil for the transaction. I look forward to receiving a prompt response from CDB regarding whether the Phase III transaction documents can be signed in the coming days. If the Phase III transaction documents are not signed in the coming days, then I cannot remain in Beijing and will be forced to start the tender process for selling the crude oil previously reserved for the Phase III transaction on the international market.

Respectfully,



Marco Calvopiña
General Manager
PETROECUADOR