JOINT MANAGEMENT AREA
DRAFT MODEL PETROLEUM AGREEMENT

The Commonwealth

PREPARED BY:
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ECONOMIC AND LEGAL SECTION
COMMONWEALTH SECRETARIAT
LONDON

The Commonwealth

JOINT MANAGEMENT AREA
MODEL PETROLEUM AGREEMENT

[Insert Date]

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CLAUSE

THIS Agreement (the "Agreement") is made effective the ..... day of ..... in the year .....("Effective Date")

BETWEEN the Designated Authority on the one part
AND .... (in this Agreement called "the Company" which expression shall, where the context allows, include its assigns) of the third part;

WHEREAS: -

(a) All petroleum existing in its natural state within the Joint Management Area is managed by the Designated Authority established by the Republic of Seychelles and the Republic of Mauritius under the *Treaty concerning the Joint Management of the Continental Shelf in the Mascarene Plateau Region signed by the Government of the Republic of Seychelles and the Government of the Republic of Mauritius at Clarisse House, Vacoas in Mauritius on 13 March 2012,* and is the property of the two Sovereign States;

(b) The discovery and exploitation of petroleum are important for the long term sustainable economic development of the natural resources of the Joint Management Area;

(c) The Company being duly incorporated in [Seychelles/Mauritius – delete as appropriate] wishes to undertake operations for the exploration, development, production, transportation, storage, processing and marketing of petroleum within and from the Joint Management Area;

(d) The Designated Authority has the rights in respect of petroleum exploration and exploitation over the entirety of areas released for such exploration and exploitation in the Joint Management Area;

(e) The Designated Authority wishes to promote the development of petroleum exploration and exploitation and the Company wishes to cooperate with the Designated Authority by assisting it in the exploration for and production of petroleum resources;

(f) The Company represents that it has the financial resources, the technical competence, expertise and management structure and organisational capacity necessary to carry out the Petroleum Operations specified in this Agreement;

(g) The Company has made an application to the Designated Authority in respect of area(s) referred to in the First Schedule to this Agreement; and,

(h) The Company and the Designated Authority agree as follows:

NOW THIS AGREEMENT WITNESSETH AS FOLLOWS:

1. Definitions

(1) In this Agreement, unless the context otherwise requires -

"Accumulated Net Cash Position" means either the FANCP or the SANCP or both;

"Affiliate" means a company or any other entity which directly or indirectly controls or is controlled by a company or entity which itself directly or indirectly controls any entity constituting the Company. Such "control" means direct or indirect ownership by a company or any other entity of holding fifty percent (50%) or more of the shares, conferring voting rights, forming the stock of another company;

"Annual Plan" means the Annual Plan referred to in sub-clause 7(5);

"Appraisal Programme" means a programme carried out following a discovery of Petroleum for the purpose of delineating the accumulation of Petroleum to which that discovery relates in terms of thickness and lateral extent and estimating the quantity of recoverable Petroleum therein;

"Appraisal Well" means a well drilled after the discovery of hydrocarbons to delineate the limits of the field on the same geological entity within the same structural or stratigraphic level of closure as the discovery;

"Arm's Length" means for the purpose of determining arms-length sales, the price of petroleum will generally be based in a per barrel basis of one or more crude oil blends which at the time of calculation are being freely and actively traded in the international oil market and have similar characteristics and quality to the petroleum being marketed. [The price for such petroleum will be ascertained from Platt's Crude Oil Market Wire daily publication] or the spot market for the same petroleum ascertained in a similar manner;

"Associated Natural Gas" means Natural Gas produced from any well in the Scheduled Areas the predominant production of which is Crude Oil and which is separated from Crude Oil in accordance with good oilfield practice, including the free gas cap, but shall exclude any liquid hydrocarbons extracted from such natural gas either in normal field of separation, dehydration or in a gas plant;

"Barrel" means a U.S. barrel, i.e., 42 U.S. gallons measured at a temperature of 60 degrees Fahrenheit and under an atmospheric pressure of 14.65 psia.

"Best International Petroleum Industry Practice(s)" means all those uses and practices that are, at the time in question, generally accepted in the international petroleum industry as being good, safe, economical, environmentally sound and efficient concerning the exploration, development, production, processing and transportation of Petroleum. These uses and practices should reflect standards of service and technology that are either state-of-the-art or otherwise appropriate to the

operations in question and be applied using standards in all matters that are no less rigorous than those in use by the Companies in other jurisdictions;

"Calendar Year" means a period of twelve (12) consecutive months beginning on January 1st and ending on the following December 31st, according to the Gregorian calendar;

"Condensate" means a naturally occurring mixture consisting chiefly of pentane and other heavier hydrocarbons, which may contain other substances, which is extracted or is extractable from a deposit through normal exploitation drilling and which, although even if found in the gaseous state in a deposit, is present in liquid state under normal conditions or pressure and temperature;

"Contract Year" means a period of 365 days (or 366 days in a leap year) commencing on the Effective Date or on any anniversary of that date;

"Company" means _____ and any of its successors and permitted assigns that shall act hereunder for Company and shall conduct Petroleum Operations and shall also have the meaning assigned to Licenced Corporation in the Joint Fiscal and Taxation Code;

"Decommissioning Plan" means the plan set out in Schedule 3, that encompasses measures to be taken by the Company upon cessation of production operations to remove or otherwise deal with all installations, equipment, pipelines and other facilities, whether on-shore or off-shore, erected or used for purposes of such operations and to rehabilitate land disturbed by way of such operations that has been approved in accordance with this Agreement;

"Decommissioning Fund" means the fund referred to in clause 32 of this Agreement;

"Designated Authority" means the Designated Authority established under Article 3 of the Treaty;

"Development Expenditures" means the expenditures so categorized in Section 2 of the Accounting Procedure;

"Development Phase" means the phase commencing and ending as provided in sub-clause 4(2)(b);

"Development Plan" means the plan referred to in Clause 11;

"Development Scheme" means the Development Scheme referred to in sub-clause 27(1)(b);

"Development Well" means a well drilled within the presently known or proved productive area of a Petroleum Field as is indicated by appropriate interpretation of sub-surface data, drilled to the depth of the stratigraphic horizon within the known productive reservoir with the objective of obtaining hydrocarbons from that reservoir;

"Effective Date" means the date on which this Agreement enters into force;

"Environment Code" means the Environment Code of Practice for the Joint Management Area;

"Exploration Expenditures" means the expenditures so categorised in Section 2 of the Accounting Procedure;

"Exploration Period" means the periods agreed within the Exploration Phase pursuant to Clause 4(2)(a);

"Exploration Phase" means the phase commencing and ending as provided in Clause 4(2)(a);

"Exploratory Well" means a well drilled in an Exploration Phase with the object of exploring for undiscovered hydrocarbons on a geological entity (be it of structural, stratigraphic, facies or pressure nature) penetrating all prospective horizons at a particular location that are within the terms of the work programme;

"FANCP" has the meaning specified in sub-clause 16(1)(a);

"Force Majeure" means war, insurrection, invasion, riot, civil commotion, act of terrorism, military activities, labour disturbance, blockades, or any other exceptional, inevitable and irresistible natural phenomenon beyond the reasonable control of the impacted party, which directly causes non-performance or delay in the performance of provisions of the Agreement;

"Good Oilfield Practice" or "Good Petroleum Industry Practice" means all those things that are generally accepted as good and safe in:

(a) the carrying on of exploration for petroleum; or,

(b) petroleum recovery operations.

"Host States" means the Republic of Seychelles and the Republic of Mauritius

"Joint Fiscal and Taxation Code" means [insert name of the Joint Fiscal and Taxation Code and date of adoption by the Joint Commission];

"Joint Management Area or JMA" means the Joint Management Area established under Article 1 of the Treaty;

"JMA Crude Oil" or "Crude" means crude mineral oil, asphalt, ozokerite, and all manner of petroleum hydrocarbons in either liquid or solid form as recovered at the well head before the product has been refined or otherwise treated, including Natural Gas by condensation or extraction, but excluding water and foreign substances;

"Month" or "Calendar Month" means any of the twelve (12) months of the Calendar Year;

"Natural Gas" means methane, ethane, propane, butane and wet or dry gaseous hydrocarbons as recovered at the well head, including gaseous products extracted in association with Petroleum, such as nitrogen, hydrogen sulfide, carbon dioxide and helium, but excluding water and foreign substances;

"Net Cash Receipts" or "NCR" has the meaning specified in sub-clause 16(1)(a);

"Non-associated Natural Gas" means free Natural Gas not produced in contact with or dissolved in Crude Oil and obtained from any well the predominant production of which is Natural Gas;

"Offshore Petroleum Safety Code" means the Offshore Petroleum Safety Code for the Joint Management Area dated February 2014.

"Operating Expenditures" means the expenditures so categorised in Section 2 of the Accounting Procedure;

"Operator" means the entity appointed by the Company, with the approval of the Designated Authority, to conduct the Petroleum Operations on behalf of the Company;

"Other Operators" has the meaning specified in sub-clause 27(1)(c);

"Parties" mean the signatories to this Agreement and any permitted assignees and successors;

"Petroleum Additional Profits Tax" or "PAPT" has the meaning, and shall be calculated in the manner, specified in Clause 16*;*

"Petroleum field" or "field" means all reservoir horizons above crystalline basement within any geological entity of structural, facies or stratigraphic closure within which petroleum is deposited and retained as determined by the Designated Authority and the Company pursuant to sub-clause 10(1);

"Petroleum Operations" means all activities undertaken by the Company including exploration, appraisal, prospecting, assessment, development, marketing, abandonment, decommissioning, drilling, production, exploitation, processing, storage, transport, distribution, sale and other operations in or in connection with this Agreement;

"Petroleum Operations Information" has the meaning specified in Clause 37;

"Quality" has the meaning specified in sub-clause 17(2)(a);

"Quarter" means a period of three (3) Months ending on 31st March, 30th June, 30th September or 31st December in any Year;

"SANCP" has the meaning specified in sub-clause 16(1)(a);

"Scheduled Areas" means, subject to sub-clause (3), the areas of the Joint Management Area specified in the First Schedule to this Agreement;

"Sole Expert" means a person appointed by agreement between the Company and the Designated Authority to resolve a difference referred to in Clause 14.7, Clause 17.4, or Clause 17.6 of this Agreement, and, in the event that there is failure to agree on the person to be so appointed, a person appointed by the Secretary-General of the Permanent Court of Arbitration at the request of either Party, who shall be an independent and impartial person of international standing with relevant qualifications and experience and shall not, by virtue of nationality, personal connection or commercial interests have a conflict between his own interest and his duty as a sole expert;

"Third Party Sales" has the meaning specified in sub-clause 17(2)(b)(i);

"Treaty" means the *Treaty concerning the Joint Management of the Continental Shelf in the Mascarene Plateau Region signed by the Government of the Republic of Seychelles and the Government of the Republic of Mauritius at Clarisse house, Vacoas in Mauritius on 13 March 2012*

"Year" or "Calendar Year" means a period of twelve (12) consecutive Months starting with 1st January and ending with 31st December.

(2) Any expression which is defined in the Petroleum Mining Act, 1976, or in the Tax Act, shall, unless the context otherwise requires, have the same meaning when used in this Agreement. In the event of any inconsistency between the Petroleum Mining Act, 1976, the Tax Act or this Agreement, the terms of this Agreement shall govern.

(3) A reference in this Agreement to Scheduled Areas:

(a) does not include a reference to any part of Scheduled Areas that are relinquished in accordance with this Agreement; but,

(b) includes any area added to or included in the Scheduled Areas pursuant to Clause 10 of this Agreement.

(4) The following islands within the Scheduled Areas, including their foreshores and surrounding seas to a distance of .....kilometres from the low water line, are excluded from the Scheduled Areas: .....

2. General Grant

In consideration of the covenants and agreements on the part of the Company hereinafter contained, the Designated Authority hereby grants to the Company the exclusive rights for exploring and mining for petroleum in the Scheduled Areas during the continuance of this Agreement, subject to the provisions of this Agreement.

3. Rights of the Company

The Company shall have and may exercise in accordance with and subject to this Agreement the rights referred to in this Agreement.

4. Term of Agreement

(1) Subject to sub-clause (3), this Agreement, unless sooner determined by the Designated Authority, shall be and continue in force for the term of thirty-five (35) Contract Years from the effective date hereof.

(2) Subject to this Clause, this Agreement has two phases, namely:

(a) an Exploration Phase which commences on the effective date hereof and, unless otherwise provided under this Agreement, expires at the end of ten (10) Contract Years; and,

(b) a Development Phase in respect of a Petroleum Field which commences on the date on which commercial viability of the Field is decided pursuant to sub-clause 9(4) and, unless this Agreement is sooner determined, expires at the end of twenty-five (25) Contract Years referred to in sub-clause (1).

(3) This Agreement shall determine automatically at the end of the tenth Contract Year if no commercial discovery is made pursuant to Clause 9 on or before that date.

(4) The Designated Authority may extend the duration of the Exploration Phase to provide for the enjoyment of rights and the performance of obligations specified under Clause 9,

following an application by the Company, in which case the term of the Agreement shall also be extended where appropriate.

5. Relinquishment

(1) The Company shall, within thirty (30) days after the expiration of the fifth Contract Year, relinquish so much of the Scheduled Areas as, together with any part of the Scheduled Areas relinquished under sub-clause (5), amounts to forty percent (40%) of the area of the Scheduled Aras at the date hereof, such portion of the Scheduled Areas, as decided by the Designated Authority.

(2) The company shall, within thirty (30) days after the end of the eighth Contract Year, relinquish so much of the Scheduled Areas, together with any part of the Scheduled Areas relinquished under sub-clause (5)(1) after the end of the fifth Contract Year, amounts to a further thirty percent (30%) of the Scheduled Areas, in comparison with the relinquishment referred to in sub-clause 5 (1), as determined by the Designated Authority, as at the effective date.

(3) Nothing in sub-clauses (1) and (2) above shall be taken as requiring the Company to relinquish any part of the Scheduled Areas within the boundaries of a Petroleum Field (if then determined) and accordingly the reference in those sub-clauses to the Scheduled Areas to be relinquished is a reference to Scheduled Areas outside the boundaries of the Petroleum Field, as determined under Clause 10.

(4) The Company shall, within thirty (30) days or such longer period as the Designated Authority may allow, after the tenth Contract Year, relinquish any remaining part of the Scheduled Areas that is not within the boundaries of a Petroleum Field, as determined under Clause 10.

(5) The Company may, at any time, voluntarily relinquish any part of the Scheduled Areas by giving not less than sixty (60) days advance written notice of its intention to do so to the Designated Authority and complies with Clauses 6 and 7.

(6) The relinquishment of any part of Scheduled Areas in accordance with this Clause shall be without prejudice to any obligation incurred by the Company in respect of the area relinquished prior to the date of relinquishment.

6. Consultation on Area to be Relinquished

(1) Every part of the Scheduled Areas relinquished under this Agreement by the Company shall be bounded by lines of longitude and parallels of latitude expressed in whole degrees, and whole minutes. Except with the approval of the Designated Authority, no boundary line shall be drawn less than five (5) minutes of latitude and five (5) minutes of longitude.

(2) As far as practicable, each relinquished area of the Scheduled Areas shall form one continuous area and be contiguous with any previously relinquished area of the Scheduled Areas. Subject to sub-clause (3), no single relinquished area of the Scheduled Areas shall be less than nine hundred (900) square kilometres or twenty-five percent (25%) of any continuous area within the Scheduled Areas, whichever is the lesser.

(3) the Designated Authority may allow the relinquishment of a lesser portion of the Scheduled Areas than the area specified in sub-clause (2).

(4) No part of the Scheduled Areas shall be relinquished by the Company unless the obligations assumed in respect of that part by the Company have been met.

(5) Before relinquishing under this Agreement any part of the Scheduled Areas, the Company shall consult with the Designated Authority in order to ensure compliance by the Company with all of the relevant requirements of this Agreement.

7. Work Programme and Annual Plan

(1) Subject to the other provisions of this Agreement, the Company shall carry out with expedition and due diligence in the Scheduled Areas in any period referred to or identified in Part I of the Second Schedule to this Agreement the minimum programme of work specified in that Part in respect of that period. The Designated Authority shall oversee the programme of work specified in Part I of the Second Schedule to this Agreement to ensure full compliance by the Company.

(2) Where the Company fails to carry out any part of the minimum work programme specified in Part I of the Second Schedule to this Agreement, then without prejudice to any other right which the Designated Authority may have under this Agreement in respect of that failure, Part II of that Schedule shall apply for the purpose of determining the amount (if any) payable by the Company to the Designated Authority for that failure, it being agreed

that the amount so payable represents the loss to the Designated Authority by reason of the failure and is not a mere penalty.

(3) For so long as the Exploration Phase continues, the Company shall, within thirty (30) days after the end of each Contract Month of that phase, submit to the Designated Authority a detailed, written report giving particulars of the exploration carried out in that contract month and in the event that the minimum work programme specified in Part I of the Second Schedule to this Agreement in respect of that contract month was not carried out, the report shall state the reasons for the failure to fully implement the minimum work programme.

(4) Where, at the commencement of the Development Phase, any portions of the minimum work programme obligations relating to the Exploration Phase remains outstanding, such outstanding portions of the work programme shall pertain to acreage outside the defined boundaries of the Petroleum Field.

(5) The Company shall submit by the thirtieth (30th) day of October of each contract year an Annual Plan (referred to in Clause 11(4) and Section 11 of the Accounting Procedure) giving:-

(a) a detailed forecast of annual Exploration, Development and Operating Expenditures during the Exploration and Development Phases;

(b) a detailed plan relating to work to be completed in each period of expenditure forecasts during the Exploration and Development Phases;

(c) separate production profiles for Crude Oil, Natural Gas and Condensate during the Development Phase; and

(d) such other matters as the Designated Authority shall request be covered in such Annual Plan.

8. Work Practices

(1) The Company shall maintain all apparatus, appliances, equipment, physical infrastructure and all wells in the Scheduled Areas which are not abandoned under this Agreement in good repair and working condition. The Company shall execute all Petroleum Operations in or in connection with the Scheduled Areas in proper and workmanlike manner in

accordance with methods and best practices customarily used in good international oilfield practice. The Company shall procure and maintain at all times during the term of this Agreement, insurance in relation to Petroleum Operations in accordance with Clause 22 of this Agreement.

(2) Without prejudice to the generality of sub-clause (1), the Company shall be responsible for and take all steps necessary to:

(a) control the flow and to prevent the escape or waste of petroleum discovered in or obtained from the Scheduled Areas;

(b) conserve the Scheduled Areas for productive operations;

(c) prevent damage to producing or adjoining petroleum-bearing strata;

(d) prevent the fortuitous entrance of water through wells to petroleum-bearing strata;

(e) prevent the escape of petroleum into any waters in or in the vicinity of the Scheduled Areas; and,

(f) perform such other tasks as reasonably requested by the Designated Authority.

(3) The Company shall comply with any written instructions given by the Designated Authority from time to time concerning the matters referred to in sub-clause (2).

(4) The Company shall promptly notify the Designated Authority within one (1) business day of such event being discovered or of the occurrence of an event or events that result in the escape or waste of petroleum, damage to petroleum-bearing strata, or to the entrance of water through wells to petroleum-bearing strata (except for the purposes of secondary recovery).

(6) The Company shall not:

(a) flare any gas from the Scheduled Areas; or,

(b) use gas for the purpose of creating or increasing the pressure by means of which petroleum is obtained, except with the advance written consent of the Designated Authority and in accordance with the conditions, if any, specified in the consent.

(7) Before deciding to grant or to withhold consent pursuant to sub-clause (6) of this Agreement, the Designated Authority shall afford the Company an opportunity to make written representation to the Designated Authority concerning any technical or financial factors that the Company considers are relevant to the matter and the Designated Authority shall consider any such representations made in accordance with this clause. In the event that the Designated Authority requires additional information, such additional information must be delivered to the Designated Authority not later than thirty (30) days from the date the Designated Authority requests such information.

(8) No written consent shall be required under this Agreement in respect of any flaring which arises as a result of an unforeseen event or events and is, or becomes, necessary in order to:

(a) remove or reduce the risk of injury to persons in the vicinity of the well in question; or,

(c) maintain a flow of petroleum from that or any other well;

the Company shall promptly notify the Designated Authority of the event or events or circumstances as set out above that required the flaring. In the case of flaring to maintain a flow of petroleum, the Company shall cease such flaring where directed to do so by the Designated Authority.

9. Discovery of Petroleum

(1) The Company shall provide notification to the Designated Authority within twenty-four (24) hours in respect of any of the following circumstances:

(a) where a well shows the presence of hydrocarbons, or the wireline log or logs indicate the presence of hydrocarbons;

(b) when a drill-stem test has been carried out on a well from which petroleum flows; or,

(c) any other circumstance which could reasonably be inferred by the Company to constitute the presence of hydrocarbons.

(2) Following the making of the notification pursuant to sub-clause (1), the Company shall submit a detailed report to the Designated Authority within thirty-five (35) days. The report shall contain a statement indicating whether or not in the opinion of the Company the presence of hydrocarbons is of potential commercial interest and the detailed reasons for such determination.

This report shall also contain the following information where it is available to the Company:

(a) all the relevant geological information including the log evaluation;

(b) basic reservoir data, including drill-stem tests data;

(c) the Company's estimate as to the potential of the reservoir; and,

(d) chemical and physical analyses.

(3) (a) Where the Company states in a report referred to in sub-clause (2) that the presence of hydrocarbons is not of potential commercial interest, the Designated Authority shall, by written notice served on the Company, direct that the discovery area comprising the geological structure be relinquished.

(b) A direction given under sub-clause (3)(a) shall be given within the period of twelve (12) months after the date on which the report referred to in sub-clause (2) is submitted to the Designated Authority stating that the presence of hydrocarbons is not of potential commercial interest.

(4) (a) The Company shall, where it is of the opinion that the presence of petroleum is of potential commercial interest, submit for the Designated Authority's approval within sixty (60) days of the discovery an appraisal programme, including drilling of Appraisal Wells, or a reasonable explanation for any delay in submission of such programme.

(b) The Company shall, within six (6) months after the receipt of approval of the appraisal programme by the Designated Authority, or such longer period as the Designated Authority may allow, submit a full report of the results of the appraisal programme, including the location, depth, estimated daily production, estimated development costs, commercial capacity of the Field discovered, estimated recoverable reserves and such other supporting data which the Company may consider relevant to the report. The Designated Authority may require the

Company to supply such further information with respect to the report as the Designated Authority considers appropriate.

(c) Within three (3) months of the submission of the report referred to in sub-clause (4)(b), or such longer period as the Designated Authority may allow, the Company shall meet with and discuss the report with the Designated Authority in sufficient detail with a view to arriving at a decision on the commercial viability, or otherwise, of the Field.

(5) (a) If the Company and the Designated Authority cannot agree on whether or not the Field is commercially viable, the Designated Authority may cause an independent evaluation of the Field to be carried out. If the result of such an evaluation is positive and the Designated Authority is satisfied that the Field could be developed on a viable basis, the Designated Authority may require the Company to relinquish the area of the Field within three (3) months of service of a notice to that effect on the Company.

(b) Before the Designated Authority serves such a notice on the Company, the Designated Authority shall submit the result of the evaluation to the Company for consideration and review of its position. Where the Company, within a period of three (3) months of receipt of the results of the evaluation, reviews its position and notifies the Designated Authority of its intention to develop the Field, the Designated Authority may allow the Company to do so on such additional terms and conditions, in the sole discretion of the Designated Authority.

(c) For the purposes of sub-clauses (3)(a) and (5)(a), the determination of the area to be relinquished shall be made pursuant to Clause 10 in the same manner as though the Company had considered the discovery to be of commercial interest.

(6) For the purpose of this Clause a discovery of petroleum shall be treated as a discovery of petroleum which is commercially viable, if:

(a) the commencement of production of petroleum in the area occupied by the petroleum would be technically possible;

(b) having regard to relevant commercial considerations including, but not limited to, the quantity, quality and, gravity of the petroleum present, the place and depth of its location, the potential development and production costs and potential market, such production would be economic; and,

(c) such other considerations as the Designated Authority shall consider reasonable and appropriate under the circumstances.

(7) Notwithstanding the other provisions of this Clause, if after having carried out an appraisal programme pursuant to Clause 9.4, the Company determines that a discovery of petroleum is not presently commercially viable due to existing economic and/or technical reasons, but may become commercially viable within a reasonable time, the Designated Authority may, if it agrees with the Company, allow the Company to retain the area of Scheduled Areas relating to the discovery for a period determined by the Designated Authority, provided that:

(a) The determination by the Company of whether a discovery of petroleum is presently commercially viable shall be set out in a report submitted to the Designated Authority, which shall outline, describe and demonstrate the economic and/or technical impediments to commercial field development, including but not limited to, potential production rates, Crude Oil prices, development costs, operating costs as well as any other relevant criteria;

(b) The Company shall, twelve months after submission of the report specified in paragraph (a), submit a further report to the Designated Authority that reassesses the commercial viability of the discovery, and thereafter, shall submit further reports every two years, based on the same economic and/or technical criteria;

(c) If as a result of the Company's reassessment under paragraph (b) the Company considers that the discovery has become commercially viable, the Company shall move expeditiously to field development in accordance with the provisions of the Agreement;

(d) If, as a result of the Company's reassessment under clause 9(6)(c) the Company determines that the discovery remains only of potential commercial interest, but the Designated Authority considers that it is commercially viable, the provisions of clause 9.5 shall apply; and,

(e) If as a result of the Company's reassessment under paragraph (b), the Company determines that the discovery is no longer of potential commercial interest, the Designated Authority may require the Company to relinquish the relevant area of Scheduled Areas relating to the discovery.

10. Determination of Petroleum Field

(1) The Designated Authority and the Company shall, as soon as possible, and in any event not later than sixty (60) days after the decision in respect of commercial viability of the Field has been taken pursuant to Clause 9, meet to determine the boundaries of the area occupied by the Petroleum Field.

(2) Following the determination of a Petroleum Field pursuant to sub-clause (1), any subsequent discovery of petroleum in the Scheduled Areas but outside the boundaries of the area of the Petroleum Field shall be treated as a separate Petroleum Field or Fields and the provisions of Clauses 9, 10 and 11 hereof shall apply *mutatis mutandis* to such discoveries.

11. Development Plan

(1) The Company shall submit to the Designated Authority a Development Plan for approval that relates to the development of the Petroleum Field prior to the commencement of the development of the said Field as soon as practicable and, in any event, not later than three (3) months after the determination of the Petroleum Field.

(2) The Development Plan referred to in sub-clause (1) shall contain *inter alia* the following :

(a) a detailed and substantiated technical and economic appraisal of the alternatives for developing the Field and transporting the petroleum, with a justification for the methods proposed;

(b) details of the proposed drilling programme, including the type of wells, drilling equipment intended for use, number, location, and completion methods;

(c) details of the proposed production facilities, including production platforms, if any, and production, separation and storage facilities;

(d) details of the proposed transport system;

(e) details of onshore installations such as terminal and office facilities;

(f) a detailed scheme for the protection of the environment pursuant to Clause 23 of this Agreement;

(g) the Company's proposed Decommissioning Plan;

(h) the amount of annual licence rentals to be paid by the Company (as determined by the Designated Authority during the Development Phase in respect of the area containing the Petroleum Field);

(i) details of any proposed injection and/or flaring of Natural Gas or Associated Natural Gas; and,

(3) The Development Plan shall not be altered in any material way by the Company subsequent to its approval by the Designated Authority without prior written approval.

(4) Additionally, the Company shall submit to the Designated Authority a Bi-Annual Plan giving the information described in Clause 7(5) for the following Year and a detailed outline for the three (3) Years thereafter. If the first Bi-Annual Plan or any subsequent Annual Plan submitted by the Company differs by plus or minus five (5) percent of the projected expenditures included in the Development Plan the approval of the Designated Authority shall be required. The Designated Authority shall approve or reject the Annual Plan by written notice to the Company containing reasons by the fifteenth (15th) day of December of the Year in which the Annual Plan is submitted.

12. Technical Advisory Committee

(1) The Designated Authority and the Company shall, within thirty (30) days after the Effective Date, establish a committee to be known as the Technical Advisory Committee which shall consist of:

(a) a chairman and two (2) other persons appointed by the Designated Authority; and,

(b) two (2) persons appointed by the Company.

(2) the Designated Authority and the Company may, with due regard to the terms of sub-clause (1), appoint by notice in writing, any person to act in the place of any member of the Technical Advisory Committee due to absence or incapacity to act as a member of the

Committee. Any such substitution by the Company must be approved in writing in advance by the Designated Authority, such approval being in the sole discretion of the Designated Authority.

(3) When an alternate member properly acts in the place of any member he/she shall have the powers and perform the duties of such member.

(4) Without prejudice to the rights and obligations of the Company in relation to the management of its operations, the functions of the Technical Advisory Committee shall include, but not limited:

(a) to monitor all Petroleum Operations carried out by the Company;

(b) to review any proposed exploration work programme and budgets submitted by the Company to the Designated Authority under Clause 7 of this Agreement and to propose any modifications to the Company;

(c) to review any appraisal programmes submitted by the Company to the Designated Authority under Clause 9 of this Agreement, to propose any modifications to it for the Company's consideration and to monitor the implementation of such appraisal programme;

(d) to review any Development Plan which the Company submits for approval by the Designated Authority pursuant to Clause 11 and to propose any modifications to it for the Designated Authority's consideration;

(e) to review Bi-Annual Plans; and

(f) to ensure that the accounting of expenditures and the maintenance of operating records and reports kept in connection with the Petroleum Operations are made in accordance with this Agreement and the accounting principles and procedures generally accepted in the international petroleum industry.

(5) All meetings of the Technical Advisory Committee shall be held in either of the Host States, unless the Committee decides otherwise subject to approval by the Designated Authority. The Technical Advisory Committee shall meet at least twice in every Contract Year during the Exploration Phase and at least four (4) times in every Contract Year during the Development Phase.

(6) Three (3) members of the Technical Advisory Committee shall form a quorum for a meeting of the Committee, at least two of which members shall be members appointed by the Designated Authority.

(7) The Designated Authority and the Company shall have the right to call any expert to any meeting of the Technical Advisory Committee to advise the Committee on any matter of a technical nature requiring expert advice.

(8) The Technical Advisory Committee may make recommendations to the Designated Authority or the Company, as the case may be. Such recommendations shall be given full and proper consideration by all parties to this Agreement.

13. Annual Rentals

(1) The Company shall pay to the Designated Authority in respect of each Contract Year of the term of this Agreement an annual rental determined as provided in sub-clauses (2) and (3) below.

(2) (i) The rental to be paid by the Company in respect of each Contract Year of the Exploration Phase of the Agreement shall be an amount of [*insert amount*] United States Dollars (US$__) for each square kilometre of the Scheduled Areas held by the Company on the Effective Date, multiplied by a factor of A divided by B, where:

"A" is the value of the United States Industrial Goods Producer Price Index ('USIGIPPI') as reported in the monthly publication "International Financial Statistics" of the International Monetary Fund (IMF) for the Month during which the anniversary of the Effective Date of the Agreement on which the rental is payable occurs; and

"B" is the value of the USIGIPPI as reported in the said publication for the Month of the Effective Date.

(ii) If during the Contract Year since the previous anniversary the Company has surrendered any part of the Scheduled Areas held under the Agreement, the rental payable on each square kilometre of Scheduled Areas shall be the amount calculated according to sub-paragraph (i) multiplied by a percentage equal to the proportion of the Scheduled Areas awarded on the Effective Date that are still held by the Company on the anniversary date.

(iii) Payment of the annual rental during the Exploration Phase shall be made by the Company annually in advance, the first such payment being made on the Effective Date and subsequent payments being made no later than each anniversary of the Effective Date.

(3) The rental to be paid by the Company in respect of the area occupied area of a Petroleum Field in each Contract Year of the Development Phase shall be such amount as shall be agreed by the Designated Authority and the Company in the Development Plan for the Field.

(4) Where an amount of rental under this Agreement is not paid on the due date, there shall be payable to the Designated Authority by the Company an additional amount determined in accordance with Clause 1.5 of the Accounting Procedure, contained at the Fourth Schedule to this Agreement, upon the amount of rental from time to time remaining unpaid, to be computed from the time when the rental became payable until it is paid.

14. Petroleum Royalty

(1) Liability for Royalty

(a) Subject to this Agreement, the Company shall pay to the Designated Authority in respect of each Month during which petroleum is produced under this Agreement a royalty as provided in this Clause in respect of all petroleum won and saved in the Scheduled Areas in that period.

(b) The royalty payable on Crude Oil shall be calculated as set out in sub-clause (4) and shall be based on the total Crude Oil won and saved, valued in accordance with Clause 17.

(c) The royalty payable on Natural Gas shall be as determined pursuant to Clause 26.

(2) Statement with Respect to Royalty

The Company shall, within thirty (30) calendar days after the end of each Month in which the royalty is due, deliver to the Designated Authority a Royalty Statement containing the particulars stipulated in Section 7 of the Accounting Procedure.

(3) Payment of Royalty

(a) Royalty under this Agreement in respect of a Month is payable by the Company not later than thirty (30) calendar days after the end of the Month. Subject to sub-clause (5), the royalty shall be paid to the Designated Authority by wire transfer to an account(s) designated by the Designated Authority in United States Dollars (US$).

(b) Where an amount of royalty is not paid as provided by sub-paragraph (a), there shall be payable to the Designated Authority by the Company an additional amount determined in accordance with Section 1.5 of the Accounting Procedure contained at the Fourth Schedule to this Agreement, upon the amount of rental from time to time remaining unpaid, to be computed from the time when the rental became payable until it is paid.

(4) Determination of Royalty Payable on Crude Oil

(a) In respect of Crude Oil won and saved from each Petroleum Field in the Scheduled Areas, royalty shall be payable at the rate of five percent (5%) of the market value, determined pursuant to Clause 17, of such Crude Oil won and saved from each Field in the relevant Month.

(b) If for any Month the market value of the Crude Oil won and saved has not been determined by the time the payment of royalty is due, the market price for the last Month for which the price has been determined shall be used in the interim in valuing the quantity of Crude Oil won and saved in the Month, and any adjustment to the amount of royalty ultimately due for that Month shall be made as soon as the market value for the Month has been established.

(5) Royalty in Kind

The Designated Authority shall have the right, in its sole discretion, to direct the Company to discharge its obligation to pay royalty in accordance with this Clause by requiring it to deliver in kind to the Designated Authority a proportion of the Crude Oil, Natural Gas or Condensate won and saved equivalent to the amount of royalty due under this Clause. In the event that the Designated Authority exercises this option it shall do so, on each occasion, for a period of at least one (1) year and shall notify the Company of its intention to require payments of royalty in kind giving at least three (3) months' notice and stating the Field or Fields to which the option will relate. Promptly after receipt of the Designated Authority's notification the Company and the Designated Authority shall agree on the

specific lifting or off-take arrangements to enable the Designated Authority to give effect to its option.

(6) Royalty not Payable in Certain Cases

Royalty under this Agreement is not payable in respect of petroleum that:

(a) the Designated Authority is satisfied was unavoidably lost before the quantity of that petroleum was ascertained for the purposes of determining the quantity of crude won and saved;

(b) is used by the Company for the purpose of its Petroleum Operations, including any testing operations or operations for the recovery of petroleum; or,

(7) Dispute as to Amount of Royalty Payable

In the event that the Designated Authority and the Company cannot agree on the fair market value and the dispute is referred to a Sole Expert under the provisions of Clause 17(4) the Company is nevertheless liable to pay royalty in accordance with sub-clause (3), calculated on the basis of the then-current market value of the Crude Oil which the Designated Authority considers to be the correct then-current market value, but in the event that a lesser market value is ultimately determined by the Sole Expert so appointed, the amount of any excess royalty paid by the Company shall be set off against the liability of the Company to make future payments of royalty under this Agreement or, if no such liability can arise or arises, shall be paid to the Company.

15. Petroleum Income Tax

(1) The Company shall pay Petroleum Income Tax in accordance with the provisions of the Joint Fiscal and Taxation Code and Clause 16 of this Agreement.

16. Petroleum Additional Profits Tax

(1) In each Calendar Year the Company shall be liable for payment to the Designated Authority a Petroleum Additional Profits Tax ("PAPT") as required by the Joint Fiscal and Taxation

Code and this clause, in respect of each separate Petroleum Field, determined on the basis of the rate of return (ROR) that the Company has achieved from the Effective Date with respect to such Field as of the end of that Calendar Year.

(2) PAPT for the purposes of sub-clause (1) shall consist of a two-tier PAPT imposed at different tax rates, which are referred to in this Agreement as the "First PAPT Rate" and the "Second PAPT Rate" respectively, which are triggered by a distinct ROR threshold, referred to as the "First ROR Threshold" and the "Second ROR Threshold" respectively.

(3) The Company's ROR shall be calculated on the basis of Net Cash Receipts ("NCR") of the Company. In cases where the Company consists of more than one company, the liability to pay PAPT shall be joint and several, and at each relevant date only one ROR and NCR shall be computed for the Petroleum Field, combining all of the interests held by the relevant companies in the relevant Field.

(4) The Company's ROR, NCR and liability to pay PAPT shall be determined separately for each Field at the end of each Calendar Year in accordance with the following sub-clauses.

Definitions for PAPT determination

(5) For the purposes of this Agreement, "NCR" means the Company's net cash receipts (which may be a positive or negative amount) derived from the Field during the Calendar Year for which the calculation is being made, and shall be computed in accordance with the following formula:

NCR = INCOME - TAXES - COSTS - DEDUCTIONS

where:

"INCOME" represents all income received by or attributed to the Company from the Field during the Calendar Year. This amount shall be taken to be the Company's assessable income arising from the disposal of Petroleum produced from the Field during the Calendar Year as defined in the Joint Fiscal and Taxation Code, together with miscellaneous assessable income accruing to the Company during such Calendar Year from Petroleum Operations in respect of the Field as defined in the Joint Fiscal and Taxation Code and Section 3.4 of the Accounting Procedure to this Agreement;

"TAXES" represents payments of Royalty and PIT made by the Company to the Designated Authority in the Calendar Year in respect of the Field, excluding any tax that applies to the transfer or assignment of an interest. Where PIT is paid by the Company on taxable income accruing to the Company from two or more Petroleum Fields in a Calendar Year under this Agreement, the Company shall, for the purposes of calculating TAXES in respect of the Field, determine in consultation with the Designated Authority the amount of the total PIT paid by the Company in the Calendar Year that is attributable to each such Field in a principled, fair and consistent manner, and the amount so determined for a particular Field shall be allowed as the relevant PIT component of TAXES for the Field;

"COSTS" represents the total of Exploration Expenditures, Development Expenditures and Operating Expenditures related to the Agreement Area incurred by the Company up to the Delivery Point during such Calendar Year on or with respect to the Field, as defined and categorised in, and allowed in accordance with the provisions of, Section 2 and Section 3 of the Accounting Procedure; provided that any such Expenditures not directly attributable to a specific Field shall, for the purposes of this calculation, be apportioned in consultation with the Designated Authority, between all Fields in respect of this Agreement then in production or being developed in which the Company has an interest, in a principled, fair and consistent manner; and provided further that, for the purpose of determining the amount of PAPT due, such total Expenditures shall not include any amounts in respect of interest, charges or fees on loans or other financing obtained, whether from affiliated companies or from banks or other third party sources, for the purpose of carrying out Petroleum Operations, nor any consideration paid for acquiring an interest in this Agreement ; and

"DEDUCTIONS" represents any amounts that the Designated Authority may determine as allowable deductions in the computation of PAPT from the Field in the Calendar Year, in respect of bad debts and decommissioning provisions, and, for this purpose, the provisions of the Joint Fiscal and Taxation Code shall be applied for PAPT as they are for PIT;

Application of FANCP and SANCP to the determination of PAPT

(6) For the purposes of determining PAPT, the following definitions of FANCP and SANCP shall be applied under this Agreement:

(a) "FANCP" is the first accumulated net cash position of the Company in respect of a particular Field, and refers to the amounts determined by the formula in paragraph (c) below at the end of a given Year; and

(b) "SANCP" is the second accumulated net cash position of the Company in respect of a particular Field, and refers to the amounts determined by the formula in paragraph (d) below at the end of a given Year.

(c) FANCP in respect of a Petroleum Field for any Calendar Year shall be calculated according to the following formula:

$$FANCP = A_1(100\% + B_1) + NCR$$

where:

"A_1" equals the FANCP at the end of the Calendar Year preceding the Calendar Year for which the calculation is being made. If for any Calendar Year the FANCP is a positive amount, the FANCP at the end of that Calendar Year shall be deemed to be zero for the purpose of calculating the FANCP for the subsequent Calendar Year; and

"B_1" equals fifteen per cent (15%) and corresponds to the First ROR Threshold.

(d) SANCP in respect of any Petroleum Field for any Calendar Year shall be calculated according to the following formula:

$$SANCP = A_2(100\% + B_2) + NCR - PAPT_1$$

where:

"A_2" equals the SANCP at the end of the Calendar Year preceding the Calendar Year for which the calculation is being made. Where the SANCP is a positive amount in any Calendar Year, the SANCP at the end of that Calendar Year shall be deemed to be zero for the purpose of calculating the SANCP for the subsequent Calendar Year;

"B_2" equals ___ [*biddable/negotiable value*] per-cent and corresponds to the Second ROR Threshold.

$PAPT_1$ is the amount paid in each Year as First PAPT, equal to the value of any PAPT due to the Designated Authority in that Year in relation only to the FANCP.

(e) In the calculation of the FANCP and SANCP for the first Calendar Year of this Agreement, "A1" and "A2" in the formula for FANCP and SANCP shall be respectively deemed to be zero.

Determination of First and Second PAPT payable

(7) The amounts of PAPT payable to the Designated Authority in respect of each Field in any Calendar Year, shall be determined as follows:

(a) If the FANCP and SANCP are both negative, the PAPT for the Calendar Year in question shall be zero.

(b) If the FANCP is positive but the SANCP is negative, the PAPT for the Calendar Year in question shall be equal to twenty-five (25) per cent [the First PAPT Rate] of the FANCP for that Year.

(c) If the FANCP and SANCP are both positive, PAPT for the Calendar Year shall be equal to the aggregate of twenty-five (25) per cent of the FANCP for that Year plus _____per-cent [the Second PAPT Rate] of the SANCP for that Year.

Calculations, Returns, Payments and Instalments

(8) Calculations of the NCR, FANCP and SANCP shall be made in United States (US) Dollars, with all non-dollar expenditures converted to US Dollars on the basis of the exchange rates specified in Section 1.4 of the Accounting Procedure.

(9) In accordance with the Joint Fiscal and Taxation Code, provisional estimates of the FANCP, SANCP and amounts of PAPT due in respect of each Field for each Calendar Year shall be made by the Company and submitted to the Designated Authority not later than the thirtieth (30th) day of April of the Calendar Year; such annual estimate may be adjusted by the Company when justified within thirty (30) days of the end of each following Quarter.

(10) In accordance with the Joint Fiscal and Taxation Code, the Company shall prepare a final calculation of the PAPT due in respect of each Field for each Calendar Year, which shall be submitted to the Designated Authority within three (3) Months after the end of each Calendar Year and shall constitute a return as required under the Joint Fiscal and Taxation.

(11) Provisional estimates and final returns of the FANCP, SANCP and amounts of PAPT due from each Field for each Calendar Year shall be prepared by the Company in accordance with the provisions of the Joint Fiscal and Taxation Code as supplemented by this Agreement.

(12) Payment of the estimated amount of PAPT due for a Calendar Year in accordance with the provisional annual estimates, as advance payments of the PAPT, shall be made by the Company to the Designated Authority not later than thirty (30) days after the end of each Quarter of that Calendar Year. The first quarterly advance payment shall be 25% of the estimated annual PAPT liability; the second, third and fourth payment shall be respectively 50%, 75% and 100% of the then estimated annual PAPT liability less the advance payments for that Year already made. Payment of the balance of the total amount of PAPT due for the Calendar Year shall be made by the Company when submitting the final PAPT return. Pursuant to the Joint Fiscal and Taxation Code, payments of PAPT shall be made in United States Dollars.

(13) Where a group of adjoining Petroleum Fields are exploited by the Company under a common Development Plan jointly approved by the Minister, the PAPT payable shall be determined globally for the group of Petroleum Fields, and not distinctly in respect of each Petroleum Field.

(14) Where a Petroleum Field or group of Fields extends beyond the Agreement Area, PAPT shall be determined by the Company in respect of the part of the Field or group of Fields located within the Agreement Area and in respect of the incomes and costs arising from that portion only.

(15) The Designated Authority may determine in its discretion that the obligation of the Company to pay PAPT in any Calendar Year may be discharged by the Company making available to the Designated Authority an amount of Petroleum equivalent to the monetary value of the PAPT due and valued in accordance with Clause 14 and Clause 15 of this

Agreement. In the event that the Designated Authority wishes to exercise this option, it shall so notify the Company, giving at least three (3) months' notice of its intention to do so and stating the period and Field(s) to which the option will relate. The Designated Authority and the Company shall seek expeditiously to agree on the specific lifting or off-take arrangements to enable the Designated Authority to give effect to its option.

17. Valuation of JMA Crude Oil

(1) The Parties hereby agree that JMA Crude Oil produced and saved from the Scheduled Areas shall be sold or otherwise disposed of at competitive international market prices at the time of sale or disposition.

(2) The market value of JMA Crude Oil sold or otherwise disposed of in any Month shall, for the purposes of this Agreement and, pursuant to the JMA Tax Code, for the purposes of the Company's liability to Petroleum Income Tax and PAPT, be determined as follows:

(a) Within ten (10) days after the end of each Month in which JMA Crude Oil has been produced and saved from any Petroleum Field, an average price (expressed in United States Dollars per barrel), adjusted to the Company's actual loading points for export from the JMA, for each separate volume of Crude Oil of the same specific gravity, sulphur and metal content, pour point, product yield and other relevant characteristics, (hereinafter referred to as "Quality") shall be determined in respect of production during that Month. It is understood that production from different Fields may be of differing Quality and that separate average prices may accordingly be appropriate for any Month in respect of production from each Field, in which event the overall price applicable to production from the Scheduled Areas shall be determined by taking the arithmetic weighted average (weighted by volume) of all such prices separately determined.

(b) The prices aforesaid shall be determined on the basis of international fair market value as follows:

(i) In the event of fifty percent (50%)or more of the total volume of sales made by the Company during the Month of Crude Oil of a given Quality produced and saved being by third party arm's length sales transacted in foreign exchange (hereinafter referred to as "third party sales"), the fair market value for all JMA Crude Oil of that Quality shall be taken to be the simple arithmetic average price, calculated by dividing the total receipts

from all such Third Party Sales by the total number of barrels of Crude Oil sold in such sales, actually realised in such Third Party Sales.

(ii) Subject to sub-clause (2)(c), in the event of less than fifty percent (50%) of the total volume of sales made by the Company during the Month of JMA Crude Oil of a given Quality produced and saved being by Third Party Sales, the fair market value for all JAM Crude Oil of that Quality shall be determined by the arithmetic weighted average of:

(aa) the simple arithmetic average price actually realised in such Third Party Sales during the Month of such JMA Crude Oil produced and saved, if any, calculated by dividing the total receipts from all such sales by the total number of barrels of Crude Oil in the such sales; and

(bb) the simple arithmetic average price, adjusted for differences in Quality, quantity, transportation costs, delivery time, payment and other contract terms, at which a selection, determined in accordance with the terms of sub-clause (3) by mutual agreement between the Parties, of major competitive crude oils of generally similar quality to that of Crude Oil produced and saved were sold in international markets during the same period.

The arithmetic weighted average aforesaid shall be determined by the percentage volume of sales of JMA Crude Oil by the Company referred to in sub-clause (2)(b)(ii)(aa) above which are Third Party Sales during the Month in question and such sales referred to in sub-clause (2)(b)(ii)(bb) above which are not Third Party Sales during the Month in question.

(iii) All prices aforesaid shall be adjusted to the Company's actual loading points for export.

(iv) For purposes of this Clause, Third Party Sales of JMA Crude Oil made by the Company shall exclude:

(aa) sales, whether direct, indirect, through a broker or otherwise, by any seller to any affiliate of such seller; and,

(bb) crude oil exchanges, barter deals, or restricted or distress transactions and generally any JMA Crude Oil transaction which is motivated in whole or part by considerations other than the usual economic incentives for commercial arm's length crude oil sales, as determined by the Designated Authority.

(c) In the event of:

(i) less than fifty percent (50%)of the total volume of sales by the Company during the Month of JMA Crude Oil of a given Quality produced and saved being Third Party Sales, the Designated Authority may elect to accept determination of the fair market valuation of all Crude Oil of that Quality based on actual Third Party Sales during that Month calculated in accordance with the terms of sub-clause (2)(b)(i);

(ii) the percentage volume of sales being less than fifty percent (50%) as aforesaid, the Company shall promptly notify the Designated Authority; but if the Designated Authority does not notify the Company of its election pursuant to sub-clause (2)(c)(i) within ten (10) days of receipt of such notification from the Company, the fair market valuation of the aforesaid JMA Crude Oil shall be determined in accordance with the terms of sub-clause (2)(b)(ii).

(3) The selection of crude oils referred to in sub-clause (2)(b)(ii)(bb) shall be determined by mutual agreement between the Company and the Designated Authority in advance for each Calendar Year and, in making the selection, preference will be given to those crude oils of similar quality to JMA Crude Oil which are produced in other countries and which are sold regularly in the same markets as JMA Crude Oil is normally sold.

(4) The Company shall:

(a) be responsible for establishing the relevant average prices for JMA Crude Oil in accordance with this Clause and such prices shall be subject to agreement by the Designated Authority before they shall be deemed to have been finally determined; and,

(b) provide the Designated Authority with all relevant information (including all requested substantiating documentation) in order that it can satisfy itself that the average price determined by the Company is fair.

If the Parties fail to agree on the average price for any Month within thirty (30) days following the end of such Month the calculation of the relevant average price shall be referred to a Sole Expert appointed in accordance with the terms of sub-clause (6) for determination in accordance with this Clause. The determination of the sole expert shall be final and binding on the Parties.

(5) During the first Calendar Year in which Crude Oil or Natural Gas, or Crude Oil as well as Natural Gas, are produced from the Scheduled Areas, the Parties shall meet in order to establish a provisional selection of the major competitive crude oils and an appropriate mechanism for the purposes of giving effect to sub-clause (2)(b)(ii). The selection of crude oils shall be reviewed annually and modified if necessary.

(6) In the event of any differences of view between the Company and the Designated Authority concerning the selection of the reference crude oils or more generally about the manner in which the prices are determined according to the terms of this Clause, any matter in dispute shall finally be resolved by a Sole Expert.

18. Exemption from Import Taxes

(1) The Company and its contractors engaged in Petroleum Operations shall be permitted to import into the Host States, free of duty or other taxes on imports, machinery, equipment, vehicles, materials, supplies, consumable items (other than foodstuffs, alcoholic beverages or other products so designated by the Designated Authority) and moveable property where imports in any of the said categories have been certified by the Designated Authority to be for use solely in carrying out Petroleum Operations in the JMA.

(2) Subject to Clause 22, any of the items imported may, if no longer required for the Petroleum Operations hereunder, be freely exported at any time by the importing party without payment of any export duty, or impost, provided, however, that on the sale or transfer by the importer of any such items to any person in either of the Host States, import duty or tax shall be payable by the importer on the value thereof as provided for under the national laws and regulations of the Host State, at the date of such sale or transfer.

(3) Each expatriate employee of the Company, and of its contractors, shall be permitted to import into the Host States free of import duty and other taxes on first arrival their personal and household effects including one automobile provided, however, that no property imported by the employees shall be resold in the Host States, except in strict conformity with the national laws and regulations of the Host State. Any re-sale made not in compliance with this provision shall be considered null and void.

19. Foreign Exchange

(1) The Company shall, during the term of this Agreement, have the right:

(a) to open and maintain bank accounts in either of the Host States;

(b) to open and keep bank accounts in any foreign currency outside the territory of the Host States which may be credited with the proceeds of the sale of petroleum from the Scheduled Areas, and with any other proceeds arising from Petroleum Operations, provided that all such proceeds are fully declared and brought into account for the purposes of Clauses 14, 15 and 16 of this Agreement; and,

(c) to purchase [and sell] local currency, through the commercial banks in the Host States, without discrimination, at the prevailing rate of exchange.

(2) For the purposes of making conversions between foreign and local currencies of the Host States in order to determine the Company's liability to royalty, Petroleum Income Tax and PAPT, and for preparing the various Statements required pursuant to the Accounting Procedure attached hereto as the Third Schedule, income accruing or expenditure incurred in a currency other than local currency shall be converted into US dollars, or vice versa, at the exchange rates specified in Section 1.4 of the Accounting Procedure.

20. Employment, Training and Local Purchases

(1) The Company shall, to the maximum extent practicable, employ nationals of the Host States for all types of work in each phase of its Petroleum Operations. Subject to the law in force from time to time relating to entry into the territory of the Host States, to the extent that the local supply of manpower with the necessary experience and qualifications may be inadequate, the Company shall be permitted to bring the skilled workers and experts (including their spouses and dependent children) into the territory of the Host States for the purpose of, and in connection with Petroleum Operations in the JMA.

(2) The Company shall use best efforts to train nationals of the Host States with respect to and in each Year of its Petroleum Operations, concerning petroleum-related work including technical, administrative, executive and management positions. The Company shall implement a programme of on-the-job training for nationals of both Seychelles and Mauritius in the Company's Petroleum Operations. The Company shall provide to the

Designated Authority full details of such training programmes which it runs in-house. The Designated Authority and the Company shall agree annually in advance on the particular on-the-job training to be conducted by the Company.

(3) At the commencement of each Contract Year of its Petroleum Operations the Company shall make available to the Designated Authority a sum which is not less than [X] United States Dollars for the purposes of:

(a) sending suitable nationals of Seychelles and Mauritius on petroleum-related courses at universities, colleges or other training institutions;

(b) attending petroleum-related conferences and workshops; and/or

(c) purchasing for the Designated Authority technical books, professional publications, scientific instruments or other equipment required by the Designated Authority for the purpose of implementing this Agreement.

The amount referred to in this sub-clause shall be adjusted annually by multiplying such amount by the factor A/B as defined in sub-clause 13(2).

(4) The Company shall, to the greatest extent possible, engage local firms in Seychelles and Mauritius (including companies incorporated in either or both of the Host States) to carry out any works for, or supply materials to, or provide services for, the Company but nothing in this sub-clause shall be taken as requiring the Company to engage local firms at an uneconomic rate or to engage local firms which are not competitive with non-local firms in terms of costs and standards of workmanship.

21. Accounts and Audit

(1) The Company shall, at all times during the term of this Agreement, keep physically located in the Host State where the Company is incorporated full and correct accounts, in a form which is in accordance with the provisions of the Accounting Procedure, attached as the Third Schedule to this Agreement. The accounts shall contain true, complete and accurate entries relating to the Company's Petroleum Operations and shall include detailed information covering production, receipts, credits and expenditures with entries shown separately, for each Petroleum Field.

(2) The various Statements required to be submitted by the Company to the Designated Authority pursuant to Sections 1.3.2 and 5 to 11 of the Accounting Procedure shall, unless the Parties later agree otherwise, be prepared in the format, submitted at the times, as therein indicated.

(3) the Designated Authority and the authorities of the Host States shall have the right from time to time to appoint any independent and qualified auditors to inspect and audit, for the purposes of compliance with this Agreement, the books, records and accounts of the Company with respect to its Petroleum Operations in accordance with the following provisions of this Clause and Section 1.6 of the Accounting Procedure.

(4) the Designated Authority and authorities of the Host State may choose to exercise the rights under sub-clause (3) within forty-eight (48) Months from the end of a Calendar Year, or within such longer period as the Company may agree with the Designated Authority, provided that in exceptional circumstances, details of which shall be given to the Company, the Designated Authority or the Authorities of the Host State shall have the right to audit the books, records and accounts of the Company for a period of seven (7) Calendar Years prior to the Year in which, in the opinion of the Designated Authority or the Authorities of the Host State, the event or events giving rise to the exceptional circumstances first occurred.

(5) The costs of audits pursuant to sub-clauses (3) and (4) shall be borne by the Company and shall be expenditure allowable in the computation of Petroleum Income Tax and PAPT.

22. Assets and Insurance

(1) Required Insurance

(a) As of the Effective Date and thereafter at all times throughout the term of this Agreement, the Company shall obtain from insurers of international standing and maintain in full force and effect, at its expense, insurance with respect to its properties and operations under this Agreement of the types, in amounts, on policy terms and with limits at least as favourable to the Company and the Designated Authority as is customary under Best International Petroleum Industry Practice.

(b) The Company shall provide the Designated Authority with copies of all such insurance policies and the Designated Authority shall have the right to review and approve same, such approval not to be unreasonably withheld, provided that this approval must be given by the Designated Authority in writing within thirty (30) days following receipt of the request, failure of which the Designated Authority shall be deemed to have given its approval.

(2) Level of Insurance

The insurance maintained by the Company shall indemnify the Company against:

(a) loss or damage to any or all of its assets being used in connection with Petroleum Operations;

(b) loss or damage caused by pollution in the course of, or as a result of, Petroleum Operations;

(c) loss of property or damage or bodily injury suffered by any third party in the course of, or as a result of, Petroleum Operations for which the Company may be liable;

(d) any claims for which the Designated Authority or a Host State may be liable relating to the loss of property or damage suffered or bodily injury suffered by any third party in the course of, or as a result of, Petroleum Operations, in so far as the Company is liable to indemnify the Designated Authority and/or the Host State; and,

(e) any other risk as is customary to insure against in the international petroleum industry in accordance best international oil industry practice and good oilfield practices.

(3) Modifications of Insurance Coverage

All insurance policies required by this Agreement shall provide that the same shall not be modified or terminated without at least sixty (60) days prior written notice to the Designated Authority. Within 60 days of each third anniversary of the Effective Date, the Company shall provide the Designated Authority with a report of an independent insurance consultant reasonably acceptable to the Designated Authority to the effect that insurance complies with the requirements of this Clause.

(4) General Insurance Requirements

(a) All required insurance policies must:

(i) provide that the same shall not be modified or terminated without contemporaneous notice to the Designated Authority;

(ii) with respect to policies insuring against loss or damage to property, cover the full replacement cost of such property;

(iii) with respect to all liability insurance, name the Designated Authority and, officers, agents and employees as joint insured's;

(iv) with respect to all policies insuring against loss or damage to property, name the Designated Authority as an additional insured;

(v) with respect to any additional insured, provide that such insurance will not be invalidated by any action or inaction of each such insured; and

(b) The Company shall ensure that its insurers provide the Designated Authority with immediate written notice of any cancellation, termination, suspension, revocation or material amendment in cover of all insurances obtained by the Company under this Clause.

(5) Re-insurance

If insurance is obtained from insurers in either of the Host States, reinsurance shall be obtained for the greatest proportion of the risk that [Applicable Law] or insurance regulation will allow with reinsurers of international standing with a minimum rating of "A" with A.M. Best or "AA" with ISI Standard & Poor's. The Company shall use its reasonable efforts to ensure that, to the extent from time to time available in the international reinsurance market at a reasonable cost and on commercially reasonable terms and to the extent permitted, its insurers in either of the Host States and their international re-insurers agree to arrangements such that the Company or the Designated Authority, as the case may be, shall be permitted to make claims under such reinsurance policies directly against such re-insurers.

(6) Failure to Maintain Insurance

Breach of any of the Company's obligations under this Clause shall be deemed a material breach of this Agreement if it has a material adverse effect on (i) the Designated Authority (ii) either or both of the Host States or (iii) the performance of the Company's obligations under this Agreement. If at any time the Company fails to purchase and maintain in full force and effect any and all insurances required under this Agreement, the Designated Authority may, at its sole discretion, purchase and maintain such insurance and all amounts incurred by the Designated Authority therefore shall be reimbursed by the Company together with such penalties (including interest) as Determined by the Designated Authority.

(7) Contractor Insurance

The Company shall require its contractors and its subcontractors to obtain and maintain such coverage as an operator in the position of Company would require as a matter of Best International Petroleum Industry Practice. The failure of any contractor or subcontractor to obtain and maintain such coverage shall not excuse the Company from any liabilities it may have under this Agreement or from any failure to carry insurance required by this Clause. The Company shall use reasonable efforts to include the Designated Authority as an additional named insured under any third party liability policies entered into by the Company's contractors or subcontractors performing services on or adjacent to the Project Area, and shall include the Designated Authority as a beneficiary of any waiver of subrogation included in such policies.

(8) No Duty to Verify or Review

Any failure on the part of the Designated Authority to pursue or obtain the evidence of insurance required by this Agreement or failure to inform the Company of any non-compliance with a request to provide evidence of insurance shall not constitute a waiver of any of the insurance requirements in this Agreement.

23. Protection of the Environment

(1) The company shall act in accordance with the Environmental Code of Practice for the Joint Management Area, including with respect to requirements for the conduct of environmental assessments and the terms and conditions of any approval or authorisation granted to the Company under the relevant environmental laws and regulations.

(2) The Company shall employ advanced techniques, practices and methods of operation and take other steps as are necessary and adequate in accordance with good international oil industry practice, and subject to the requirements of the Environmental Code of Practice for the Joint Management Area specified in sub-clause (1) in order to:

(a) protect the environment and the living resources of the sea and prevent pollution;

(b) ensure the protection from contamination of strata containing potable water or treatable water;

(c) provide an effective and safe method for the disposal and discharge of drill cuttings and drilling muds generated during drilling operations;

(d) provide and effective and safe method for the disposal of waste materials generated by the Company's operations;

(e) control the flow of petroleum so as to prevent avoidable waste and escape into the environment; and

(f) ensure adequate compensation for injury to persons or damage to property proved to have been caused by the carrying out of the activities under this Agreement by the Company.

(3) Where the activities of the Company result in pollution or damage to the environment or marine life or otherwise, the Company shall take all necessary measures in accordance with Best International Petroleum Industry Practice to effect immediate remedy of the failure and the effects thereof. If such pollution or damage is the result of negligence or misconduct of the Company, the cost of the remedy shall not be an allowable deduction in the computation of Petroleum Income Tax and PAPT.

(4) The Company shall notify the Designated Authority forthwith in the event of any emergency or accident affecting the environment and shall take such action as may be prudent and necessary in accordance with Best International Petroleum Industry Practice in such circumstances.

(5) If the Company does not act promptly so as to control or clean up any pollution or make good any damage caused, the Designated Authority may, after giving the Company reasonable notice in the circumstances, take any actions which are necessary in accordance with and the costs and expenses of such actions, with interest charged in

accordance with Section 1.5 of the Accounting Procedure, shall be recoverable from the Company.

24. Fishing and Navigation

The Company shall carry out operations under this Agreement in such manner as to ensure that there will be no unjustifiable interference with navigation, fishing or the conservation of the living resources of the sea in the JMA and shall take all necessary or desirable steps in regard to the state of the Scheduled Areas as the Designated Authority may reasonably direct to ensure that after vacation thereof or any part thereof by the Company there will be no such interference.

25. Health and Safety

(1) The company shall act in accordance with the Offshore Petroleum Safety Code for securing the safety, health and welfare of persons employed by the Company in or about the Scheduled Areas.

26. Natural Gas

(1) The Company shall have the right to use Natural Gas associated with Crude Oil produced for oilfield operations, including pressure maintenance in the oil Fields covered by the Scheduled Areas.

(2) Subject to sub-clause (1) and sub-clause (4), the Designated Authority shall be entitled to take at the downstream flange of the separator on the production platform or, failing the existence of such a separator, at a point of delivery mutually agreed upon at the collecting and inlet system, and utilize without any payment therefor to the Company, any Associated Natural Gas which is in excess of the quantity of Natural Gas required for Petroleum Operations. The costs and risks of taking and utilizing such Associated Natural Gas by the Designated Authority hereunder will be borne solely by the Designated Authority, unless the Company does not co-operate with the Designated Authority's activities.

(3) Natural Gas produced from the Scheduled Areas, except in the case of short-term flaring necessary for testing or other operational reasons, may be flared only with the prior written

approval of the Designated Authority. Any plans for the long term flaring of Natural Gas shall be submitted for approval in accordance with the provisions of a Development Plan pursuant to Clause 11.

(4) Clause 9 of this Agreement shall apply *mutatis mutandis* to the discovery of commercial quantities of Natural Gas, irrespective of whether such discovery is associated or non-associated. Where the Company decides to develop and exploit the Natural Gas deposit, the Designated Authority and the Company shall endeavour in good faith to reach separate agreement on the terms and conditions governing the development and exploitation, including the valuation of the gas for royalty and tax purposes, the royalty rate to be applied to gas and the PAPT thresholds and tax rates to be levied pursuant to Clause 16.

27. Unit Development

(1) Where during the term of this Agreement, the Designated Authority:

(a) is satisfied that this Agreement and any other Agreement are in force in respect of a common petroleum reservoir; and,

(b) considers that it is in the interest of the Host States, in order to secure the maximum ultimate recovery of petroleum, that the common petroleum reservoir should be worked and developed as a unit on a co-operative basis,

then the Designated Authority may, by notice, require the Company to co-operate with such persons as are specified in the notice (being all or any of the persons whose Agreements are in force in respect of the common petroleum reservoir and hereinafter called the "Other Operators") in the preparation of a development scheme (hereinafter called the "Development Scheme") for the working and development of the common petroleum reservoir as a unit by the Company and the Other Operators on a co-operative basis.

(2) A notice under sub-clause (1) shall contain or refer to a description of the area or areas in respect of which the Designated Authority requires a Development Scheme to be submitted and shall state the period within which the Scheme is required to be submitted for approval by the Designated Authority and the proposed contents of the Development Scheme.

(3) If a Development Scheme is not so submitted, or if the Development Scheme so submitted is not approved by the Designated Authority, the Designated Authority may cause a Development Scheme to be prepared and given to the Company (which Scheme shall be fair and equitable to the Company and the Other Operators) and the Company shall perform and strictly observe the terms and conditions of the Development Scheme.

(4) If the Company notifies the Designated Authority that it reasonably objects to a Development Scheme (with substantial detail and documentation) which the Designated Authority causes under sub-clause (3) to be prepared, a dispute shall be deemed to exist between the Designated Authority and the Company for the purpose of Clause 51.

(5) Notwithstanding that a dispute so exists, the Company shall continue to perform and observe the terms of the Development Scheme unless it is otherwise determined by arbitration or the Designated Authority alters, withdraws or suspends the Development Scheme or part thereof pending arbitration or otherwise.

28. Measurement of Petroleum and Inspections

(1) The Designated Authority may, at all reasonable times, enter into and upon any installations erected by the Company on or over any part of the Scheduled Areas for the following purposes, namely:

(a) to examine the wells, plant, equipment, buildings and other things made or done by the Company under this Agreement and the state of repair and conditions of such things;

(b) to inspect and check the accuracy of the weighing or measuring appliances, weights, measurements, records, maps and plans which the Company is required to keep or make under this Agreement; and

(c) to inspect the samples of strata, petroleum or water which the Company is required to keep under this Agreement.

(2) The Designated Authority may at all reasonable times inspect and make abstracts or copies of any records, maps, plans, or accounts which the Company is required to keep under this Agreement. The Company shall extend the same facilities enjoyed by its employees to the Designated Authority when examining or inspecting plant and installations pursuant to sub-clause (1)

(3) (a) Before commencement of production, the Parties shall mutually agree as to the point or points at which all petroleum won and saved from the Scheduled Areas shall be measured or weighed. The Company shall measure or weigh by a method or methods customarily used in good international oilfield practice and from time to time approved by the Designated Authority.

(b) The Company shall not make any alteration in the method or methods of measurement or weighing used by it or any appliances used for that purpose without the advance consent in writing of the Designated Authority and the Designated Authority may in any case require that no alteration shall be made save in the presence of a person authorised by the Designated Authority.

(c) The Designated Authority may from time to time direct that any weighing or measuring appliance shall be tested or examined in such manner upon such occasions or at such intervals and by such means as may be specified in the direction.

(d) If any measuring or weighing appliance shall upon any such test or examination as is mentioned in sub-clause (3) be found to be incorrectly calibrated, false or unjust the same shall, if the Designated Authority so determines after considering any representations in writing made by the Company, be deemed to have existed in that condition during the period since the last occasion upon which the same was tested or examined pursuant to sub-clause (3) and royalty payable under this Agreement for that period shall be adjusted accordingly.

(e) For the purpose of measuring Natural Gas won and saved from the Scheduled Areas the value of the Natural Gas shall be calculated at an absolute pressure of one (1) atmosphere and at a temperature of sixty (60) degrees Fahrenheit.

29. Rights of Access

Any person or persons authorised by the Designated Authority shall be entitled at all reasonable times to enter into and upon any of the Company's installations or inspect and examine all equipment used or to be used in connection with exploring for or getting petroleum in the Scheduled Areas, to execute any works or to provide and install any equipment which the Designated Authority may be entitled to execute or provide and install in accordance with the provisions hereof.

30. Installations

The Company shall not commence to construct or place any installations in the Scheduled Areas until plans and specifications of such installations and such other particulars thereof as may be required by the Designated Authority have been submitted and the Designated Authority has given its prior approval thereof in writing, which approval may be given on such terms and conditions as the Designated Authority thinks fit, including a direction that permanent means for giving warning of their presence must be maintained and that any installation which is abandoned or disused may be entirely removed.

31. Drilling of Wells

The drilling of wells associated with Petroleum Operations carried out under this Agreement shall be governed by all relevant rules, codes and guidelines determined and published by the Designated Authority from time to time.

32. Abandonment and Decommissioning

(1) The Company shall not abandon any well without the prior written approval of the Designated Authority, which approval may be given subject to such terms and conditions as the Designated Authority thinks fit.

(2) Absent reasonable grounds, the Designated Authority shall not withhold approval under sub-clause (1) in the case of a well which is or has become unproductive.

(3) The Designated Authority may require that no well shall be plugged except in the presence of a person authorised by the Designated Authority.

(4) The Company shall on the determination or expiration of this Agreement, or on the relinquishment of Scheduled Areas, undertake decommissioning in accordance with the approved Decommissioning Plan contained at Schedule 3 to this Agreement.

(5) The Company shall establish a Decommissioning Fund and shall make annual payments into the decommissioning Fund in accordance with the formula specified in the approved Decommissioning Plan.

33. Provision of Storage Tanks

The Company shall use generally accepted standards of good international oilfield practices for confining petroleum obtained from the Scheduled Areas in tanks, gas holders, pipes, pipelines or other receptacles constructed for the purpose.

34. Company to Keep Samples

The Company shall, as far as is reasonably practicable, correctly label and keep for reference for a period of two (2) year characteristic samples of any fluids and of any gas encountered in any well and samples of any petroleum found in the Scheduled Areas, and for a period of three (3) years characteristic samples of the strata found in any well. The Designated Authority shall have access to such samples at all reasonable times and shall be entitled to require that representative specimens of any such samples be delivered to the Designated Authority or his representative who may retain any specimens so delivered. Before disposing of samples subject to this Clause, the Company shall give the Designated Authority not less than six (6) months' notice of its intention to dispose of the samples.

35. Company to Keep and Give Records

(1) The Company shall keep and furnish to the Designated Authority (in hard copy and electronic form) full and accurate records in a form from time to time approved by the Designated Authority, containing particulars of the following matters, namely:

(a) the drilling, deepening, plugging or abandonment of wells;

(b) the strata and subsoil through which wells are drilled;

(c) the casing inserted in wells and any alteration to such casing;

(d) any petroleum, water and other economic minerals encountered;

(e) the areas in which any geological and geophysical work has been carried out including the nature of work and the details thereof; and,

(f) such other matters related to the above as the Designated Authority may from time to time require,

and the Company shall also keep accurate geological maps and plans, geophysical records, and interpretations relating to the Scheduled Areas. Such maps, plans, records and interpretations and all geological and geophysical reports made by or for the Company shall be available for inspection by the Designated Authority, and the Company shall deliver at Company cost copies of such maps, plans, records, interpretations and reports to the Designated Authority whenever required.

The Company shall furnish to the Designated Authority:

(a) daily written progress reports during operations such as seismic acquisition, drilling, development and production operations;

(b) within fifteen (15) days after the end of each Month:

(i) a written summary of all geological and geophysical work carried out by or for the Company, including lists of maps and reports;

(ii) a written summary of all drilling activity and results obtained; and,

(iii) notification of future exploration plans;

(c) within sixty (60) days after the first day of January and the first day of July in each Calendar Year, estimates of Crude Oil and Natural Gas production, and exports for each of the two (2) half year periods immediately following each of the said dates;

(d) within one hundred and twenty (120) days after the end of each Calendar Year:

(i) estimates of economically recoverable reserves of Crude Oil and Natural Gas at the end of each Calendar Year; and,

(ii) a record, in a form previously approved by the Designated Authority, which describes the results of all exploration, development and other works carried out by the Company during that Calendar Year in connection with searching for, boring for and obtaining petroleum, and details of reports and documents to be provided as prescribed;

(e) detailed reports of exploration and other wells, including litho-, chrono-and bio-stratigraphy, petro-physical data, hydrocarbon zones and any other such information shall be submitted within three (3) months of completing any well;

(f) from time to time, such other plans and information as to the progress and results of the Company's Petroleum Operations as the Designated Authority may require; and,

(g) on relinquishment of any part of the Scheduled Areas, such maps, plans, reports, records, interpretation and data, made or obtained by or for the Company, relating to exploration, development, production and any operations in the relinquished lands as the Designated Authority may require.

36. Company to Furnish Copies of Agreements

(1) The Company shall within one (1) month of the date of execution furnish to the Designated Authority, copies of all conveyances, leases, assignments, agreements and deeds relating to the Scheduled Areas, petroleum operations on the Scheduled Areas or, any interest therein and to which the Company is a party or under which the Company either directly or indirectly obtains any benefit or incurs any liability.

(2) At any time at which the Company is constituted by more than one company, the reference in sub-clause (1) to "the Company" shall be construed as a reference to each one of those companies and the obligation under sub-clause (1) shall apply as a joint and several obligation.

37. Treatment of Information Supplied by Company

(1) The Company shall keep the Designated Authority advised of all developments regarding the Petroleum Operations, including, but not limited to, information in respect of the drilling, deepening, workover, repair, plugging, abandonment or completion of wells.

(2) All data, including well logs, maps and plans, magnetic tapes, cores and cuttings samples, and other geological and geophysical information and interpretations obtained by the Company as a result of its activities under this Agreement and all geological, technical, financial and economic reports, studies and analyses prepared by or for the Company

relating to the Scheduled Areas, and hereinafter referred to as "Petroleum Operations Information" shall be the property of the Designated Authority. The Company shall deliver, at the Company's own cost, to the Designated Authority within a reasonable time after they have become available copies of the Petroleum Operations Information as soon as such information becomes available. Copies shall be furnished by the Company using the most up to date technology and should be compatible with the facilities of the Designated Authority. The Company shall be entitled to retain copies of the Petroleum Operations Information solely for its own use and subject to the confidentiality obligations contained in this Agreement as set forth below.

(3) The Designated Authority shall be entitled:

(i) at any time, to make use of any Petroleum Operations Information for the purpose of preparing and publishing aggregated returns and general reports on the extent of Petroleum Operations;

(ii) at any time, to make use of appropriate summaries of the Petroleum Operations Information for use in connection with the promotion of unlicensed areas, including significant information on the presence of hydrocarbons encountered in any well in the Scheduled Areas;

(iii) at any time, to make use of Petroleum Operations Information for the purpose of any arbitration or litigation between the Parties;

(iv) to release Petroleum Operations Information after three (3) years from the date when the Petroleum Operations Information was acquired by the Company or upon relinquishing any part of the Scheduled Areas to which the Petroleum Operations Information refers, whichever date is the earlier;

(v) to disclose Petroleum Operations Information to its advisers and consultants;

(vi) at any time, to make use of topographical survey information, including submarine topography, for any purpose whatever; and

(vii) at any time, to make use of information regarding economic minerals other than petroleum.

(4) The Company shall have the right to use the Petroleum Operations Information for any legitimate purpose in connection with the Company's Petroleum Operations and to

disclose such information, provided an undertaking of confidentiality is obtained and furnished to the Designated Authority, to:

(a) outside consultants engaged in connection with the Company's operations hereunder;

(b) a bank or financial institution from whom the Company may be seeking to obtain financing; or

(c) any third party who has a bona fide interest in acquiring by purchase, exchange or otherwise all or a portion of the Company's rights and interest in this Agreement.

38. Local Resident Manager

The Company shall, before commencing any Petroleum Operations in the Scheduled Areas, furnish to the Designated Authority the name and address of the manager resident in the Host States under whose supervision such operations are to be carried on.

39. Indemnity

(1) The Company shall at all times keep the Designated Authority and Host States fully indemnified and held harmless against all proceedings, costs (including attorney's fees and costs), charges, claims and demands whatsoever which may be or brought against the Designated Authority or Host States by any third person in relation to or in connection with this Agreement or any matter or thing done or purporting to be done in pursuance thereof by the Company.

(2) The Company shall take out and maintain such form of contract of insurance as is required pursuant to sub-clause 22(8)(d).

40. Statements, Prospectuses, etc

(1) No statement (oral or written) shall be made by or with the consent of the Company claiming or suggesting, whether expressly or by implication, that any Host States division or any person or body acting on behalf of the Host States has or have formed or expressed an opinion that the Scheduled Areas are from their geological formation or otherwise likely to contain petroleum.

(2) Sub-clause (1) or a statement to the effect of that sub-clause shall be included in or endorsed on any prospectus, statement in lieu of prospectus, notice, circular advertisement or other invitation issued by or with the consent of the Company offering to the public for subscription or purchase any shares or debentures of a company proposed to be brought into existence.

41. Notice of Change of Company's Standing

The Company shall report to the Designated Authority promptly particulars of any changes in its own, its Affiliates' or its parent company's financial, technical or legal standing which may affect the Company's ability to perform its obligations hereunder.

42. Transfers and Assignment

The Company shall not assign, transfer or otherwise delegate or part with any of the rights or privileges hereby granted or any part thereof without the consent of the Designated Authority first having been obtained, which consent may be given on such terms and conditions as the Designated Authority thinks fit.

43. Power of Designated Authority to Perform Company's Obligation

If the Company at any time fails to comply with any of the obligations which must be complied with by the Company under Clauses 8, 23, 24, 30, 31, 32, 33, 48 or 49 of this Agreement, the Designated Authority may, after giving to the Company reasonable notice, do any of the things

which in the opinion of the Designated Authority may be necessary to ensure compliance with such obligations and to recover the full costs and expenses of so doing from the Company.

44. Right of the Company to Terminate Agreement

(1) The Company may, during any Exploration Period, determine this Agreement by giving not less than three (3) months' notice in writing to the Designated Authority provided that all its obligations for that Period have been met.

(2) The Company may, during the Development Phase, determine this Agreement by giving not less than twelve (12) months' notice in writing to the Designated Authority.

45. Right of the Designated Authority to Terminate Agreement

(1) the Designated Authority may determine this Agreement by giving written notice to Company, where in the opinion of the Designated Authority, the Company has:

(a) failed to use the Scheduled Areas *bona fide* for the purposes of this Agreement;

(b) failed to comply with a term or condition of this Agreement or with a direction or instruction given under this Agreement with which it is required to comply;

(c) failed to pay any amount payable by the Company under this Agreement within a period of one (1) month after the day on which the amount became payable;

(d) failed to comply with any unit development scheme prepared in accordance with Clause 27;

(e) failed to commence commercial production within five (5) years of the commencement of the Development Phase; or,

(f) failed to comply with any of the terms or conditions subject to which the Designated Authority gave his consent under Clause 43.

(3) the Designated Authority shall not, under sub-clause (1), determine this Agreement on the ground of any failure referred to in that sub-clause, where the Company claims that there has not been such a failure, unless:

(a) the Company withdraws its claim; or,

(b) the claim has been referred to arbitration in accordance with Clause 51 of this Agreement, and the arbitration award confirms that there has been such a failure by the Company.

(4) the Designated Authority shall not, under sub-clause (1), determine this Agreement on the ground of any failure referred to in that sub-clause unless:

(a) the Designated Authority gives not less than one (1) month's written notice to the of the intention of the Designated Authority to determine this Agreement on that ground;

(b) the Designated Authority has, in the notice, specified a date on or before which the Company may, by notice to the Designated Authority, submit any matter which it wishes the Designated Authority to consider; and,

(c) the Designated Authority has taken into account:

(i) any action taken by the Company to remove that ground or to prevent the occurrence of similar grounds; or,,

(ii) any matters so submitted by the Company before the date specified in the notice.

(4) Where the Designated Authority gives a notice under sub-clause (1) to the Company and the Company then claims that there has not been such a failure as is referred to in that notice, the Designated Authority may, if either of the requirements of sub-clause (2)(a) or (b) have effect, determine this Agreement without giving a further notice under sub-clause (3).

(5) the Designated Authority may by order determine this Agreement if an order is made or a resolution is passed winding up the affairs of the Company unless:

(a) the winding up is for the purpose of amalgamation or re-construction; and,

(b) the Designated Authority has been notified of the amalgamation or re-construction and has given its consent.

(6) the Designated Authority may determine this Agreement if a receiver is appointed to administer the assets of the Company or the Company is otherwise insolvent and cannot continue its operations as currently constituted.

46. Effect of Termination

(1) On the termination of this Agreement under any of the provisions hereof, this Agreement and all the respective rights and obligations of the Parties under this Agreement shall altogether cease to have effect; provided that such determination shall be subject to and without prejudice to any rights and obligations of the Parties respectively expressed to arise under this Agreement prior to the determination thereof or any liability of either Party arising out of an earlier failure to comply with any obligation which must be complied with by such Party.

(2) Where any part of the Scheduled Areas is relinquished under this Agreement, sub-clause (1) shall apply in relation to that part as if this Agreement had been determined.

47. Delivery up of Productive Wells

Within two (2) months after the end of the term of this Agreement or any earlier determination of this Agreement, the Company shall deliver up to the Designated Authority all productive wells operated by the Company in good repair and condition and fit for further working (unless ordered by the Designated Authority to plug them as provided in Clause 49 and except such wells as shall have been previously abandoned with the consent of the Designated Authority).

48. Plugging of Wells at End of Agreement

Within two (2) months after the end of the term of this Agreement or at any earlier determination of this Agreement, the Company shall plug all wells as provided in Clause 32 if required so to do by the Designated Authority.

49. Application of Force Majeure

(1) A failure on the part of the Company to fulfil any of the terms and conditions of this Agreement shall not be treated as breach of this Agreement in so far as the failure arises from *force majeure* and if, as a result of force majeure, the fulfilment by the Company of any of the terms or conditions of this Agreement is delayed beyond the period fixed or allowed for its fulfilment the period of the delay shall be added to the period so fixed or allowed.

(2) Where either the Company or the Designated Authority considers it is prevented from performing any of its obligations by the occurrence of Force Majeure, it shall forthwith notify the other party thereof by specifying the grounds for establishing force majeure, and take all necessary steps to ensure the normal resumption of the concerned obligations upon termination of the event constituting the force majeure. Where it is agreed that *Force Majeure* may be invoked, the parties shall hold regular consultations. All obligations other than those affected by force majeure shall continue to be performed in accordance with the provisions of this Agreement.

(3) Where the Company wishes to invoke the terms of Clause 50(1), it shall promptly notify the Designated Authority in writing of the occurrence of Force Majeure event and shall take all reasonable steps to remove the cause thereof and to mitigate the consequences.

(4) The Company shall promptly notify the Designated Authority as soon as conditions of force majeure no longer prevent the Company from carrying out its obligations and following such notice shall resume Petroleum Operations as soon as reasonably practicable.

50. Settlement of Disputes

(1) In the event of a dispute arising between the Designated Authority and the Company concerning the interpretation or application of this Agreement, the parties shall seek to resolve the dispute by consultations and negotiations.

(2) Subject to paragraph (3) below, where a dispute cannot be resolved through consultations and negotiations within a period of six months, either party may:

(b) refer the dispute to an *ad hoc* arbitral panel in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (1976), subject to the following provisions:

(i) The Arbitral Panel shall consist of three arbitrators. Each Party shall select an arbitrator, and those two arbitrators shall then appoint by mutual agreement a third arbitrator who shall be a national of a third State and the Chairperson of the Panel. All arbitrators shall be appointed within two months from the date when a Party informs the other Party of its intention to submit the dispute to arbitration under this sub-paragraph.

(ii) If the necessary appointments are not made within the period specified above, either Party to the dispute may, in the absence of any other agreement, request the Secretary-General of the Permanent Court of Arbitration to make the necessary appointments.

(iii) The Award of the Arbitral Panel shall be made in accordance with this Agreement.

(iv) The Arbitral Panel shall reach its decision and adopt the Award by a majority of votes.

(v) The Award of the Arbitral Panel shall be final and binding and the Parties to the dispute shall abide by and comply with the terms of the Award.

(vi) The Arbitral Panel shall state the basis of its decision and give the reasons for its decision.

(vii) Each Party to the dispute shall bear the cost of its own arbitrator and its representation in the arbitral proceedings. The cost of the Chairperson in discharging his or her duties in relation to the arbitration and the remaining costs of the arbitration

shall be borne equally by the Parties to the dispute. The Arbitral Panel may, however, direct in its Award that a higher proportion of costs shall be borne by one or other of the Parties to the dispute, and this element of the Award shall, for the avoidance of any doubt, be binding on the Parties to the dispute.

(3) In the case of any disputes concerning a matter identified in sub-clause 14(7) or sub-clause 17(4) of this Agreement, the procedures relating to the referral of a matter to a Sole Expert for determination shall apply to the resolution of the dispute.

51. Applicable Law

This Agreement shall be governed by the law of the jurisdiction of incorporation [Seychelles or Mauritius].

52. Compliance with Law

Nothing in this Agreement shall entitle the Company to exercise the rights, privileges and powers conferred upon it by this Agreement in a manner which would contravene any law of either State.

53. Delegation

The Designated Authority may in writing authorise any person to exercise and perform any of his functions under this Agreement and anything done by the delegate in pursuance of the delegation shall have the same validity and effect as it would have if done by the Designated Authority.

54. Modifications etc

The Agreement shall not be amended, or modified in any respect except by the mutual consent, expressed in writing, of the Parties.

55. Notices

(1) All notices and other communications to be given under this Agreement shall be given in writing, and:

(a) where the notice is to be given to the Designated Authority, may be sent by, facsimile, courier, registered mail, or cable to the Designated Authority;

(b) where the notice is to be given to the Company, may be delivered or sent by facsimile, courier, registered mail to:

(i) the registered office of the Company in the Host State;

(2) Any notice sent pursuant to this Clause by registered mail shall be deemed to have been given on the date that is three (3) days after the date of the mailing of the notice.

56. Schedules and Titles

(1) The Schedules to this Agreement form an integral part of this Agreement.

FIRST SCHEDULE

Identification of Areas Designated for the Purpose of Petroleum Exploration

There are two legal agreements that apply to licence areas in the JMA, namely:

1) Exploration Licence - non-exclusive, granted for geophysical data gathering only (no drilling), for a term of [X] years; and

2) Agreement - exclusive, granted for all exploration activities including drilling, for [X] years (first [X] years being on exploration phase).

Licence areas defined according to these agreements will be defined as:

1) Exploration Licence (EL) for areas defined under an exploration licence;

2) Petroleum Exploration (PE) for areas defined under the exploration phase of a Agreement; and

3) Production Licence (PL) for areas enclosing a discovered field for the purposes of producing hydrocarbons under the terms of an Agreement.

Areas within each category will be numbered using Arabic numerals, sequentially, in chronological order of the signing of the relevant agreements. Areas defined within any single agreement that do not have any point in common shall be identified by capital letters. For example, if, in the third Agreement signed, two areas with no common point are defined, they shall be designated PEC 3A and PEC 3B.

SECOND SCHEDULE

Minimum Work Programme

PART I

Subject to the other Provisions of the Agreement, the following work shall be performed in the Scheduled Areas during the periods indicated:

PERIOD	DURATION OF PERIOD	DESCRIPTION OF WORK TO BE PERFORMED
1.	From the effective date of the Agreement until the fifth anniversary of the said date.	.....
2.	From the fifth anniversary to the eighth anniversary of the said date.	.....
3.	From the eighth anniversary to the tenth anniversary of the said date.	.....

PART II

Subject to the other provisions of the Agreement, in the event of failure by the Company to carry out the work obligations, in part or at all in any of the corresponding periods of Part I of this Schedule, the Company shall be liable to either:

(i) pay immediately to the Designated Authority such sum, based on the general prevailing oil industry rates, which would enable the Designated Authority to undertake and complete the work obligations or any part thereof; or

(ii) at the direction of the Designated Authority, pay to a third party after competitive tender such sums which would enable the Designated Authority to undertake the completion of the work obligations or any part thereof.

In pursuance of the provisions of this Part, the Designated Authority shall require the Company to provide a parent company performance guarantee or similar credit support agreement in the form set out in the Fourth Schedule.

Subject to the fulfilment by the Company of its obligations incurred in accordance with the provisions of the Agreement, both at the end of the first and at the end of second periods, the Company may at its sole discretion elect to perform the work to be performed for the next ensuing period, or to surrender the entire remaining Scheduled Areas without obligation to perform any further work specified in Part I of this Schedule or to pay any sum specified in Part II of this Schedule giving the notice as per Clause 45.

THIRD SCHEDULE

Approved Decommissioning Plan

FOURTH SCHEDULE

Accounting Procedure

SECTION 1
GENERAL PROVISIONS

1.1 Definitions

The terms used in this Accounting Procedure which are defined in the Agreement shall have the same meaning when used herein.

1.2 Purpose of the Accounting Procedure

The purpose of this Accounting Procedure is to establish principles and procedures of accounting which will enable the Designated Authority to monitor the Company's expenditures, production, income and receipts so that Designated Authority's entitlement to royalty, Petroleum Income Tax and PAPT pursuant to Clauses 14, 15 and 16 respectively of this Agreement can be accurately determined. The classification of expenditures and the determination of whether the costs and expenses set forth herein are allowable or non-allowable as provided in this Schedule shall guide the Parties in the preparation and approval of accounts and shall apply in respect of the calculation of PAPT pursuant to Clause 16.

1.3 Statements and Reports Required to be Submitted by the Company

1.3.1 Within sixty (60) days of the Effective Date, the Company shall submit to and discuss with the Designated Authority a proposed outline of charts of accounts, operating records, reports and Statements (as further specified in subsection 1.3.2 below), which outline shall reflect each of the categories and sub-categories of expenditures specified in Sections 2 and 3 and shall be in accordance with generally accepted and recognised accounting systems and consistent with normal practice of the international petroleum industry. Within sixty (60) days of receiving the above submission the Designated Authority shall either indicate approval of the proposal or request revisions to the proposal. Within one hundred and eighty (180) days after the Effective Date of the Agreement, the Company and the Designated Authority shall agree on the outline of charts of accounts, operating records and reports which shall describe the basis of the accounting system and procedures to be developed and used under the Agreement. Following such agreement, the Company shall expeditiously prepare and provide the Designated Authority (within not more than thirty (30) days) with formal copies of the comprehensive charts of accounts (including the Statements) related to the accounting, recording and reporting functions, and allow the Designated Authority reasonable access upon prior notice to examine the Company's manuals and to review procedures which are, and shall be, observed under the Agreement.

1.3.2 Notwithstanding the generality of the foregoing, the Company shall prepare and submit monthly written Statements to the Designated Authority relating to its activities under the Agreement, as follows:

(i) Production Statements (see Section 5 of this Schedule);

(ii) Value of Production Statements (see Section 6 of this Schedule);

(iii) Royalty Statement (see Section 7 of this Schedule);

(iv) Statement of Expenditure and Receipts (see Section 8 of this Schedule);

(v) Petroleum Additional Profits Tax Statement (see Section 9 of this Schedule);

(vi) End-of-Year Statement (see Section 10 of this Schedule); and

(vii) Annual Budget Statement (see Section 11 of this Schedule).

1.3.3 All reports and any other Statements which the Company may be required to submit to the Designated Authority during the course of the period covered by the Agreement shall be prepared in accordance with the Agreement, and any applicable rules or guidelines determined by the Designated Authority, and where there are no relevant provisions in either of these, in accordance with best practices of the international petroleum industry.

1.3.4 The Statements referred to in subsection 1.3.2 shall be prepared on a cash basis, with subsidiary schedules attached, where appropriate, to enable costs, expenses and receipts to be computed on an accruals basis.

1.3.5 The Operator, for and on behalf of all entities constituting the Company, shall maintain the accounts of the Petroleum Operations under the Agreement, prepare and submit to the Designated Authority the various Statements required under subsection 1.3.2. above, and shall do so in such a manner as to permit each such entity to fulfil its obligations under this Agreement.

1.3.6 However, each of the entities constituting the Company shall be responsible for maintaining its own accounting records in order to comply fully with all legal requirements and to support all fiscal returns or any other accounting reports required by any Designated Authority in relation to the Petroleum Operations.

1.4 Units of Account, Language and Exchange Rates

1.4.1 All accounts shall be maintained in United States Dollars. A consistent set of units (including barrels for oil production) shall be employed for measurements required under this Schedule. The language employed shall be English.

1.4.2 It is the intent of the Parties that neither the Designated Authority nor the Company should experience an exchange gain or loss at the expense of, or to the benefit of, the other. However, should there be any gain or loss from exchange of currency, it will be credited or charged to the accounts under the Agreement.

1.4.3 (i) Amounts received and expenditures made in currencies other than United States Dollars shall be converted into United States Dollars at the mean of the buying and selling exchange rates between the currencies in question as published by the commercial banks operating in the Host States or, failing such publication, as published in the Financial Times (London edition) for the day on which the relevant transaction occurred.

(ii) The average daily exchange rates used in accordance with subsections 1.4.3(i) and (ii) above shall be identified in the relevant Statements required under subsection 1.3.2 of this Schedule.

1.5 **Payments**

Except as is otherwise specified in the Joint Fiscal and Taxation Code, any payment which the Company is required to make to the Designated Authority, or which the Designated Authority is required to make to the Company, as the case may be, pursuant to the Agreement, shall be made within the time specified in the Agreement for the payment, or, where no time is specified, within thirty (30) days following the date on which the obligation to make such payment occurs. All sums due by one Party to the other under the Agreement during any Month shall, for each day such sums are overdue during such Month, bear interest compounded daily at a rate equivalent to an annual rate equal to the average London Interbank Offered Rate (LIBOR) [*plus X rate above LIBOR*] for six (6) months US Dollars as quoted at 11.00 a.m. London time on the first business day of such Month by the London office of National Westminster Bank PLC, or such other bank as the Parties may agree, plus two (2) percentage points.

1.6.1 Audit and Inspection Rights of the Designated Authority

1.6.2 The Designated Authority shall have the right, upon giving reasonable notice to the Company, to audit the Company's books, records and accounts pertaining to its Petroleum Operations in accordance with Clause 21 of the Agreement. At any time at which the Company is more than one company the reference in this subsection and in Clause 21 of the Agreement to "the Company" is a reference to each one of those companies and accordingly the obligation liability is a several obligation.

1.6.3 For purposes of auditing, the Designated Authority may examine and verify, at reasonable times, all charges and credits relating to the Company's activities under the Agreement and all books of account, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents, correspondence and records necessary to audit and verify the charges and credits. Furthermore, the Designated Authority and its auditors shall have the right in connection with such audit to visit and inspect at reasonable times all sites, plants, facilities, warehouses and offices of the Company serving its activities under the Agreement and to visit personnel associated with those activities.

1.6.3 Notice of any exception to the Company's accounts for any Calendar Year shall be given in writing by the Designated Authority to the Company within ninety (90) days of receipt by the Designated Authority of the report of its auditors.

1.6.4 The Company shall answer any notice of exception under subsection 1.6.3 within thirty (30) days of receipt of such notice by the Company.

1.6.5 Where the Company has, after the thirty (30) days period referred to in subsection 1.6.4, failed to answer a notice of exception made by the Designated Authority, the Designated Authority's exception shall prevail until such time as exception is resolved.

1.6.6 Without prejudice to the finality of matters as described in Clause 21 of the Agreement and in this subsection 1.6, all relevant documents shall be maintained and made available for inspection by the Designated Authority for at least five (5) years following their date of issue.

SECTION 2
CLASSIFICATION, DEFINITION AND ALLOCATION OF EXPENDITURES

All expenditures relating to the Company's activities under the Agreement which qualify as allowable deductions in the computation of PAPT in accordance with Section 3 of this Schedule shall be classified, defined and allocated as follows:

2.1 Exploration Expenditures shall consist of all allowable direct and allocated indirect expenditures incurred in the search for petroleum in an area which is or was, at the time when such costs were incurred, part of the Scheduled

Lands, including:

(a) aerial, geophysical, geochemical, palaeontological, geological, topographical and seismic surveys and studies and their interpretation;

(b) drilling and water well drilling;

(c) labour, materials and services used in drilling wells, with the object of finding hydrocarbons, or Appraisal Wells;

(d) facilities used solely in support of the purposes described in (a), (b) and (c) above including fixed assets and purchased geological and geophysical information;

(e) that portion of all Service Expenditures and that portion of all General and Administrative Expenditures allocated to Exploration Expenditures according to standard oil industry accounting practice or as otherwise agreed between the Parties; and

(f) any other expenditures incurred in the search for petroleum after the Effective Date but prior to the agreed date of commencement of commercial production of the relevant Petroleum Field and not covered under subsections 2.2, 2.3, 2.4 and 2.5.

2.2 Development Expenditures shall consist of all allowable direct and allocated indirect expenditures incurred in the development of a Petroleum Field, including:

(a) expenditure on drilling wells, other than Exploratory Wells and Appraisal Wells, which are completed as producing wells and drilling wells for purposes of producing from a Petroleum Field, whether these wells are dry or producing, and drilling wells for the injection of water or gas to enhance recovery of petroleum;

(b) expenditure on completing wells by way of installation of casing or equipment or otherwise after a well has been drilled for the purpose of bringing the well into use as a producing well, or as a well for the injection of water or gas to enhance recovery of petroleum;

(c) intangible drilling costs such as labour, consumable materials and services having no salvage value which are incurred in drilling and deepening of wells for the purposes set out in subsections 2.2(a) and (b) above;

(d) the costs of petroleum production, storage and transport facilities such as pipelines, flow lines, production and treatment units, wellhead equipment, subsurface equipment, enhanced recovery systems, offshore platforms, export terminals, harbours, piers, and related facilities, and access roads for production activities;

(e) the cost of engineering and design studies for Field facilities referred to in subsection 2.2 (d); and

(f) that portion of all Service Expenditures and that portion of all General and Administrative Expenditures allocated to Development Expenditures according to standard oil industry accounting practice or as otherwise agreed between the Parties.

2.3 Operating Expenditures shall consist of all allowable direct and allocated indirect expenditures of an operational nature specifically incurred on or in connection with production activities under the Agreement, and transparently identifiable as such, after the agreed date of commencement of commercial production from each Field. Such expenditures shall be other than Exploration Expenditures, Development Expenditures, General and Administrative Expenditures and Service Expenditures, but shall include the balance of General and Administrative Expenditures and Service Expenditures not allocated to Exploration Expenditures or Development Expenditures.

2.4 Service Expenditures shall consist of allowable direct and indirect expenditures on services in support of the exploration, development or production activities under the Agreement, including warehouses, vehicles, motorised rolling equipment, aircraft, marine vessels, fire and security stations, workshops, water and sewage plants, power plants, housing community and recreational facilities and furniture, tools and equipment used in these activities under the Agreement. Service Expenditures in any Calendar Year shall include the total costs incurred in such Calendar Year to purchase and/or construct said facilities as well as the annual costs to maintain and operate the same. All Service Expenditures will be regularly allocated as specified in subsections 2.1(e), 2.2(f) and 2.3 to Exploration Expenditures, Development Expenditures and Operating Expenditures.

2.5 General and Administrative Expenditures

2.5.1 General and Administrative Expenditures shall comprise and be limited to expenditure incurred on general administration and management primarily and principally related to Petroleum Operations in the Scheduled Areas, as follows:

(a) main office, field office and general administrative expenditures in the Host States, including supervisory, accounting and employee relations services (excluding commissions paid to intermediaries by the Company);

(b) an annual overhead charge for services rendered outside the Host States, and not otherwise charged under this Accounting Procedure, for managing the Company's activities under the Agreement and for staff advice and assistance including financial, legal, accounting, secretarial and employee relations services (including rent and rates). This annual charge shall be the Company's verifiable costs but shall in no event be greater than one (1) percent of the expenditures relating to the Company's activities under the Agreement incurred during the Calendar Year and allowable under Section 3 of this Schedule. From the date of approval by the Designated Authority of such Development Plan the charge shall be at an amount or rates to be agreed between the Parties and stated in the Development Plan. The annual overhead charge shall be separately identified in all Statements to the Designated Authority.

2.5.2 All General and Administrative Expenditures shall be regularly allocated as specified in subsections 2.1(e), 2.2(f) and 2.3 to Exploration Expenditures, Development Expenditures and Operating Expenditures, and shall be shown separately under each of these expenditure categories in all Statements to the Designated Authority.

SECTION 3
COSTS, EXPENSES, EXPENDITURES AND CREDITS OF THE COMPANY

3.1 Costs Allowable Without Further Approval of Designated Authority

Subject to the provisions of the Agreement, the Company shall bear and pay the following costs and expenses in respect of its activities under the Agreement. These costs and expenses will be classified under the expenditure headings set out in Section 2 of this Schedule. The costs described in this subsection 3.1 shall be allowable deductions in the computation of Petroleum Additional Profits Tax.

3.1.1 Labour and Associated Labour Costs

(i) Gross salaries and wages including bonuses of the Company's employee directly engaged in the Company's activities under the Agreement, irrespective of the location of such employees, it being understood that in the case of those personnel only a portion of whose time is wholly dedicated to activities under the Agreement, only that pro-rata portion of applicable wages and salaries will be charged;

(ii) costs to the Company of established plans of employee's group life insurance, hospitalization, company pension, retirement and other benefits of a like nature customarily granted to the Company's employees and the Company's costs regarding holiday, vacation, sickness and disability payments applicable to the salaries and wages chargeable under sub-paragraph (i) above shall be allowed at actual cost, provided, however, that such total costs shall not exceed twenty five (25) percent of the Company's total labour costs under sub-paragraph (i) above;

(iii) reasonable travel and reasonable personal expenses of expatriate employees (and their immediate dependants) of the Company including those made for travel and relocation of expatriate employees assigned to the Host States, all of which shall be in accordance with the Company's normal practice.

3.1.2 Transportation

The cost of transportation of employees, equipment, materials and supplies necessary for the conduct of the Company's activities under the Agreement.

3.1.4 Charges for Services

(i) Third Party Contracts

The actual costs of contracts (without mark-up), for technical and other services entered into by the Company for its activities under the Agreement, made with third parties other than an Affiliate are allowable; provided that the prices paid by the Company are no higher than those generally charged by other international or domestic suppliers for comparable work and services.

(ii) Affiliates of the Company

In the case of services rendered to undertake the activities under the Agreement by an Affiliate of the Company, the charges shall be based on actual costs without profits and shall be competitive, as if the arrangements were made on an arm's length basis with an unrelated entity. The charges shall be no higher than the most favourable prices charged by the Affiliate to third parties for comparable services under similar terms and conditions elsewhere and shall be fair and reasonable in the light of prevailing international oil industry practice and conditions. Where such services, or a succession of such services, devoted to a single defined task, are expected to cost in excess of two hundred thousand US Dollars (US$200,000) the services shall not be provided by an Affiliate unless that Affiliate has been selected by competitive tender. The Company shall, if requested by the Designated Authority, specify the amount of the charge which constitutes an allocated proportion of the general material, management, technical and other costs of the Affiliate and the amount which is the direct cost of providing the services concerned. If necessary, certified evidence regarding the basis of prices charged may be obtained from the auditors of the Affiliate.

3.1.5 Property and Equipment

(i) The rental cost of any buildings or other facilities occupied for the purpose of conducting Petroleum Operations.

(ii) The rental cost of any machinery and equipment hired or leased for the purpose of conducting Petroleum Operations.

(iii) For services rendered to the activities under the Agreement through the use of property and equipment exclusively owned by the Company, the Accounts shall be charged at rates, not exceeding those prevailing in the East Africa region, which reflect the cost of ownership and operation of such property, or at rates to be agreed.

3.1.6 Material

(i) General

So far as is practicable and consistent with efficient and economical operation, only such material shall be purchased or furnished by the Company for use in activities under the Agreement as may be required for use in the reasonably foreseeable future and the accumulation of surplus stocks shall be avoided.

Material and equipment held in inventory shall only be charged to the accounts when it is removed from inventory and used in Petroleum Operations.

(ii) Warranty of Material

The Company does not warrant material beyond the supplier's or manufacturer's guarantee and, in case of defective material or equipment, any adjustment received by the Company from the suppliers/manufacturers or their agents will be credited to the accounts under the Agreement. All suppliers' and/or manufacturers' guarantees and warranties shall be passed through by the Company to the Designated Authority.

(iii) Value of Material Charged to the Accounts under the Agreement

(a) Except as otherwise provided in (b) below, material purchased by the Company in arm's-length transactions on the open market for use in the activities under the Agreement shall be valued to include invoice price less trade and cash discounts (if any), purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, custom duties, consular fees, other items chargeable against imported material and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site. The cost of such material shall not exceed that currently prevailing in normal arm's length transactions on the open market.

(b) Material purchased from or sold to an Affiliate, or transferred to or from activities of the Company other than activities under the Agreement, shall be priced and charged or credited at the prices specified in (1) and (2) below:

(1) New Material (Condition "A")

shall be valued at the current international price which shall not exceed the price prevailing in normal arm's length transactions on the open market.

(2) Used Material (Conditions "B" and "C")

(i) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classified as Condition "B" and priced at not more than seventy five (75) percent of the current price of new materials defined in (1) above.

(ii) Material which cannot be classified as Condition "B" but which:

(a) after reconditioning will be further serviceable for original function as good second-hand material Condition "B", or

(b) is serviceable for original function but substantially not suitable for reconditioning,

shall be classified as Condition "C" and priced at not more than fifty (50) percent of the current price of new material (Condition "A") as defined in (1) above. The cost of reconditioning shall be charged to the reconditioned material provided that the Condition "C" material value plus the cost of reconditioning does not exceed the value of Condition "B" material.

(iii) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.

(iv) Material involving erection costs shall be charged at the applicable condition percentage of the current knocked-down price of new material as defined in (1) above.

(v) When the use of material is temporary and its service to the activities under the Agreement does not justify the reduction in price, in relation to materials referred to as Conditions "B" and "C", such material shall be priced on a basis that will result in a net charge to the accounts under the Agreement consistent with the value of the service rendered.

3.1.7 Annual Rentals, Levies, Bonuses etc

Annual rentals, taxes, levies, charges, fees, contributions and any other assessments and charges levied by the Designated Authority in connection with the Company's activities under the Agreement and paid-by the Company, [*including any bonuses paid to the Designated Authority under the Agreement and (subject to the limitations set out in Section 18 of the Tax Act) any trades tax paid on imported articles, essential for the Company's Petroleum Operations,*] but excluding Petroleum Additional Profits Tax.

3.1.8 Insurance and Losses

Insurance premiums and costs incurred for insurance of such type and in such amount as is customary in the international petroleum industry in accordance with good oilfield practice, provided that if such insurance is wholly or partly placed with an Affiliate of the Company, such premiums and costs shall be allowable only to the extent generally charged by competitive insurance companies other than an Affiliate. Costs and losses incurred as a consequence of events which are, and in so far as, not made good by insurance are allowable under the Agreement unless such costs have resulted from an act of misconduct or negligence of the Company.

3.1.9 Legal Expenses

All costs and expenses reasonably incurred of litigation and legal or related services necessary or expedient for the procuring, perfecting, retention and protection of the Scheduled Areas, and in defending or prosecuting lawsuits involving the Scheduled Areas or any third party claim arising out of activities under the Agreement, or sums paid in respect of legal services necessary or expedient for the protection of the interest of the Designated Authority and the Company are allowable. Where legal services are rendered in such matters by salaried or regularly retained lawyers of the Company or an Affiliate, such compensation shall be included instead under subsections 3.1.2 or 3.1.4 above as applicable.

3.1.10 Training Costs

All documented and reasonable costs and expenses incurred by the Company in training of Host State employees engaged in activities under this Agreement and such other training as is required under Clause 20.

3.1.11. General and Administrative Costs

The costs described in subsection 2.5 (a) and the charge described in subsection 2.5(b).

3.2 Costs Allowable only with Prior Approval of the Designated Authority

Any costs and expenditures incurred by the Company for the necessary and proper conduct of its Petroleum Operations which are not covered by Section 3.1, and are not disallowed under Section 3.3, shall be allowable as deductions in the computation of Petroleum Income Tax and Petroleum Additional Profits Tax only to the extent that they were approved by the Designated Authority, in writing and prior to such costs being incurred, on a case by case basis. Interest and other charges incurred on loans and other financing raised by the Company shall be allowable in the determination of Petroleum Income Tax, but shall not, in any event, be allowable in the computation of FANCP and SANCP pursuant to Clause 16 of the Agreement.

3.3 Costs not Allowable under the Agreement

The following costs and expenditures shall not be allowable in the computation of Petroleum Income Tax and Petroleum Additional Profits Tax:

(a) costs incurred before the Effective Date;

(b) petroleum marketing or transportation costs of petroleum beyond the Company's actual loading point for f.o.b. export from the JMA;

(c) costs of arbitration and the sole expert in respect of any dispute under the Agreement;

(d) fines and penalties imposed by the Designated Authority or the Courts of the Host States;

(e) costs incurred as a result of misconduct or negligence of the Company, including those arising pursuant to sub-clause 23(3) of the Agreement;

(f) any costs associated with a parent company guarantee or similar credit support mechanism, if any, effected by the Parties with respect to this Agreement and any other amounts spent on indemnities with regard to non-fulfilment of contractual obligations;

(g) donations and charitable contributions;

(h) expenditure on research into and development of new equipment, materials and techniques for use in searching for developing and producing petroleum; and,

(i) any costs which by reference to standard oil industry practices are not arm's length or are excessive.

3.4 Miscellaneous Income and Credits under the Agreement

Pursuant to sub-clause 8(1)(f) of the Tax Act, and in addition to the amounts specified in sub-clauses 8(1)(a) to (e) of that Act, the Company's miscellaneous income shall include, but not be limited to, the following amounts received by the Company, and this miscellaneous income shall be treated as income chargeable to Petroleum Income Tax and, when apportioned as necessary by the Designated Authority to Petroleum Fields, to PAPT:

(a) the net proceeds of any insurance or claim in connection with activities under the Agreement or any assets charged to the accounts under the Agreement;

(b) revenue received from third parties for the use of property or assets charged to the accounts under the Agreement;

(c) any adjustment received by the Company from the suppliers/manufacturers or their agents in connection with defective material the cost of which was previously charged by the Company to the accounts under the Agreement;

(d) rentals, refunds or other credits received by the Company which apply to any charge which has been made to the accounts under the Agreement, but excluding any award granted to the Company under arbitration or sole expert proceedings;

(e) the net proceeds from the sale or exchange by the Company of materials, equipment, plant or facilities from the Petroleum Field or plant or facilities, the acquisition costs of which have been charged to the accounts under the Agreement;

(f) the proceeds derived from the sale or licence of any intellectual property, the development costs of which were incurred under the Agreement; and

(g) legal expenses charged to the accounts under the provisions of subsection 3.1.9 and subsequently recovered by the Company.

3.5 Duplication of Charges and Credits

Notwithstanding any provision to the contrary in this Accounting Procedure, it is the intention that there shall be no duplication of charges or credits to the accounts under the Agreement, and no duplication of deductions or income for Petroleum Income Tax and PAPT.

SECTION 4
RECORDS AND VALUATION OF ASSETS

4.1 The Company shall maintain detailed records of property in use for its activities under the Agreement in accordance with best practice in exploration, development and production activities of the international petroleum industry. At six (6) monthly intervals the Company shall notify the Designated Authority in writing of all assets acquired by the Company for use in connection with its Petroleum Operations during the preceding six (6) months, indicating the quantities, costs and location of each asset as well as of all assets sold or otherwise disposed of.

4.2 At reasonable intervals, but at least every six (6) Months with respect to movable assets and once every Calendar Year with respect to immovable assets, the Company shall take inventories of the property and assets under the Agreement and deliver copies of such inventories to the Designated Authority. The Company will clearly state the principles upon which valuation of the inventory has been based. The Company shall give the Designated Authority at least sixty (60) days advance written notice of its intention to take such inventory and the Designated Authority shall have the right to be represented when such inventory is taken. When an assignment of rights under the Agreement takes place a special inventory may be taken by the Company at the request of the assignee.

4.3 In order to give effect to Clause 22 of the Agreement, the Company shall provide the Designated Authority with a comprehensive list of all relevant assets when requested by the Designated Authority to do so.

SECTION 5
PRODUCTION STATEMENT

5.1 From the date of first production from each Petroleum Field the Company shall prepare and submit to the Designated Authority, monthly and quarterly Production Statements containing the following

particulars in respect of each Field in the Scheduled Areas and for the totals from the Scheduled Areas:

(a) the quantity, grades and gravity of JMA Crude Oil produced and saved;

(b) the quantities of JMA Crude Oil and Natural Gas used for purposes of carrying on drilling and production operations and pumping to field storage, as well as of quantities injected into the formations (each such use to be separately identified);

(c) the quantity of petroleum unavoidably lost;

(d) the quantity of Natural Gas flared;

(e) the size of petroleum stocks held at the beginning of the Calendar Month or Quarter in question;

(f) the size of petroleum stocks held at the end of the Calendar Month or Quarter in question; and

(g) the number of days in the Month and in the Quarter during which Crude Oil and Natural Gas was produced from each Field in the Scheduled Areas.

5.2 the Designated Authority may by notice in writing addressed and delivered to the Company direct that any other particulars relating to Petroleum Operations be included in the Production Statements, and the Company shall comply with such request.

5.3 The Production Statements for each Month or Quarter shall be submitted to the Designated Authority not later than seven (7) days after the end of such Month or Quarter.

SECTION 6

VALUE OF PRODUCTION STATEMENT

6.1 The Company shall for the purposes of Clause 17 of the Agreement, prepare a Statement providing calculations of the value of JMA Crude Oil produced and saved during each Calendar Month containing the following information:

(a) the quantities, prices and receipts realised therefor by the Company in third party sales of JMA Crude Oil during the Month in question, together with the names of the purchasers;

(b) the quantities, prices and receipts realised therefor by the Company in sales of JMA Crude Oil during the Month in question, other than in third party sales, together with a statement of the purchaser and/or destination of the Crude Oil;

(c) the value of stocks of Crude Oil held at the beginning of the Month in question, valued in accordance with normal oil industry practices;

(d) the value of stocks of Crude Oil held at the end of the Month in question, valued in accordance with normal oil industry practices;

(e) the percentage volume of total sales of JMA Crude Oil made by the Company during the Month that are third party arm's length sales;

(f) the Company's estimate, pursuant to Clause 17 of the Agreement, of the market value of JMA Crude Oil for the Month; and

(g) all information available to the Company, if relevant for the purposes of Clause 17 of the Agreement, concerning the prices of the selection of major competitive Crude Oils, including contract prices, discounts and premium, and prices obtained on the spot markets.

SECTION 7
ROYALTY STATEMENT

7.1 The Company shall prepare and submit a Monthly Royalty Statement to the Designated Authority in respect of each Petroleum Field.

7.2 Each Royalty Statement shall be compatible with the provisions of Clause 14 of the Agreement, and with the Production Statement and Value of Production Statement to be prepared in respect of the Month in question pursuant to Sections 5 and 6 of this Accounting Procedure.

7.3 In particular, the Royalty Statement shall give the Company's estimate of the amount of Royalty due for the Month in question, separately for each field and separately for JMA Crude Oil.

7.4. The Statement shall also show, pursuant to sub-clause 14(4)(b) of the Agreement, any adjustments to the amount of royalty due for any previous months resulting from a redetermination of the market value.

7.5 The Royalty Statement for each Month shall be prepared by the Company and submitted to the Designated Authority within thirty (30) days of the end of each Month.

SECTION 8
STATEMENT OF EXPENDITURE AND RECEIPTS

8.1 The Company shall prepare a quarterly Statement of Expenditure and Receipts, which shall distinguish between Exploration Expenditures, Development Expenditures and Operating Expenditures and shall identify all significant items of expenditures (including those sub-categories of costs listed in Section 3 of this Accounting Procedure) within these categories. That part of the Statement covering receipts shall distinguish between income from the sale of petroleum and miscellaneous income. If the Designated Authority is not satisfied with the degree of disaggregation within the said categories, it may request a more detailed breakdown and the Company shall promptly comply with such request.

8.2 The Statement of Expenditure and Receipts will cover the following:

(a) actual Expenditures and Receipts for the Quarter in question;

(b) cumulative Expenditures and Receipts for the budget year in question;

(c) latest forecast of cumulative Expenditures at the Year-end; and

(d) variations between budget forecast and latest forecast with explanations thereof.

8.3 The Statement of Expenditure and Receipts shall also record, in appropriate detail, any amounts spent in the Quarter by the Company during its Petroleum Operations but which are, or are to be, disallowed as deductions in the compensation of tax pursuant to subsection 3.3 of the Accounting Procedure.

8.4 The Statement of Expenditure and Receipts for each Quarter shall be submitted to the Designated Authority no later than thirty (30) days after the end of such Quarter.

SECTION 9
PETROLEUM ADDITIONAL PROFITS TAX STATEMENT

9.1 The Company shall prepare for each Petroleum Field and each Calendar Year, a Petroleum Additional Profits Tax Statement containing the following information:

(a) the value of Net Cash Receipts from the field for the Year, identifying separately each of the revenues and allowable deductions provided for in sub-clause 16(1)(a) of the Agreement;

(b) the appropriate average value for the Year of the percentage Yield on United States Long Term Government Bonds;

(c) the value of the FANCP and SANCP for the Year;

(d) the value of the FANCP and SANCP at the end of the preceding Year;

(e) the Company's estimate of the amount of Petroleum Additional Profits Tax payable with respect to each of the FANCP and SANCP for the Year;

(f) the Company's estimate of the total amount of Petroleum Additional Profits Tax payable for the Year; and

(g) the amount of Petroleum Additional Profits Tax paid by the Company.

9.2 The information required in terms of subsection 9.1 shall be presented in sufficient detail so as to enable the Designated Authority to verify the timing and amount of Petroleum Additional Profits Tax payments.

9.3 A provisional Petroleum Additional Profits Tax Statement for each Year shall be submitted by the Company to the Designated Authority no later than 31st January of the succeeding Year.

9.4 A final Petroleum Additional Profits Tax Statement for the year shall be submitted by the Company to the Designated Authority within three (3) Months after the end of the year.

SECTION 10
END-OF-YEAR STATEMENT

10.1 The Company shall prepare a definitive End-of-Year Statement, which shall contain aggregated information for the Calendar Year in the same format as required in the Production Statement, Value of Production Statement, Royalty Statement and Statement of Expenditures and Receipts, but be based on the actual quantities of petroleum produced, income received and the costs and expenditures incurred.

10.2 The End-of-Year Statement for each Calendar Year shall be submitted to the Designated Authority within sixty (60) days of the end of such Calendar Year.

SECTION 11
ANNUAL BUDGET STATEMENT

11.1. The Company shall prepare an Annual Budget Statement in respect of each Calendar year. This Statement shall distinguish between Exploration Expenditures, Development Expenditures, and Operating Expenditures and shall show the following:

(a) forecast expenditures and receipts for the budget Year under the Agreement;

(b) cumulative expenditures and receipts to the end of the said budget Year; and

(c) a schedule showing the most important and individual items of expenditures for the said budget Year.

11.2 The Budget Statement shall be submitted to the Designated Authority with respect to each budget Year not less than sixty (60) days before the start of the Year except in the case of the Year in which the Effective Date falls, when the Budget Statement shall be submitted within thirty (30) days of the Effective Date.

SECTION 12
REVISION OF ACCOUNTING PROCEDURE

12.1 The provisions of this Accounting Procedure may be amended by agreement between the Company and the Designated Authority. The amendments shall be made in writing and shall state the date upon which the amendments shall become effective.

12.2 Following any second discovery in the Scheduled Areas, the Parties shall meet in order to establish specific principles and procedures for identifying all costs, expenditures and credits on a Petroleum Field basis, it being understood that costs, expenditures and credits which do not uniquely arise in respect of any one Petroleum Field shall be apportioned between Petroleum Fields in a principled, fair and consistent manner.

SECTION 13
CONFLICT WITH THE AGREEMENT

In the event of any conflict between the provisions of this Accounting Procedure and the Agreement, the provisions of the Agreement shall prevail.

FIFTH SCHEDULE

Parent Company Performance Guarantee

WHEREAS the [DEF COMPANY], a company duly incorporated and registered in ..... having its registered office at ....., (hereinafter referred to as "the Guarantor") is the owner of 100% of the share capital of the [ABC COMPANY Ltd] (hereinafter referred to as "the Company") and its parent company; and

WHEREAS the Company is a party to the Agreement dated the ..... day of ..... in the year .....(hereinafter referred to as "the Agreement") entered into with the Designated Authority, and

WHEREAS the [DEF COMPANY] wishes to guarantee the performance of the Company or its affiliated assignee under the Agreement;

NOW, THEREFORE, the Guarantor hereby -

unconditionally and irrevocably guarantees to the Designated Authority that it will make available or cause to be made available to the Company or any other directly or indirectly owned subsidiary or affiliate of the Guarantor to which any part or all of the Company's rights or interest under the Agreement may subsequently be assigned ("affiliate assignee"), resources required to ensure that Company or an Affiliated Assignee can carry out its obligations as set forth in the Agreement;

(a) unconditionally and irrevocably guarantees to the Designated Authority the due and punctual compliance by the Company (or Affiliated Assignee) with any obligations of the Company (or Affiliated Assignee) under the Agreement;

(b) undertakes to the Designated Authority that if the Company (or any Affiliate Assignee) defaults on any of its obligations under the Agreement, then the Guarantor will fulfil or cause to be fulfilled the said obligations in place of the Company (or any Affiliate Assignee);

(c) declares that this guarantee shall expire on termination of the Agreement and any claims arising out of events during the period of validity of this guarantee must be submitted to the undersigned not later than 30 months subsequent to the date the claim arose.

SIGNED at ..... on this ..... day of ..... in the year .....

[DEF COMPANY]