

PETROLEUM AGREEMENT

(Section 48 of the Oil and Gas (Upstream) Act, 2016)

MODEL PRODUCTION SHARING AGREEMENT (MPSA)

BETWEEN

**THE REVOLUTIONARY GOVERNMENT OF
ZANZIBAR (RGoZ)**

AND

**ZANZIBAR PETROLEUM DEVELOPMENT
COMPANY (ZPDC)**

AND

ABC LTD

FOR

BLOCK(S) XYZ

2024

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THE PETROLEUM AGREEMENT

This AGREEMENT is made and entered into on the _____ by and between:

The Revolutionary Government of Zanzibar (hereinafter referred to as the “Government”) represented for the purpose of this agreement by the Minister responsible for Petroleum (hereinafter referred to as the “Minister”);

Zanzibar Petroleum Development Company, a statutory Company established under the Laws of Zanzibar (hereinafter referred to as ZPDC), represented by its Managing Director;

AND

ABC Limited, a company existing under the Laws of Zanzibar, with office and legal representative based in Zanzibar (hereinafter referred to as “ABC” or “Contractor”).

WITNESSETH

PREAMBLE

WHEREAS, Petroleum in its natural condition in, on or under any land or territorial waters in Zanzibar and any area derived from any international law is vested in the Government on behalf of the people of Zanzibar; and

WHEREAS, Zanzibar Petroleum Development Company (ZPDC) has been established by law for the purpose of undertaking petroleum activities in accordance with the Act; and

WHEREAS, the Zanzibar Oil and Gas (Upstream) Act 2016 makes provision with respect to exploring for and producing Petroleum and, for that purpose subject to certain limitations and conditions, authorizes the Minister to grant Exploration Licenses and Development Licenses; and

WHEREAS, ZPDC intends to apply for an Exploration License over the area described in Annex “A” and shown on the map in Annex “B” hereof and the Minister intends to grant the said License; and

WHEREAS, ZPDC with the approval of the Minister, wishes to engage the Contractor to carry out on its behalf Petroleum Operations in the area of the said License and in the area of any Development License(s) granted to ZPDC hereunder; and

WHEREAS, ABC is willing on certain terms and conditions to undertake the Petroleum Operations aforesaid and has for that purpose the necessary competence, capacity and capability including adequate financial capacity, technical competence, sufficient experience, history of compliance, and professional skills; and

WHEREAS, the Parties are committed to ensure that Petroleum Operations shall be managed in compliance with the Law and in an ethical, efficient, safe, transparent and accountable manner on the basis of the best international environmental, social and economic sustainability principles in order to achieve optimal long-term Petroleum resource exploitation for maximum value creation for equitable benefit and welfare of the people of Zanzibar.

NOW THEREFORE, the Parties hereto agree as follows:

ARTICLE 1: DEFINITIONS

The words and terms used in this Agreement shall have the following meanings unless specified otherwise.

“Act” means the Oil and Gas (Upstream) Act No. 6 of 2016 as amended, repealed, or replaced from time to time.

“affiliate” means any person who directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control of another person;

“Agreement” or **“the Agreement”** means this instrument and the annexes attached hereto, including any extension, renewals or amendments thereof agreed to in writing by the parties.

“appraisal programme” means work program prepared for the purpose of undertaking Appraisal activities;

“appraisal well” means any well drilled after discovery of petroleum in a contract area for purpose of assessing the quantity and extent of petroleum in the target reservoir to which that discovery relates;

“appraisal” means activities to be carried out after a discovery of petroleum with the aim of defining parameters of the petroleum and reservoir to which the discovery relates and determine its commerciality and include but not limited to:

- a) drilling of wells and running productivity tests;
- b) collecting geological samples and reservoir fluids; and
- c) conducting supplementary studies and acquisition of geophysical and other data, as well as the processing of same data;

“arm’s length” means the relationship that exists between two or more entities, where neither of such entities exerts or is in position to exert significant influence of any of the other entities having regard to all relevant factors;

“associated gas” means natural gas which exists together with crude oil in a reservoir and includes gas cap which overlies and is in contact with crude oil;

“Authority” or **“ZPRA”** means the Zanzibar Petroleum (Upstream) Regulatory Authority established under section 7(1) of Act;

“barrel” means a unit of measure for liquids corresponding to forty-two (42) United States gallons of Crude Oil net of basic sediment and water, corrected to a temperature of sixty (60) degrees Fahrenheit and under one (1) atmospheric pressure;

“Block” means as surface area constituted as provided by Regulations formed under the Act;

“Btu” (British thermal unit) means an energy unit; the quantity of heat necessary to raise the temperature of one pound-mass of water one-degree Fahrenheit from 58.5°F to 59.5°F under a standard pressure of 30 inches of mercury at 32°F;

“business day” means a day excluding Saturday, Sunday and, any public holiday on which banks in Zanzibar are not open for business;

“calendar year” or **“year”** means a period of twelve (12) consecutive months according to the Gregorian calendar beginning on January 1 and ending on December 31;

“commencement date” means a date of issuance of the License or Production permit;

“Company” or **“ZPDC”** means an acronym of Zanzibar Petroleum Development Company which shall be a National Petroleum Company established under section 32(1) of the Act;

“contract Area” means an area in which at any particular time is subject to an exploration license or development license granted to a Company or as defined in this Agreement;

“contractor” means a second party or an entity to which any interest on the license may be transferred in the application of the provisions of this Agreement;

“crude oil” or **“oil”** means a mixture of liquid hydrocarbons produced from the contract area which is in a liquid state at the well head or in the separator under normal conditions of pressure and temperature, including distillate and condensates, as well as liquids extracted from natural gas.

“day” is a period of twenty-four (24) hours starting at midnight in East African Time;

“decommissioning” means a removal or disposal of structures, facilities and installations and includes pipeline, platforms and other property used in petroleum operations in an area, cleaning up of the area, plugging and securing of wells, restoration of land, safety clearance of an area, in connection with abandonment or cessation or partial cessation of petroleum operations in an area or part of an area;

“delivery point” means a point specified in the approved Field Development Plan or petroleum agreement to deliver commercial quality petroleum within or outside the contract area for the particular purposes such as selling, storage or refinement;

“development area” means an area of land subject to a development license;

“development license” means a license granted under section 64 of the Act;

“development operations” means operations for or in connection with production of petroleum and shall include the activity carried out to prepare the Field Development Plan and the activity carried out after the grant of the development license in the respective development area and shall include:

- a) reservoir, geological and geophysical studies and surveys;
- b) drilling of producing and injection wells;
- c) design, construction, installation, connection and initial testing of equipment, pipelines, systems, facilities, plants, and related activities necessary to produce and operate wells, to take, save, treat, handle, store, transport and deliver petroleum and to undertake repressuring, recycling and other secondary or tertiary recovery projects;

“Development Well” means a well drilled for purpose of producing or enhancing production of petroleum from a commercial discovery and includes the appraisal or exploration wells completed as producing or injection wells

“Field Development Plan” means a plan accompanying an application for a development license containing detailed proposal for construction, establishment and operations of all facilities and services for recovery, processing, storage, transportation of petroleum from the proposed development area;

“drilling” means perforation of earth's surface for purposes of making a discovery, establishing the extent of discovery or production of the discovered petroleum or any other geological purposes;

“discovery” means the penetration by a well of a Petroleum Reservoir, within the Contract Area, which was previously unknown, and which could indicate the existence of a Commercial Field;

“effective date” means the date on which this Agreement is signed by the Parties.

“environment” has the meaning as described under the Zanzibar Environmental Management Act;

“expatriate employee” means any professional employee from abroad who is working for the Contractor in relation to this Agreement in Zanzibar;

“exploration area” means an area constituting of block(s) that are or can be subject to a petroleum exploration license;

“exploration license” means a license granted under section 51 of the Act;

“exploration operations” means any operation for or in connection with exploration for petroleum;

“exploration period” means a time granted for the performance of exploration operations as prescribed in the exploration license;

“exploration well” means a well drilled in the course of exploration operations in upstream activities excluding an appraisal well;

“facility” means plant, building or equipment acquired for and used for petroleum activities in the licensed area;

“gas” means any naturally occurring mixture of hydrocarbons in gaseous state;

“Government” means the Revolutionary Government of Zanzibar;

“negligence or wilful misconduct” means an intentional and conscious or reckless act or failure to act, by any person or entity, which was in reckless disregard of or wanton indifference to harmful consequences such person knew or should have known such act or failure to act has

or would have caused to the safety or property of any person or entity, but shall not include any act, omission, error of judgment or mistake made in good faith in the exercise of any function, authority or discretion arising out of or in connection with the Petroleum Operations;

“hydrocarbon” means natural occurrence of carbon-hydrogen sometimes with oxygen compounds whether in solid, liquid, or gaseous state;

“joint operating agreement” means an agreement entered between the parties including a contractor and the Company where applicable;

“joint operations” means petroleum operations in respect of which the Company has elected to contribute expenses or has been carried out by the contractor;

“land” means land as defined in the Act related to land tenure and includes land beneath territorial waters, continental shelf and extended continental shelf;

“law” means the legislation; regulations; rules; guidelines; Government Orders, Notices and Directives, precedents and principles in force from time to time in Zanzibar;

“SOFR” is the average of previous 3 months Secured Overnight Financing Rate of the U.S. Dollars as published by The Federal Reserve Bank of New York or a successor thereto. if such rate is no longer published, as may be agreed by the Parties.

“license area” means block or area covered under specific license;

“License” means a license granted under the Act;

“local content” means the quantum of composite value added to, or created in the economy of Zanzibar; through deliberate utilization of human and material resources and services in the petroleum operations in order to stimulate the development to encourage local investment and participation;

“location” shall have the meaning ascribed to it by the relevant Regulation;

“Minister” means the Minister for the time being responsible for Petroleum affairs in Zanzibar;

“Ministry” means the Ministry for the time being responsible for Petroleum affairs in Zanzibar;

“MMscf” means a million standard cubic feet of Natural Gas;

“month” means a calendar month pursuant to the Gregorian calendar;

“Natural Gas” means any hydrocarbon produced from the contract area at an atmospheric pressure and temperature of sixty degrees Fahrenheit (60°F) are in a gaseous state at the wellhead, and include residue gas after the extraction of liquid hydrocarbons there from, both associated and non-associated gas, and all of its constituent elements produced from any well in the contract area and all non-hydrocarbon substances therein;

“Non-associated Gas” means natural gas produced from petroleum reservoirs developed primarily for producing natural gas;

“operating expenses” means those expenses as so categorized in Annex “D”, the Accounting Procedures;

“operator” means a person designated as operator under a joint operating agreement and executed by persons constituting contractor or operating agreement executed by the Company and contractor pursuant to relevant agreement;

“Participating Interest” means the proportion of production costs each party will bear and the proportion of production each party will receive, as set out in Article 9(b) (i);

“parties” means the Government, ZPDC and Contractor as Parties to this Agreement, including any permitted successors and assignees;

“Party” means the Government, ZPDC or Contractor as a Party to this Agreement, including any permitted successors and assignees;

“Person” means any individual, corporation, company, co-operative, partnership, joint venture, association, trust, estate, public body, unincorporated organization of government or any agency or political subdivision thereof;

“petroleum” means any naturally occurring hydrocarbon, whether in gaseous, liquid, solid state or any naturally occurring mixture of hydrocarbons, but shall not include coal or any substance that may be extracted from coal or other rock;

“petroleum operation” means operations and activities in connection with exploration, appraisal, development, and production and includes all abandonment activities;

“production operations” include:

- a) running, servicing, maintenance and repair of completed wells, equipment, pipelines, systems, facilities and plants constructed and used after development;
- b) all activities related to planning, scheduling, controlling, measuring, testing and carrying out of flow, gathering, treating, separation, transporting, storing and dispatching of petroleum from underground petroleum reservoirs to the delivery point and all other operations necessary for production and marketing of petroleum;
- c) acquisition of assets and facilities required for the production of petroleum and petroleum field abandonment operations;

“production permit” means a permit granted under section 71(1) of the Act;

“Quarter” means a period of three (3) consecutive Months starting with the first day of January, April, July or October of each Calendar Year;

“recoverable contract expenses” shall have the meaning ascribed in Article 11 and as categorized in Annex “D” the Accounting Procedures;

“Regulations” means any regulations made from time to time under the Act;

“seismic survey” means a geophysical survey using shock waves to produce detail images of local geology to determine the location and size of possible oil and gas reservoir;

“separator” means a facility used for separating well fluids produced from petroleum wells;

“service costs” means those costs as so categorized in Annex “D” the Accounting Procedures;

“sub-contractor” means any business entity hired by contractor to carry out all or a portion of petroleum operations as approved by the contractor under the terms of Agreement;

“transportation” means the movement from one point to another of petroleum through any physical means like pipeline, tanker and such like;

“well” means an artificial hole in land or subsoil of land, made by drilling in connection with upstream petroleum exploration, appraisal, operations or development operations and shall not include a seismic shot hole; and

“Work Programme and Budgets” means a statement itemizing the Petroleum Operations to be carried out pursuant to this Agreement during any calendar year or part thereof and the estimate of the costs of all such items included.


ARTICLE 2: AGREEMENT

- (a) This Agreement constitutes an agreement made under Section 48 of the Act.
- (b) This Agreement supersedes and replaces any provisions on the same subject contained in any other agreement entered into by the Parties, whether written or oral, prior to the date of this Agreement.

ARTICLE 3: RESPONSIBILITIES AND GRANT OF RIGHTS

- (a) As soon as possible, but in any event not later than thirty (30) days, after the date of signing of the Agreement, ZPDC will apply for an Exploration License over the Contract Area, and the Minister will, under and in accordance with the Act, grant to ZPDC such license. Subject to the provisions of the Act, such license will be substantially in the form of the draft set out in Annex “C” hereof.
- (b) Subject to Article 6 and Article 8, the areas which at any particular time are subject to the said Exploration License or subject to any Development License granted to ZPDC for which application was made by ZPDC at the request of the Contractor hereunder constitute for the purpose of this Agreement the Contract Area.
- (c) Save where Joint Operations have been established pursuant to Article 9, the Contractor shall, in accordance with the Act and as otherwise agreed in this Agreement, have the exclusive right to conduct, on behalf of ZPDC as license holder, Petroleum Operations in the Contract Area.
- (d) Where the Contractor is constituted by more than one party, the participating interests of each such party shall be declared in Annex “E” to this Agreement and the parties constituting the Contractor shall enter into a Joint Operating Agreement. The Minister and ZPRA shall be entitled to attend the meetings of the committees pursuant to the Joint Operating Agreement as observers in a non-voting capacity. Government and ZPRA shall be entitled to receive any information that is relevant for the activities under the Joint Operating Agreement. Members and observers attending a meeting pursuant to the Joint Operating Agreement may be accompanied by advisers and experts to the extent reasonably necessary to assist with the conduct of such meeting. Such advisers and experts shall not vote but may contribute in a non-binding way to discussions and debates of the committees. The Contractor shall provide the Minister the Joint Operating Agreement for prior approval. The Minister may require alterations in the Joint Operating Agreement. Any amendments to the Joint Operating Agreement are subject to the prior approval of the Minister.
- (e) The responsibility and liability for duties and obligations of the parties constituting Contractor under this Agreement shall be joint and several. **The parties constituting Contractor under this Agreement shall not be jointly responsible or liable for payment of corporate taxes.**
- (f) The Contractor shall nominate an Operator and submit the nominee to the Minister for approval. No change in Operatorship shall take effect unless it has been approved by the Minister. The approvals by the Minister shall not be unreasonably withheld. The Operator shall execute the Petroleum Operations on behalf of the Contractor.
- (g) The Contractor shall:
 - (i) provide particulars of the technical and industrial qualifications of key employees, particulars of the technical and industrial resources available and particulars of

the kind of financial resources available as may be necessary to enable ZPDC to meet its legal and contractual obligations;

- (ii) carry out the Petroleum Operations in the Contract Area diligently, in accordance with applicable laws, with due regard to best international petroleum industry practices and in such a manner as to ensure that in respect of matters which are the responsibility of the Contractor hereunder ZPDC is not in default;
- (iii) furnish ZPDC with such information, reports, records and accounts relating to the Petroleum Operations in the Contract Area as may be necessary to enable ZPDC to meet its obligations under the Act and the Agreement;
- (iv) if the Contractor has requested ZPDC to apply for any extension of the said Exploration License, the Contractor shall in consultation with ZPDC, select the relevant area for which an application for an extension shall be made in accordance with the requirements of this Agreement and the Act;
- (v) submit to ZPRA all data, information and reports regarding Petroleum operations in accordance with Act and Regulations;
- (vi) pay for copying and shipping of geological and geophysical data and sample relating to the Contract Area; 
- (vii) subject to Articles 10 and 19, the Contractor shall pay the annual charges in respect of the Exploration License or a Development License granted to ZPDC;
- (viii) promptly notify the Minister, ZPRA and ZPDC of any change - in the Contractor's circumstances, or those of any Affiliate or subcontractor upon whom it is dependent for efficient execution of its Petroleum Operations - which has or is likely to have an adverse impact upon its ability to meet its obligations under this Agreement; and
- (ix) Comply with the legal requirements for local content in effect from time to time. In performing Petroleum Operations under the Agreement, Contractor shall provide for the maximum utilization of goods, services and materials available in Zanzibar in accordance with Article 18. Contractor shall give priority in employment to Zanzibaris in all aspects of Petroleum Operations and shall undertake the training and development of such personnel in accordance with the provisions of Article 19. The contractor shall submit to ZPRA, detailed local content programmes in accordance with the provisions of Article 18.
- (x) Guarantee Obligations
 - a. within thirty (30) days of the commencement of the initial exploration period, first or second extension periods or approval of Appraisal Work Programme, the Contractor shall provide the Minister with an unconditional irrevocable on-demand guarantees from a bank acceptable to the Minister in accordance with the provisions of Section 109 of the Act for the amount which corresponds to the minimum expenditure obligations of the Contractor in the

relevant period under this Contract. The Guarantee shall remain valid until the Contractor has complied with the obligation of exploration or approved appraisal programme.

- b. where Contractor has procured a Certificate countersigned by ZPRA certifying that a relevant exploration work programme, appraisal work programme or a (quantifiable) part thereof has been completed in accordance with the Contract and that all technical data related thereto have been delivered to ZPRA, the Minister upon receipt of such certificate may instruct the issuing guarantor to reduce the guarantee(s) by the value of minimum expenditures for the work so completed on annual basis.
- c. where Contractor has failed to perform in accordance with this Contract all or any part of accrued Work Programmes:
 - i. at the end of any phase of the Exploration Period;
 - ii. at the end of an approved period in respect of a retained Exploration area;
 - iii. at the end of an approved period in respect of an Appraisal Work Programme or;
 - iv. upon termination of this Contract,

Contractor or its guarantor shall on demand, pay the Minister the entire amount of such outstanding guarantee or guarantees within fifteen (15) days of receipt of a written notice from Minister indicating the amount due to be paid.

- d. without prejudice to the joint and several liability of the Persons constituting the Contractor, the Minister may require each Person constituting the Contractor to deliver to the Minister an unconditional and irrevocable performance guarantee in the form prescribed in Annex [F] or in any other form acceptable to Minister, from a financially, technically and legally competent parent company guaranteeing for the performance of the Contractor of all its obligations undertaken under this Agreement and any liability incurred in relation thereto including an undertaking that such parent company shall provide all technical and financial resources that the Contractor may require to meet Contractor's obligation under this Agreement on a timely basis.
- e. The Guarantee from the parent company shall guarantee the contractor's continuing and absolute performance of the obligations and responsibilities set forth in the Agreement which shall remain in full force and effect unless and until a Notice of Termination has been issued (subject to any rights to rectify being exhausted), provided, however, that Contractor's obligations shall survive only with respect to such obligations that occurred or arose prior to such termination if, within six (6) months from any such termination, ZPDC or the Government shall have notified the Guarantor in writing of such an obligation, responsibility or liability and that it is demanding or will be demanding payment or rectification pursuant to Agreement and the Act.

(h) ZPDC:

- (i) will take such steps as may be necessary from time to time to ensure that in respect of the Contract Area it is not in default under the Act and will not, without the prior consent in writing of the Contractor, surrender any Block or Blocks, make any request that any Block or Blocks be declared a Location, or apply for Development License; and
- (ii) if the Contractor so requests, will:
 - a. apply for extensions of the Exploration License as the Act may permit;
 - b. relinquish Blocks selected by the Contractor to meet the requirements of the Act;
 - c. pursuant to the Act, request that a block containing a discovery within the Contract Area to be declared by the Minister to be a Location;
 - d. apply for a Development License or Licenses over such Block or Blocks within the Contract Area as the Contractor may specify for that purpose; and
 - e. make such other applications, requests, or representations in respect of the Contract Area which the Act may require or permit to be made by a license holder.

(i) The Government:

- (i) will take all such actions as may be necessary from time to time to ensure that ZPDC carries out its obligations hereunder and will not without the consent of the Contractor seek or acquiesce in any waiver by ZPDC in respect of the Contract Area of its rights as license holder under the Act;
- (ii) undertakes that, where in the case of discovery of Petroleum referred to in section 62 of the Act, ZPDC makes an application for further extension of the said Exploration License, the Minister will grant an extension for Appraisal of the discovery in accordance with the Act;
- (iii) subject to the Act, will at the Contractor's expense make available to the Contractor geological and geophysical data in the possession or under the control of Government resulting from petroleum exploration by any other company in the Contract Area and the Contractor shall treat such data as confidential;
- (iv) subject to any requirement under the Law and respect by the Contractor for the rights of the others, will permit the Contractor, its Affiliates, employees and agents to have at all times access to the Contract Area for the purpose of carrying on the Petroleum Operations hereunder and for such purpose to move freely therein.

ARTICLE 4: TERM AND TERMINATION

- (a) This Agreement shall come into force on the effective date and continue to be in force either in accordance with Section 68 of the Act, whose provisions regulate the terms of any Development License or in case no Development License is granted, until the end of the Exploration Period according to the provisions of this Agreement or the Contractor relinquish the entire area in accordance with Article 6 or the contract has been terminated according to the provision of the Agreement. For the avoidance of doubt, where decommissioning is to be exercised in accordance with Article 20, the Agreement shall remain in force until the obligations and responsibilities under the said Article are executed.
- (b) Contractor may propose to ZPDC to apply for an extension of the Development License in accordance with the Act. In such case, Contractor shall provide to ZPDC all relevant information for the application.
- (c) The Minister may grant an extension of the Development License on terms in accordance with Section 70 of the Act.
- (d) The Minister may terminate the Agreement where the Contractor:
 - (i) subject to the Act and this Agreement, surrenders its rights in respect of the whole of the Contract Area pursuant to Article 6;
 - (ii) interrupts production for a period of more than ninety (90) days in a calendar year with no cause or justification acceptable under normal international petroleum industry practice;
 - (iii) Is In Default. In this Article “In Default” in relation to the Contractor means a material breach of any provision of this Agreement or the Act or license granted and includes any act or omission by the Contractor in respect of matters that are the responsibility of the Contractor hereunder that would cause ZPDC to be in breach of any provision of the Act or of any condition of the license granted hereunder.
 - (iv) assigns or transfers any part of its interests, rights or obligations hereunder in breach of the requirements provided for under Article 25 including where the majority of the share capital of any entity constituting Contractor Party is transferred to a non - Affiliate third party without having obtained the prior required authorization from the Minister.
 - (v) becomes insolvent, goes into liquidation other than for the reconstruction or amalgamation, or is declared bankrupt by a court of competent jurisdiction;
 - (vi) does not comply with any final decision by competent court, technical expert or arbitration process conducted under the terms of the Agreement, after all adequate appeals are exhausted;

- (vii) intentionally extracts or produces any material of potential economic value which is not covered by the object of this Agreement, unless such extraction or production is expressly authorized or unavoidable as a result of operations carried out in accordance with accepted international petroleum industry practice.
 - (viii) Does not have the necessary technical competence or financial capacity or professional skill to adequately perform the Contractor's duties and obligations under the Act and this Agreement.
 - (ix) Fails to make any payment to the Government as required under this Agreement for a period exceeding sixty (60) days.
 - (x) Fails to provide or maintain the guarantee, security or insurance stipulated in this Agreement.
 - (xi) suspension of the Exploration or Development Operations in the contract area for twelve (12) consecutive months, except when that suspension (i) has been approved by the Minister in advance, or (ii) is due to an act or omission on the part of the Government or ZPDC, or (iii) results from Force Majeure;
 - (xii) Repeatedly not complies with the applicable Laws, orders or instructions issued by the Government or ZPRA in accordance with Laws and consistence with the provisions of this agreement.
 - (xiii) Intentionally submit false information to the Government, ZPRA or ZPDC;
 - (xiv) Disclose confidential information related to the petroleum operation without having obtained prior authorisation from ZPRA or the Government;
 - (xv) Any other reason specified in the provisions of the Act.
- (e) The Minister shall not terminate the Agreement on the grounds aforementioned in paragraph (d), unless:
- (i) has, by notice in writing served on the Contractor, given not less than thirty (30) days' notice of its intention to terminate this Agreement;
 - (ii) has, in the notice, specified a date before which the Contractor may, in writing, submit any matter which the Contractor wishes the Minister to consider; and
 - (iii) has considered any action taken by the Contractor to remove that ground or to prevent the recurrence of similar grounds; and any matters submitted to him by the Contractor.
- (f) The Minister shall not, under paragraph d(x) of this Article, terminate this Agreement on the ground of any default in the payment of any amount payable under this Agreement if, before the date specified in a notice referred to in paragraph (e) of this

Article, the Contractor pays the amount of money concerned together with any interest payable under the Act or this Agreement.

- (g) The Minister may, by notice in writing served on the Contractor, terminate this Agreement if an order is made or a resolution is passed winding up the affairs of the Contractor, unless the winding up is for the purpose of amalgamation and the Minister has consented to the amalgamation, or is for the purpose of reconstruction and the Minister has been given notice of the reconstruction.
- (h) Where two or more persons constitute the Contractor, the Minister shall not, under this Article, terminate the Agreement on the occurrence, in relation to one or some only of the persons constituting the Contractor, of an event entitling the Minister to so terminate this Agreement, if any other person or persons constituting the Contractor satisfy the Minister that the person or those persons, as the case may be, is or are willing and would be able to carry out the duties and obligations of the Contractor. On the termination of this Agreement, the rights of the Contractor shall cease, but the termination shall not affect any liability incurred prior to the termination including Abandonment liabilities. All obligations that are expressly stated to survive such expiration or termination pursuant to this Agreement or any legal proceedings that might have been commenced or continued against the former Contractor may be commenced or continued against it.
- (i) The Agreement may be terminated by the contractor where the Government or ZPDC is in material breach of the Act or this Agreement provided that;
 - (i) the Contractor issues sixty (60) days written notice to the defaulting Party; and
 - (ii) the defaulting Party fails to rectify the situation within the notice period.
- (j) Upon expiration or termination of this Agreement the Parties shall have no further obligations except for the obligations that arose prior to such expiration or termination and obligations that are expressly stated to survive such expiration or termination pursuant to this Agreement.
- (k) Provided that where the contractor or any person breach the obligations amounting to termination as listed under sub -Article (d) of this Article, the Authority shall initiate a legal action in accordance with the Act and Regulations.

ARTICLE 5: EXPLORATION PROGRAMME

- (a) Subject to the provisions of the Act and this Article, in discharging of its obligation to carry out Exploration Operations in the Contract Area, the Contractor shall, during the periods into which Exploration Operations are divided hereunder, carry out the minimum work described and spend not less than the total minimum expenditure, if any, specified in paragraph (b) of this Article. The fulfilment of any work obligation shall relieve Contractor of the corresponding minimum expenditure obligation, but the fulfilment of any minimum expenditure obligation shall not relieve Contractor of the corresponding work obligation.

(b) The Initial Exploration Period

The initial exploration period shall commence on the Commencement Date and shall terminate on the fourth (4th) anniversary of that date.

Contractor shall commence Exploration Operations hereunder within ninety (90) days after the Commencement Date. Such Exploration Operations shall be diligently and continuously carried out in accordance with the best international petroleum industry practices.

During the Initial Exploration Period the Contractor shall carry out the following Minimum Exploration Work Programme: -

- i. Undertake geological, geophysical and geochemical studies (*to be specified*). The minimum expenditure for this obligation shall be [.....] United States dollars.
- ii. Acquire and process to industry standards at least [.....] line kilometres of 2D seismic. The minimum expenditure for this obligation shall be [.....] United States dollars.
- iii. Acquire and process to industry standards at least [.....] square kilometres of 3D seismic. The minimum expenditure for this obligation shall be [.....] United States dollars.
- iv. Evaluate, integrate and map all data and information obtained under Article 5 (b) (i), (ii) and (iii) of this Agreement.
- v. Drilling of at least [.....] Exploration Well(s). The minimum expenditure for this obligation shall be [.....] United States dollars.

The total Minimum Expenditure for Initial Exploration Period shall be [.....] United States dollars.

The First Extension Period

The first extension period shall commence on the date on which a First Extension of the License granted to ZPDC takes effect and shall terminate not later than the third (3rd) anniversary of that date.

The Contractor shall:

- i. Acquire, process and interpret to industry standards at least [.....] line kilometres of 2D seismic. The minimum expenditure for this obligation shall be [.....] United States dollars.
- ii. Acquire, process and interpret to industry standards at least [.....] square kilometres of 3D seismic. The minimum expenditure for this obligation shall be [.....] United States dollars.
- iii. Drilling of at least [.....] Exploration Well(s). The minimum expenditure for this obligation shall be [.....] United States dollars.

The total Minimum Expenditure for Initial Exploration Period shall be [.....] United States dollars.

The Second Extension Period

The Second Extension period shall commence on the date on which a Second Extension of the License granted to ZPDC takes effect and shall terminate not later than the second (2nd) anniversary of that date.

The Contractor shall:

- i. Acquire, process and interpret to industry standards at least [.....] line kilometres of 2D seismic. The minimum expenditure for this obligation shall be [.....] United States dollars.
- ii. Acquire, process and interpret to industry standards at least [.....] square kilometres of 3D seismic. The minimum expenditure for this obligation shall be [.....] United States dollars.
- iii. Drilling of at least [.....] Exploration Well(s). The minimum expenditure for this obligation shall be [.....] United States dollars.
- iv. The total Minimum Expenditure for Initial Exploration Period shall be [.....] United States dollars.
- v. Drilling of at least [.....] Exploration well(s), to a true vertical depth of at least [.....] meters.

Minimum Expenditure for the Second Extension Period [.....] United States dollars.

- (c) For the purpose of this Article, the Exploration Well(s) shall be drilled on a location determined by Contractor and agreed by ZPDC and ZPRA and to a depth necessary for the evaluation of the sedimentary section established by the available data as the deepest objective formation and consistent with best international petroleum industry practices, unless before reaching the aforementioned depth:

- i. basement is encountered;

- ii. further drilling would present a foreseeable danger which cannot reasonably be contained;
- iii. impenetrable formations are encountered;
- iv. significant hydrocarbon-bearing formations are encountered which require protecting, thereby preventing such depth from being reached.

In such circumstances, the drilling of any Exploration Well may be terminated at a lesser depth and such Well shall, except where the circumstances described in subparagraphs i, ii and iii immediately above occur after the Contractor has attained two thirds of the target depth provided for in the drilling programme, relating to such well, be deemed to have satisfied the minimum depth criteria provided for hereunder.

In all other circumstances in which a Well is terminated at a lesser depth, Contractor shall have the option to either:

- i. drill a substitute Exploration Well or
- ii. pay to ZPRA the amount by which the drilling budget for such well, on a dry hole basis, pursuant to this Article exceeds actual expenditures incurred in the drilling thereof.

For the purpose of this article, the term "Basement" shall mean any stratum in and below which the geological structure or physical characteristics of the rock sequence do not have the properties necessary for the accumulation of petroleum in commercial quantities and which reflects the maximum depth at which any such accumulation can be reasonably expected.

- (d) Where in any Exploration Period, the Contractor has carried out more than the minimum work obligations specified in paragraph (b) of this Article, for that period the Contractor shall be permitted to credit such excess work obligation as satisfying work obligations specified in that paragraph for the next succeeding Exploration Period.
- (e) The Exploration License issued to ZPDC, pursuant to the Act and any extension thereof, shall be on terms and conditions relating to Work Programme and Minimum Expenditure which correspond to the obligation of the Contractor under this Article. Accordingly, it is understood and agreed that discharge by the Contractor of its obligations under this Article in respect of any Exploration Period will discharge for that period the obligations of ZPDC relating to the Work Programme and Minimum Expenditure in respect of the license issued pursuant to the Act, and the terms and conditions of the license aforesaid and any extension thereof shall be drawn up accordingly.
- (f) For the purpose of this Article, no Appraisal Wells drilled, or seismic surveys carried out by Contractor as part of an Appraisal Programme and no expenditure incurred by Contractor in carrying out such Appraisal Programme shall be treated as discharging the minimum work obligations under paragraph (b) of this Article. However, the Contractor, during the submission of the appraisal program and only if consented by ZPDC, may apply to the Minister for part of the Appraisal program to be considered as

the fulfilment of minimum work obligations. The Contractor shall clearly explain the reasons that led to such application. The grant, modification or refusal of such application shall be under the discretion of the Minister.

- (g) During the Exploration Period, the Contractor shall deliver to ZPRA and the Minister, reports on Exploration Operations conducted during each Quarter within fifteen [15] days following the end of that Quarter. Further requests for information by the Minister or ZPRA under the Act and this Agreement shall be complied with, within a reasonable time and in no case exceed thirty (30) days from the date of receiving the request. Where the Minister requests further information, copies of documents and other material containing such information shall be promptly provided to ZPRA.

ARTICLE 6: RELINQUISHMENT OF CONTRACT AREA

- (a) If the Contractor has requested ZPDC to apply for any extension of the Exploration License, the Contractor, in consultation with ZPDC, shall select such parts of the Contract Area to be relinquished by ZPDC, and ZPDC shall in accordance with the Act relinquish said parts of the Contract Area as follows:
- i. On or before the end of the Initial Exploration Period, ZPDC shall relinquish such parts of the Contract Area corresponding to at least fifty per cent (50%) of the original Contract Area.
 - ii. On or before the end of the First Extension Period ZPDC shall relinquish at least fifty per cent (50%) of the remaining Contract Area.
 - iii. At the end of the Exploration Period, ZPDC shall relinquish the remainder of the Contract Area which is not a Development Area.

The area to be relinquished shall be contiguous and compact and of the size and shape that will permit the effective conduct of Petroleum Operations in the relinquished area. The relinquished area shall exclude Location or Development area.

- (b) No relinquishment shall relieve Contractor of accrued, unfulfilled obligations under the Agreement. In the event the Contractor desires to relinquish its rights hereunder in the whole of the Contract Area without having fulfilled all accrued Minimum Exploration Work Programme under Article 5, it shall pay to ZPRA, prior to the date of such proposed total relinquishment, the sum equal to the remaining amount of the non-discharged guarantees corresponding to such accrued, but unfulfilled work obligations.
- (c) The provisions of this Article shall not be read or construed as requiring Contractor to select and ZPDC to relinquish any part of the Contract Area which constitutes or forms part of either a Location or a Development Area provided, however that if at the end of the Initial Exploration Period, First Extension Period or Second Extension Period as the case may be, Contractor elects not to enter the ensuing period, Contractor shall request ZPDC to relinquish the entire Contract Area except for any Development Area.
- (d) Contractor shall have the right at any time to request ZPDC to relinquish all or part of the Contract Area provided it has undertaken the work obligations of the relevant Exploration Period during which such relinquishment is made.

ARTICLE 7: ANNUAL WORK PROGRAMME AND BUDGET

- (a) Within thirty (30) days of the Effective Date, the Contractor and ZPDC shall prepare and submit to ZPRA a detailed Work Programme and Budget, in a format determined or acceptable by ZPRA, setting forth the Exploration Operations which Contractor proposes to carry out in the Calendar Year in which the Exploration License is first issued to ZPDC hereunder.
- (b) So long as the Exploration License issued to ZPDC hereunder remains in force and at least ninety (90) days prior to the end of the Calendar Year, Contractor and ZPDC shall prepare and submit to ZPRA a detailed Work Programme and Budget setting forth the Exploration Operations which Contractor propose to carry out in forthcoming Calendar Year and the estimated cost thereof.
- (c) Every Work Programme and Budget submitted to ZPRA pursuant to this Article and every revision or amendment thereof shall be consistent with the requirements set out in Article 5 relating to work and expenditure for the Exploration Period within which the Work Programme and Budget will fall.
- (d) Every Work Programme and Budget and, as the case may be, the Appraisal Programme referred to in Article 8, submitted by Contractor and ZPDC to ZPRA shall be reviewed by ZPRA in accordance with its functions. Should ZPRA wish to propose a revision of the proposed Work Programme and Budget or Appraisal Programme, as the case may be, ZPRA shall, within thirty (30) days after receipt thereof, so notify ZPDC and the Contractor specifying in reasonable detail its reasons and the proposed changes it seeks to introduce. Promptly thereafter, the parties will meet and endeavour to agree upon the revisions proposed by ZPRA. Following review by ZPRA, Contractor and ZPDC shall make appropriate revisions and re-submit the Work Programme and Budget or, without prejudice to Article 8, appraisal program as appropriate.
- (e) Subject to Article 5, upon giving notice to ZPRA; ZPDC and Contractor may amend any Work Programme or Budget, or any revised Work Programme or Budget submitted to ZPRA, but, subject to approval of any such amendment, Contractor shall carry out the Exploration Operations set forth in the amended Work Programme.
- (f) In the case of an appraisal programme, any amendment thereto proposed to ZPRA by ZPDC and Contractor will be subject to section 62 of the Act. Where an Appraisal programme has been approved by ZPRA, no amendment shall be made without the approval of ZPRA. A notice under this paragraph shall state the reasons why, in the opinion of the Contractor, an amendment is necessary or desirable.

ARTICLE 8: DISCOVERY, APPRAISAL AND DEVELOPMENT

- (a) If Petroleum is discovered in the Contract Area, Contractor shall:
- (i) prior to notification to any third party forthwith notify ZPDC which will thereafter notify the Minister and ZPRA within forty-eight (48) hours as prescribed by the Act.
 - (ii) within a period of thirty (30) days after the date of the discovery, furnish to ZPRA particulars in writing of the discovery including a preliminary classification of the discovery as Crude Oil or Natural gas and any other information requested by ZPRA.
 - (iii) within ninety (90) days from the date of discovery, state whether the discovery merits the appraisal or not and such statement shall be submitted to ZPRA.
 - (iv) within ninety (90) days from the date of such discovery, also notify in writing to ZPRA and the Minister whether or not it considers the discovery of Crude Oil or Natural Gas is of potential commercial interest;
 - a. if the Contractor notifies ZPRA that the discovery is of potential commercial interest, the Contractor shall at the same time notify ZPRA whether the discovery is of eventual commercial interest ("Eventual Interest") or of present commercial interest ("Present Interest");
 - b. if Contractor informs ZPRA that, in its opinion, backed by technical and economic valuation, the discovery is not of potential commercial interest as a standalone or as part of an aggregated production, then the Contractor shall relinquish the area in which the discovery is located;
 - (v) if Contractor informs ZPRA that, in its opinion, backed by technical and economic valuation, the discovery is of eventual commercial interest or present commercial interest, the Contractor shall submit to the Minister an application for declaration of a Location - a copy of which shall be submitted by Contractor to ZPRA. After consultation with ZPRA, the Minister shall declare a Location within thirty (30) days from the date of such application which shall allow the Contractor to retain the area containing the discovery.
 - (vi) If no application for a Location is made within one hundred and twenty (120) days from the date of such discovery, the Contractor shall be deemed to have surrendered the discovery area to the Minister.
 - (vii) within one hundred and eighty (180) days from the date of such discovery submit to the ZPRA the Appraisal Programme and budget for the determination of the ZPRA in accordance with the provisions of the Act.

- (viii) within sixty (60) days following its submission of the Appraisal Programme, ZPRA shall inform ZPDC and Contractor whether the Appraisal Programme have been approved or requires any adjustment. After the Appraisal Programme has been adjusted, ZPRA will approve within 14 working days.
 - (ix) The Appraisal period shall be within two (2) years in the case of Crude Oil and three (3) years in the case of Natural Gas to ensure that the Appraisal Programme can be carried out and the results thereof assessed to enable an application to be made by ZPDC for a Development License within ninety (90) days after the completion of the Appraisal Programme.
- (b) Contractor shall reassess and inform ZPRA and the Minister the commerciality of the discovery every one (1) year from the date of notification that the discovery is of Eventual Interest based on the criteria set out in Article 8(a)(iv). In case of further discoveries that could be tied and developed together in order to make economies of scale, the Contractor shall inform the Minister and ZPRA accordingly.
 - (c) The Contractor shall promptly provide ZPRA with all information enabling it to make a detailed examination of the data relating to the discovery so as to make an ongoing assessment in full understanding of the facts as to whether or not the discovery is likely to be capable of being commercially exploited.
 - (d) If the results of Contractor's Appraisal Programme determine that the discovery is no longer of potential commercial interest, the provisions of paragraphs (n) and (o) of this Article shall apply.
 - (e) Within ninety (90) days from the date on which the said Appraisal Programme related to the discovery is completed, the Contractor shall prepare and submit to ZPRA a report containing the results of the Appraisal Programme for consideration by ZPRA. The Appraisal Programme report shall comply with Section 62 of the Act and shall include all available technical and economic data relevant to a determination of commerciality, including but not limited to, geological and geophysical conditions, such as structural configuration, physical properties and the extent of reservoir rocks, areas, thickness and depth of pay zones, pressure, volume and temperature analysis of the reservoir fluids; preliminary estimates of Crude Oil and Natural Gas reserves; recovery drive characteristics; anticipated production performance per reservoir and per well; fluid characteristics, including gravity, sulphur percentage, sediment and water percentage and refinery assay pattern. The report shall also include, technical and economic feasibility studies relating to processing and transport of petroleum from the Location.
 - (f) If the results of Contractor's re-assessment determine that the discovery has become of Present Interest, the requirements of paragraph (i) relating to the application of the Development License and paragraphs (j) to (n) of this Article shall apply.

- (g) If the results of Contractor's re-assessment determine that the discovery is still of Eventual Interest and ZPRA does not agree with such determination, ZPRA may, at any time dispute the results of the Contractor's reassessment. If ZPRA and the Contractor cannot resolve such dispute within ninety (90) days of the date on which ZPRA informed the Contractor of its opinion, then the matter shall be referred to the Independent Technical Expert. The Independent Technical Expert shall determine whether the discovery is of (a) Present Interest; or (b) Eventual Interest. Determination of the commerciality of the discovery shall be carried out within one hundred and eighty (180) days. The Independent Technical Expert shall notify ZPRA and the Contractor of its findings and:
- A.** where the Independent Technical Expert determines that the discovery is no longer of potential commercial interest the provisions of paragraphs (n) and (o) of this Article shall apply;
 - B.** where the Independent Technical Expert determines that the discovery is of Present Interest and the Contractor agrees with such determination, the provisions of paragraphs (i) to (k) of this Article shall apply;
 - C.** where the Independent Technical Expert determines that the discovery is of Present Interest and the Contractor disagrees with such determination, then the Contractor shall relinquish the area comprising the said discovery; or
 - D.** where the Independent Technical Expert determines that the discovery is still of Eventual Interest, the Contractor may retain the discovery.
- (h) Where the Contractor has relinquished a discovery pursuant to paragraph (g) (C) of this Article and the discovery is subjected to further exploration, appraisal or development operations, such operations shall be carried out in such a way that, the impacts on the exploration, appraisal and development of the remainder of the Contract Area are minimised.
- (i) Where, Contractor pursuant to paragraph (a) of this Article, has informed ZPRA that, in its opinion the discovery is of present commercial interest, or pursuant to paragraph (g)(B) of this Article agrees with the determination of the Independent Technical Expert that the discovery is of present commercial interest and the commerciality is declared, Contractor shall within the period of one (1) year after the declaration of commerciality, draw up a proposal for a Field Development Plan in consultation with ZPDC which shall accompany the application for a Development License per the requirements of Section 63 of the Act. The Field Development Plan shall:
- a. be designed to ensure the recovery of the maximum quantity of Petroleum from the proposed Development Area which the economics of the Development shall justify and it shall be designed in compliance with best international petroleum industry practices.

- b. contain detailed information on economic, financial, geological, reserves, technical, operational, health, safety, and environmental matters in accordance with section 63 of the Act.

ZPRA may within ninety (90) days of receipt of the Contractor's Field Development Plan, make proposals for amendments on the Contractor's Field Development Plan to the extent that the Field Development Plan meets the requirements of section 63 of the Act and the best international petroleum industry practices.

- (j) When an application for a Development License in respect of a Location is made in accordance with the Act then, unless the Contractor is in default at the time of such application, within sixty (60) days, the Minister shall pursuant to section 65 of the Act, grant a Development License.
- (k) The Development License so granted pursuant to section 65 of the Act, shall, be in full satisfaction of the requirements of section 66 of the Act and incorporate by reference the obligations of the Contractor as set out in Article 17 of the Agreement. The provisions of Article 17 of the Agreement shall apply to both Crude Oil and Natural Gas.

In circumstances where the Parties determine to undertake the gas commercialization project in accordance with the terms and conditions set out in this Agreement, the Contractor in consultation with ZPRA shall, in respect of the domestic market obligation and section 89 of the Act, employ a suitably qualified independent consultant(s) to prepare a reserve assessment report to determine the:

- (i) Proven and certified gas reserves (“**Proven Reserves**”);
- (ii) The minimum amount of gas required for a gas commercialization project; and
- (iii) The amount of Proven Reserves that are to be dedicated for the domestic market.

Following completion of such report, the consultant shall notify the Contractor and ZPRA in writing of the Proven Reserves that are to be dedicated for supply to the gas commercialization project from the area (the “Accessible Proven Reserves”) and the amount of Proven Reserves that are to be dedicated for the domestic market (the “Domestic Market Quantity”).

- (l) Contractor shall respectively provide ZPDC and ZPRA with at least 90 days prior written notice before dedicating to a third-party available capacity in the facility that would have the effect of reducing or excluding ZPDC’s ability to transport and process all or any portion of the daily maximum quantity volume through the Pipeline and the Gas Processing Plant. ZPRA will consider the effect of such an action to the domestic daily maximum deliverable volume prior to its approval.
- (m) Natural Gas for the Domestic Market Quantity and Natural Gas for the Accessible Proven Reserves for the gas commercialization project shall be lifted at the Delivery Point proportionately, subject to normal operational requirements, it being understood

that lifting shall be consistent with the Natural Gas lifting schedule for the gas commercialization project and domestic market and shall take into account the delivery obligations of both the gas commercialization project and domestic market.

- (n) If Contractor informs ZPRA that in its opinion the discovery is not of potential commercial interest then the Contractor shall surrender forthwith its rights and be relieved of its obligations under this Article in respect of the License Area comprising the discovery.
- (o) Where pursuant to paragraph (n) of this Article, Contractor has surrendered its rights and been relieved of its obligations in respect of any area in which the discovery is located, notwithstanding that the said area continues to be subject to the Exploration License referred to in paragraph (b) of Article 3, the said area shall not for the purpose of this Agreement, constitute part of the Contract Area.
- (p) The Contractor shall not perform any Petroleum Operations with reference to the proposed development prior to approval of the Field Development Plan upon granting of the Development License, save where the Minister has granted an express permission to enter into specific activities.
- (q) The Minister's approval of the Field Development Plan shall be subject to necessary environmental authorizations in accordance with the requirements of the relevant legislation.
- (r) Any deviations or alterations to the Field Development Plan or significant alterations to the development facilities shall require the prior written approval of the Minister. The Contractor shall promptly notify the Minister and ZPRA of any significant deviation from the assumptions and preconditions on which the Development License based on the Field Development Plan has been submitted or approved. The Minister may propose changes or modifications to the Field Development Plan.
- (s) The Minister may set conditions for the issuance of the Development License as accompanied with Field Development Plan, including, that the Petroleum shall be transported in specified transportation systems and shall be landed at specific locations.
- (t) If the Minister issues the Development License prior to the approval of the Field Development Plan, the Minister may amend the conditions of the Development License after the approval of the Field Development Plan.
- (u) In the event that Contractor discovers substance other than Petroleum in the Contract Area, the Contractor shall immediately inform the Government concerning the discovery and shall follow the procedures stipulated under the relevant laws applicable at the time of discovery or any procedures directed by the Government.
- (v) The right of the contractor to retain an area which contain a discovery of eventual interest shall be limited to the following conditions, whichever is longer:

- (i) At the expiry of the second extension of the Exploration License; or
- (ii) Five (5) years after the date of discovery.

ARTICLE 9: JOINT OPERATIONS

- (a) Save as provided in paragraph (b) and paragraph (c) (iii) of this Article, Contractor shall bear and pay all Contract Expenses incurred in carrying out Petroleum Operations hereunder, and Contractor shall recover such expenses only from the Petroleum to which it is entitled as hereinafter provided in Article 11.
- (b) Participating Interest by ZPDC:
 - (i) ZPDC may at any time, by notice in writing to Contractor, elect to contribute in Participating Interest of not more than fifteen percent (15%) of Contract Expenses other than Exploration expenses (such exploration expenses to include expenses in respect of Appraisal Program) incurred in the first and every subsequent development area from the date such notice is rendered.
 - (ii) Where ZPDC does elect to participate in the development of the Discovery, it shall pay its share of Contract Expenses after the exercise of the election.
 - (iii) If ZPDC fails to pay its share of Contract Expenses and such failure is not rectified within a period of thirty (30) days after receipt of a written notice of such failure from the Contractor, the Contractor shall advance by way of loan up to 100% of unpaid amount of ZPDC's share of Contract Expenses. Such Contract Expenses shall bear interest at a rate of SOFR plus one percent (1%) for the period that such amount remained unpaid and will be recovered from ZPDC's Cost Oil [and/or Cost Gas] as defined in Article 11.
- (c) Joint operations shall be conducted hereunder in accordance with the terms and conditions of a Joint Operating Agreement to be concluded between ZPDC and the Contractor immediately following the first notice given to Contractor by ZPDC, pursuant to sub-paragraph (i) of this paragraph. The Joint Operating Agreement aforesaid will include provisions to give effect to the following principles:
 - (i) The Operator shall carry out all operations pursuant to work programmes and budgets approved by a Joint Operating Committee. The parties may review at any time the Operatorship of the Joint Operations.
 - (ii) A Joint Operating Committee shall be established in which all parties to the Joint Operating Agreement are represented provided that the members from ZPDC shall not be less than 25% of the total members. The Minister and ZPRA shall be entitled to attend the meetings of the committees pursuant to the Joint Operating Agreement in a non-voting capacity as observer. The Minister and ZPRA shall be entitled to receive any information that is relevant for the activities under the Joint Operating Agreement. Members and observers attending a meeting pursuant to the Joint Operating Agreement may be accompanied by advisers and experts to the extent reasonably necessary to assist with the conduct of such meeting. Such advisers and experts shall not vote but may contribute in a non-binding way to discussions and debates of the Joint Operating Committee. The representatives of

the parties to the Joint Operating Agreement shall have voting rights as stipulated in the Joint Operating Agreement.

- (iii) ZPDC shall be liable to contribute the Participating Interests (as contained in Article 9(b)(i) of the Contract Expenses other than Exploration Expenses (such Exploration Expenses to include expenses in respect of an Appraisal Programme) of Joint Operations in all Development Areas in respect of which ZPDC has elected to participate. The balance of such expenses shall be contributed by the Contractor.
- (iv) The contributions aforesaid shall be in such major convertible currencies as may be required from time to time by the Operator for the Joint Operations approved by the Joint Operating Committee, but (if there exist expenditures in Tanzanian Shillings), ZPDC shall have preference for payment in such Tanzanian Shillings and such amounts will count towards the total contribution which ZPDC is obliged to make in respect of its share in Joint Operations.
- (v) Failure by ZPDC to meet calls for funds within the time limits agreed shall result in liability for interest on the unpaid amounts for the period that such amounts remain unpaid at SOFR + 1%.
- (vi) If, after the election allowed in sub-article 9(b), ZPDC fails to pay its share of contract expenses and such failure is not rectified within a period of thirty (30) days after receipt of written notice thereof from the Operator, ZPDC shall be deemed to have elected on the date of receipt of the notice to have agreed with the Contractor entities that they shall carry ZPDC's share of such expenditures, and the Contractor entities shall pay any of ZPDC's unpaid expenditures before the date of the deemed election and also ZPDC's share of any expenditures incurred after the date of the deemed election recovering such expenditures in accordance with Article 9(c)(v). For avoidance of doubt any amounts not remedied other than by the carry procedure herein established are subject to sub-article (iv) above from the date of failure to pay until the date such failure to pay is finally rectified. The Contractor entities shall have the right to recover such expenditures out of the ZPDC's Cost Oil [and/or Cost Gas] as defined in Article 11.

ARTICLE 10: BONUS PAYMENT AND SURFACE RENTALS

- (a) The annual surface rental fees in respect of which the Contractor is obliged to disburse to ZPRA, pursuant to Section 102 of the Act, in respect of the said Exploration License, shall be paid within the first fifteen (15) days of each Calendar Year at the following amounts for every square kilometre of the Contract Area retained:

| <u>Period</u> | <u>United States Dollars/square km</u> |
|----------------------------|--|
| Initial Exploration Period | 30 |
| First Extension Period | 60 |
| Second Extension Period | 120 |

The annual surface rental fees in respect of a Development License shall be 300 United States Dollars per square kilometre.

- (b) The sum in United States dollars with respect to Development License referred to in paragraph (a) above shall be adjusted annually by dividing the sum by the factor I, where:

$I = C/D$ and where

C is the United States Industrial Goods Producer Price Index (USIGPPI) as reported for the first time in monthly publication “International Financial Statistics” of the International Monetary Fund (IMF) in the section “Prices, Production, Employment” for the Month during which the Exploration License is first issued to ZPDC hereunder.

D is the USIGPPI as reported for the first time in the aforesaid IMF publication for the Month in which the first and any subsequent anniversary of the date on which the Exploration License was first issued falls.

For the purpose of this Article, in the event that the USIGPPI ceases to be published the Parties to this Agreement shall agree on an appropriate replacement index.

- (c) Contractor's financial obligations to ZPRA shall consist of the following payments:
- (i) Signature Bonus: A payment of [.....] United States Dollars (USD [.....]) on the signing of this Agreement (*biddable*).
 - (ii) Production bonuses is payable on commencement of production and shall be [.....] United States Dollars (USD [.....]) (*biddable*).
 - (iii) For subsequent development licenses in the contract area, the production bonuses payable shall be [.....] Dollars (USD [.....]) (*biddable*).

ARTICLE 11: RECOVERY OF COSTS AND EXPENSES AND PRODUCTION SHARING

- (a) Subject to this Article and Article 14, all recoverable Contract Expenses incurred by the Contractor and, where Joint Operations have been established, by both ZPDC and the Contractor, shall be recovered by freely taking and disposing from a volume of Crude Oil or Natural Gas produced and saved from the Contract Area and not used in Petroleum Operations (hereinafter referred to as “Cost Oil” or “Cost Gas”).
- (b) Recoverable Contract Expenses shall be limited in any Calendar Year to an amount (.....) of the total Crude Oil or Natural Gas production, net of Royalty, from the Contract Area.
- (c) Recoverable Contract Expenses may be recovered as from the date they have been prudently incurred. To the extent that, in any Calendar Year, the Recoverable Contract Expenses exceed the Cost Oil and/or Cost Gas available in each Calendar Year under Paragraph (b), the unrecovered excess shall be carried forward for recovery in the next succeeding Calendar Year and, to the extent not then recovered, in the subsequent Year or Years until fully recovered or until the termination of the Agreement, where such termination occurs earlier, whatever the reason thereof. No unrecovered cost can be recovered by the Contractor or, as the case may be, ZPDC, after such termination.
- (d) Ring fencing of Recoverable Contract Expenses shall be carried out in accordance with Section 105 of the Act.
- (e) Where a company holds an Exploration License or more than one Development License within a Contract Area, recoverable Contract Expenses in License Areas or Block(s) within the Contract Area, may only be recoverable from petroleum revenues from such Development Area to the extent that these were incurred prior to commencement of Petroleum production from such Development Area.
- (f) Royalty as provided for in Article 15(c) shall have a first charge on gross production from the Contract Area, calculated at the Delivery Point. After deducting Royalty from the gross production, the remaining volume of crude oil or natural gas shall be distributed as follows:
 - (i) The available Cost Oil and/or Cost Gas shall be applied first to recover Operating Expenses, and the Contractor and ZPDC shall be entitled to recover such Expenses in proportion to their individual cumulative unrecovered Operating Expenses.
 - (ii) After recovery of Operating Expenses any excess Cost Oil and/or Cost Gas available for distribution shall be applied to recover Exploration Expenses.
 - (iii) After recovery of Operating Expenses and Exploration Expenses any excess Cost Oil or Cost Gas available for distribution shall be applied, and the Contractor and

ZPDC shall be entitled to recover such expenses in proportion to their individual cumulative unrecovered Development Expenses.

- (iv) Any un-recovered Recoverable Contract Expenses shall be recovered out of the Cost Oil or Gas available in the next succeeding Calendar year or years in the same manner as set out herein in paragraph (b) above.
- (g) Subject to the limitations set out in paragraphs (a) (b) and (c) of this Article, the quantity of Cost Oil and/or Cost Gas will be established on the basis of the average fair market price per barrel determined in accordance with Article 12 herein.
- (h) (i) (a) Sharing of Profit Oil: The remaining Crude Oil production available in any Calendar Year after Recoverable Contract Expenses have been recovered to the extent and in the manner aforesaid (hereinafter referred to as “Profit Oil”), from the Contract Area shall be shared between the Contractor(s) and the Government as prescribed in the table below:

Offshore

| R-Factor | Government Share | Contractor(s) Share |
|----------------------|-------------------------|----------------------------|
| $R < 1.00$ | | |
| $1.00 \leq R < 1.25$ | | |
| $1.25 \leq R < 1.50$ | | |
| $1.50 \leq R < 2.00$ | | |
| $2.00 \leq R < 2.50$ | | |
| $R \geq 2.50$ | | |

Onshore

| R-Factor | Government Share | Contractor(s) Share |
|----------------------|-------------------------|----------------------------|
| $R < 1.00$ | | |
| $1.00 \leq R < 1.25$ | | |
| $1.25 \leq R < 1.50$ | | |
| $1.50 \leq R < 2.00$ | | |
| $2.00 \leq R < 2.50$ | | |
| $R \geq 2.50$ | | |

- (b) Sharing of Profit Gas: The remaining balance of Natural Gas production available in any Calendar] Year after Recoverable Contract Expenses have been recovered to the extent and in the manner aforesaid (hereinafter referred to as “Profit Gas”), from the Contract Area shall be shared between the Contractor(s) and the Government as prescribed in the table below:

Offshore

| R-Factor | Government Share | Contractor(s) Share |
|----------------------|-------------------------|----------------------------|
| $R < 1.00$ | | |
| $1.00 \leq R < 1.25$ | | |
| $1.25 \leq R < 1.50$ | | |
| $1.50 \leq R < 2.00$ | | |
| $2.00 \leq R < 2.50$ | | |
| $R \geq 2.50$ | | |

Onshore

| R-Factor | Government Share | Contractor(s) Share |
|----------------------|-------------------------|----------------------------|
| $R < 1.00$ | | |
| $1.00 \leq R < 1.25$ | | |
| $1.25 \leq R < 1.50$ | | |
| $1.50 \leq R < 2.00$ | | |
| $2.00 \leq R < 2.50$ | | |
| $R \geq 2.50$ | | |

(c) For the purpose of paragraph (h)(i) of this Article the formula for R-factor shall be:

$$R - \text{Factor} = \frac{\text{Cumulative Revenue}}{\text{Cumulative Investment}}$$

Whereas:

Cumulative Revenue = Cost Oil + Contractor Profit Oil + Contractor Credits –
Operating Expenses – Corporate Tax

Cumulative Investment = Exploration Expenses + Development Expenses

R-factor shall be calculated from the effective date to the preceding quarter on quarterly basis. Contractor credits shall be as defined in Annex D of this Agreement and Exploration expenses shall include Appraisal expenses.

OR

(h) (i) (a) Sharing of Profit Oil: The remaining Crude Oil production available in any Calendar Year after Recoverable Contract Expenses have been recovered to the extent and in the manner aforesaid (hereinafter referred to as “Profit Oil”), from the Contract Area shall be shared between the Contractor(s) and the Government as prescribed in the table below:

Increments of daily total production rates (barrels of oil per day, BOPD) in the Contract Area

Offshore

| Trench of daily production (BOPD) | Government Share | Contractor(s) Share |
|--|-------------------------|----------------------------|
| 0 – 49,999 | 50% | 50% |
| 50,000 – 99,999 | 55% | 45% |
| 100,000 – 149,999 | 60% | 40% |
| 150,000 – 199,999 | 65% | 35% |
| 200,000 and above | 70% | 30% |

Onshore

| Trench of daily production (BOPD) | Government Share | Contractor(s) Share |
|--|-------------------------|----------------------------|
| 0 – 12,499 | 60% | 40% |
| 12,500 – 24,999 | 65% | 35% |
| 25,000 – 49,999 | 70% | 30% |
| 50,000 – 99,999 | 75% | 25% |
| 100,000 and above | 80% | 20% |

- (b) Sharing of Profit Gas: The remaining balance of Natural Gas production available in any Calendar] Year after Recoverable Contract Expenses have been recovered to the extent and in the manner aforesaid (hereinafter referred to as “Profit Gas”), from the Contract Area shall be shared between the Contractor(s) and the Government as prescribed in the table below:

Increments of daily total production rates (Million Standard Cubic Feet per Day, MMSCFD) in the Contract Area

Offshore

| Trench of daily production (MMSCFD) | Government Share | Contractor(s) Share |
|--|-------------------------|----------------------------|
| 0 – 149.999 | 50% | 50% |
| 150 – 299.999 | 55% | 45% |
| 300 – 449.999 | 60% | 40% |
| 450 – 599.999 | 65% | 35% |
| 600 – 749.999 | 70% | 30% |
| 750 and above | 75% | 25% |

Onshore

| Trench of daily production (MMSCFD) | Government Share | Contractor(s) Share |
|--|-------------------------|----------------------------|
| 0 – 19.99 | 60% | 40% |
| 20 – 39.99 | 65% | 35% |
| 40 – 59.99 | 70% | 30% |
| 60 – 79.99 | 75% | 25% |
| 80 and above | 80% | 20% |

The daily production rate shall be calculated by dividing the total volume of crude oil/ or natural gas (as applicable) produced and saved from the Development Area by the total number of days during which the Crude Oil or Natural Gas (as applicable) were produced in such month.

- (ii) The calculation for the Government/Contractor split shall be based on monthly production.
- (iii) The Government shall receive its share of profit oil or profit gas in kind or in cash depending on Government's preference.

- (i) With respect to this Article, Cost Oil or Cost Gas and Profit Oil or Profit Gas calculations shall be done for each Calendar Quarter not later than ten days (10 days) after the end of such quarter and the Crude Oil or Natural Gas provisionally shared accordingly. To the extent that actual quantities, expenses, and prices are not known, provisional estimates of such data based on the approved Work Program, budget and any other relevant documentation or information shall be used. Not later than sixty (60) days after the end of each Calendar Year a final calculation of Cost Oil and/or Cost Gas

and Profit Oil and/or Profit Gas based on actual Crude Oil/Natural Gas quantities, prices realized (on arm's length basis) and recoverable costs and expenses in respect of that Calendar Year shall be prepared and any necessary adjustments to the Crude Oil/Natural Gas sharing shall be agreed upon between the Contractor and ZPRA and made as soon as is practicable.

- (j) Not less than thirty (30) days prior to the beginning of each calendar year, Contractor and ZPDC shall prepare and furnish to the ZPRA for approval, which shall not be unreasonably withheld, an estimate by Quarters for the forthcoming Calendar Year of (i) all Contract Revenues and Contract Expenses to be incurred, (ii) Income Tax of Contractor and ZPDC (or each entity comprising Licensee, as the case may be) in respect of taxable income derived from Petroleum Operations carried out hereunder, for such Calendar Year.
- (k) For the avoidance of doubt, where ZPDC has participating interest, it shall be considered to be within contractor group and shall obtain its proportionate share of profit oil from contractor(s) share(s).

ARTICLE 12: VALUATION OF PETROLEUM

(a) The parties hereby agree that Crude Oil produced and saved from the Contract Area shall be sold or otherwise disposed of at competitive international market prices. The average fair market price of Crude Oil marketed in any Calendar Quarter shall, for the purpose of giving effect to this Agreement, be determined as follows:

1. as soon as possible after the end of each Calendar Quarter in which Crude Oil has been produced from any Development Area pursuant to this Agreement an average price (in terms of US\$ per barrel FOB the Contractor's actual loading point for export from Zanzibar) for each separate lifting of Crude Oil of the same gravity, sulphur and metal content, pour point, product yield and other relevant characteristics ("quality") shall be determined in respect of production during that Calendar Quarter. It is understood that production from different Development Areas may be of differing quality and that separate average prices may accordingly be appropriate for any Calendar Quarter in respect of production for each Area, in which event the overall price applicable to production from the Contract Area shall be determined by taking the arithmetic weighted average (weighted by volume) of all such prices separately determined;
2. in the event that 50% or more of the total volume of sales made by the Contractor during the Calendar Quarter of Crude Oil of a given quality produced and saved hereunder have been third party arm's length sales (hereinafter referred to as "Third Party Sales"), the fair market valuation for all Crude Oil of that quality will be taken to be the simple arithmetic average price actually realized in such Third-Party Sales. This will be calculated by dividing the total receipts from all Third-Party Sales by the total number of Barrels of Crude Oil sold in such sales;
3. Subject to sub-article (6) below, in the event that less than 50% of the total volume of sales made by the Contractor during the Calendar Quarter of Crude Oil of a given quality produced and saved hereunder have been Third Party Sales, the fair market valuation for all Crude Oil of that quality will be determined by the arithmetic weighted average of:
 - (i) the simple arithmetic average price actually realized in the Third-Party Sales during the Calendar Quarter of such Crude Oil produced and saved hereunder, if any, calculated by dividing the total receipts from all Third-Party Sales by the total number of Barrels of Crude Oil sold in such sales; and
 - (ii) the simple arithmetic average price per Barrel at which a selection of major competitive crude oils of generally similar quality to that of Crude Oil produced hereunder and crude of sufficient liquidity daily traded in sufficient quantities (above 0.1 million barrels a day which are listed and published in Platt Oilgram) were sold in international markets during the same period; the prices of the crude oils used for reference will be adjusted

for differences in quality, quantity, transportation costs, delivery time, payment and other contract terms.

The selected crude oils – which shall be based on crude oils of the similar quality - will be agreed between the Contractor and ZPDC, in advance for each Calendar year and submit the proposal to ZPRA for approval.

The arithmetic weighted average aforesaid will be determined by the percentage volume of sales of Zanzibar Crude Oil by Contractor that are, (a)3(i) of this Article, and that are not, (a)3(ii) of this Article as the case may be, during the Calendar Quarter in question.

4. All such prices will be adjusted to Free on Board (FOB) the Contractor's actual loading point for export from Zanzibar.
 5. For the purposes of this Article, Third Party Sales of Crude Oil made by the Contractor shall include any third-party arm's length sales made by the Contractor on Government's behalf pursuant to Article 17 herein but shall exclude:
 - i. Sales, whether direct or indirect through brokers or otherwise, of any seller to any Affiliate of such seller.
 - ii. Crude Oil exchanges, barter deals or restricted or distress transactions, and more generally any Crude Oil transaction which is motivated in whole or in part by considerations other than the usual economic incentives for commercial arm's length crude oil sales.
 6. In the event that less than 50% of the total volume of sales by the Contractor during the Calendar Quarter of Crude Oil/Natural Gas of a given quality produced and saved hereunder have been Third-Party Sales, the Contractor shall promptly notify the Minister, ZPDC and ZPRA of the applicable percentage and respective volumes and prices realized. The Minister and ZPDC shall have the right to elect for the fair market valuation for all Crude Oil/Natural Gas of that quality to be determined for that Quarter in accordance with paragraph (a)2 of this Article. If the Minister or ZPDC so elect, they will notify the Contractor in writing within 14 days of receipt of the original notification from the Contractor, and the fair market valuation of the aforesaid Crude Oil shall be determined accordingly. If Government and ZPDC do not so elect, then the fair market valuation shall be determined in accordance with paragraph (a)(3) of this Article.
- (b) The Contractor shall be responsible for establishing the relevant average prices for Crude Oil in accordance with this Article, and such prices shall be subject to agreement by ZPDC and Minister before they shall be accepted as having been finally determined. The Contractor shall provide the Minister, ZPDC and ZPRA with all relevant material in order that they can satisfy themselves that the average price determined by the Contractor is fair. If the parties fail to agree on the average price for any Calendar

Quarter within thirty (30) days following the end of such Quarter, then the calculation of the relevant average price shall be referred to a sole expert appointed pursuant to paragraph (d) of this Article. The sole expert's determination shall be final and binding.

- (c) During the Calendar Year in which production from the Contract Area commences, the Parties will 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 paragraphs (a)1 and (a)3(ii) of this Article. The selection of crude oils will be reviewed annually and modified if necessary.
- (d) In the event of any difference or dispute between the Contractor and Government, or ZPDC concerning selection of the major competitive crude oils, or more generally about the manner in which the prices are determined according to the provisions of this Article, the matter or matters in issue shall finally be resolved by a sole expert appointed by agreement between the parties or, in the absence of such agreement after sixty (60) days from the notice of dispute, by the British Energy Institute (formerly British Institute of Petroleum). The costs of the expert shall be shared equally between the Contractor on one hand and the Government or ZPDC (as the case may be) on the other hand.
- (e) The fair market value of Natural Gas determined at the Delivery Point shall be the price in United States dollars at which an independent third party would be prepared to buy at the particular time such Natural Gas, on an Arm's Length basis, taking into account the quality, volume, cost of transportation, possible cost of liquefaction and regasification, terms of payment, and any other relevant conditions, including the then prevailing market conditions for Natural Gas at the final sales destination and shall be based on the higher of actual realized prices or the prices calculated under the marketing arrangements for Natural Gas approved by Minister.
- (f) For Natural Gas sales transactions to Affiliates, the value of Natural Gas shall be determined as stipulated in paragraph (e) of this Article.

ARTICLE 13: MEASUREMENT OF PETROLEUM

- (a) All Petroleum produced, saved and not used in Petroleum Operations shall be measured at the Measurement Points approved in the Field Development Plan.
- (b) The Measurement Points shall be at the end of the facilities for which the cost is included as a recoverable cost of Petroleum Operations under the Contract.
- (c) The Production shall be measured in accordance with the standards set by the Zanzibar laws related with Weights and Measures and with due regard to the best international petroleum industry practices. All measurement equipment shall be installed, maintained and operated by Contractor. ZPRA shall have the right to inspect the measuring equipment installed by Contractor and all charts and other measurement or test data at all reasonable times. The accuracy of Contractor's measuring equipment shall be verified by tests at regular intervals and upon the request of ZPRA, using sound and current means and methods in accordance with the Zanzibar laws related with Weights and Measures and Best International Petroleum Industry Practices.
- (d) Upon discovery of a meter malfunction, Contractor shall immediately have the meter repaired, adjusted and corrected and following such repairs, adjustment or correction shall have it tested or calibrated to establish its accuracy. Upon the discovery of a metering error, Contractor shall have the meter tested immediately and shall take the necessary steps to correct any error that have been discovered.
- (e) In the event a measuring error is discovered, Contractor shall use its best efforts to determine the correct Production figures for the period during which there was a measuring error, and the corrected figures shall be used. In determining the correction, Contractor shall use, where required, the information from other measurements made inside or outside the Production Area. Contractor shall submit for ZPRA's approval a report detailing the source and nature of the measuring error and the corrections to be applied. If it proves impossible to determine when the measuring error first occurred, the commencement of the error shall be deemed to be that point in time halfway between the date of the last successful test and the date on which the existence of the measuring error was first discovered.
- (f) All measurements for all purposes in this Contract shall be adjusted to standard conditions of pressure of 14.7 psia and temperature of sixty (60) degrees Fahrenheit.

ARTICLE 14: NATURAL GAS

- (a) Where Contractor has informed the Minister and ZPRA that Non-Associated Natural Gas discovered in the Contract Area is of potential commercial interest, the Contractor shall, as soon as possible but in any case not exceeding thirty days (30) submit to ZPRA, for the consideration its proposals for an appraisal programme as provided in the Act. After completion by the Contractor of an appraisal program, the parties shall meet together with a view to reaching an agreement on the development, production, processing and sale of such gas.

For the purpose of the aforesaid, the parties undertake to negotiate in good faith and in doing so will seek to give effect to the following principles:

- (i) all Contract Expenses directly attributed to the discovery and production of such gas shall be recovered from part thereof and the remainder of the gas shared between the Contractor and ZPDC as far as possible in accordance with the scheme for cost recovery and sharing of Profit Oil/Gas set out in Article 11; and
- (ii) to the extent that market conditions permit, gas will be valued for cost recovery and sold for processing or export at prices which will give to the Contractor a fair return on its investment.

- (b) Where: -

- (i) Non-Associated Natural Gas has been discovered in the Contract Area, and
- (ii) a Location has been declared in respect of a Block or Blocks in which such discovery is located, and
- (iii) the parties agree that the Non-Associated Gas discovered by the Contractor exists in the Contract Area in quantities sufficient to justify consideration of an export scheme,

The Minister will, if ZPDC at the request of the Contractor applies in that behalf, extend for a reasonable time, the period within which ZPDC may apply for a Development License.

- (c) Subject to the provisions of the Act, Natural Gas associated with Crude Oil and not used in Petroleum Operations may be flared only if the use thereof is uneconomic and cannot be reasonably used to support production. However, ZPDC may elect to off take, free of charge, at the wellhead or gas oil separator and use for domestic requirements such Natural Gas that would otherwise be flared, provided that all costs associated with ZPDC's utilization of the Natural Gas be borne by ZPDC. It is understood that such off take should not be detrimental to the prompt conduct of oil field operations according to best international petroleum industry practices.
- (d) Where flaring is to be done the Contractor shall make best endeavour to minimise impacts to the environment in accordance with best international petroleum industry practices.

ARTICLE 15: TAXATION AND ROYALTY

- (a) The Contractor shall be subject to taxes on income derived from Petroleum Operations hereunder, as provided for under the applicable laws.
- (b) In addition to taxes paid in accordance with paragraph (a) of this Article, the Contractor or its shareholders in respect of income derived from Petroleum Operations hereunder or in respect of any property held or thing done for any purpose authorized or contemplated hereunder shall be further taxed as follows:
 - (i) subject to the provisions of Article 21, import duties at the rates specified from time to time in the relevant laws;
 - (ii) taxes, duties, fees or other imposts for specific services rendered on request or to the public or commercial enterprises generally;
 - (iii) rent due to the Government in respect of any land rights granted or assigned to the Contractor;
 - (iv) local Government rates, levies or taxes generally applicable in Zanzibar; and
 - (v) stamp duties, registration fees, license fees and any other tax, duty, fee or other impost.
- (c) Royalty shall be paid at a rate of gross volume specified in the table below:

| | |
|-------------|------------------------------|
| Crude Oil | (.....)% (<i>biddable</i>) |
| Natural Gas | (.....)% (<i>biddable</i>) |

ARTICLE 16: ESTABLISHMENT OF OFFICE, REPORTING, INTERNAL CONTROL, SUPERVISION AND CONFIDENTIALITY

- (a) Data and information obtained following Petroleum Operations under this Agreement shall be the property of the Government. Such data and information pursuant to the foregoing shall include but not be limited to; the geological, geophysical, geochemical, technical, financial, and economic reports, studies, interpretations and analyses prepared by or on behalf of the Contractor, the Government or the ZPDC.
- (b) Within thirty (30) days after the Effective Date Contractor shall designate a representative residing in Zanzibar who shall have full authority to represent it in respect of matters related to the Agreement and to receive notices addressed to Contractor
- (c) Prior to commencement of Petroleum Operations, Contractor shall establish and maintain an office in Zanzibar with the adequate personnel, management and representatives who shall have the necessary competence, capacity, and capability to conduct, perform and follow up the Petroleum Operations and related matters, and maintain the necessary representatives in charge of the office with full authority to act and to enter into binding commitments on behalf of the Contractor.
- (d) The Contractor shall at all times prepare and maintain accurate records of its operations in the Contract Area and shall keep all information of technical, economic, financial, accounting or any other nature developed for the conduct of Petroleum Operations. Such records shall be organized and kept in such a way as to allow for the prompt and complete ascertainment of costs, expenditures and revenues relating to the Contract Area.
- (e) The records and information referred to paragraph (a) of this Article shall be kept at the contractor's office in the Zanzibar.
- (f) The Contractor shall save and keep for a reasonable period of time and in the best condition possible a representative portion of each sample of cores, cuttings and fluids taken from drilling wells, to be disposed of or forwarded to the Government or its representative in a manner directed by ZPRA. All samples acquired by the Contractor for its own purpose shall be considered available for inspection at any reasonable time by the Government or ZPRA. Any such samples which the Contractor has kept for a period of forty - eight (48) months with the full knowledge of ZPRA without receipt of instruction to forward the same to ZPRA, Government or its representative, the contractor may dispose the samples provided ZPRA has been given prior notice of not less than ninety (90) days of the Contractor's intention to do so. ZPRA shall have the right to require the contractor to submit such samples at the place designated by ZPRA.
- (g) Notwithstanding paragraph (b) of this Article, the Contractor shall, upon approval of ZPRA, be permitted to export samples for the purposes of investigation in laboratories abroad provided that the Contractor submits samples equivalent in size and quality to

ZPRA. Originals of records and data may be exported only with the permission of ZPRA and provided at least one comparable copy of such records and data has been submitted to ZPRA. Such exports shall be repatriated to Zanzibar without undue delay and on the understanding that they belong to the Government.

- (h) The Contractor is obliged to comply with the Act, Regulations, guidelines, decisions, orders and directives issued by ZPRA through the implementation of necessary systematic measures.
- (i) The Contractor, through the implementation of necessary systematic measures for internal control and supervision of its operations develop adequate management systems in compliance with the Act, Regulations and administrative decisions issued thereunder.
- (j) The Contractor shall ensure that anyone performing work for him, either personally through employees or subcontractors shall comply with the health, safety and environmental requirements under the Laws and this Agreement.
- (k) The Government, ZPDC and ZPRA, through their duly authorized representatives and employees, shall have full and free access to the Contract Area at all convenient times and be entitled to monitor the Petroleum Operations conducted by the Contractor hereunder and to inspect all assets, material, records, books and data kept by the Contractor relating to such operations. Contractor shall grant to the said representatives and employees the same facilities in the camp as those afforded to its own employees of similar professional rank.
- (l) The Contractor shall provide ZPRA promptly with copies of any and all data (including, but not limited to geological and geophysical reports, logs and well surveys), information and interpretations of such data and information obtained by the Contractor in the course of carrying out Petroleum Operations hereunder. All such data, information and interpretations, as well as cores and cuttings taken from drilling wells, shall be the property of Government and, save as provided in this Article, the same may not be published, reproduced or otherwise dealt with by the Contractor without the prior written consent of Government or ZPRA, which consent shall not be unreasonably withheld or delayed. For the purposes of permitting the exercise of the inspection rights, the Contractor shall provide such representatives and employees with reasonable assistance regarding transportation and accommodation.
- (m) All data and information and every interpretation thereof shall, so long as it relates to an area which is a part of the Contract Area, be treated as confidential and each of the Parties hereto undertakes not to disclose the same to any other person without the prior written consent of the other Parties. However, such data, information and interpretations may be disclosed to Affiliate companies or contractors carrying out any part of the Petroleum Operations and to advisers of ZPRA, ZPDC and Government who will treat as confidential all that is disclosed to them and undertake not to disclose the same to

any other person without the written consent of the Contractor and ZPRA. Notwithstanding what is provided in this paragraph (l) of this Article, the Minister or ZPRA may, using such data, information and reports supplied by the Contractor, publish summaries of data, information and reports from geophysical surveys and exploration wells, including lithological groups, classification boundaries and hydrocarbon zones.

- (n) The Contractor undertakes not to disclose to third parties any data, information or any interpretation thereof which relates to an area which has ceased to be part of the Contract Area. However, where the Contractor carries on Petroleum Operations in the Contract Area, such data, information and interpretations may be disclosed by Contractor to:
 - (i) Subcontractors, Affiliates, assignees, auditors, financial consultants or legal advisers, provided that such disclosures are required for effective performances of the aforementioned recipients' duties related to Petroleum Operations;
 - (ii) comply with statutory obligations or the requirements of any governmental agency or the rules of a stock exchange on which a Party's stock is publicly traded in which case the disclosing Party will notify the other Parties of any information so disclosed prior to such disclosure;
 - (iii) financial institutions involved in the provision of finance for the Petroleum Operations hereunder provided, in all such cases, that the recipients of such data and information agree in writing to keep such data and the information strictly confidential; and
 - (iv) a third party for the purpose of negotiating an assignment of interest hereunder provided such third party executes an undertaking to keep the information disclosed confidential.
- (o) Any public disclosure regarding the interpretation of information acquired in Petroleum Operations shall not be made without the Minister's consent.

ARTICLE 17: LIFTING, MARKETING AND DOMESTIC SUPPLY OBLIGATION

- (a) The quantity of production to which the Government and ZPDC is entitled, pursuant to Article 11 herein, shall be delivered to ZPDC or its nominee at the Delivery Point, at which title in production will pass to ZPDC or its nominee subject to the terms of the agreement referred to in paragraph (b) of this Article. ZPDC shall be responsible for costs associated with its lifting entitlement after the Delivery Point. Contractor shall be responsible for all costs prior to the Delivery Point. In the event ZPDC has participating interest, both the Contractor and ZPDC shall be responsible for all costs prior to the Delivery Point in accordance with Joint Operating Agreement.
- (b) Within six (6) months after the Minister's approval of a Field Development Plan, the Contractor shall propose to ZPDC an offtake procedure to govern the method whereby the parties will nominate and lift their respective shares of Crude Oil/Natural Gas. The details of such procedure shall be discussed and agreed upon between ZPDC and the Contractor for the ZPRA approval. The major principles of such procedure shall include the following:
 - (i) lifting by the parties shall be carried out so as to avoid interference with Petroleum Operations;
 - (ii) lifting rights and schedules will be subject to operations tolerances and constraints so that each party shall be entitled to lift full cargo loads;
 - (iii) within reasonable limits and subject to future correction of imbalances, each party may lift more or less than its lifting entitlement so as to allow the lifting of full cargo loads; and
 - (iv) in general, priority for lifting shall be given to the party having the greatest unlifted lifting entitlement.
- (c) The Contractor shall, if requested by ZPDC with at least three (3) months advance notice, market abroad on competitive terms all or part of ZPDC's lifting entitlement subject to payment by ZPDC of direct costs normally borne by a seller in such transactions as may be agreed by ZPDC as well as commission or marketing fee normally paid for such service.
- (d) ZPDC and the Contractor shall have the obligation to satisfy the domestic market in Zanzibar from their share of production. The volumes to be supplied by ZPDC and the Contractor shall be proportion to the percentage share of the profit oil or gas between them. The domestic Natural Gas price shall be determined by the Government based on the strategic nature of the project to be undertaken. The volume of the Crude Oil/Natural Gas which ZPDC and the Contractor may be required to supply to meet domestic market obligation shall be determined by the Parties by mutual agreement and shall be on pro rata basis with other producers in Zanzibar. The Government shall give ZPDC and the Contractor at least one (1) month notice in advance of said requirements and

the term of the supply will be on an annual basis. The volume of Crude Oil/Natural Gas which shall be required to sell to meet the requirements of the domestic market shall not exceed ZPDC and Contractor's share of Profit Oil/Gas.

- (e) Crude Oil sold pursuant to paragraph (d) above shall be paid for in foreign currency or its equivalent at a price determined in accordance with Article 12 of this Agreement.
- (f) For the purpose of meeting the requirement of paragraph (d) above, ZPDC share of profit oil shall constitute both ZPDC and Government shares of Profit Oil.

ARTICLE 18: LOCAL CONTENT

The Contractor shall:

- (a) comply with the Relevant Laws and Guidelines in force and as modified from time to time;
- (b) purchase goods, services and materials available in Zanzibar provided they are of certified standard and quality in accordance with relevant Laws;
- (c) make use of service companies and contractors of Zanzibar, where services of certified standards are available from such contractors at competitive prices and on competitive terms;
- (d) upon purchase of goods, services or materials, follow an efficient, open, transparent, non- discriminatory and competitive purchasing and award procedure in accordance with the Law and Best International Petroleum Industry Practices and submit the relevant procurement plan to ZPRA for review;
- (e) ensure that the unskilled manpower requirement is reserved for Zanzibaris;
- (f) ensure that provisions of this Article are contained in contracts between Contractor and its subcontractors where applicable;
- (g) employ Zanzibaris in order to give effect to Section 135 of the Act;
- (h) ensure that sub-contracts are scoped, as far as it is economically feasible and practical to match the capability (time, finance, and manpower) of Local Enterprises and shall manage the risk to allow their participation.
- (i) The contractor shall also:
 - i. provide to ZPRA together with the annual work programme and budgets required under Articles 3 and 5 a list of all projects to be undertaken as well as all goods, works and services that are required for the conduct of Petroleum Operations;
 - ii. ZPRA and Contractor shall agree on a list of those projects and goods and services which shall be published in at least two local newspapers and on the ZPRA's website; and
 - iii. the Contractor shall invite qualified suppliers and contractors to bid for the supply or execution of the projects as the case may be.
- (j) give preference to Zanzibar Companies by ensuring access to all tender invitations and by including high weighting on local value added in the tender evaluation criteria;
- (k) In order to give effect to this Article, the Contractor shall collaborate with ZPDC, ZPRA and any public authority responsible for local content promotion or other public body to identify a list of Zanzibar goods, works and services, suppliers and contractors;

- (l) Contractor shall ensure the development of its employees by imparting to nationals' technology and business expertise in all activities in the Petroleum Operations including but not limited to:
- i. fabrication;
 - ii. information technology support, including seismic data acquisition, processing and interpretation;
 - iii. operations and maintenance;
 - iv. maritime services;
 - v. business support services, including accounting and auditing, human resource services, consulting, marketing and contract negotiations;
 - vi. financing; and
 - vii. trading.
- (m) Zanzibar forces shall be involved in all stages of operations for providing security services.
- (n) For the purposes of this Article,
- “Zanzibar goods”**, means goods manufactured, obtained or produced in Zanzibar;
"Zanzibar Services" means services provided by Zanzibaris or Zanzibar companies;
and
- “Zanzibar Materials”** means materials obtained, produced or manufactured in Zanzibar;
- “Zanzibar Companies”** means companies incorporated in Zanzibar and whose shares are wholly or at least 51% owned by Zanzibaris.

ARTICLE 19: EMPLOYMENT, TRAINING AND TRANSFER OF TECHNOLOGY

- (a) (i) Subject to the requirement of the law relating to immigration, ZPRA shall advise the Government on the provision of necessary work permits and other approvals required for the employment of expatriate personnel by the Contractor in Zanzibar for the purposes of this Agreement
- (ii) Without prejudice to Article 18, in the conduct of the Petroleum Operations, the Contractor shall employ Zanzibaris having appropriate qualifications to the maximum extent possible. In this regard, the Contractor shall, in consultation with Government and ZPRA, propose and carry out an effective training and employment programme for Zanzibaris in each phase and level of operations, taking into account the requirements and need to maintain reasonable international standards of efficiency in the conduct of the Petroleum Operations. Such employees may be trained in Zanzibar or abroad as required by the training programme prepared by the Contractor.
- (b) For the purpose of building capacity of the Ministry responsible for petroleum, ZPRA and ZPDC in oil and gas management, exploration and production - the Contractor shall provide an annual contribution by making direct payment to ZPRA a sum of:
- (i) United State Dollars (USD) during each year of the exploration period;
(*biddable*)
- (ii) United State Dollars (USD) during each year of the production period.
(*biddable*)

The annual payments for the production period shall be adjusted by dividing by the following factor **I**, where: $I = A/B$. Save that if B is less than A factor is less be taken to be one (1) and where:

A is the United States Industrial Goods Producer Price Index (USIGPPI) as reported for the first time in the monthly publication “International Financial Statistics” of the International Monetary Fund (IMF) in the section “Prices, Production, Employment” for the Month of the Effective Date.

B is the USIGPPI as reported for the first time in the aforesaid IMF publication for the month of payment in question.

For the avoidance of doubt, the Contractor shall, if the production permit has not been issued, pay the sum stipulated for Exploration period during the development phase.

- (c) Not later than six (6) months after the grant of a Development License, the Contractor shall, in consultation with ZPRA and ZPDC, implement the programme proposed in the Field Development Plan as approved by the Minister for training and employment of Zanzibaris in each phase and level of Petroleum Operations and for the transfer of management and technical skills for the safe and efficient conduct of Petroleum

Operations. In any case the Contractor shall ensure gradual transfer of management and operation functions to Zanzibaris.

- (d) In addition to the requirements in paragraph (e) of this Article Contractor shall ensure that the development of people in key areas allows nationals to participate in all parts of petroleum value chain.
- (e) The provisions of the Labour Act shall apply to the employment of any expatriate employee of the Contractor, including any expatriate employee of any non-resident contractor, during the several periods into which Exploration Operations hereunder are divided.
- (f) The Contractor shall prepare an annual local content plan which shall accompany the annual work program and budget for Petroleum Operations in the Contract Area, and which shall include but not limited to:
 - (i) procurement of Zanzibar goods, material and services;
 - (ii) a detailed plan and programme for Zanzibaris recruitment, employment and training, including post-graduate training and scholarships; and
 - (iii) a plan for the transfer of skills, knowledge, competence and know-how.
- (g) The Contractor, within the first quarter of the subsequent year, shall submit to ZPRA an annual report on Petroleum Operations in the Contract Area, describing the Contractor's activities and results on Zanzibaris content and the local value adding other than the production sharing and fiscal obligations.

ARTICLE 20: TITLE TO ASSETS, INSURANCE, SITE CLEAN UP, DECOMMISSIONING AND ABANDONMENT

- (a) All fixed assets, owned by Contractor in connection with the Petroleum Operations carried out by Contractor hereunder shall become the property of ZPDC at the option of ZPDC after this Agreement expires or is terminated or at the time when full costs of the acquisition of the asset in question have been recovered by Contractor out of Cost Oil and/or Cost Gas, whichever occurs first.
- (b) ZPDC's aforesaid option in paragraph (a) shall be exercised by written notice to the Contractor:
 - (i) in the case of expiry of this Agreement, of not less than 30 days prior to such expiry;
 - (ii) in the case of termination of this Agreement of not more than 30 days after such termination; and
 - (iii) in the case of full recovery of costs of the acquisition of the assets in question not later than ninety (90) days after such cost recovery. Such fixed assets shall include but not be limited to buildings, piers, harbours, pipelines, wellheads, separators, compressors, pumps, power lines, telephone lines etc.
- (c) Subject to this Article, all movable and immovable assets in connection with the Petroleum Operations carried out by the Contractor shall remain ZPDC's property at the option of ZPDC after expiration or termination of this Agreement.
- (d) If ZPDC elects to participate in Joint Operations, then title to any assets acquired pursuant to a Development Plan shall be held jointly by the Contractor and ZPDC according to their respective interest in Joint Operations. Any such asset shall, at the ZPDC's discretion, become completely owned by ZPDC as soon as this Agreement expires or is terminated or, at the time, the Contractor's portion of the full costs of the acquisition of the asset in question has been recovered by the Contractor out of Cost Oil and/or Cost Gas, whichever occurs first. ZPDC's aforesaid option shall be exercised by written notice to the Contractor:
 - (i) in the case of expiry of this Agreement, of not less than 30 days prior to such expiry;
 - (ii) in the case of termination of this Agreement of not more than 30 days after such termination; and
 - (iii) in the case of full recovery of the Contractor's portion of the costs of the acquisition of assets in question not later than 30 days after such cost recovery.
- (e) Notwithstanding what is provided for under Sub-articles 20 (a) and 20 (c), so long as this Agreement remains in force, Contractor shall have, free of any charge, for the purpose of carrying on Petroleum Operations hereunder, the right of use of assets which have become the property of ZPDC, pursuant to paragraphs (a), (b) or (c) above.

Contractor shall be liable of maintenance, insurance, decommissioning and site-cleaning and other costs associated with the use and shall keep the assets in reasonably good repair and working order, wear and tear and any maintenance expenses shall be recovered in accordance with the terms hereof.

- (f) Where the cost of a physical asset has been recovered for more than 50% in accordance with the terms of this Agreement, ZPDC may elect to have the title to the asset transferred from the Contractor to ZPDC upon payment by ZPDC of the unrecovered portion of the cost of the asset.
- (g) Unless otherwise agreed to by the Minister in writing, any lien, charge or encumbrance on an asset shall lapse upon the transfer of that asset from Contractor to Government or ZPDC under this Article. However, the rights of use established with the consent of the Minister shall remain in force.
- (h) A physical asset that is used by the Contractor in Petroleum Operations as a capital or financial lease shall be treated as a purchased asset in accordance with paragraphs (a)-(h) of this Article. A Contractor shall not be required under this Article to transfer to the Government or the ZPDC other assets rented or leased by the Contractor for use in Petroleum Operations and which are of the type customarily leased for such operations.
- (i) Subject to the provisions of paragraphs (a) and (b) of this Article, Contractor shall give ZPDC the opportunity to buy, upon such commercially reasonable terms as may be mutually agreed upon, any item imported duty free under Article 21 which Contractor intends to dispose of or sell.
- (j) Contractor shall effect and, at all times during the terms of this Agreement, maintain for Petroleum Operations hereunder insurance of such type and in such amount as is customary in accordance with the applicable laws on Insurance in Zanzibar and Best International Petroleum Industry Practices and/or as required by ZPRA in accordance with their minimum insurance guidelines/requirements. All insurers must be approved by ZPRA before the engagement by the Contractor and shall, as appropriate, include ZPDC or any other Government officer as a Named Insured and include a waiver of subrogation against ZPRA, ZPDC or any other Government entity. The said insurance shall, without prejudice to the generality of the foregoing, cover:
 - (i) any loss or damage to all assets used in Petroleum Operations;
 - (ii) operator's extra expenses (OEE) coverage in respect of all wells drilled during Petroleum Operations whether drilling, producing, shut-in or work-over;
 - (iii) pollution caused in the course of Petroleum Operations for which Contractor, Operator, Government or ZPDC may be held responsible;
 - (iv) property loss or damage or bodily injury suffered by any third party in the course of Petroleum Operations for which Contractor, Operator, Government or ZPDC

may be liable, or Contractor may be liable to indemnify the Government and ZPDC;

- (v) the cost of removing wrecks and cleaning up operations following an accident in the course of petroleum Operations; and
 - (vi) Contractor's and/or Operator's liability to its employees engaged in the Petroleum Operations.
- (k) All insurance policies taken out pursuant to this Article shall be made available to ZPRA for review and approval prior to operations commencing.
- (l) Contractor shall require its sub-contractors to carry insurance of such type and in such amount as is customary applicable in accordance with best international petroleum industry practices and/or as required by ZPRA in accordance with their minimum insurance guidelines/requirements. The said insurances shall, be taken out with company(s) approved by ZPRA in accordance with Insurance Law and as applicable include ZPDC and waive rights of subrogation against ZPDC, ZPRA and the Government.
- (m) Contractor shall not self-insure or insure through Affiliates.
- (n) Prior to relinquishment of any area, Contractor shall perform all necessary abandonment, decommissioning and site clean-up activities to restore the area as nearly as possible, to the condition in which it existed on the Effective Date including removal of such facilities, equipment or installations as ZPRA may instruct, and shall take action necessary to prevent hazards to human life, property and the environment which may be caused by its facilities, equipment or installations. In carrying such abandonment, decommissioning and site clean-up activities the Contractor shall observe the Zanzibar Environmental Legislation and generally Best International Petroleum Industry Practices.
- (o) In order to discharge its obligations for site cleaning, decommissioning and abandonment, the Contractor, Government, ZPRA and ZPDC shall, within two (2) years of the commencement of commercial production, enter into an agreement to establish a Site Clean-Up, Decommissioning and Abandonment Cost Reserve Fund (Decommissioning Fund). Such agreement shall address the administration and utilization of funds deducted from Cost Oil and/or Cost Gas in accordance with the following:
- (i) For the purpose of the Decommissioning Fund, ZPDC and Contractor shall upon verification of a qualified independent third party, estimate the cost for site cleaning, decommissioning and abandonment in good faith, on the basis of industry average costs, in accordance with the Zanzibar Environmental Management Act, 2015 and best international petroleum industry practices.

- (ii) The payments deposited into the Decommissioning Fund shall be placed in a U.S. Dollar interest bearing escrow account in the joint names of the Contractor and the Government, established at a mutually acceptable financial institution to be used solely for paying the decommissioning costs. The account is to be funded on a quarterly basis by the Contractor and ZPDC, where ZPDC is participating, in proportion to the contractors' then current participating interests under this Agreement. A final reconciliation shall be submitted to all Parties following completion of all decommissioning operations. The Contractor shall start to deposit Decommissioning Funds five (5) years from the commencement of commercial production or the ratio of cumulative production to overall recoverable reserves reach fifty percent (50%), whichever comes earlier.
- (iii) If, upon expiration or other termination of this Agreement, ZPDC determines to conduct the site cleanup, decommissioning and abandonment operations, such funds, plus all accrued interest, shall be paid to ZPDC whereupon Contractor shall be released from any further obligation and liability with respect to such site cleanup and abandonment.
- (iv) If, within sixty (60) days prior to the expiration or other termination of this Agreement, ZPDC has failed to advise Contractor of ZPDC's determination to conduct the site cleanup, decommissioning and abandonment operations, such funds, plus all accrued interest, shall be paid to Contractor and Contractor shall thereupon conduct all such operations in accordance with the Act, Zanzibar Environmental Legislation and generally Accepted International Petroleum Industry Best Practices.
- (v) If the Decommissioning Fund above is insufficient to pay the costs of cleanup, decommissioning and abandonment, such shortfall shall be paid by Contractor. Where the Decommissioning Fund exceeds the costs incurred such excess shall revert back to ZPRA.
- (vi) The Contractor's obligation to undertake decommissioning, abandonment and site-clean-up pursuant to this Article shall continue after the termination of this Agreement.

ARTICLE 21: IMPORT DUTIES

- (a) The Contractor and its sub-contractors engaged in Petroleum Operations hereunder and ZPDC if elects to participate in Joint Operations Agreement established pursuant to Article 9 shall be permitted, subject to the limitations and conditions set out in the Law to import, free of duty or other taxes, fees and levies on imports, machinery, equipment, materials, supplies, necessary consumable items (other than food stuffs cosmetics and personal effects) and moveable property, where imports in any of the said categories have been certified by a responsible representative of ZPRA to be for use solely in carrying out operations under this Agreement.
- ~~(b)~~ Subject to paragraph (a) above, any of the items imported into Zanzibar may, if no longer required for the operations hereunder, be freely exported at any time by the importing party without the payment of any export duty provided however that, on the sale or transfer by the importer of any such items to any person in Zanzibar, all exempted taxes, fees and levies on import shall be payable by the buyer or transferee on such sale or transfer as provided in the relevant Laws.

ARTICLE 22: ACCOUNTING AND AUDIT

- (a) The Contractor shall maintain at its business office in Zanzibar accounting records relating to Petroleum Operations under this Agreement in accordance with the Generally Accepted Accounting Principles in Zanzibar and Accounting Procedure set out in Annex “D” of this Agreement. Such records to be kept for minimum period of fifteen (15) years from the end of each accounting year.
- (b) ZPRA shall have the right to audit Contractor’s accounting records in accordance with Annex “D”, the Accounting Procedure within a period of five (5) years.
- (c) Nothing in this Article shall be construed as limiting the right of the Government or its agents pursuant to any statutory power to the accounting records of the Contractor.
- (d) The following principles shall be used to maintain records:
 - (i) Contractor shall maintain ring fenced costs and revenue on the basis of exploration license and each Development License issued.
 - (ii) Contractor shall incur costs on a competitive process taking into account the concept of effectiveness, efficiency and economy in incurring such costs.
 - (iii) Contractor shall cause its annual financial statements to be audited by a firm of auditors recognised by relevant authority in Zanzibar and the financial statements shall be published in at least two daily newspapers in wide circulation in Zanzibar and posted to its website.

ARTICLE 23: HEALTH SAFETY AND ENVIRONMENT

- (a) The Contractor shall comply with Zanzibar laws related to Occupational Safety and Health, laws related to Environmental protection, laws related to Public and Environmental Health, Food, Drugs and Cosmetics, the Regulations and administrative decisions issued by virtue of the Laws, all other legislation at any time in force in Zanzibar as well as best international petroleum industry practices, through the implementation of necessary systematic measures.
- (b) The Contractor shall establish, follow up and further develop Health, Safety and Environmental Management Systems designed to ensure compliance with the health, safety and environment requirements in accordance with the Laws and best international petroleum industry practices.
- (c) The Contractor shall ensure that the management of health, safety and the environment comprise the activities, resources, processes, and organization necessary to ensure prudent Petroleum Operations.
- (d) When entering into a contract, the Contractor shall ensure that the sub-contractors and suppliers are qualified to fulfil the legal and regulatory requirements relating to health, safety and the environment. Furthermore, the Contractor shall follow up to ensure that the participants comply with the requirements while performing the assignments.
- (e) The Company and the Contractor shall stipulate and further develop objectives and strategies to improve health, safety and the environment. The objectives shall be expressed so that the degree of achievement can be assessed. When there is employment of sub-contractors and suppliers, the contractor shall ensure that the requirements of this paragraph are reflected in the agreements and the performance of the petroleum operations.
- (f) The Contractor shall ensure agreement between short-term and long-term objectives in various areas, at various levels and between various participants in the activities. An annual Health, Safety and Environmental Plan shall be established for the activities required to meet the long term and short-term objectives. The said plan shall be submitted to ZPRA together with the annual work programme and budget.
- (g) The Contractor shall carry out hazard assessment and develop its risk management procedures that provide a balanced and as most comprehensive a picture as possible of the risk associated with the activities. The analyses shall be appropriate as regards providing support for decisions related to the upcoming operation or phase. Risk analysis shall be carried out to identify and assess contributions to major accident and environmental risk, as well as ascertain the effects of various operations and modifications will have on major accident, environmental, health and safety risk. Necessary assessments shall be carried out of sensitivity and uncertainty. Copies of the reports should be submitted to ZPRA for approval.

- (h) In order to achieve a high level of safety and health, international standards like International Finance Corporation (IFC), International Organization for Standardizations (ISO), International Maritime Organization (IMO), International Electrotechnical Commission (IEC), International Labour Organization (ILO), World Health Organization (WHO) and International Petroleum Industry Environmental Conservation Association (IPIECA), shall be used.
- (i) Where guidelines have been developed by the responsible authority for health, safety or environmental matters, with recommendations for standards to be used, other standards may be used, but it must be documented that the chosen standards fulfil regulatory requirements. Combinations of parts of standards shall be avoided.
- (j) The Contractor shall ensure that hazards identified and accident or incidents that have occurred and that may lead to or have led to pollution, environmental degradation, or other harm, are dully recorded and investigated in order to prevent recurrence. The Contractor shall ensure that potential hazard or accident situations that occur frequently or that have great actual or potential consequences shall be investigated to establish root causes and develop preventive measures.
- (k) The Contractor shall carry out necessary analyses to ensure a sound working environment and provide support in the choice of technical, operational and organizational solutions. The analyses shall aim at improving the employees' health, welfare and safety and to prevent personal injuries, fatalities and work-related illness.
- (l) The Contractor shall ensure that the persons engaged in Petroleum Operations shall at all times possess the necessary competence, capability and qualifications to carry out the activities in a prudent manner.
- (m) The Contractor shall put in place programmes to deal with awareness and control of HIV/AIDS, malaria and other epidemic outbreaks and other communicable disease in the Contract Area, the areas around the Contract Area and other areas around Petroleum Operations.
- (n) In furtherance of the Law or as the Government may otherwise require that from time to time, the Contractor shall take necessary and adequate steps to:
 - (i) conduct its Petroleum Operations in a manner that will protect the environment including human communities and settlements, flora, fauna and their habitats and including but not limited to natural resources of the land, air, sea and Zanzibar waters;
 - (ii) employ the best available techniques in accordance with best international petroleum industry practices for the prevention of environmental pollution and damage to which its Petroleum Operations might contribute and for the minimization of the effect of such operations on adjoining or neighbouring lands, air and sea;

- (iii) implement its Field Development Plan regarding the prevention of environmental pollution and degradation, the treatment of wastes, the safeguarding of natural resources and the progressive reclamation and rehabilitation of marine resources and lands disturbed by Petroleum Operations;
 - (iv) Prevent and minimize environmental pollution and degradation; and
 - (v) Ensure prompt, fair, and adequate treatment, care, support, rehabilitation and compensation for injury, ill health or loss to persons, loss or damage of property caused by Petroleum Operations.
- (o) If pollution or damage to the environment or marine life or otherwise occurs due to petroleum operations, the Contractor shall promptly take all necessary and adequate measures to remedy the failure and effects thereof. If such pollution or damage is the result of negligence or misconduct of the Contractor, the cost of the remedy shall not be a Recoverable Contract Expense for the purpose of Article 11 and Annex “D”.
- (p) The Contractor shall notify the Minister and ZPRA forthwith in the event of any emergency or accident that may affect the environment, health or safety and shall take such action as may be prudent and necessary in accordance with the Law and with regard to the best international petroleum industry practices in such circumstances. The costs of such action shall be recoverable costs provided that such emergency or accident is not the result of negligence or misconduct of Contractor for the purpose of Article 11 and Annex “D”.
- (q) If the Contractor does not act promptly so as to control a hazard situation or clean up any pollution or make good any damage or loss caused, ZPRA may, after giving the Contractor reasonable notice in the circumstances, take any actions which are necessary in accordance with the relevant Law and with regard to best international petroleum industry practices, and the reasonable costs and expenses of such actions shall be borne by the Contractor.
- (r) The Contractor shall undertake a Social and Environmental Impact Assessment prior to conducting the following activities:
- (i) seismic activities;
 - (ii) exploration drilling;
 - (iii) development and production;
 - (iv) construction of a system for transportation, treatment and storage;
 - (v) decommissioning; and
 - (vi) in any other case in which Petroleum Operations are likely to have a significant social or environmental impact. The Contractor shall undertake the social and environmental impact assessment in conformity with the Law and best international petroleum industry practice.

- (s) The Contractor shall not flare or vent Petroleum without an authorization from ZPRA.
- (t) The ZPRA may grant the Contractor an authorization to flare or vent Petroleum, where it is necessary in the interests of normal operational safety of the Petroleum Operations and in accordance with best international petroleum industry practice.
- (u) In case of an emergency, and where there is insufficient time to request an authorization from ZPRA, the Contractor may vent or flare without the prior consent of ZPRA but shall ensure that the venting or flaring is done in accordance with a prescribed procedure and best international petroleum industry practice and shall be at the lowest possible level. Where petroleum has been flared or vented in an emergency, the Contractor shall immediately inform the ZPRA of the event.
- (v) The Contractor shall, in consultation with ZPRA, established a safety zone surrounding each petroleum facility, well or transportation system including abandoned facilities, or parts of these facilities.
- (w) The Contractor shall prepare an emergency response plan to deal with such emergencies including but not limited to blowouts, fire, storms, petroleum spills, floods, and lightning. The Contractor shall cooperate with the security that are mandated to protect petroleum operations in the Contract Area. The Contractor shall be liable for pollution damage, injury, ill health, or loss caused by or resulting from the Petroleum Operations without regard to fault or negligence.
- (x) The Contractor may be required to contribute to a Petroleum Spill Reserve Fund for clean-up and rehabilitation of the environment after a petroleum spill if such fund is established.
- (y) The Contractor shall, upon directives of ZPRA, in accordance with the Law or best international petroleum industry practices, procure or cause to be procured insurances from competent insurers for damages likely to be caused by petroleum operations. The insurance covers shall include but not limited to pollution, cleanups, loss of life, third party damages, rehabilitation of the environment or any other relevant HSE related risks as the case may be. The costs of procuring such insurances shall be cost recoverable under Article 11 and Annex D of this Agreement.

ARTICLE 24: FORCE MAJEURE EVENT

- (a) A “Force Majeure Event” shall mean any event or circumstance or combination of events or circumstances beyond the reasonable control of a Party occurring on or after the Effective Date that materially and adversely affects the performance by such affected Party of its obligations under or pursuant to this Agreement; provided, however, that such material and adverse effect could not have been prevented, overcome or remedied by the affected Party through the exercise of diligence and reasonable care. “Force Majeure Events” shall include the following events and circumstances, but only to the extent that they satisfy the above requirements:
- (i) Any act of war (whether declared or undeclared), invasion, armed conflict or act of foreign enemy, blockade, embargo, revolution, riot, insurrection, civil commotion, or act of terrorism;
 - (ii) Lightning, earthquake, tsunami, flood, storm, cyclone, typhoon, or tornado; epidemic or plague; explosion, fire, blowout, or chemical contamination; mechanical failure; down hole blockage; and
 - (iii) strikes, works-to-rule, go-slows, or other labour disputes, unless such strikes, works-to-rule, go-slows or labour disputes were provoked by the unreasonable action of the affected Party or were, in the reasonable judgment of the affected Party, capable of being resolved in a manner not contrary to such Party’s reasonable, significant commercial interests.
- (b) Force Majeure Events shall expressly not include the following conditions, except and to the extent that they result directly from force majeure: a delay in the performance of any contractor, including late delivery of machinery or materials; and normal wear and tear.
- (c) Nothing in this Article shall relieve a Party of the obligations which arose prior to occurrence of a force majeure event.
- (d) **Notification Obligations**

If by reason of a Force Majeure Event a Party is wholly or partially unable to carry out its obligations under this Agreement, then the affected Party shall:

- (i) give the other Parties notice of the Force Majeure Event(s) as soon as practicable, but in any event, not later than 48 hours after the affected Party becomes aware of the Force Majeure Event(s) or six hours after the resumption of any means of providing notice; and
- (ii) give the other Parties a second notice, describing the Force Majeure Event(s) in reasonable detail and, to the extent that such information can reasonably be determined at the time of the second notice, providing a preliminary evaluation of the obligations affected and a preliminary estimate of the period of time that the affected Party will be unable to perform such obligations and other

relevant matters as soon as practicable, but in any event, not later than seven days after the initial notice of the occurrence of the Force Majeure Event(s) is given by the affected Party. When appropriate or when reasonably requested to do so by another Party, the affected Party shall provide further notices to such other Party more fully describing the Force Majeure Event(s) and the cause(s) therefore and providing or updating information relating to the efforts of the affected Party to avoid and/or to mitigate the effect(s) thereof and estimates, to the extent practicable, of the time that the affected Party reasonably expects it will be unable to carry out any of its affected obligations due to the Force Majeure Event(s).

- (iii) Other Parties are entitled to seek and receive proofs of the Force Majeure Event described in the notice of the affected party as well as the proof and details of the mitigation measures taken by the affected Party after receiving the notice or at any time during the existence of the Force Majeure Event.
- (e) The affected Party shall provide notice to the other Parties as soon as possible, but not later than seven days following:
 - (i) the cessation of the Force Majeure Event; or
 - (ii) its ability to recommence performance of its obligations under this Agreement by reason of the cessation of the Force Majeure Event.
- (f) Failure by the affected Party to give written notice of a Force Majeure Event to the other Parties within the 48-hour or six-hour period required by this Article shall not prevent the affected Party from giving such notice at a later time; provided, however, that in such case the affected Party shall not be excused pursuant to this Article for any failure or delay in complying with its obligations under or pursuant to this Agreement until such notice has been given. If such notice is given within the 48-hour or six-hour period required by this Article, the affected Party shall be excused for such failure or delay pursuant to this Article from the date of commencement of the relevant Force Majeure Event.

(g) **Duty to Mitigate**

The affected Party shall use all reasonable efforts to mitigate the effects of a Force Majeure Event, including the payment of reasonable sums of money, in light of the likely efficacy of the mitigation measures; provided, however, that the affected Party shall not be required to settle any labour dispute or litigation on terms that, in the reasonable judgment of the affected Party, are contrary to its reasonable, significant commercial interests.

(h) **Delay Caused by Force Majeure**

So long as the affected Party has at all times since the occurrence of the Force Majeure Event complied with the obligations of this Article and continues to so comply then:

- (i) the affected Party shall not be liable for any failure or delay in performing its obligations (other than the obligation to make any payment otherwise due hereunder) under or pursuant to this Agreement for so long as and to the extent that the performance of such obligations is affected by the Force Majeure Event; and
- (ii) any performance deadline that the affected Party is obligated to meet under this Agreement shall be extended; provided, however, that no relief, including the extension of performance deadlines, shall be granted to the affected Party pursuant to this Article to the extent that such failure or delay would have nevertheless been experienced by the affected Party had the Force Majeure Event not occurred. A Party shall not bear any liability for any Loss suffered by the affected Party as a result of a Force Majeure Event.

(i) Contract Termination Due to a Force Majeure Event

Any party may terminate this Contract upon a three (3) month written notice to another party, if the fulfilment of the obligation of either Party under this Contract is affected by a Force Majeure Event during Petroleum Operations for a continuous period exceeding two (2) years without further obligation and liabilities of any kind. Nothing in this Article shall relieve a Party of the obligations which arose prior to occurrence of a force majeure event.

ARTICLE 25: ASSIGNMENT AND TRANSFER OF RIGHTS

- (a) The Contractor may not assign or transfer, directly or indirectly, to any third party including an Affiliate, in whole or in part, any of its rights, privileges, duties or obligations under this Agreement without the prior written consent of the Minister.
- (b) The Contractor shall demonstrate to Minister's satisfaction that the third party to whom the assignment or transfer is proposed to be made is qualified with respect to its technical competence and financial capacity and the assignment or transfer will not adversely affect the performance of the obligations under this Agreement.
- (c) In the event that the Contractor wishes to assign in whole or in part any of its rights, privileges, duties or obligations hereunder as aforesaid, the written consent thereto of the Minister, if required under this Article, shall not be unreasonably withheld or delayed.
- (d) Any assignment made pursuant to this Article to a non-Affiliated person, firm or company shall bind the assignee to all the terms and conditions hereof, and, as a condition to any assignment, the Contractor shall provide an unconditional undertaking by the assignee to assume all obligations by the Contractor under the Agreement.
- (e) In case of an assignment, the Contractor shall provide to the Minister with a Deed of Assignment in which the main conditions and liabilities assumed by the assignee are set out and a copy of the assignment agreement or transfer agreements as well as any other document relevant to the assignment or transfer. Furthermore, the assignor or transferor shall submit an evaluation by an independent expert and all material terms of the assignment.
- (f) Where the Contractor is more than one person the Minister will be provided with copies of all assignments and agreements made between them with respect to Petroleum Operations and will be classified as confidential.
- (g) Where the Contractor is more than one person the Contractor shall provide to the Minister with the following information regarding each agreement executed between them, with respect to Petroleum Operations and as required in the Petroleum Act:
 - (i) Details of the technical and industrial qualifications of the companies and their employees;
 - (ii) Details of the technical and industrial resources available to the companies; and
 - (iii) Details of the kinds of financial resources available to the companies including capital, credit facilities and guarantees available.
- (h) The Minister reserves the right to employ the services of an independent consultant, at the cost of Contractor or any of the relevant entities comprising Contractor, to be mutually agreed by the Minister and such entity:

- (i) To carry out an independent valuation of the transaction. The final determination of the valuation shall remain with the Minister. and will be subject to the applicable taxes stated in paragraph (m) of this Article; and
 - (ii) To carry out an independent due diligence of the assignment or transaction including an evaluation of the technical competence and financial capacity of the assignee or transferee.
- (i) For the sake of this Agreement, stamp duty will be paid by the transferee.
- (j) Should an assignment or Transfer referred to under this Article occur without such entity first obtaining the required consent of the Minister; such a transfer shall be null and void.
- (k) No assignment or transfer shall in any way absolve the assignor from the obligations undertaken by it under the Agreement except to the extent such obligations are in fact assigned to the assignee or transferee.
- (l) Any entity or entities comprising Contractor shall apply for consent, at least ninety (90) calendar days before the proposed effective date of the Transfer, which application shall include evidence to the Minister of the financial and technical competence of the Transferee together with a valuation and all material terms of the Transfer.
- (m) Any assignment or transfer under this Article shall be subject to the relevant tax law including tax on capital gain and stamp duty.
- (n) ZPDC has the right of first refusal to acquire all or some of the participating interest that any member of Contractor Party intends to assign to a non-Affiliate, which right should be exercised pursuant to the following procedures:
 - (i) the assignor company shall notify ZPDC and ZPRA of the price and other essential terms and conditions of the proposed assignment and the identity of the prospective assignee;
 - (ii) within sixty (60) days after receipt of the notification referred to in the preceding subparagraph, ZPDC shall notify the assigning company whether ZPDC elects to exercise the right of first refusal;
 - (iii) If ZPDC does not exercise the right of first refusal by failing to give the notification referred to in the preceding subparagraph, then ZPDC shall be deemed to have waived the right of first refusal in respect of such assignment;
 - (iv) If ZPDC exercises the right of first refusal by giving the notification referred to in paragraph (n) (ii) of this Article, then ZPDC and the assignor company shall execute the assignment under the terms and conditions contained in the notification referred to in paragraph (n) (i) of this Article.

- (o) Where the Contractor assigns or transfers the participating interest under this Agreement, the Contractor shall have a secondary liability for financial obligations for the cost of implementing site clean-up, decommissioning and abandonment. Such financial obligation shall be limited to possible costs related to installations, sites, petroleum facilities and wells, which existed at the time of the assignment, and is limited to a share of the costs calculated on the basis of the size of the participating interest assigned. The Contractor shall put in place an adequate security for such secondary liability.

ARTICLE 26: CONSULTATION AND ARBITRATION

- (a) ZPDC and the Contractor shall periodically meet to discuss the conduct of the operations envisaged under this Agreement and shall make every effort to settle amicably any problem arising therefrom. ZPRA may attend such meetings with an observer status. If ZPDC and Contractor failed to settle any problem arisen, they shall refer the matter to ZPRA for determination.
- (b) If any dispute or difference in relation to or in connection with or arising out of any of the terms and conditions of this Agreement should arise, the same shall be resolved by negotiations between the Parties, which shall be initiated by the notice of disagreement. In the event of no agreement being reached within 90 days from the receipt of the notice of disagreement, either party shall, except in the case of a dispute or difference as provided in sub-article 8(g), 12(b) and 12(d), have the right to have such dispute or difference settled through arbitration as provided for herein below.
- (c) If after completion of the above procedure, disagreement remains between the Parties, the dispute shall be settled by arbitration in accordance with the provisions of this Article. Nevertheless, for differences of a technical nature and prior to the arbitration procedure, the Parties may resort to the opinion of a mutually agreed expert. Without prejudice to other Articles of this agreement, this expert shall notify his opinion to the Parties within thirty (30) Days following the date on which he was designated by the Parties.
- (d) If, particularly following completion of the procedure set forth in the Article 26(c), any disputes still exist between the Parties in connection with the application of the provisions of this Agreement or regarding the obligations resulting therefrom, such disputes shall be resolved in accordance with the International Chamber of Commerce Rules of Conciliation and Arbitration, subject to the specific provisions set out below.
 - (i) The arbitration procedure shall be commenced by request addressed by the applicant Party to the Secretariat of the International Court of Arbitration. The starting point of proceedings shall be the date of receipt of that request by the Secretariat of the Court of Arbitration.
 - (ii) In the context of the procedure set out in the Article 26(c), the arbitration procedure shall commence within sixty (60) Days following expiry of the thirty (30) Day period defined in Article 26(c) plus, if applicable, any additional time provided in the same paragraph.
 - (iii) Each Party shall designate its arbitrator and notify the other Party and the International Court of Arbitration of that designation within thirty (30) Days after the start of the arbitration proceedings as defined above. If the applicant Party has not designated its arbitrator within that thirty (30) Day period, it shall be deemed to have abandoned its application. If the defending Party has not designated its arbitrator within thirty (30) Days following receipt of notice in accordance with this paragraph, the other Party may directly inform the International Chamber of

Commerce, and request that it makes such designation within the shortest possible time.

- (iv) The arbitrators shall not be of the same nationality as either of the Parties or the same nationality as that of parent company of the Contractor.
 - (v) Within forty-five (45) Days after the date of designation of the last arbitrator, the arbitrators thus designated shall select, by mutual agreement, a third arbitrator, who shall become the President of the Court of Arbitration. Failing agreement, the International Chamber of Commerce shall be requested by the most diligent Party to designate this third arbitrator within the shortest possible time.
 - (vi) The arbitrators are free to choose the procedure they intend to apply if not already covered by the ICC rules.
 - (vii) The decision of the arbitrators is final; it is binding on the Parties and will be enforceable under the Zanzibar laws.
- (e) The place of arbitration shall be London, the Language used shall be English and the applicable law shall be the laws of Zanzibar.
 - (f) The Arbitration fees shall be borne equally by the Parties. However, each Party shall bear its own expenses for the Arbitration and shall not be cost recoverable.
 - (g) The arbitration procedure shall not cause the performance of the Parties' contractual obligations to be suspended during the progress of the arbitration.

ARTICLE 27: APPLICABLE LAW

- (a) This Agreement shall be governed by, interpreted and construed in accordance with the Laws of Zanzibar.
- (b) A reference to a specific legislation or a provision of such legislation shall include a reference to an amendment, or replacement of such legislation or provision of that legislation.

ARTICLE 28: WORKING LANGUAGE

The Contractor shall use the English language or the Kiswahili language, in all Petroleum Operations including its business operations, correspondence and the fulfilment of its regulatory requirements.

ARTICLE 29: THIRD PARTY ACCESS TO PETROLEUM FACILITIES

- (a) The Contractor, [and ZPDC where ZPDC is party to joint operations pursuant to Article 9] shall provide access to third parties for use of its petroleum facilities in the Contract Area for conduct of petroleum operations where such access will not be to an unreasonable detriment of the petroleum operations of the Contractor or other users who have already been granted a right of use. The Contractor shall provide such third-party access on reasonable terms and conditions.
- (b) An agreement on access to petroleum facilities shall be submitted to ZPRA for approval. ZPRA may, as a condition for approval of the agreement, modify the tariffs and other terms and conditions agreed between the parties to the access agreement.
- (c) Where no agreement for access to petroleum facilities is reached within 180 days from the time of the third-party request to the Contractor, ZPRA may stipulate the tariffs and other conditions for such third party access provided that ZPRA shall give opportunity to the disputing parties to make submission on the reasoning of their stands.
- (d) Where ZPRA decides to stipulate, modify or alter or set terms and conditions for third party access to petroleum facilities pursuant to this Article, ZPRA shall stipulate such reasonable terms and conditions for such third party access in accordance with generally accepted international petroleum industry practices having due regard to good resource management considerations and a reasonable profit for the Contractor taking into account, among other, the Contractor's investments and risks, financial and commercial viability of third party access and availability of capacity at the petroleum facilities.
- (e) The Contractor shall promptly provide ZPRA upon receipt of any technical, commercial, financial or other information that is relevant for negotiations with third parties on access to petroleum facilities. Such information shall include, but is not limited to, copies of the requests for use, updated information on capacity on the petroleum facilities, any draft agreements and schedules for negotiations.
- (f) The Contractor's obligation to grant third party access pursuant to this Article shall apply correspondingly for the use of petroleum facilities where the Contractor has a leasing right for use in Petroleum Operations. The Contractor shall not restrict the third party's right for access to the leased facilities through any agreement with the holder of the title to the petroleum facility or the leaser.
- (g) ZPRA may participate with an observer status at any meeting on negotiations pursuant to this Article. The Contractor shall ensure that ZPRA promptly receives any relevant information.

ARTICLE 30: COORDINATION AND UNITISATION OF PETROLEUM OPERATIONS

- (a) Where a Petroleum accumulation in the Contract Area extends beyond the boundaries of the Contract Area into another contract area or a license area, the Contractor shall not develop such petroleum accumulation without seeking an agreement with the contractor and ZPDC in the other area. An agreement on the development of the petroleum accumulation to be carried out as single unit shall be submitted to the Minister for approval and copied to ZPRA. In case no such agreement is submitted, the Minister may direct the relevant parties to enter into an agreement to this effect in accordance with section 72 of the Act.
- (b) Subsequent to the Minister's approval of an agreement in accordance with paragraph (a), a collective proposal for a common Field Development Plan of the deposit of Petroleum in accordance with Article 8, shall be submitted by the Contractor and such other entity or entities through to the Minister for approval.
- (c) Where a petroleum accumulation in the Contract Area extends beyond the boundaries of the Contract Area into an area not covered by a petroleum agreement or a petroleum license, the Minister may grant ZPDC a license to develop and produce the petroleum accumulation and may require the petroleum accumulation to be developed as a single unit. Paragraph (b) above shall apply accordingly.
- (d) Where a petroleum accumulation in the Contract Area is in proximity to another petroleum accumulation in another area, the Minister may, in order to ensure efficient petroleum operations, require the petroleum accumulations to be developed and produced in a coordinated manner in order to ensure optimum petroleum recovery and optimum use of the relevant petroleum infrastructure.
- (e) The Contractor and ZPDC shall forthwith notify the Minister and ZPRA where the Contractor discovers that a Petroleum accumulation extend beyond the jurisdiction of Zanzibar.
- (f) The ZPDC and Contractor shall inform the Minister and ZPRA where the Contractor, within the scope of this Agreement, assesses that there may be a potential need for assessing a potential for unitization or coordination of Petroleum Operations for Petroleum accumulations straddling between or in proximity with another jurisdiction.

ARTICLE 31: FOREIGN EXCHANGE AND CURRENCY

- (a) The Contractor shall at all times comply with the procedures and formalities relating to dealings in foreign exchange which may be in force in Zanzibar from time to time.
- (b) The Contractor and subcontractor shall:
 - (i) open and keep one or more accounts denominated Tanzanian currency or United States Dollars, or other currency as duly authorized, with banks in Zanzibar.
 - (ii) purchase Tanzanian currency and United States Dollars, or other currency as duly authorized, from any bank in Zanzibar or other financial institutions, authorized for this purpose by the relevant Authorities.
 - (iii) Without prejudice to withholding tax due, be entitled to pay any non-resident subcontractors if duly authorized by the relevant authorities in Zanzibar and all the expatriate personnel, in any currency the whole or any part of their remunerations outside Zanzibar. All payments to resident subcontractors shall be made exclusively in Zanzibar.
 - (iv) Subject to withholding tax due, the Contractor shall have the right to freely declare and pay dividends to their shareholders and to remit the same to a place outside Zanzibar, under the terms of the Law.
 - (v) The Contractor has the obligation to inform the relevant authorities the number of the account(s), bank details and other currency deposition and exchange dealings with other financial institutions without undue delay upon the occurrence. In addition, the Contractor shall deliver appropriate information and monthly periodic reports to the relevant authorities, the Minister and ZPRA and as otherwise required by the authorities in accordance with the Law.
 - (vi) The relevant authorities shall be entitled to require audit to such accounts. Amounts spent on any such audits shall be cost recoverable paid by the Contractor. The Contractor shall waive banking confidentiality rights in benefit to the Government in respect of such information and accounts in order to facilitate any such audits.

ARTICLE 32: ANTI-CORRUPTION AND ANTI-MONEY LAUNDERING

- (a) The Parties hereto shall in accordance with the Zanzibar laws related to Anti-Corruption and Economic Crimes and laws related to Anti-Money Laundering and Proceeds of Crimes, establish and implement anti-bribery, anti-corruption and anti-money laundering policies and measures that are consistent with the requirements in Law, the provisions of this Contract and complementary to any other relevant anti-corruption laws and obligations.
- (b) The Contractor shall implement necessary systematic measures in order to ensure that any person who undertakes activities that are relevant to this Agreement including work, services or delivering goods will not make, offer, or authorize, any payment, gift, promise or other advantage, whether directly or through any other person or entity, to or for the use or benefit of any public official, any political party, political party official, or candidate for office, or any other individual or entity, where such payment, gift, promise or advantage would violate the Law and other anti-corruption laws and obligations applicable to the Contractor.
- (c) The Contractor shall comply with the Law and other anti-corruption laws and obligations applicable to Contractor.
- (d) The Contractor shall ensure that its Affiliates and its respective directors, officers, employees, and personnel comply with the Law and other anti-corruption laws and obligations applicable to Contractor.
- (e) Each Party shall as soon as possible notify and keep informed the other Parties of any investigation or proceeding initiated by a governmental authority relating to an alleged violation of the Law and other applicable anti-corruption laws and obligations, except when such notification might, in the opinion of the notified party or investigating organ, jeopardise the investigation.

ARTICLE 33: MODIFICATIONS AND HEADINGS

- (a) This Agreement shall not be amended or modified in any respect except by the mutual consent in writing of the Parties hereto.
- (b) The Headings of this Agreement are for convenience only and shall not be taken into account in interpreting the terms of this Agreement.

ARTICLE 34: ADDITIONAL PROFIT TAX

- (a) The Contractor shall be liable to pay to the Government Additional Profit Tax (hereinafter referred as APT) for each Calendar Year, in respect of each Contract Area, determined on the basis of the rate of return (ROR) that the Company has achieved from the Effective Date with respect to such Area as of the end of that Calendar Year.
- (b) APT for the purposes of this Article shall consist of a two-tier PAPT imposed at different tax rates, which are referred to in this Agreement as the “First APT Rate” and the “Second APT Rate” respectively, which are triggered by a distinct Rate of Return thresholds (hereinafter ROR), referred to as the “First ROR Threshold” and the “Second ROR Threshold” respectively.
- (c) The Contractor’s ROR shall be calculated on the basis of Net Cash Receipts ("NCR") of the Contractor. In cases where the Contractor consists of more than one company, the liability to pay APT shall be joint and several, and at each relevant date only one ROR and NCR shall be computed for the Development License, combining all of the interests held by the relevant companies in the relevant Area.
- (d) The Contractor's ROR, NCR and liability to pay APT shall be determined for Contract Area at the end of each Calendar Year in accordance with this Article.
- (e) For the purposes of this Agreement, "NCR" means the Contractor’s net cash receipts (which may be a positive or negative amount) derived from the Development License during the Calendar Year for which the calculation is being made, and shall be computed in accordance with the following formula:

$$\text{NCR} = \text{INCOME} - \text{TAXES} - \text{COSTS} - \text{DEDUCTIONS}$$

where:

"INCOME" represents all income received by or attributed to the Contractor from the Contract Area during the Calendar Year. This amount shall be taken to be the Contractor's assessable income arising from the disposal of Petroleum produced from the Area during the Calendar Year together with miscellaneous assessable income accruing to the Contractor during such Calendar Year from Petroleum Operations in respect of the License;

"TAXES" represents payments of Corporate Income Tax (CIT) and any other taxes made by the Contractor to the Government in the Calendar Year in respect of the License, excluding any tax that applies to the transfer or assignment of an interest;

"COSTS" represents the total of Exploration Expenditures, Development Expenditures and Operating Expenditures related to the Contract Area incurred by the Contractor up to the Delivery Point during such Calendar Year, as defined and categorised in, and

allowed in accordance with the provisions of the Accounting Procedure as stipulated in Annex D provided that, for the purpose of determining the amount of APT 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 determine as allowable deductions in the computation of CIT from the Contract Area in the Calendar Year.

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

- i. "FANCP" is the first accumulated net cash position of the Contractor in respect of a Contract Area, and refers to the amounts determined by the formula in paragraph (iii) below at the end of a given Year; and
- ii. "SANCP" is the second accumulated net cash position of the Contractor in respect of a Contract Area, and refers to the amounts determined by the formula in paragraph (d) below at the end of a given Year.
- iii. FANCP in respect of a Contract Area for any Calendar Year shall be calculated according to the following formula:

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

where:

"A₁" 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

"B₁" equals fifteen per cent (15%) and corresponds to the First ROR Threshold.

- iv. SANCP in respect of any Petroleum Field for any Calendar Year shall be calculated according to the following formula

$$SANCP = A_2(100\% + B_2) + NCR - APT_1$$

where:

"A₂" 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;

"B₂" equals ____ per-cent [INSERT THE PERCENTAGE] and corresponds to the Second ROR Threshold.

APT₁ is the amount paid in each Year as First PAPT, equal to the value of any APT due to the Government in that Year in relation only to the FANCP.

- v. 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.
- (g) The amounts of APT payable to the Government in respect of Contract Area in any Calendar Year, shall be determined as follows:
 - i. If the FANCP and SANCP are both negative, the APT for the Calendar Year in question shall be zero.
 - ii. If the FANCP is positive but the SANCP is negative, the APT for the Calendar Year in question shall be equal to twenty-five (25) per cent [the First APT Rate] of the FANCP for that Year.
 - iii. If the FANCP and SANCP are both positive, APT for the Calendar Year shall be equal to the aggregate of twenty-five (25) per cent of the FANCP for that Year plus _____ percent [INSERT THE PERCENTAGE for the Second APT Rate] of the SANCP for that Year.
- (h) 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 the Accounting Procedure.
- (i) Where a Petroleum Field or group of Fields extends beyond the Contract Area, PAPT shall be determined by the Contractor in respect of the part of the Field or group of Fields located within the Contract Area and in respect of the incomes and costs arising from that portion only.
- (j) Contractor shall maintain proper records and books of accounts in accordance with the provisions of Annex "D" enabling the calculations described in this Article to be performed. From the Effective Date Contractor shall maintain and submit to the Government annually, or more frequently if so requested, a statement of the FANCP and SANCP. Within thirty (30) days after the end of each year, the Contractor shall submit to ZPRA statement showing the position on additional profit tax.
- (k) The APT terms in respect of a Contract Area under this Article shall apply mutatis mutandis to Natural Gas and when a Petroleum Field produces Crude Oil and Natural

Gas, the determination of the APT for a Field will be performed globally, with the exception of the right to take the APT in kind, which shall not apply to Natural Gas.

- (l) If the Government does not exercise the right to take APT in kind, the APT due, if any, shall be paid in cash at such time and in such manner as the Government may reasonably require.

ARTICLE 35: NOTICES

A notice shall be deemed duly delivered:

- (i) if presented personally;
- (ii) if received on a Business Day for the receiving Party, when transmitted by facsimile to the receiving Party's facsimile number, and if received on a day that is not a Business Day for the receiving Party, on the first business Day following the date transmitted by facsimile to the receiving Party's facsimile number; and
- (iii) one Business Day after being deposited in a regular maintained postal service, postage prepaid, registered, or certified mail addressed to the receiving Party;

Change of address shall be effective from seventh Business Day after giving a notice of change of address.

If to the Minister:

The Minister

Ministry responsible for Petroleum affairs

P.O Box.....

ZANZIBAR

Telephone:

Fax:

E-mail:

If to the Government:

The Principal Secretary

Ministry responsible for Petroleum affairs

P.O Box.....

ZANZIBAR

Telephone:

Fax:

E-mail:

If to ZPRA:

The Managing Director
Zanzibar Petroleum Regulatory Authority
P.O Box.....

ZANZIBAR

Telephone:
Fax:
E-mail:

If to ZPDC:

The Managing Director
Zanzibar Petroleum Development Company
P.O Box.....

ZANZIBAR

Telephone:
Fax:
E-mail:

If to: ABC LTD

The CEO,
ABC Ltd,
P.O Box.....

ZANZIBAR

Telephone:
Fax:
E-mail:

IN WITNESS whereof this Agreement has been duly executed by the Parties, the day and year first hereinbefore written.

Signed for and on behalf of the Revolutionary Government of Zanzibar

Signatory

Witness

.....

.....

Name:

Name:

Title: Minister responsible for

Title:

Petroleum Affairs

Signed for and on behalf of the Zanzibar Petroleum Development Company

Signatory

Witness

.....

.....

Name:

Name:

Title: Managing Director

Title:

Signed for and on behalf of ABC Limited

Signatory

Witness

.....

.....

Name:

Name:

Title: Executive Office

Title:

ANNEX "A": DESCRIPTION OF EXPLORATION LICENSE AREA

The application area is described as totalling (...) square kilometres as per the ZPRA Map in Annex B.

| Point | Longitudes | Latitudes | Remarks |
|-------|------------|-----------|----------------------------------|
| A | | | Due (West, East, South, North) B |
| B | | | |
| C | | | |

ANNEX "B": MAP OF EXPLORATION LICENSE AREA

Total Number of Blocks = []

Total area amounts to [] sq. km.

ANNEX "C": DRAFT EXPLORATION LICENSE

WHEREAS, pursuant to Article 3(a) of the signed Agreement ZPDC has applied for an Exploration License in respect of the area described in Annex "A" to the Agreement and shown on the map in Annex "B" thereof respectively:

I, the Minister responsible for Petroleum affairs pursuant to the powers conferred upon me by Section 51 of The Oil and Gas (Upstream) Act, 2016 hereby grant ZPDC for a period of four (4) years from the date hereof this Exploration License over the exploration area described in the First Schedule hereto conferring on ZPDC the exclusive right to explore in the said exploration area for petroleum and to carry out such operations and execute such works as are necessary for that purpose.

The Exploration License is granted subject to the following conditions:

1. (a) During the period of four (4) years commencing from the date hereof and terminating on the fourth anniversary of the date, ZPDC shall in the said exploration area:
 - (i) Undertake geological, geochemical, geophysical, and related studies and review all existing and relevant data and information available.
 - (ii) Acquire or License and process to industry standards at least [.....] line kilometres of 2D seismic.
 - (iii) Acquire or License and process to industry standards at least [.....] square kilometres of 3D seismic.
 - (iv) Evaluate, integrate and map all data and information obtained under 1(a)(i), (ii) and (iii) above.
 - (v) Drilling of at least [.....] Exploration Wells, to depths of at least [.....], true vertical depth with spudding of the first such well to be not later than thirty-three (33) Months after the Commencement Date.
 - (vi) Spend a sum which, when adjusted in accordance with the formula set out in paragraph (f) of Article 5 of the Agreement, equals or exceeds (...) million United States dollars.
- (b) Subject to any amendment or revision thereof made pursuant to Article 7 of the Agreement, ZPDC shall conduct exploration operations under this license during the year ending 31 December, 20.... in accordance with the detailed Work Programme and Budget set out in the Second Schedule hereto and will spend the sum specified in the said budget.
2. Where during any period covered by the License the obligations of ZPDC under this License have been suspended by reason of Force Majeure pursuant to Article

24 of the Agreement, the period for which this License has been granted shall be extended for a period equal to the period during which the obligations of ZPDC were so suspended.

In this license “the Agreement” means the Agreement made on ____ day of _____ between the Revolutionary Government of Zanzibar, the Zanzibar Petroleum Development Company and ABC Limited.

Unless the context otherwise requires words and phrases in this License shall have the same meaning as those used in The Oil and Gas (Upstream) Act, 2016.

IN WITNESS WHEREOF, I have granted the License aforesaid and set out my hand and seal this day of20.....

.....
Minister Responsible for Petroleum Affairs.

ANNEX “C”1: FIRST SCHEDULE

Coordinates of the corner-points of Exploration License Area

| Points | Longitudes | Latitudes | Remarks |
|--------|------------|-----------|---------|
|--------|------------|-----------|---------|

ANNEX “C”2: SECOND SCHEDULE

[Set out here for the Calendar Year in which this License is first issued the detailed Work Program and Budget submitted by ABC to ZPRA pursuant to Article 7(a) of the Agreement.

ANNEX “D” ACCOUNTING PROCEDURE

This Annex is made a part of the Production Sharing Agreement (hereinafter referred to as the “Agreement”) between the Revolutionary Government of Zanzibar and Zanzibar Petroleum Development Company and Contractor made on the ____ day of _____, 20__.

SECTION 1: GENERAL PROVISIONS

1.1 Definitions

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

1.2 Purpose

The purpose of this Accounting Procedure is to set out principles and procedures of accounting which will enable the Government and ZPRA to monitor the costs, expenditures, production and receipts so that both ZPDC’s entitlement to Profit Oil/Gas and Government’s revenues can be accurately determined on the basis of the Act and this Agreement.

1.3 Documentation Required to be Submitted by Contractor

- (a) Within sixty (60) days of the Effective Date, the Contractor shall submit to and discuss with ZPRA a proposed outline of charts of accounts, operating records and reports, accounting manuals, accounting policies, systems and documentation which outline shall reflect each of the categories and sub-categories of costs and expenditures specified in Sections 2 and 3 below and shall be in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and those issued by relevant authorities in Zanzibar consistent with normal practice for joint venture operations of the international petroleum industry.

Within ninety (90) days of receiving the above submission the Minister in consultation with ZPRA shall either indicate approval of the proposal or request revisions to the proposal.

Within one hundred and eighty (180) days after the Effective Date, the Contractor and the Minister in consultation with ZPRA shall agree on the outline of charts of accounts, operating records and reports, accounting manuals, accounting policies, systems and documentation which shall describe the basis of the accounting system and procedures to be developed and used under the Agreement.

Following such agreement, the Contractor shall expeditiously prepare and provide the Minister and ZPRA with formal copies of the comprehensive charts of accounts related to the accounting, recording and reporting functions, and allows the Minister and ZPRA to examine the manuals and to review procedures which are, and shall be, observed under the Agreement.

- (b) Notwithstanding the generality of the foregoing, the Contractor shall make regular Statements to the Minister and ZPRA relating to the Petroleum Operations. These Statements include:
- (i) Production Statement (see Section 5 of this Annex).
 - (ii) Value of Production, Pricing and Royalty payable Statement (see Section 6 of this Annex).
 - (iii) Statement of Receipts and Expenditures (see Section 7 of this Annex)
 - (iv) Cost Recovery Statement (see Section 8 of this Annex)
 - (v) Decommissioning Fund Statement (See Section 9 of this Annex)
 - (vi) APT Statement (see Section 10 of this Annex)
 - (vii) End-of-Year-Statement (see Section 11 of this Annex).
 - (viii) Budget Statement (see Section 12 of this Annex).
 - (ix) Local Procurement Statement (see Section 13 of this Annex).
- (c) All reports and Statements shall be prepared in accordance with the Agreement, the laws of Zanzibar and, where there are no relevant provisions in either of these, in accordance with the International Financial Reporting Standards and the normal Practice of the International Petroleum Industry.

1.4 Language, Units of Account and Exchange Rates

- (a) The Contractor shall maintain accounts in Tanzanian shillings and United States dollars; however, the United States dollar accounts will prevail in case of conflict. Metric units, barrels, and British thermal units (Btu) shall be employed for measurements required under the Agreement and this Annex. The language employed shall be English.
- (b) It is the intent of this Accounting Procedure that neither the Government nor ZPDC nor ZPRA nor the Contractor should experience an exchange gain or loss at the expense of, or to any of the benefit of, any of the other parties. However, should there be any gain or loss from exchange of currency, it will be credited or charged to the accounts under the Agreement.
- (c)
- (i) Amounts received and costs and expenditures made in Tanzanian shillings or in United States dollars shall be converted from Tanzanian shillings into United States dollars or from United States dollars into Tanzanian shillings on the basis of the monthly average of the mean of the daily official buying and selling exchange rates between the currencies in question as published by the Relevant Authorities or failing such publication, any other publication as agreed by the parties for the Month in which the relevant transaction occurred.

- (ii) Notwithstanding the general policy described in the preceding sub-article (i), all transactions in excess of the equivalent of two hundred and fifty thousand United States dollars (US\$ 250,000) shall be converted at the mean of the buying and selling exchange rates published by the Relevant Authority on the day the transaction occurred.
- (iii) Amounts received and expenditures made in currencies other than United States dollars and Tanzanian shillings shall be converted into United States dollars or Tanzanian shillings on the basis of the monthly average of the mean of the daily buying and selling exchange rates between the currencies in question as published by the Bank of Tanzania for the Month in which such amount was received or such cost or expenditure was made or, where such rate is not published by Bank of Tanzania then, as published in the Financial Times (London edition) for the applicable Month.
- (iv) The average monthly exchange rate calculated in accordance with sub-section 1.4 (c) (i) above and, where relevant, the exchange rates employed pursuant to sub-sections 1.4 (c) (ii) and (iii) above, shall be identified in the relevant Statements required under sub-section 1.3 (b) of this Annex.

1.5 Payments

- (a) Subject to Article 11 of the Agreement, all payments between the parties shall be in United States dollars and through a bank designated by each receiving party no later than the 1st day of each Quarter for which development costs have been budgeted.
- (b) Discharge of the Contractor's obligation with respect to Government share of revenue and ZPDC's share of Profit Oil/Gas or cost Oil and Gas shall be made in accordance with the Agreement.
- (c) Without prejudice to Section 107 of the Act, all sums due from one party to the other under the Agreement during any Calendar `quarter shall, for each day such sums are overdue during such quarter, bear interest compounded daily at an annual rate equal to the average London Interbank Offer Rate (LIBOR) for six (6) months US dollars as quoted at 11.00 a.m. London time on the first business day of such Quarter by the London office of National Westminster Bank, or such other bank as the parties may agree, plus three (3) percentage point.

1.6 Audit and Inspection Rights of Government

- (a) Without prejudice to statutory rights, ZPRA shall have the right to cause to audit to each Calendar year within five (5), years (or such longer period as may be required in exceptional circumstances) from the end of each such year.

Notice of any exception to the accounts for any Calendar Year shall be submitted to the Contractor within ninety (90) days of receipt by ZPRA of the report of its

auditors. For purposes of auditing, ZPRA may examine and verify, at reasonable times by giving 30 days' notice to the Contractor. The Audit shall examine and verify all charges and credits relating to the Contractor'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 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 Contractor directly or indirectly serving its activities under the Agreement and to visit and inquire from personnel associated with those activities. Where ZPRA requires verification of charges made by an Affiliate Company it shall have the right to obtain an audit certificate from a recognized firm of public accountants acceptable to both ZPRA and the Contractor.

- (b) The Contractor shall answer any notice of exception under subsection 1.6 (a) within sixty (60) days of its receipt of such notice, where the Contractor has after the said sixty days' period failed to answer a notice of exception made by ZPRA, ZPRA's exception shall be deemed as accepted by Contractor and the accounts shall be adjusted accordingly.
- (c) where the exception leads to an adjustment which involves an amount being payable to either party (Government and Contractor) the amount shall be paid promptly.
- (d) In case of dispute after sixty days, the Chief Executives of the contractor and ZPRA shall meet to resolve the disagreement on the exceptions by mutual agreement. Where no agreement is reached, the contractor and ZPRA shall appoint a third-party expert to review the exceptions and the final report of the expert shall be final between the parties.

1.7 Accrual Basis

All book, accounts and records shall be prepared on an accrual basis. Contract revenues shall be attributed to the accounting period in which they are earned, and costs and expenses to the accounting period in which they are incurred, without the need to distinguish whether cash is received or disbursed in connection with a particular transaction. Costs and expenses shall be deemed to have been incurred, in the case of psychical items, in the accounting period when Contractor acquires title thereto, and in the case of services, in the accounting period when such services are performed.

1.8 Arm's Length Transactions

Except as may be otherwise agreed in writing between the Competent Body and Contractor, all transactions giving rise to revenues, costs or expenses which will be credited or charged to the books, accounts, records and reports prepared, maintained

or submitted hereunder shall be conducted at arm's length or on such a basis as will assure that all such revenues, costs or expenses will not be higher or lower, as the case may be, than would result from a transaction conducted at arm's length on a competitive basis with third parties.

SECTION 2: CLASSIFICATION, DEFINITION AND ALLOCATION OF COSTS AND EXPENDITURES

Expenditures shall be segregated in accordance with the objectives for which such expenditure was made. The objectives which shall qualify are those which have been approved and included in the approved Work Program and Budget for the Calendar Year in which the expenditure is made and other items which have been agreed by the parties from time to time. All expenditures allowable under Section 3 relating to Petroleum Operations shall be classified, defined and allocated as set out herein below. In the event of a discovery, each Development Area shall maintain its expenditure records shall be maintained for.

2.1 Exploration Expenses

Exploration Expenses are all direct and allocated indirect expenditures incurred in the search for Petroleum in an area which is or was, at the time when such expenses were incurred, part of the Contract Area including:

- (a) aerial, geophysical, geochemical, paleontological, geological, topographical and seismic surveys, licenses and studies and their interpretation;
- (b) Exploration and Appraisal wells and bore hole drilling;
- (c) labour, materials and services used in drilling wells with the object of finding new Petroleum Reservoirs, or for the purposes of appraising the extent of Petroleum provided such wells are not completed as producing wells;
- (d) facilities used solely in support of the purposes described (a), (b) and (c) above including access roads, fixed assets and geological and geophysical equipment, all identified separately;
- (e) any General and Administrative Costs and Service Costs directly incurred on Exploration Operations and identifiable as such; and a portion of the remaining General and Administrative Costs and Service Costs allocated to the Exploration Operations, determined by the proportionate share of total Contract Expenses (excluding unallocated General and Administrative Costs and Service Costs) represented by all other Exploration Expenses.
- (f) any other Contract Expenses specifically incurred in the search for Petroleum after the Effective Date and not covered under sub-section 2.2, 2.3, 2.4 and 2.5.

2.2 Development Expenses

Development Expenses shall consist of all expenditures incurred in:

- (a) studies of the subsurface for the purpose of determining the best manner of recovering hydrocarbons, which include geological and geophysical surveys, production geology, modelling and simulation of reservoir as an integral part of economic reservoir exploitation and conservation;
- (b) drilling wells which are completed as producing wells and drilling wells for purposes of producing from a Petroleum Reservoir already discovered whether

these wells are dry or producing, and drilling wells for the injection of water or gas to enhance recovery of Petroleum;

- (c) 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;
- (d) the cost of petroleum production facilities, storage and transport facilities such as pipelines, flow lines, production and treatment units, wellhead equipment, subsurface equipment, enhanced recovery systems, offshore platforms, petroleum storage facilities and access roads for production activities; for avoidance of doubt these expenses shall be limited to expenses incurred in the contract area or for the purpose of upstream activities;
- (e) the costs of engineering and design studies for facilities referred to in subsection 2.2. (d);
- (f) any General and Administrative Costs and Service Costs directly incurred on development activities and identifiable as such; and a portion of the remaining General and Administrative Costs and Service Costs allocated to development activities, determined by the proportionate share of total Contract Expenses (excluding unallocated General and Administrative Costs and Service Costs) represented by all other Development Expenses.

2.3 Operating Expenses

Operating Expenses are all expenditures incurred in the Petroleum Operations after the start of commercial production which are other than Exploration Expenses, Development Expenses, General and Administrative Costs and Service Costs directly incurred on operating activities and identifiable as such, as well as the balance of General and Administrative Costs and Service Costs.

2.4 Service Costs

Service Costs are direct and indirect expenditures in support of the Petroleum Operations including warehouses, export terminals, harbours, piers, marine vessels, vehicles, motorized rolling equipment, aircraft, 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. Service Costs in any Calendar Year shall include 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, each to be identified separately. All Service Costs shall be regularly allocated as specified in sub-sections 2.1(d), 2.2(e) and 2.3 to Exploration Expenses, Development Expenses and Operating Expenses and Decommissioning Costs shall be separately shown under each of these categories.

2.5 General and Administrative Costs

General and Administrative Costs include:

- (a) all main office, field office and general administrative expenses in Zanzibar including but not limited to supervisory, accounting and employee relations services, but excluding commissions paid to intermediaries by the Contractor;
- (b) an annual overhead charge for services rendered outside Zanzibar not otherwise charged under this Accounting Procedure with appropriate documentation based on market rates acquired through competitive means for managing the Petroleum Operations and for staff advice and assistance including financial, legal, accounting and employee relations services. The annual overhead charge shall be separately identified in all reports to the Government and ZPRA.
- (c) For the period from the Effective Date until the date on which the first Development License under the Agreement is granted by the Minister the annual overhead charge shall be itemized and verifiable costs but in no event greater than one percent (1%) of the Contract Expenses; including those covered in subsection 2.5(a) incurred during the Calendar Year. From the date of grant of the Development License the charge shall be at an amount or rate to be agreed between the parties and stated in the Field Development Plan approved with the grant of the said License;
- (d) all General and Administrative Costs will be regularly allocated as specified in subsections 2.1(e), 2.2. (e) and 2.3 to Exploration Expenses, Development Expenses and Operating Expenses and shall be separately shown under each of these categories.
- (e) For avoidance of doubt payment relating to royalty, bonuses, surface rents taxes shall not be included in this category.

2.6 Decommissioning Costs

Decommissioning Costs are all direct and allocated indirect costs and expenditures incurred in carrying out Decommissioning Operations and include:

- (a) any General and Administrative Costs and Service Costs directly attributable to Decommissioning Operations and identifiable as such, and a portion of the remaining General and Administrative Costs and Service Costs allocated to Decommissioning Operations, determined by the proportionate share of total Recoverable Contract Expenses (excluding unallocated General and Administrative Costs and Service Costs) represented by all other Decommissioning Costs; and
- (b) such costs and expenditures in respect of the Decommissioning Fund, (including contributions to the Decommissioning Fund) as provided in Article 20.

SECTION 3: COSTS, EXPENSES, EXPENDITURES AND CREDITS OF THE CONTRACTOR

3.1 Recoverable Costs under the Agreement

Subject to the provisions of the Agreement, the Contractor shall bear and pay all costs and expenses in respect of Petroleum Operations. These costs and expenses will be classified under the headings referred to in Section 2. The following costs and expenses are recoverable as Cost Oil and/or Cost Gas by the Contractor under the Agreement:

(a) Labour and Associated Costs

- (i) Gross salaries and wages of the Contractor's employees directly and necessarily engaged in the Petroleum Operations in Zanzibar, it being understood that in case of those personnel only a portion of whose time is wholly dedicated to Petroleum Operations, only that pro-rata portion of applicable wages and salaries will be charged. For purposes of cost recovery, gross salaries and wages for the Contractor's employees shall be reviewed and approved by ZPRA on annual basis.
- (ii) Cost to the Contractor of voluntary established plans for employees' group life insurance, hospitalization, company pension, retirement and other benefits of a like nature customarily granted to the employees and the costs regarding holiday, vacation, sickness and disability payments applicable to the salaries and wages according to the laws of Zanzibar chargeable under subsection (i) above shall be allowed at actual cost, provided however that such total costs shall not exceed twenty-five per cent (25%) of the total labour costs under subsection (i) above.
- (iii) Expenses or contributions made pursuant to assessments or obligations imposed under the laws of Zanzibar which are applicable to the cost of salaries and wages chargeable under (i) above.

(b) Transportation

The economic cost of transportation of; employees, equipment, materials and supplies necessary for the conduct of the Petroleum Operations in Zanzibar. Employees air travel shall be limited to business and economy classes; whereas transportation of equipment, materials and supplies shall be the most economic means shall be used.

(c) Charges for Services

(i) Third Party Contracts

The actual costs of contracts, for technical and other services entered into by the Contractor for Petroleum Operations, made with third parties other than Affiliate Companies are recoverable; provided that the costs have been obtained through tendering process and approved by ZPRA.

(ii) Affiliate Companies

Without prejudice to the charges to be made in accordance with sub-section 2.5, in the case of general services, advice and assistance rendered to the Petroleum Operations by any Company, the charges will be based on actual costs without profits and will be competitive. The Contractor shall specify to ZPRA the amount of charges which constitutes an allocated proportion of the general material, management, technical and other costs of the Affiliate Company, 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 recognized auditors of the Affiliate Company or any other third-party comparison.

- (iii)** In the event that the prices and charges referred to in sub-articles (i) and (ii) above are shown to be uncompetitive then ZPRA will have the right to disallow that portion as it deems fit for cost recovery purposes.

(d) Exclusively Owned Property

For services rendered to Petroleum Operations through the use of property exclusively owned by the Contractor, the accounts shall be charged at rates, not exceeding those prevailing in Petroleum operations in the region, which reflect the cost of ownership and operation of such property, or at rates to be agreed.

(e) Material and Equipment

(i) General

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

(ii) Warranty of Material and Equipment

The Contractor does not warrant material and equipment beyond the supplier's or manufacturer's guarantee for those procured through competitive process and, in case of defective material or equipment, any adjustment received by Contractor from the suppliers/manufacturers or their agents will be credited to the accounts under the Agreement.

(f) Value of Material and Equipment Charged to the Accounts under the Agreement

- (i)** Except as otherwise provided in (ii) below, material and equipment purchased by the Contractor for use in Petroleum Operations 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 material and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site, and its costs shall not exceed those currently prevailing in normal arm's length transactions on the open market.

- (ii) Material purchased from or sold to Affiliate Companies or transferred to or from activities of the Contractor, other than Petroleum Operations under this Agreement, shall be priced and charged or credited at the prices specified in (1) and (2) below:

- (1) **New Material/Equipment (Condition "A")** shall be valued the lower of current international price and actual price paid for materials which shall not exceed price prevailing in normal arm's length transactions on the open market.

- (2) **Used Material/Equipment (Condition's "B" and "C")**

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

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

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

- (b) is serviceable for original function but substantially not suitable for reconditioning, shall classified as Condition "C" and priced at not more than fifty percent (50%) of the current price of new material (Condition "A") as defined in (1) above. The cost of reconditioning shall be charged to reconditioned material provided that the Condition "C" material value plus the cost or reconditioning does not exceed the value of Condition "B" material.

- (iii) Material/equipment which cannot be classified as Condition "B" or Condition "C" shall be priced at a value to be agreed between ZPRA and the Contractor.

- (iv) Material/equipment involving erection costs shall be charged at applicable condition percentage of the current

knocked-down price of new material/equipment as defined in (1) above.

- (v) When the use of material/equipment is temporary and its service to Petroleum Operations does not justify the reduction in prices as provided for in sub- article (2) (ii) above, 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.

(g) Rentals, Duties and Other Assessments

All rentals, levies, charges, fees and any other assessments and charges levied by the Government in connection with Petroleum Operations and paid directly by the Contractor. For the avoidance of doubt this does not include surface rental fees and bonus payments payable by the Contractor pursuant to Article 10 and any income tax and royalty (pursuant to Article 15) and Government and ZPDC shares (pursuant to Article 11), Additional Profit Tax pursuant to Article 34 and withholding taxes.

(h) Insurance and Loses

Insurance premiums and the costs incurred for insurance pursuant to and in accordance with Article 20 shall be recoverable provided they are incurred in accordance with ZPRA approved process and losses incurred as a consequence of events which are, and in so far as, not made good by insurance are recoverable unless such costs have resulted from the Contractor's failure to follow the terms, clauses, conditions or warranties of the insurance policy(s) and/or the Contractor negligence and/or the gross negligence of the Contractor or sub-contractors.

(i) Legal Expenses

All reasonable costs and expenses of litigation and legal or related services necessary or expedient for the procuring, perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving the Area 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 joint interest of Government, ZPDC and the Contractor are recoverable. Where legal services are rendered in such matters by salaried or regularly retained lawyers of the Contractor or an Affiliate Company, such compensation shall be included instead under sub-section 3.1(a) or 3.1(c) above as applicable.

(j) Training Costs

All costs and expenses incurred by the Contractor in training of Zanzibar employees engaged in Petroleum Operations and such other training as is required under Article 19 of the Agreement.

(k) General and Administrative Costs

The costs described in sub-section 2.5(a) and the charge described in sub-section 2.5(b).

(l) Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems including radio and microwave facilities within and between the Contract Area and the Contractor's nearest base facility.

(m) Office and Miscellaneous Facilities

Net cost to the Contractor of establishing, maintaining and operating any office, sub-office, warehouse, housing or other facility directly serving the Petroleum Operations. If any such facility services more than one contract area the net costs thereof shall be allocated on an equitable basis in accordance with prudent international petroleum industry practice.

(n) Environment costs excluding those arising from contractor's and sub-contractor's negligence in the conduct of Petroleum operations;

- (i) Costs incurred in the Contract Area as a result of legislation for archaeological and geophysical surveys relating to identification and protection of cultural sites or resources;
- (ii) Costs incurred in social, environmental or ecological surveys required by regulatory authorities, including social and environmental impact assessment commissioned pursuant to Article 23(k) and any other costs incurred in complying with the requirements of Article 23;
- (iii) Costs to provide or have available pollution containment and removal equipment;
- (iv) Costs of actual control and cleanup of oil spills, and of such further responsibilities resulting therefrom as may be required by applicable laws and regulations;
- (v) Costs of restoration of the operating environment incurred pursuant to an approved scheme by ZPRA for decommissioning prepared in accordance with Article 20;
- (vi) Any costs incurred for the decommissioning of facilities and site restoration, including any related activity required by the Government or other competent authority or by the Agreement.

(o) Other Expenditures

Other reasonable expenditures not covered or dealt with in the foregoing provisions of this Section 3.1 which are necessarily incurred by the Contractor for the proper, economical and efficient conduct of Petroleum Operations but then only with the prior approval in writing of ZPRA.

3.2 Costs not Recoverable under the Agreement

- (a) Annual charges: This covers all direct costs attributable to the acquisition, renewal, or relinquishment of surface rights acquired and maintained in force for the purposes of this Agreement.
- (b) all costs incurred before the Effective Date except charges incurred by Contractor for licensing, copying and shipping of data relating to the Contract Area;
- (c) petroleum marketing or transportation costs of Petroleum beyond the Delivery Point;
- (d) the costs of any bank guarantee or letter of guarantee required under the agreement (and any other amounts spent on indemnities with regard to non-fulfilment of contractual obligations);
- (e) legal and costs of arbitration and the sole expert in respect of any dispute for determination under the Agreement;
- (f) fines and penalties imposed by relevant authorities in Zanzibar;
- (g) costs incurred as a result of wilful misconduct or negligence of the Contractor in the performance or non-performance of the Agreement;
- (h) donations and contributions made by the Contractor;
- (i) Signature bonus and production bonus;
- (j) royalties and taxes paid by the Contractor to the Government pursuant to Article 15 and Government and ZPDC Profit Shares determined pursuant to Article 11;
- (k) expenditure on fundamental research into development of new equipment, materials and techniques for use in the search for, developing and producing petroleum except to the extent that such research and development is directly carried out in support of Petroleum Operations in Zanzibar and is conducted in collaboration with ZPDC and/or ZPRA;
- (l) interest and financial charges paid to the creditors of the Contractor; and
- (m) bonuses paid to employees and directors.
- (n) expenditures in respect of any financial transaction to negotiate, float or otherwise obtain or secure funds for Petroleum Operations including, but not limited to, interest, commission, brokerage and fees related to such transactions, as well as exchange losses on loans or other financing, whether between Affiliates or otherwise;
- (o) costs which are not adequately supported and documented and which have not been incurred at arm's length;
- (p) costs associated with local offices and local administration, including staff benefits, which are excessive;

- (q) Payment paid by Contractor for decommissioning from Decommission fund.
- (r) Cost incurred or paid by the Contractor for the Contract Area that have been made subject to relinquishment.
- (s) Costs/revenue outside development license (ring fence costs)
- (t) Cost incurred as a result of duties and taxes outside Zanzibar.
- (u) Costs related to mergers, acquisition and transfer of participating interest.
- (v) Statutory payments or taxes that should be withheld or collected but is instead born by the Contractor or grossed-up.
- (w) Cost of statutory and special purpose audits and tax consultants' advisory fees
- (x) the net loss proceeds for material/equipment originally charged to the Account(s) under the Agreement and subsequently exported from Zanzibar without being used in Petroleum Operations;
- (y) dividend paid.
- (z) withholding taxes on dividends and service provision
- (aa) any costs which, by reference to the Best International Petroleum Industry Practices, can be shown to be excessive;
- (bb) expenditure on fundamental research into development of new equipment, materials and techniques for use in search for, developing and producing petroleum except to the extent that such research and development is directly carried out in support of Petroleum Operations in the specific license area whereby such research is conducted in collaboration with ZPDC and ZPRA; and

3.3 Other costs and Expenses

Any other costs and expenses not covered or dealt with in the foregoing provisions of this Section 3, and which are incurred by Contractor for the necessary and proper conduct of Petroleum Operations are recoverable only with the prior approval in writing of ZPRA.

3.4 Credits under the Agreement

The net proceeds received from Petroleum Operations (other than the proceeds from the sale of Crude Oil and Natural Gas), including but not limited to the transactions listed below, will be credited to the accounts under the Agreement. For Profit Oil/Gas sharing purposes such credits shall be offset against Recoverable Contract Expenses as well as being used as credits in the R-factor calculations:

- (a) the net proceeds of any insurance or claim in connection with Petroleum Operations or any assets charged to the accounts under the Agreement when such operations or assets were insured and the premiums charged to the accounts under the Agreement;

- (b) legal expenses charged to the accounts under Section 3.1 (i) and subsequently recovered by the Contractor;
- (c) revenue received from third parties including Affiliate Companies for the use of property or assets charged to the accounts under the Agreement;
- (d) any adjustment received by the Contractor from the suppliers, manufacturers or their agents in connection with defective material, the cost of which was previously charged by the Contractor to the accounts under the Agreement;
- (e) rentals, refunds or other credits received by the Contractor which apply to any charge which has been made to the accounts under the Agreement;
- (f) the net proceeds for material originally charged to the accounts under the Agreement and subsequently not used in Petroleum Operations under the Contract area;
- (g) the net proceeds from the sale or exchange by the Contractor of materials, equipment, plant or facilities, the acquisition costs of which have been charged to the accounts under the Agreement;
- (h) the proceeds from the sale of any petroleum information which relates to the Contract Area provided that the acquisition costs of such rights and information have been charged to the accounts under the Agreement;
- (i) the proceeds derived from the sale or license of any intellectual property the development costs of which were incurred under this Agreement.

3.5 Duplication of Charges and Credits

Notwithstanding any provision to the contrary in this Accounting procedure, it is agreed that there shall be no duplication of charges or credits to the accounts under the Agreement.

3.6 Purchase Procedures

- (a) Materials, goods, equipment and services shall be procured through an agreed and documented procurement procedures, which shall be agreed between ZPDC, and contractor and approved by ZPRA within 180 days from the date of the contract becoming effective. Procurement procedures shall take into account Laws, regulations, guidelines existing in Zanzibar and Best International Petroleum Industry Practices.
- (b) Materials, goods, equipment and services procured or charged as recoverable or revenue earned shall be on basis of the principles of economy, efficiency and effectiveness of the petroleum operation objectives.
- (c) Costs and expenditure incurred contrary to the purchase procedures shall not be recoverable.

SECTION 4: RECORDS AND VALUATION OF ASSETS

The Contractor shall maintain correct, exact and detailed records of property and assets in use for Petroleum Operations in accordance with normal practice in exploration and production activities of the international petroleum industry.

At six (6) monthly intervals the Contractor shall notify ZPRA in writing of all assets acquired during the preceding six (6) months indicating the quantities, costs and location of each asset.

At reasonable intervals but at least once a year with respect to movable assets and once every four (4) years with respect to immovable assets, inventories of the property and assets under the Agreement shall be taken by the Contractor.

The Contractor shall give ZPRA at least thirty (30) days written notice of its intention to take such inventory is taken. The Contractor will clearly state the principles upon which valuation of the inventory has been based. When an assignment of rights under the Agreement takes place, a special inventory may be taken by the Contractor at the request of the assignee provided that the costs of such inventory are borne by the assignee.

SECTION 5: PRODUCTION STATEMENT

- 5.1 Upon commencement of production from the Contract Area, the Contractor shall submit a monthly Production Statement to ZPRA showing the following information for each Development License and for the Contract Area:
- (a) the quantity and quality of Crude Oil/Natural Gas produced and saved;
 - (b) the quantity and composition of Natural Gas produced and saved;
 - (c) the quantities of Petroleum used for the purposes of carrying on drilling and production operations and pumping to field storage as well as quantities injected into the formation;
 - (d) the quantities of Petroleum unavoidably lost with explanation;
 - (e) Quantities of natural gas flared or vented;
 - (f) Quantity of water produced during production;
 - (g) the size of Petroleum stocks held at the beginning of the Month in question.
 - (h) the size of petroleum stocks held at the end of the Month in question;
 - (i) the number of days in the Month during which Petroleum was produced from each Development License within the Contract Area;
- 5.2 Upon commencement of Production from the Contract Area and following the end of each Quarter the Contractor shall submit an aggregated statement in respect of the three Months comprising that Quarter for each of the items listed in sub-sections 5.1(a) to (g) inclusive to ZPRA. Additionally, the average daily production rate for the Quarter shall be calculated in accordance with Article 11 of the Agreement and shall be reported to ZPRA together with the aggregated statement for such Quarter submitted by Contractor pursuant to this Section 5.2.
- 5.3 The Production Statement for each Month or quarter shall be submitted to the Government and ZPRA not later than seven (7) days after the end of such Month or quarter.

SECTION 6: VALUE OF PRODUCTION, PRICING AND ROYALTY STATEMENT

6.1 The Contractor shall:

- (a) for the purposes of Article 12 and 13 of the Agreement, prepare a Statement providing calculations of the value of Crude Oil/Natural Gas produced and saved during each Calendar Quarter; and
- (b) for the purpose of Article 15 of the Agreement, prepare a statement of Royalty due during each Quarter and providing calculations in respect of such Royalty for the purposes of Article 15 together will be known as the "Valuation of Production, Pricing and Royalty Statement.

6.2 The Valuation of Production, Pricing and Royalty Statement shall be prepared for each Quality of Zanzibar Crude Oil /Natural Gas produced and saved from each Development License within the Contract Area, shall contain the following information:

- (a) the quantities, prices and receipts realized therefore by the Contractor in Third Party
- (b) Sales of Zanzibar Crude Oil/Natural Gas during the Calendar Quarter in question;
- (c) the quantities, prices and receipts realized therefore by the Contractor in sales of Zanzibar Crude Oil/Natural Gas during the Calendar Quarter in question, other than in Third Party Sales;
- (d) the value of stocks of Crude Oil/Natural Gas held at the beginning of the Calendar Quarter in question;
- (e) the value of stocks of Crude Oil/Natural Gas held at the end of the Calendar Quarter in question;
- (f) the percentage volume of total sales of Zanzibar Crude Oil/Natural Gas made by the Contractor during the Calendar Quarter that are the Third-Party Sales;
- (g) all information available to the Contractor, if relevant for the purposes of Article 12 of the Agreement, concerning the prices of the selection of major competitive crude oils/gas, including contract prices, discounts and premiums, and prices obtained on the spot markets;
- (h) the statement of Royalty payable.

The Value of Production and Pricing Statement for each Calendar Quarter shall be submitted to Government and ZPRA not later than twenty (20) days after the end of such Calendar Quarter.

SECTION 7: STATEMENT OF RECEIPTS AND EXPENDITURE

- 7.1 The Contractor shall prepare with respect to each Calendar Month a Statement of Receipts and Expenditure under the Agreement on the basis of each License within the Contract Area. The Statement will distinguish between Exploration Expenses, Development Expenses and Operating Expenses and will separately identify all significant items of expenditures within these categories. If ZPRA is not satisfied with the degree of desegregation within the categories it shall be entitled to ask for a more detailed breakdown. The statement will show the following:
- (a) actual receipts and expenditure (including all credits pursuant to Section 3.4 of this Accounting Procedure) for the Month in question showing variances from the budget and explanations thereof;
 - (b) cumulative receipts and expenditure (including all credits pursuant to Section 3.4 of this Accounting Procedure) for the budget year in question;
 - (c) latest forecast of cumulative expenditure at the Year-end; and
 - (d) variations between budget forecast and latest forecast, with explanation thereof.
- 7.2 At the end of each Calendar Quarter aggregated Statements in respect of the three Months comprising that Quarter shall be submitted for each of the items (a) to (d) in sub-section 7.1 above.
- 7.3 The Statement of receipts and expenditure for each Calendar Month or Quarter shall be submitted to Government and ZPRA not later than twenty-one (21) days after the end of such Month or Quarter.

SECTION 8: COST RECOVERY STATEMENT

- 8.1 The Contractor shall prepare with respect to each Calendar Quarter a Cost Recovery Statement based on each License within the Contract Area containing the following information:
- (a) Recoverable Contract Expenses carried forward from the previous Quarter, if any;
 - (b) Recoverable Contract Expenses for the Quarter in question;
 - (c) total Recoverable Contract Expenses for the Quarter in question (sub-section 8.1(a) plus sub-section 8.1(b));
 - (d) quantity and value of Cost Oil and/or Cost Gas taken and disposed of by the Contractor for the Quarter in question;
 - (e) Contract Expenses recovered for the Quarter in question;
 - (f) total cumulative amount of Contract Expenses recovered up to the end of the Quarter in question;
 - (g) amount of Recoverable Contract Expenses to be carried forward into the next Quarter.
 - (h) proceeds and balance of the Decommissioning Fund pursuant to Article 20.
- 8.2 The cost recovery information required pursuant to sub-section 8.1 above shall be presented in sufficient detail so as to enable Government and ZPRA to identify how the cost of assets are being recovered for the purposes of Article 11 of the Agreement.
- 8.3 The Cost Recovery Statement for each Quarter shall be submitted to Government and ZPRA not later than twenty-one (21) days after the end of such Quarter.

SECTION 9: ADDITIONAL PROFIT TAX STATEMENT

The Contractor shall prepare and submit to ZPRA a detailed statement setting out the calculations of the APT pursuant to Article 34 of the Agreement. The statement shall clearly show the details of the categories required in the calculations of APT. Such statement shall be prepared annually and submitted within a following quarter. ZPRA may set a format of the statement and may seek further details and information used in the calculations of the APT.

SECTION 10: DECOMMISSIONING FUND STATEMENT

The Contractor shall prepare with respect to each Quarter Decommissioning Fund Statement for each Development License within a Contract Area which shall contain the following information:

- (a) appropriation to the fund from revenues net of royalty;
- (b) proceeds from investment of the fund;
- (c) expenditure from the fund; and
- (d) balance of the Decommissioning Fund at the end of the Quarter in question.

SECTION 11: END-OF-YEAR STATEMENT

The Contractor shall prepare a definitive End-of-Year Statement for each Development License. The End of Year Statement shall comprise of the following:

- (a) aggregated information for the Year in the same format as required in the Production Statement; Value of Production, Pricing and Royalty payable Statement; Statement of Receipts and Expenditure; Cost Recovery Statement; Decommissioning Fund Statement and Additional Profits Tax Statement to be based on the actual quantities of Petroleum produced and the costs and expenses incurred in the Exploration or Development License. The End-of-Year Statement for each Calendar Year shall be submitted to Government and ZPRA within sixty (60) days of the end of such Calendar Year.
- (b) Annual Audited Financial Statements which shall be prepared in accordance with IFRS and audited by a recognized and registered auditor in Zanzibar. These financial statements shall be submitted to ZPRA within ninety (90) days of the end of such Calendar Year.

SECTION 12: BUDGET STATEMENT

- 12.1 In addition to each annual Work Programme and Budget to be prepared in accordance with Article 5 and Article 7, the Contractor shall prepare an Annual Budget Statement for each year based on each petroleum operation activity which shall set out separately Exploration Expenses, Development Expenses, Operating Expenses, Decommissioning Costs and quantities of oil and gas to be produced for such Year and shall show the following:
- (a) forecast expenditure and receipts for the Year under the Agreement;
 - (b) cumulative expenditures and receipts, by the Contractor under the Agreement to the end of the said Year; and
 - (c) a schedule showing the most important individual items of Development Expenses, (if applicable) for the said Year;
 - (d) Forecast production and pricing for the year broken down on quarterly and for every development license and by product.
- 12.2 The Budget Statement shall be submitted to ZPRA with respect to each Year no less than ninety (90) 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 not later than thirty (30) days following the Effective Date.

SECTION 13: LOCAL PROCUREMENT STATEMENT

- 13.1 In furtherance of the obligation in Article 18 of the Contract for the Contractor to give preference to the procurement of Zanzibar goods and services, the Contractor shall prepare in respect of each Quarter a local procurement statement, containing the following information:
- (a) The amount of expenditure incurred by the Contractor directly, or indirectly through its Subcontractors, on goods supplied, produced or manufactured in Zanzibar;
 - (b) the amount of expenditure incurred by the Contractor directly, or indirectly through its Subcontractors, on services provided by Zanzibar entities;
 - (c) the respective percentages that the expenditures recorded under items (a) and (b) above represent of the Contractor's total expenditures;
 - (d) a detailed description of the procedures adopted during the Quarter to identify and purchase goods and services from Zanzibar suppliers; and
 - (e) a detailed exposition of how the local purchases for the Quarter as recorded under items (a) and (b) above compared with the projected purchases included in the budget statement for that Year.
- 13.2 The Local Procurement Statement for each Quarter shall be submitted to Government and ZPRA not later than twenty-one (21) days after the end of such Quarter.

SECTION 14: REVISION OF ACCOUNTING PROCEDURE

- 14.1 The provisions of this Accounting Procedure may be amended by agreement between the Contractor, ZPDC and the Government. The amendments shall be made in writing and shall state the date upon which the amendments shall become effective.
- 14.2 The revision of accounting procedures may be done when one of the Parties to the Agreement or ZPRA request such revision.

SECTION 15: 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.

ANNEX "E": PARTIES WITH PARTICIPATING INTERESTS

| S/N | Party | Percentage Interest | Responsibility (Operator/Member) |
|------------|--------------|----------------------------|---|
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ANNEX "F": PARENT OR AFFILIATE COMPANY GUARANTEE

This Annex forms an integral part of the Agreement between the Revolutionary Government of Zanzibar (RGoZ) and Zanzibar Petroleum Development Company (ZPDC) and the contractor.

The Minister

.....

WHEREAS, _____ a company duly organised and existing under the laws of registered office at having its (hereinafter referred to as 'the Guarantor' which expression shall include its successors and assigns) is [the indirect owner of one hundred percent (100%) of the capital stock of XYZ Company and direct owner of its parent company;] and

WHEREAS XYZ Company is signatory to a Production Sharing Contract in respect of an (offshore) (onshore) area identified as Block _____ (hereinafter referred to as 'the Contract') made between the Revolutionary Government of Zanzibar (hereinafter referred to as 'the Government'), and XYZ Company (hereinafter referred to as XYZ which expression shall include its successors and permitted assigns);

and

WHEREAS the Guarantor wishes to guarantee the performance of XYZ Company or its Affiliate Assignee under the Contract as required by the terms of the Contract;

NOW, THEREFORE this Deed hereby provides as follows:

- A. The obligations set forth in Article 3(f) and Article 5 and reflected in the Guarantee shall be continuing and absolute guarantees, and the obligations set forth in Article 3(f) and Article 5 shall remain in full force and effect unless and until a Notice of Termination has been issued (subject to any rights to rectify being exhausted), provided, however, that **ABC's** obligations pursuant to Article 3(f) and Article 5 shall survive only with respect to such obligations that occurred or arose prior to such termination if, within six (6) months from any such termination, the Minister shall have notified the Guarantor in writing of such a Loss and that it is demanding or will be demanding payment pursuant to Article 3(f).
- B. If ABC shall fail to make any required payment guaranteed pursuant to Article 3(f) following demand thereof, the ABC Parent shall, within ten (10) days following the giving of notice of such failure and the demand by the Minister for payment, promptly and fully make such payment. If such payment is not made within ten (10) days of such demand, **ABC** Parent shall pay all reasonable costs and expenses, including reasonable legal fees and expenses, paid or incurred by ZPRA or the Revolutionary Government of Zanzibar in connection with the enforcement of the obligations under

Article 3. Each default in any obligation shall give rise to a separate cause of action hereunder, and separate suits may be brought hereunder as each cause of action arises.

- C. The obligations of the ABC Parent under the Guarantee shall not be impaired, modified, released or limited by any occurrence or condition whatsoever, including any compromise, settlement, release, waiver, renewal, extension, indulgence, impairment, limitation of liability, change in or modification of any of the obligations and liabilities, either original or assumed, of ABC. No invalidity, irregularity, or unenforceability of any obligation of ABC shall affect, impair, or be a defence to the obligations of ABC under Article 3.
- D. No lawful act of commission or omission of any kind or at any time upon the part of ZPRA or the Revolutionary Government of Zanzibar in respect of any matter whatsoever shall in any way affect or impair either Party's rights to enforce any right, power or benefit under Article 3, and no set-off, claim, reduction or diminution of any obligation or any defence of any kind or nature which ABC has or may have against ZPRA or the Revolutionary Government of Zanzibar shall be available against ZPRA or the Revolutionary Government of Zanzibar respectively, in any suit or action brought by the Minister, to enforce any right, power or benefit under Article 3(g).
- E. In the event that any payment pursuant to their obligations under Article 3(f) should give rise to a right of subrogation, the Guarantor will waive any and all rights of subrogation with respect to ZPRA or the Revolutionary Government of Zanzibar until such time as ZPRA and the Revolutionary Government of Zanzibar's obligations for any indebtedness have been satisfied in full.
- F. The Guarantor hereby unconditionally and irrevocably guarantees to the Government that it will make available, or cause to be made available, to XYZ Company or any other directly or indirectly owned Affiliate of XYZ Company to which any part or all of XYZ Company's rights or interest under the Contract may subsequently be assigned ('Affiliate Assignee'), financial, technical and other resources required to ensure that XYZ Company or any Affiliate Assignee can carry out its obligations as set forth in the Contract.
- G. The Guarantor further unconditionally and irrevocably guarantees to the Government the due and punctual compliance by XYZ Company or any Affiliate Assignee, of any obligations of XYZ Company or any Affiliate Assignee under the Contract.
- H. The Guarantor hereby undertakes to the Government that if XYZ Company, or any Affiliate Assignee, shall, in any respect, fail to perform its obligations under the Contract or commit any breach of such obligations, then the Guarantor shall fulfil or cause to be fulfilled the said obligations in place of XYZ Company or any Affiliate Assignee, and will indemnify the Government against all losses, damages, costs,

expenses or otherwise which may result directly from such failure to perform or breach on the part of XYZ Company.

- I. This guarantee shall take effect from the Effective Date and shall remain in full force and effect for the duration of the said Contract and thereafter until no sum remains payable by XYZ Company, or its Affiliate Assignee, under the Contract or as a result of any decision or award made by any expert or arbitral tribunal thereunder.
- J. This guarantee shall not be affected by any change in the articles of association and byelaws of XYZ Company or the Guarantor or in any instrument establishing the Company or Guarantor.
- K. The liabilities of the Guarantor shall not be discharged or affected by (a) any time indulgence, waiver or consent given to XYZ Company; (b) any amendment to the Contract or to any security or other guarantee or indemnity to which XYZ Company has agreed; (c) the enforcement or waiver of any terms of the Contract or of any security, other guarantee or indemnity; or (d) the dissolution, amalgamation, reconstruction or reorganisation of XYZ Company.
- L. This guarantee shall be governed by and construed in accordance with the laws of Zanzibar.

IN WITNESS WHEREOF the Guarantor, through its duly authorised representatives, has caused its seal to be duly affixed hereto and this guarantee to be duly executed the day of _____ 20XX.

Signed for and on behalf of ABC Parent/Affiliate

President/CEO ABC Parent /Affiliate

Name:

Signed:

Date:

Witnessed:

Title:

Name:

Signed:

Date:

CC: ZPRA