

**MODEL PRODUCTION SHARING AGREEMENT**

**BETWEEN**

**THE GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA**

**AND**

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**

**AND**

**ABC LTD**

**FOR ANY AREA**

**2013**

## TABLE OF CONTENTS

PRODUCTION SHARING AGREEMENT .....	1
WITNESSETH .....	2
PREAMBLE .....	2
ARTICLE 1: DEFINITIONS.....	3
ARTICLE 2: AGREEMENT.....	10
ARTICLE 3: RESPONSIBILITIES AND GRANT OF RIGHTS.....	11
ARTICLE 4: TERM AND TERMINATION.....	16
ARTICLE 5: EXPLORATION PROGRAMME.....	19
ARTICLE 6: RELINQUISHMENT OF CONTRACT AREA.....	22
ARTICLE 7: ANNUAL WORK PROGRAMMES AND BUDGET.....	23
ARTICLE 8: ADVISORY COMMITTEE.....	24
ARTICLE 9: DISCOVERY, APPRAISAL AND DEVELOPMENT.....	27
ARTICLE 10: JOINT OPERATIONS.....	34
ARTICLE 11: PAYMENT AND ANNUAL CHARGES.....	37
ARTICLE 12: RECOVERY OF COSTS AND EXPENSES AND PRODUCTION SHARING.....	38
ARTICLE 13: VALUATION OF PETROLEUM.....	43
ARTICLE 14: MEASUREMENT OF PETROLEUM.....	46
ARTICLE 15: NATURAL GAS.....	47
ARTICLE 16: TAXATION AND ROYALTY.....	49
ARTICLE 17: ADDITIONAL PROFITS TAX.....	50
ARTICLE 18: ESTABLISHMENT OF OFFICE, REPORTING, INTERNAL CONTROL, SUPERVISION AND CONFIDENTIALITY.....	52
ARTICLE 19: LIFTING, MARKETING AND DOMESTIC SUPPLY OBLIGATION.....	55
ARTICLE 20: LOCAL CONTENT.....	57
ARTICLE 21: EMPLOYMENT, TRAINING AND TRANSFER OF TECHNOLOGY.....	59
ARTICLE 22: TITLE TO ASSETS, INSURANCE, SITE CLEAN UP, DECOMMISSIONING AND ABANDONMENT.....	61
ARTICLE 23: IMPORT DUTIES.....	65
ARTICLE 24: ACCOUNTING AND AUDIT.....	66
ARTICLE 25: HEALTH SAFETY AND ENVIRONMENT.....	67
ARTICLE 26: FORCE MAJEURE EVENT.....	71
ARTICLE 27: ASSIGNMENT AND TRANSFER OF RIGHTS.....	74
ARTICLE 28: CONSULTATION AND ARBITRATION.....	77
ARTICLE 29: APPLICABLE LAW.....	79
ARTICLE 30: WORKING LANGUAGE.....	80
ARTICLE 31: THIRD PARTY ACCESS TO PETROLEUM FACILITIES.....	81
ARTICLE 32: COORDINATION AND UNITISATION OF PETROLEUM OPERATIONS.....	82
ARTICLE 33: FOREIGN EXCHANGE AND CURRENCY.....	83
ARTICLE 34: ANTI-CORRUPTION.....	84
ARTICLE 35: MODIFICATIONS AND HEADINGS.....	85
ARTICLE 36: NOTICES.....	86
ANNEX "A": DESCRIPTION OF EXPLORATION LICENCE AREA.....	88
ANNEX "B": MAP OF EXPLORATION LICENCE AREA.....	89
ANNEX "C": DRAFT EXPLORATION LICENCE.....	90
ANNEX "D": ACCOUNTING PROCEDURE.....	94
ANNEX "E": APT SAMPLE CALCULATION METHODOLOGY.....	118
ANNEX "F": PARENT COMPANY GUARANTEE.....	119

## **PRODUCTION SHARING AGREEMENT**

This Production Sharing Agreement (the “Agreement”) is made on the \_\_\_\_\_ day of \_\_\_\_\_, 20[xx] and constitutes the agreement between:

The Government of the United Republic of Tanzania (hereinafter referred to as the “Government”) represented by the Minister for Energy and Minerals (hereinafter referred to as “Minister;

The Tanzania Petroleum Development Corporation a statutory Corporation established under the Laws of the United Republic of Tanzania (hereinafter referred to as (“TPDC”), represented by its Managing Director;

(all hereinafter called collectively “First Party”); and

ABC Ltd, a company existing under the Laws of the United Republic of Tanzania, with office and legal representative in the United Republic of Tanzania, hereinafter referred to as “ABC” or “Contractor” or “Second Party” represented by its Chief Executive Officer , which expressions shall, where the context so admits, include its successors-in-title and assigns.

## WITNESSETH

### PREAMBLE

WHEREAS, Petroleum in or under any land in, or under the jurisdiction of the United Republic of Tanzania, or to which the United Republic of Tanzania is entitled under international law, including Petroleum underlying the area described in Annex “A” hereof, is vested entirely and solely in the United Republic of Tanzania; and

WHEREAS, TPDC has been established by law for the purpose (*inter alia*) of promoting the development of the Petroleum industry and the production of Petroleum; and

WHEREAS, the Act as defined in Article 1 below makes provision with respect to exploring for and producing Petroleum and, for that purpose subject to certain limitations and conditions, authorises the Minister to grant Exploration Licences and Development Licences; and

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

WHEREAS, TPDC 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 Licence and in the area of any Development Licence(s) granted to TPDC 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 skill.

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 the United Republic of Tanzania.

WHEREAS, the Contractor is willing on certain terms and conditions to undertake Petroleum Operations aforesaid and has for that purpose the necessary financial capacity, technical competence and professional skill.

NOW THEREFORE, in consideration of the premises and mutual covenants herein reserved and contained, IT IS HEREBY AGREED as follows:

## ARTICLE 1: DEFINITIONS

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

- (a) **“Act”** means the Petroleum (Exploration and Production) Act, CAP. 328 R.E. 2002as amended, repealed or replaced from time to time.
- (b) **“Abandonment”** means decommissioning, removal and/or disposal of structures, facilities and installations including pipeline equipment and other property used in Petroleum Operations in an area, cleaning up of the area, plugging and secure of Wells, restoration of land, safety clearance of an area, in connection with cessation or partial cessation of Petroleum Operations in an area or part of an area;
- (c) **“Affiliate Company”** or **“Affiliate”** means any company holding directly or indirectly a majority of shares in any company which is controlled directly or indirectly by any such aforesaid company.

For the purpose of the foregoing definitions:

- (i) a company is directly controlled by another company or companies holding shares carrying in the aggregate the majority of votes exercised at general meetings;
  - (ii) a particular company is indirectly controlled by a company or companies (hereafter called “the parent company or companies”) if a series of companies can be specified, beginning with the parent company, are so related that each company of the series, except the parent company or companies, is directly controlled by one or more of the earlier in the series.
- (d) **“Adjoining Block”** shall have the meaning ascribed to it by the Act.
  - (e) **“Agreement”** or **“the Agreement”** means this Production Sharing Agreement executed among the Government, TPDC and the Contractor, including its Annexes.
  - (f) **“Appraisal”** means the activities to be carried out after a discovery of Petroleum with the aim to better define the parameters of the Petroleum and the reservoir to which the discovery relates and determine its commerciality and include but is not limited to:
    - (i) drilling of Wells and running productivity tests;
    - (ii) collecting special geological samples and reservoir fluids; and
    - (iii) conducting supplementary studies and acquisition of geophysical and other data, as well as the processing of same data.
  - (g) **“Appraisal Programme”** means an approved work programme and budget prepared for the purpose of Appraisal;

- (h) **“Appraisal Well”** means any well drilled following a discovery of Petroleum in the Contract Area for the purpose of ascertaining the quantity and areal extent of Petroleum in the Petroleum reservoir to which that discovery relates;
- (i) **“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;
- (j) **“Associated Natural Gas” or “Associated Gas”** means Natural Gas which exists in a reservoir in solution with Crude Oil and includes what is commonly known as gas cap gas which overlies and is in contact with Crude Oil;
- (k) **“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 degrees Fahrenheit (60°F) and under one (1) atmospheric pressure;
- (l) **“Block”** shall have the meaning ascribed to it by the Act;
- (m) **“Business Day”** means a day excluding a Saturday or Sunday or public holiday on which banks in the United Republic of Tanzania are open for business;
- (n) **“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;
- (o) **“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;
- (p) **“Casing Head Gas”** means Natural Gas which existed or exists in a reservoir in solution with Crude Oil, or as free gas cap gas, and is or could be produced with Crude Oil from a well; the predominant production of which is or would be Crude Oil;
- (q) **“Contract Area”** means on the Effective Date the area described in Annex “A” and shown on map in Annex “B”, and thereafter, in accordance with Article 3(b) the whole or any part of such area in respect of which Contractor continues to have rights and obligations under this Agreement;
- (r) **“Contract Expenses”** means expenses incurred in relation to the Petroleum Operations, as more fully set forth in Annex “D”;
- (s) **“Contract Year”** means the period, and successive periods, of twelve (12) consecutive Months according to the Gregorian calendar beginning on the Effective Date of this Agreement;
- (t) **“Contractor”** means Second Party as well as any entity to which any interest may be transferred in application of the provisions of Articles 10 or 27;

- (u) “Contractor’s Joint Operating Agreement” means the Petroleum Joint Operations Agreement in respect of which two or more parties constituting Contractor have elected to enter in order to contribute expenses in accordance with Article 3(d).
- (v) "**Cost Gas**" shall have the meaning ascribed to it in Article 12 of this Agreement;
- (w) "**Cost Oil**" shall have the meaning ascribed to it in Article 12 of this Agreement;
- (x) “**Crude 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 "Cost Oil" shall be as defined in Article 12 of this Agreement.
- (y) "**Crude Oil Operations**" means Petroleum Operations carried out in respect of Crude Oil;
- (z) “**Day**” is a period of twenty-four (24) hours starting at midnight;
- (aa) "**Delivery Point**" means a point specified in the approved Development Plan within or outside of the Contract Area;
- (bb) “**Development Area**” shall have the meaning ascribed to it by the Act;
- (cc) “**Development Expenses**” means those expenses as so categorized in Annex “D”, the Accounting Procedure;
- (dd) “**Development Licence**” shall have the meaning ascribed to it by the Act;
- (ee) “**Development Operations,**” means operations for or in connection with the production of Petroleum and shall include the activity carried out to prepare the Development Plan and the activity carried out after the grant of the development licence in the respective Development Area. Such activity shall include, but not be limited to:
  - (i) reservoir, geological and geophysical studies and surveys;
  - (ii) drilling of producing and injection Wells;
  - (iii) design, construction, installation, connection and initial testing of equipment, pipelines, systems, facilities, plants, and related activities necessary to produce and operate said Wells, to take, save, treat, handle, store, transport and deliver Petroleum, and to undertake re-pressuring, recycling and other secondary or tertiary recovery projects;
- (ff) “**Development Plan**” means the proposals accompanying an application for a Development Licence pursuant to the Act and this Agreement;
- (jj) “**Development Well**” means a Well drilled for the purpose of producing or enhancing production of Petroleum from a commercial discovery, and includes the Appraisal wells completed as producing or injection wells;

- (kk) **“Discovery Block”** shall have the meaning ascribed to it by the Act;
- (ll) **“Effective Date”** means the date on which, this Agreement is signed by the Parties and the Exploration Licence is simultaneously granted by the Minister;
- (mm) **“Expatriate Employee”** means any professional employee from abroad who is working for the Contractor in relation to this Agreement in the United Republic of Tanzania;
- (nn) **“Exploration Expenses”** means those expenses as so categorized in Annex “D”, the Accounting Procedure;
- (oo) **“Exploration License”** shall have the meaning ascribed to it by the Act;
- (pp) **“Exploration Licence Area”** means the Contract Area or a sub-division thereof as specified in Annex “A”;
- (qq) **“Exploration Operations”** means operations for or in connection with the exploration for petroleum and shall include, but not be limited to, such geological and geophysical surveys and studies, aerial surveys and others as may be included in approved Work Programme and Budgets, and the drilling of such shot holes, core holes, stratigraphic tests, Exploration Wells, and other related holes and Wells, and the purchase or acquisition of such supplies, materials and equipment which may be included in approved Work Programme and Budgets;
- (rr) **“Exploration Period”** means a time period granted for the performance of Exploration Operations as referred to in Article 5;
- (ss) **“Exploration Well”** means a Well drilled in the course of Exploration Operations conducted hereunder but does not include an Appraisal Well, and whose purpose at commencement of drilling is to explore for an accumulation of petroleum whose existence was at that time unproven by drilling;
- (tt) **“GasPlant”** means a plant for the treatment, conditioning, synthesizing, refining, processing, separation or conversion of Natural Gas;
- (uu) **“General and Administrative Costs”** means those costs as so categorized in Annex “D”, the Accounting Procedures;
- (vv) **“Government”** means the Government of the United Republic of Tanzania;
- (ww) **“Gross Negligence/ Willful 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.



- (xx) “**Joint Operating Agreement**” shall mean the agreement entered into between the parties constituting Contractor, and TPDC where applicable.
- (yy) “**Joint Operations**” means the Petroleum Operations in respect of which TPDC has elected to contribute expenses or has been carried by the Contractor pursuant to Article 10.
- (zz) “**Law**” means the legislation; regulations; rules; guidelines; Government Orders, Notices and Directives, precedents and principles in force from time to time in the United Republic of Tanzania;
- (aaa) “**LIBOR**” is the London Inter-Bank Offered Rate for one month deposits of U.S. Dollars displayed on page ‘LIBOR01’ of the Reuters Money Rates Service (or any other pagethat replaces page ‘LIBOR01’ for the purposes of displaying the British Bankers Association (BBA) interest settlement rates for such deposits of U. S. Dollars in the London Interbank market) on the date of determination, or in the event the Reuters Money Rates Service , or a successor thereto, no longer provides such information, such other service as may be agreed by the Parties that provides the BBA interest statement rates for such deposits of U. S. Dollars in the London Interbank market and any required information previously provided on page ‘LIBOR01’;
- (bbb)“**Local Content**” means the quantum of composite value added to, or created in, the economy in Tanzania through the deliberate utilization of Tanzanian human and material resources and services in the Petroleum Operations in order to stimulate the development of capabilities indigenous to Tanzania and to encourage foreign investment and participation, without compromising quality, health, safety and environmental standards;
- (ccc) “**Location**” shall have the meaning ascribed to it by the Act;
- (ddd) “**Minister**” shall have the meaning ascribed to it by the Act;
- (eee) “**Month**” means a calendar month pursuant to the Gregorian Calendar;
- (fff) “**MMscf**” means a million standard cubic feet of Natural Gas;
- (ggg)“**Natural Gas**” means any hydrocarbons produced from the Contract Area which at a pressure of 1 atmosphere and a temperature of sixty degrees Fahrenheit (60°F) are in a gaseous state at the wellhead, and includes both associated as and Non- Associated Natural Gas, and all of its constituent elements produced from any Well in the Contract Area and all non-hydrocarbon substances therein. Such term shall include residue gas after the extraction of liquid hydrocarbons therefrom;
- (hhh) "**Natural Gas Operations**" means Petroleum Operations carried out in respect of Natural Gas;
- (iii) “**Non-Associated Gas**” means Natural Gas other than Casing Head Gas;

- (jjj) “**Operating Expenses**” means those expenses as so categorized in Annex “D”, the Accounting Procedure;
- (kkk) “**Operator**” means the person designated as the Operator under a Joint Operating Agreement executed by the persons constituting the Contractor pursuant to Article 3 or the operating agreement executed by TPDC and Contractor pursuant to Article 10;
- (lll) “**Parties**” means the Government, TPDC and Contractor as Parties to this Agreement, including any permitted successors and assignee;
- (mmm) “**Party**” means the Government, TPDC or Contractor as a Party to this Agreement, including any permitted successors and assignees;
- (nnn) “**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 10(b) (i);
- (ooo) “**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;
- (ppp) “**Petroleum**” shall have the meaning ascribed to it by the Act;
- (qqq) “**Petroleum Operations**” means any and all operations and activities in connection with Exploration Operations, Appraisal Operations, Development Operations, and Production Operations, including all the Abandonment activities as required under Article 21;
- (rrr) “**Production Operations**” shall include, but not be limited to, the running, servicing, maintenance and repair of completed Wells and of the equipment, pipelines, systems, facilities and plants completed during Development. It shall also include all activities related to planning, scheduling, controlling, measuring, testing and carrying out the flow, gathering, treating, transporting, storing and dispatching of Petroleum from the underground Petroleum reservoirs to the Delivery Point, and all other operations necessary for the production and marketing of Petroleum. Production Operations shall further include the acquisition of assets and facilities required for the production of Petroleum hereunder and Petroleum field Abandonment operations;
- (sss) “**Quarter**” means a period of three (3) consecutive Months starting with the first day of January, April, July or October of each Calendar Year;
- (ttt) “**Recoverable Contract Expenses**” shall have the meaning ascribed in Article 12 and as categorized in Annex “D”, the Accounting Procedure;
- (uuu) “**Regulations**” means any regulations made from time to time under the Act;
- (vvv) “**Service Costs**” means those costs as so categorized in Annex “D”, the Accounting Procedure;

(www) **“Subcontractor”** shall mean any business entity hired by Contractor to carry out all or a portion of Petroleum Operations as approved by Contractor under the terms of this Agreement;

(xxx)**“Well”** shall have the meaning ascribed to it by the Act;

(yyy)**“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**

This Agreement constitutes an agreement made under Section 14 of the Act.

### **ARTICLE 3: RESPONSIBILITIES AND GRANT OF RIGHTS**

- (a) As soon as possible, but in any event no later than thirty (30) days, before the signing of this Agreement, TPDC will apply for and the Minister will, under and in accordance with the Act, grant to TPDC an Exploration Licence over the Contract Area. Subject to the provisions of the Act, such licence will be substantially in the form of the draft set out in Annex “C” hereof.
- (b) Subject to Article 6 and sub-article (e) of Article 9, the areas which at any particular time are subject to the said Exploration Licence or subject to any Development Licence granted to TPDC for which application was made by TPDC 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 10, the Contractor shall, in accordance with the Act and as otherwise agreed in this Agreement, have the exclusive right to conduct, on behalf of TPDC as licence holder, Petroleum Operations in the Contract Area.
- (d) Where the Contractor is constituted by more than one party, the parties constituting the Contractor shall enter into a Contractor’s Joint Operating Agreement. The Minister and TPDC 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 TPDC 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 Advisory Committee. The Contractor shall provide the Minister with the Joint Operating Agreement for prior approval. The Minister may require alterations in the Joint Operating Agreement. Any amendments to the Joint Operating Agreement after the Effective Date 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, and the Minister may approve, an Operator. The Operator shall execute the Petroleum Operations on behalf of the Contractor Party. No change in Operatorship shall take effect unless it has been approved by the Minister.

- (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 provided in the Act;
  - (ii) carry out the Petroleum Operations in the Contract Area diligently, in accordance with the Applicable Laws, with due regard to Best International Petroleum Industry Practices and in such manner as to ensure that in respect of matters which are the responsibility of the Contractor hereunder TPDC is not in default;
  - (iii) furnish TPDC with such information, reports, records and accounts relating to the Petroleum Operations in the Contract Area as may be necessary to enable TPDC to meet its obligations under the Act;
  - (iv) if the Contractor has requested TPDC to apply for any extension of the said Exploration Licence, the Contractor shall in consultation with TPDC, 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) pay for copying and shipping of geological and geophysical data relating to the Contract Area;
  - (vi) subject to Article 11, reimburse TPDC within thirty (30) days from the date of payment thereof, for the annual charges in respect of the said Exploration Licence or any Development Licence granted to TPDC following the request of the Contractor hereunder, payable by TPDC pursuant to the Act;
  - (vii) notify the Minister and TPDC promptly 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;
  - (viii) within thirty (30) days after the Effective Date, designate a representative residing in the United Republic of Tanzania who shall have full authority to represent Contractor in respect of matters related to the Agreement and to receive notices addressed to Contractor;
  - (ix) prior to commencement of Petroleum Operations, maintain an office in the United Republic of Tanzania with the adequate personnel, management and representatives who shall have the necessary competence, capacity and capability to 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; and
  - (x) 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 the United Republic of Tanzania in accordance with the provisions of Article 20. Contractor shall

give priority in employment of nationals indigenous to Tanzania in all aspects of Petroleum Operations and shall undertake the training and development of such personnel in accordance with the provisions of Article 21 The Work Programmes and Budgets submitted and reported pursuant to Articles 6 shall include Contractor's estimate of the local content component of on-going and planned Petroleum Operations.

(xi) Guarantee Obligations

a. On the Effective Date, upon commencement of each subsequent term of the Exploration Period and upon the approval being granted for an Exploration Work Programme or for any Appraisal Work Programme, Contractor shall provide the Minister with an unconditional, irrevocable on-demand guarantees from a bank acceptable to the Minister in the form and content acceptable to Minister for an amount equal to:

A. value of the minimum expenditure committed for the relevant Work Programme or period;

B. sum of Four Hundred Thousand United States Dollars (USD400,000) for the performance of any obligation under the Contract other than those covered by the guarantees under (A) above.

Such guarantees shall be in a form and content acceptable to Minister.

b. The respective amounts of the guarantees for obligations arising out of Work Programmes shall be:

A. For the Initial Exploration Period \_\_\_\_\_United States Dollars (USD )

B. For the First Extension Exploration Period \_\_\_\_\_United States Dollars (USD )

C. For Second Extension Exploration Period \_\_\_\_\_United States Dollars (USD).

c. Upon delivery to the issuing guarantor of a certificate from Contractor countersigned by TPDC on behalf of the Minister that the corresponding minimum expenditure that have been completed in accordance with the Contract and that all technical data related thereto have been delivered to TPDC, the guarantee(s) shall be reduced by the value of the minimum expenditures that were committed to the applicable phase or programme.

d. Where Contractor has failed to perform in accordance with this Contract all or any part of accrued Work Programmes:

A. at the end of any phase of the Exploration Period;

- B. at the end of an approved period in respect of a retained Exploration area;
- C. at the end of an approved period in respect of an Appraisal Work Programme or;
- D. 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.

- e. Without prejudice to the joint and several liability of the Persons constituting the Contractor, the Minister may require that, each of the Persons constituting the Contractor shall upon the Effective Date, deliver to Minister in a form acceptable to Minister, an unconditional and irrevocable performance guarantee in substantially the form as prescribed in Annex [F], from a financially, technically and legally competent parent company to each of the Persons constituting Contractor, guaranteeing for the performance of the Contractor under this Agreement including an undertaking that that such parent company shall provide all technical and financial resources that the Contractor may require to meet on a timely basis Contractor's obligations under this Agreement.

(h) TPDC:-

- (i) will, as licence holder, 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 in the Contract Area, 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 Licence; and
- (ii) if the Contractor so requests, will:
  - (a) apply for such extensions of the said Exploration Licence as the Act may permit;
  - (b) when any application is made for an extension of the said Exploration Licence, relinquish to meet the requirements of the Act only Blocks selected for that purpose by the Contractor;
  - (c) pursuant to the Act, request that a Discovery Block within the Contract Area and such Adjoining Blocks selected by the Contractor be declared by the Minister to be a Location;
  - (d) apply for a Development Licence or Licences 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 licence holder.

(i) The Government:-

- (i) will take all such actions as may be necessary from time to time to ensure that TPDC carries out its obligations hereunder and will not without the consent of the Contractor seek or acquiesce in any waiver by TPDC in respect of the Contract Area of its rights as licence holder under the Act;
- (ii) undertakes that, where in the case of discovery of Petroleum referred to in Section 29 (1) of the Act, TPDC makes an application for further extension of the said Exploration Licence, the Minister will, in respect of any block to which paragraph (b) of subsection (1) of that Section applies, grant an extension for such period not exceeding three (3) years in the case of Crude Oil and four (4) years in the case of Natural Gas as may be required for Appraisal of the discovery;
- (iii) subject to sub-article (f) (vi) of this Article, will at the Contractor's expense make available to the Contractor geological and geophysical data referred to in the said sub-article (f) (vi) 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 in 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 continue to be in force in accordance with Section 42 of the Act, whose provisions regulate the terms of any Development Licence, and in case no Development Licence is granted, until the end of the last extension of the Exploration Period.
- (b) Contractor may propose to TPDC to apply for an extension of the Development Licence in accordance with the Act. In such case, Contractor shall provide to TPDC all relevant information for the application.
- (c) An application for an extension of the Development Licence pursuant to sub-article (b) shall be accompanied with a proposal for terms for an extension of this Agreement or a proposal for a new Agreement.
- (d) The Minister may grant an extension of the Development Licence on terms in accordance with the Act and enter into an agreement in accordance with Section 14 of the Act.
- (e) This Agreement shall come to an end 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 with no cause or justification acceptable under normal international petroleum industry practice;
  - (iii) continuously refuses with no justification to comply with the Law;
  - (iv) intentionally submits false information to the Government or to TPDC;
  - (v) assigns or transfers any part of its interests, rights or obligations hereunder in breach of the rules provided for in Article 27 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 TPDC and the Government.
  - (vi) becomes insolvent or is declared bankrupt by a court of competent jurisdiction;
  - (vii) does not comply with any final decision resulting from an arbitration process conducted under the terms of the Agreement, after all adequate appeals are exhausted;
  - (viii) does not fulfill a substantial part of its duties and obligations resulting from the Law and from this Agreement;
  - (ix) intentionally extracts or produces any mineral 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.

- (x) where the Contractor is In Default, the Government may by notice in writing served on the Contractor terminate this Agreement. In this Article “In Default” in relation to the Contractor means a material breach of any provision of this Agreement or the Act or licence 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 TPDC to be in breach of any provision of the Act or of any condition of the licence granted hereunder.
  - (xi) TPDC may terminate this Agreement if 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 TPDC and the Government.
- (f) Minister may terminate this Agreement where the Contractor 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.
- (g) The Government shall not terminate the Agreement on the grounds aforementioned in sub article (e)(f), unless:
- (i) it has, by notice in writing served on the Contractor, given not less than thirty (30) days’ notice of its intention to so terminate this Agreement;
  - (ii) it has, in the notice, specified a date before which the Contractor may, in writing, submit any matter which the Contractor wishes the Government to consider; and
  - (iii) it has taken into account any action taken by the Contractor to remove that ground or to prevent the recurrence of similar grounds; and any matters submitted to it by the Contractor .
- (h) The Government shall not, under sub-article (b) 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 sub-article (c) of this Article, the Contractor pays the amount of money concerned together with any interest payable under the Act or this Agreement.
- (i) The Government 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 Government has consented to the amalgamation, or is for the purpose of reconstruction and the Government has been given notice of the reconstruction.

- (j) Where two or more persons constitute the Contractor, the Government 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 Government to so terminate this Agreement, if any other person or persons constituting the Contractor satisfies or satisfy the Government 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 hereunder 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.
  
- (k) Upon expiration or termination of this Agreement the Parties shall have no further obligations hereunder 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.

## 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 subarticle (b) of this Article. The fulfillment of any work obligation shall relieve Contractor of the corresponding minimum expenditure obligation, but the fulfillment of any minimum expenditure obligation shall not relieve Contractor of the corresponding work obligation.

(b) (i) **The Initial Exploration Period**

Shall commence on the Effective Date and shall terminate on the fourth (4<sup>th</sup>) anniversary of that date.

Description of minimum work programme:

Contractor shall commence Exploration Operations hereunder within ninety (90) days after the Effective 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, which shall be subdivided into two sub-periods, the Contractor shall carry out the following Minimum Exploration Work Programme including:

First 2-year sub-period.

(A) Geological:

Evaluate, integrate and map all data related to the Contract Area.

(B) Geophysical:

- (i) Acquire and process to industry standards at least [...] kilometres of [...] seismic with shooting to commence within fifteen (15) months after the Effective Date.

- (ii) Evaluate, integrate and map all seismic data related to the Contract Area.

(C) Geochemical

If present, locate any hydrocarbon seeps, map seeps to relate them to subsurface prospects, characterize the petroleum type and undertake basin analysis for source maturity modeling

Second 2-Year Sub-period

(D) Drilling:

Drilling of at least [...] Exploration Wells, to depths of at least [...] meters, true vertical depth with spudding of the first such well to be not later than thirty (30) Months after the Effective Date.

Minimum Expenditure for Initial Period ..... United States dollars.

**(ii) The First Extension Period**

Shall commence On the day on which a first extension of the Licence granted is issued to TPDC pursuant to the Act takes effect and shall terminate latest on the 4<sup>th</sup> anniversary of that date.

Description of minimum work programme:

- Conduct geological, geochemical and geophysical studies (US\$\_\_\_\_\_)
- Acquisition of \_\_\_\_\_square kilometres of 3D seismic or \_\_\_\_\_ line kilometres. of 2D or
- Commensurate mix of both; (US\$)

Drill at least [.....] well (US\$)

Minimum Expenditure for 1st Extension Period: US\$ ..... million

**(iii) The Second Extension Period**

Shall commence on the day on which a second extension of the licence granted to TPDC pursuant to the Act takes effect and shall terminate on the third (3<sup>rd</sup>) anniversary of that date.

Description of minimum work programme:

- [Conduct geology, geochemical and geophysical studies (US\$\_\_\_\_\_)]
- Acquisition of \_\_\_\_\_ square kilometres of [...] seismic or \_\_\_\_\_ line kilometres. of [..] or commensurate mix of both; (US\$\_\_\_\_\_)
- Drill at least [...] well (US\$ \_\_\_\_\_ )]

Minimum Expenditure for 2nd Extension Period: US\$ ..... million

(c) No Exploration Well drilled by the Contractor shall be treated as discharging any obligation of the Contractor to drill Exploration Wells hereunder unless it has been drilled to the depth or stratigraphic level agreed with the Minister, or before reaching such depth or stratigraphic level:

- (i) the economic basement is encountered or
- (ii) insurmountable technical problems are encountered which, in accordance with Best International Petroleum Industry Practices, make further drilling unsafe or impractical; provided that if the said well is abandoned owing to the said problems before reaching the economic basement, the Contractor shall drill a substitute Exploration Well in the Contract Area to the same minimum depth as aforesaid.

For the purpose of this sub-article “economic basement” means 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 technical work obligations specified in sub-article (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 sub-article for the next succeeding Exploration Period.
- (e) The Exploration Licence issued to TPDC, pursuant to Article 3 and any extension thereof, shall be on terms and conditions relating to Work Programmes 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 TPDC relating to the Work Programme and Minimum Expenditure in respect of the licence issued pursuant to Article 3, and the terms and conditions of the licence aforesaid and any extension thereof shall be drawn up accordingly.
- (f) The minimum expenditure for each period specified in sub-article (b) of this Article shall not have been satisfied unless the total expenditure attributable to the work described in sub-article (b) equals or exceeds the same mentioned in the said sub-article; provided that for this purpose all such attributable actual expenditures shall be adjusted, commencing from the Effective Date, by dividing each of them by the following factor **I**, where:  $I = A/B$ . Save that if B is less than A factor I shall 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 the expenditure in question.
- (g) 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 sub article (b) of this Article.
- (i) During the Exploration Period, the Contractor shall deliver to TPDC 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 under the Act and this Agreement shall be complied with within a reasonable time and copies of documents and other material containing such information shall be provided to TPDC.

## **ARTICLE 6: RELINQUISHMENT OF CONTRACT AREA**

- (a) If the Contractor has requested TPDC to apply for any extension of the Exploration Licence, the Contractor in consultation with TPDC shall select such parts of the Contract Area to be relinquished by TPDC, and TPDC 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 TPDC 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 TPDC shall relinquish at least fifty per cent (50%) of the remaining Contract Area.
  - iii. At the end of the Exploration Period, TPDC 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 Petroleum Operations in the relinquished area.

- (b) No relinquishment shall relieve Contractor of accrued, but 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 TPDC, 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 TPDC 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 first Sub-period, Second Sub-period, First Extension Period or Second Extension Period as the case may be, Contractor elects not to enter the ensuing period, Contractor shall relinquish the entire Contract Area except for any Development Area.
- (d) Contractor shall have the right at any time to request TPDC 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 PROGRAMMES AND BUDGET**

- (a) Within thirty (30) days of the Effective Date, the Contractor shall prepare and submit to TPDC a detailed Work Programme and Budget setting forth the Exploration Operations which Contractor proposes to carry out in the Calendar Year in which the Exploration Licence is first issued to TPDC hereunder.
- (b) So long as the Exploration Licence issued to TPDC hereunder remains in force and at least three (3) months prior to the beginning of each subsequent Calendar Year, Contractor shall prepare and submit to TPDC a detailed Work Programme and Budget setting forth the Exploration Operations which Contractor propose to carry out in that Calendar Year and the estimated cost thereof.
- (c) Every Work Programme and Budget submitted to TPDC 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 and sub-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 9(1) submitted by Contractor to TPDC shall be reviewed by a joint Advisory Committee to be established by TPDC and Contractor pursuant to Article 8. Should TPDC wish to propose a revision of the proposed Work Programme and Budget or Appraisal Programme, as the case may be, TPDC shall, within three (3) weeks after receipt thereof, so notify the Contractor specifying in reasonable detail its reasons and the proposed changes it seeks to introduce. Promptly thereafter, the parties will meet and endeavor to agree upon the revisions proposed by TPDC. Following review by the Advisory Committee, Contractor shall make such revisions as it deems appropriate and submit the Work Programme and Budget or, without prejudice to Article 9(1), appraisal program, as appropriate, to TPDC.
- (e) Subject to Article 5, upon giving notice to TPDC, Contractor may amend any Work Programme or Budget or any revised Work Programme or Budget submitted to TPDC, but, subject to any such amendment, Contractor shall carry out the Exploration Operations set forth in the Work Programme or revised Work Programme and spend not less than the sum provided for in the Budget or revised Budget. In the case of an appraisal program, any amendment thereto proposed to TPDC by Contractor will be subject to section 32(2) of the Act; where an Appraisal programme has been agreed by the Advisory Committee as referred to in Article 9(1), no amendment shall be made without the approval of the Advisory Committee. A notice under this sub-article shall state the reasons why, in the opinion of Contractor, an amendment is necessary or desirable.

## **ARTICLE 8: ADVISORY COMMITTEE**

- (a) The Advisory Committee shall be composed of four (4) members, two (2) of whom shall be appointed by TPDC and the other two (2) by Contractor. The Minister shall be entitled to attend the Advisory Committee meetings as an observer in a non-voting capacity. The Government shall be entitled to receive any information that is relevant for the Advisory Committee. The Advisory Committee meetings cannot take place unless at least three (3) of its members are present.
- (b) The Advisory Committee shall meet from time to time as may be convened by the Chairman.
- (c) The Advisory Committee shall perform the following functions:
  - (i) Approval of the proposed annual work programme and budget and any amendment thereof
  - (ii) approval of a the proposed exploration work plans and budgets and any amendments thereof;
  - (iii) approval of the proposed appraisal work programme and any amendment thereof;
  - (iv) approval of the proposed Development Plan and any amendment thereof;
  - (v) approval of the production plan and any amendment thereof;;
  - (vi) approval of the lifting schedule and amendment thereof;
  - (vii) review of expenditures and compliance with the operating and accounting records with the rules established herein and in the applicable Law; and
  - (viii) any other matter as may be directed by the Parties
- (d) The Advisory Committee shall be headed by a Chairperson who shall be appointed by TPDC from among its representatives and who shall be responsible for the following functions:
  - (ix) to coordinate all the Advisory Committee's activities;
  - (x) to chair the meetings and to notify the Contractor and TPDC of the timing and location of such meetings, it being understood that the Advisory Committee shall meet at least once every Calendar year or whenever requested by Contractor and/or TPDC;

- (xi) to establish the agenda of the meetings, which shall include all matters which the Parties have asked to be discussed;
  - (xii) to convey to the Parties all decisions of the Advisory Committee, within five (5) working days after the meetings;
  - (xiii) to request from Contractor any information and to make recommendations that have been requested by any member of the Advisory Committee, as well as to request from Contractor any advice and studies whose execution has been approved by the Advisory Committee;
  - (xiv) to request from the technical and other committees of the Advisory Committee any information, recommendations and studies that he has been asked to obtain by any member of the Advisory Committee; and
  - (xv) to convey to the Parties all information and data provided to him by the Contractor for the Parties.
- (e) In the case of an impediment to the Chairperson of the Advisory Committee, the work of any meeting will be chaired by the other member appointed by TPDC.
- (f) At the request of TPDC and/or Contractor, the Advisory Committee shall establish and approve its internal regulations, which shall comply with the procedures established in this Agreement.
- (g) Each member of the Advisory Committee shall have one (1) vote. The Chairman shall in addition have a casting vote. The decisions of the Advisory Committee shall be taken by simple majority of the votes present or represented, it being understood that any member may be represented by written and duly signed proxy held by another member.
- (h) Furthermore, if such majority is not achieved, the proposal under decision shall be reviewed and re-submitted to the Advisory Committee in no more than fifteen (15) days.
- (i) Members or observers attending a meeting of the Advisory Committee 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 Advisory Committee.
- (j) The Contractor shall appoint the Secretary to the Advisory Committee from among its representatives.
- (k) The responsibilities of the Secretary are to see to it that:
- (i) the minutes of every meeting of the Advisory Committee are recorded;
  - (ii) the minutes are written in the appropriate record book and signed on behalf of TPDC

and the Contractor; and

- (iii) the draft of the minutes are prepared, if possible, on the day that the meeting is held and copies of it are sent to TPDC and the Contractor within the following five (5) working days, and their approval shall be deemed granted if no objection is raised within ten (10) working days of the date of receipt of the draft minutes.

## ARTICLE 9: 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 TPDC which will thereafter notify the Commissioner;
  - (ii) within thirty (30) days after the date of such discovery provide TPDC and the Minister with all available information regarding the discovery, including a preliminary classification of the discovery as Crude Oil or Natural Gas to meet the requirements of Section 31(1) and 31(2) of the Act;
  - (iii) within ninety (90) days after the date of such discovery provide TPDC and the Minister with all information to ascertain the chemical composition, physical properties and quantity to meet the requirements of Section 32 of the Act;
  - (iv) within one hundred and twenty (120) days from the date of such discovery, also notify in writing to TPDC 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 TPDC that the discovery is of potential commercial interest, the Contractor shall at the same time notify TPDC whether the discovery is of eventual commercial interest ("Eventual Interest") or of present commercial interest ("Present Interest");
    - b. if Contractor informs TPDC that, in its opinion, utilizing Best International Petroleum Industry Practices, the discovery is not of potential commercial interest as a standalone or as part of an aggregated production, then the Contractor shall relinquish the said discovery comprising the geological feature (as outlined by the relevant seismic data) in which the discovery is located;
  - (v) if Contractor informs TPDC that, in its opinion, utilizing Best International Petroleum Industry Practices, the discovery is of eventual commercial interest or present commercial interest, the Contractor shall submit to TPDC an application to the Minister for declaration of a Location to meet the requirement of Section 33, and the Minister shall declare a Location within thirty (30) days from the date of such application. The Minister shall be advised to agree to declare for a Location to allow the Contractor to retain the Discovery Block and not more than eight (8) adjoining blocks within the exploration area
  - (vi) If no application for a Location is made within one hundred and twenty days (120)

days, the Contractor shall be deemed to have surrendered the discovery to TPDC.

- (vii) within one hundred and eighty (180) days from the date of such discovery submit to the TPDC the Appraisal Programme and budget for the determination of the Advisory Committee to meet the requirements of Section 34 of the Act.
  - (viii) within thirty (30) days following its submission of the Appraisal Program, the Advisory Committee shall convene to discuss and approve the Appraisal Programme;
  - (ix) where a Location has been declared by the Minister and in accordance to Section 34 of the Act, the Appraisal period shall be within three (3) years in the case of Crude Oil and four (4) 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 TPDC for a Development Licence within the same period.
- (b) Contractor shall conduct the approved Appraisal Programme immediately after being granted a Location.
  - (c) Contractor shall reassess and inform TPDC and the Minister in accordance to Section 34(3) of the Act the commerciality of the discovery every one (1) year from the date of notification that the discovery is of Eventual Interest based on the same economic criteria as set out in Article 9(a)(iv)(a); in case of further discoveries that could be tied and developed together in order to make economies of scale.
  - (d) During the conduct of the Appraisal Programme, the Contractor shall provide TPDC 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. This information shall be provided promptly but in any case no more than thirty (30) days prior to the expiry of each year during the execution of the Appraisal Programme.
  - (e) If the results of Contractor's Appraisal Programme determine that the discovery is no longer of potential commercial interest, the provisions of sub article (j) and (p) of this Article shall apply.
  - (f) 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 TPDC a report containing the results of the Appraisal Programme for consideration by the Advisory Committee. The Appraisal Programme report 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.

- (g) If the results of Contractor's re-assessment determine that the discovery has become of Present Interest, the provisions of sub articles (k), to (o) of this Article shall apply.
- (h) If, upon the expiry of three (3) years in the case of Crude Oil and four (4) years in the case of Natural Gas from the date of notification that the discovery is of Eventual Interest, the results of Contractor's reassessment determine that the discovery is still of Eventual Interest and TPDC does not agree with such determination, TPDC may, at any time prior to the expiry of the three (3) years for the case of Crude Oil and four (4) years for the case of Natural Gas dispute the results of the Contractor's reassessment. If TPDC and the Contractor cannot resolve such dispute within sixty (60) days of the date on which TPDC informed the Contractor of its opinion, then the matter shall be referred to the Technical Expert and the 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 Technical Expert shall notify TPDC and the Contractor of its findings and:
  - A.** where the Technical Expert determines that the discovery is no longer of potential commercial interest the provisions of sub-article (o) and (p) of this Article shall apply;
  - B.** where the Technical Expert determines that the discovery is of Present Interest and the Contractor agrees with such determination, the provisions of sub-articles (j) to (l) of this Article shall apply;
  - C.** where the Technical Expert determines that the discovery is of Present Interest and the Contractor disagrees with such determination, then the Contractor shall relinquish said discovery comprising the geological feature (as outlined by the relevant seismic data in which the discovery is located; or
  - D.** where the Technical Expert determines that the discovery is still of Eventual Interest, the Contractor may retain the discovery for the remainder of the Exploration Term.
- (i) Where the Contractor has relinquished a discovery pursuant to sub article (h) (C) of this Article and TPDC decides to appraise and develop such discovery, the Parties will meet and discuss in good faith the development of said discovery such that it does not impact the exploration, appraisal and development of the remainder of the Contract Area.
- (j) Where, Contractor (a) pursuant to sub article (a) of this Article, has informed TPDC that, in its opinion the discovery is of present commercial interest, or (b) pursuant to sub article (h)(B) of this Article the Contractor agrees with the determination of the Technical Expert

that the discovery is of present commercial interest, Contractor shall:

- (i) Within one hundred and eighty (180) days after the declaration of commerciality pursuant to sub-article (j), draw up a proposal for a Development Plan in consultation with TPDC which shall accompany the application for a Development Licence per the requirements of Section 35(1) of the Act
- (ii)
- (iii) 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;
- (iv) contain detailed information on matters of economic, financial, geological, reserves, technical, operational, health, safety and environment in accordance to Section 36 of the Act, including:
  - (a) a description of development strategy and concept;
  - (b) an economic assessment of the different development methods, estimated investments , operational costs and selection criteria;
  - (c) a plan covering the total development to the extent possible where the development is proposed in two or more phases;
  - (d) an assessment of capacities of facilities;
  - (e) assessment of possibilities for tie-ins, third party access and unitization;
  - (f) area studies for the possibility of co-ordination of Petroleum Operations;
  - (g) proposed drilling and well completion plans;
  - (h) geological parameters and reservoir engineering methodology;
  - (i) facilities for production, storage, transportation and delivery of Petroleum;
  - (j) information on facilities for utilisation or processing of Petroleum;
  - (k) the relevant Delivery Point(s);
  - (l) an assessment and presentation of the possible outlets for Natural Gas from the discovery in question, both on the local market and for export, together with an evaluation of the necessary means for its marketing, with due consideration to the sale and marketing of the Government's Profit Gas;
  - (m) a development schedule;



- (n) a long term production schedule;
  - (o) a description of technical solutions including possible solutions for enhanced recovery of petroleum;
  - (p) solutions aimed at efficient use of energy, and the prevention and minimisation of environmentally harmful discharges, flaring and emissions;
  - (q) a method for disposal and use of associated gas where applicable;
  - (r) information on systems for ensuring compliance, including information on the planning, organization and implementation of the development;
  - (s) information on operation and maintenance;
  - (t) a financing plan for the development;
  - (u) a description of fiscal metering systems;
  - (v) Petroleum marketing plan;
  - (w) a health and safety compliance system and plan;
  - (x) an emergency preparedness and environmental risk management plan;
  - (y) information on site-clean up, abandonment, decommissioning and disposal of facilities; a decommissioning plan in such detail as the Minister requires, including a calculation of the decommissioning costs, the annual amount in the decommissioning fund, and the proposal for financing of the decommissioning obligation;
  - (z) information on any applications for permits and licenses required pursuant to applicable legislation in connection with Petroleum Operations related to the Development Plan;
  - (aa) a local content compliance system and plan including an employment and recruitment programme and a technology and know-how transfer plan;
  - (bb) a security management system and plan for protection against deliberate attack; and
  - (cc) any other matter which the Minister may direct to be included in the Development Plan
- (v) TPDC may within ninety (90) days of receipt of the Contractor's Development Programme, make proposals or amendments on the Contractor's Development programme to the extent that the Development programme meet the requirements of Section 36 of the Act;

- (k) When an application for a Development Licence 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 grant pursuant to Section 37(1)(a) of the Act, on such conditions as are necessary for the Development Licence.
- (l) The Development Licence so granted pursuant to Section 37(1)(a) of the Act, shall, be in full satisfaction of the requirements of Section 40(1) and (2) of the Act, incorporate by reference the obligations of the Contractor as set out in Article 18 (“**Lifting, Marketing and Domestic Supply Obligation**”) of the PSA. The provisions of Article 18 of the PSA 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 TPDC shall, in respect of the domestic market obligation and Section 40(2) of the Act, employ a suitably qualified international independent consultant(s) to prepare a reserve assessment report to determine the:

- (i) Proven and certified gas reserves in the Block (“**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 receipt of such report, the consultant shall notify the Contractor and TPDC in writing of the Proven Reserves that are to be dedicated for supply to the gas commercialization project from the Block (the “**Accessible Proven Reserves**”) and the amount of Proven Reserves that are to be dedicated for the domestic market (the “**Domestic Market Quantity**”).

- (m) Contractor shall respectively provide TPDC with at least 90 days prior written notice before dedicating to a third party available capacity in the Pipeline or Gas Processing Plant that would have the effect of reducing or excluding TPDC’s ability to transport and process all or any portion of the daily maximum quantity volume through the Pipeline and the Gas Processing Plant. TPDC will consider the effect of such an action to the domestic daily maximum deliverable volume prior to approval.
- (n) 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.
- (o) If Contractor informs TPDC 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 in respect of the Block or Blocks comprising the geological feature (as outlined by the relevant seismic data) in which the discovery is located.

- (p) Where pursuant to sub-article (o) of this Article, Contractor has surrendered its rights and been relieved of its obligations in respect of any Block or Blocks in which the discovery is located, notwithstanding that the said Block or Blocks continue to be subject to the Exploration Licence referred to in sub-article (b) of Article 3, the said Block or Blocks shall not for the purpose of this Agreement, constitute part of the Contract Area.
- (q) The Contractor shall not perform any Petroleum Operations with reference to the proposed Development prior to approval of the Development Plan upon granting of the Development Licence, save where the Minister has granted an express permission to enter into specific activities.
- (r) The Contractor shall, together with the Development Plan accompanying the application for the Development License, submit evidence that the Contractor has undertaken a prior social and environmental impact assessment study relevant for the proposed Development and a copy of the social and environmental impact assessments study. In addition, the Contractor shall submit the necessary environmental authorisations pursuant to the Law
- (s) Any deviations or alterations to the 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 TPDC of any significant deviation from the assumptions and preconditions on which the Development Licence with the Development Plan has been submitted or approved. The Ministers may propose changes or modifications to the Development Plan.
- (t) The Minister may set conditions for approval of the Development Licence as accompanied with the Development Plan, including that Petroleum shall be transported in specified transportation systems and shall be landed at specific locations

## **ARTICLE 10: JOINT OPERATIONS**

- (a) Save as provided in sub-article (b) and sub-article (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 12.
- (b) Participating Interest by TPDC:

### **OIL or GAS**

- (i) TPDC may at any time, by notice in writing to Contractor, elect to contribute in Participating Interest of not less than twenty five percent (25%) of Contract Expenses other than Exploration Expenses (such Exploration Expenses to include expenses in respect of Appraisal Programme) incurred in the first and every subsequent Development Area from the date such notice is rendered.
  - (ii) Where TPDC does elect to participate in the Development of a discovery, TPDC shall pay its share of Contract Expenses.
  - (iii) If TPDC 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 TPDC's share of Contract Expenses. Such Contract Expenses shall bear interest at a rate of LIBOR plus one percent (1%) for the period that such amount remained unpaid and will be recovered from TPDC's Cost Oil[and/or Cost Gas] as defined in Article 12.
- (c) Joint operations shall be conducted hereunder in accordance with the terms and conditions of a mutually acceptable form of Operating Agreement to be concluded between TPDC and the Contractor immediately following the first notice given to Contractor by TPDC, pursuant to sub-paragraph (i) of this sub-Article. The 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 TPDC and Contractor shall be equally represented. The Ministers shall be entitled to attend the meetings of the committees pursuant to the Operating Agreement in a non-voting capacity as observer. The Minister shall be entitled to receive any information that is relevant for

the activities under the Operating Agreement. Members and observers attending a meeting pursuant to the 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 Advisory Committee. The representatives aforesaid shall have voting rights proportional to the participating interests of each Contractor entity on the Joint Operating Committee on all matters. Except as otherwise expressly provided for in this Agreement, all decisions, approvals and other actions of the Joint Operating Committee on all proposals coming before it shall be decided by affirmative vote of two (2) or more non-Affiliated Parties holding an aggregate not less than [sixty five percent (65%)] of all Participating Interests (“Pass Mark Vote”); except for decisions relating to TPDC participation in any exploration and appraisal cash calls as a co-venture as per Article 10(b) and 10(c)(iii). In case of disagreement, a third party expert, who shall be mutually agreed upon and selected, will resolve the disagreement and his decision shall be final and binding on the parties to the disagreement.

- (iii) TPDC shall be liable to contribute the Participating Interests (as contained in Article 10(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 TPDC 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), TPDC shall have preference for payment in such Tanzanian Shillings and such amounts will count towards the total contribution which TPDC is obliged to make in respect of its share in Joint Operations.
- (v) Failure by TPDC 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 LIBOR + 1%.
- (vi) If, after the election allowed in sub-article 10(b), TPDC fails to pay its share of Development and/or Production Expenditures and such failure is not rectified within a period of thirty (30) days after receipt of written notice thereof from the Operator, TPDC 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 TPDC’s share of such expenditures, and the Contractor entities shall pay any of TPDC’s unpaid expenditures before the date of the deemed election and also TPDC’s share of any expenditures incurred after the date of the deemed election recovering such expenditures in accordance with Article 10(c)(v). Notwithstanding the above procedure, if, during the above mentioned thirty (30) days period to rectify the failure to pay, TPDC notifies the Operator that it has provided to rectify such failure to pay in

a period not greater than thirty (30) days from such TPDC's notification to Operator, then, the carry from Contractor's entities shall not be triggered unless such notification is not done during this thirty (30) days period. For avoidance of doubt any amounts not remedied other than by the carry procedure herein established are subject to paragraph (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 TPDC's Cost Oil[and/or Cost Gas] as defined in Article 12

## ARTICLE 11: PAYMENT AND ANNUAL CHARGES

- (a) The annual charge in respect of which the Contractor is obliged to disburse to TPDC, pursuant to Article 3(g) (vii) hereof in respect of the said Exploration Licence, shall be an equivalent amount in Tanzania shillings calculated by charging the following amounts for every square kilometer of the Contract Area retained:

<u>Period</u>	<u>US \$/sq. km</u>
Initial Exploration Period	50
First Extension Period	100
Second Extension Period	200

The annual charge in respect of a Development Licence granted to TPDC, for which application was made at the request of the Contractor, shall be US\$ 500 per sq. km.

- (b) The sum in United States dollars referred to in paragraph (a) above shall be adjusted annually by dividing the sum by the following 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 Licence is first issued to TPDC 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 Licence was first issued falls.

For the purpose of this Article 11, and Articles 5(f) and 16(b) and (c), 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 the Government, which it shall satisfy at its own expense, shall consist of the following payments:
- (i) Signature Bonus: A payment of not less than two million five hundred United States Dollars (USD 2,500,000) on signing of this Agreement.
  - (ii) Production bonuses payable on commencement of production and shall be not less than five million United States Dollars (USD 5,000,000)
  - (iii) For subsequent development license in the contract area, the production bonuses payable shall be not less than five million United States Dollars (USD 5,000,000)

## **ARTICLE 12: RECOVERY OF COSTS AND EXPENSES AND PRODUCTION SHARING**

- (a) Subject to sub-article (d) and (g) of this Article and Article 15, all Recoverable Contract Expenses incurred by the Contractor and, where Joint Operations have been established, by both TPDC and the Contractor shall be recovered by freely taking and disposing from a volume of Crude Oil and/or Natural Gas produced and saved from the Contract Area and not used in Petroleum Operations (hereinafter referred to as “Cost Oil” and/or “Cost Gas”). Recoverable Contract Expenses shall be limited in any Calendar Year to an amount not exceeding fifty per cent (50%) in case of onshore/shelf areas and offshore areas and Lake Tanganyika of the total Crude Oil or Natural Gas production from the Contract Area net of Royalty. For the purposes of this Article onshore areas include shelf up to water depths of 500 meters and offshore areas include water depths beyond 500 meters.
- (b) 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 Article 12 (a), 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, TPDC, after such termination.
- (c) There shall be ring fencing based on Exploration Licence or Development Licence.
- (d) Where a company holds Exploration Licence or more than one Development Licence within a Contract Area (prior to any relinquishments) recoverable Contract Expenses in Licence Areas or Block(s) within the Contract Area (prior to any relinquishments) may only be recoverable from petroleum revenues from such Development Area to the extent that were incurred prior to commencement of Petroleum production from such Development Area.
- (e) Royalty as provided for in Article 16(c) shall have a first charge on gross production from the Contract Area. The Royalty shall be reckoned at the Delivery Point before recovery of costs.
- (i) The available Cost Oil and/or Cost Gas shall be applied first to recover Operating Expenses, and the Contractor and TPDC 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 and/or Cost Gas available for distribution shall be applied, and the Contractor and TPDC 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 and/or Cost Gas available in the next succeeding Calendar Year or Years in the



same manner as set out herein in sub-article (b) above.

- (f) Subject to the limitations set out in sub-article (a) and (b) of this Article, the quantity of Cost Oil and/or Cost Gas which the Contractor and, if Joint Operations have been established, TPDC actually acquire shall be entitled to in any Calendar Year will be established on the basis of the average fair market price per barrel determined in accordance with Article 13 herein
- (g) (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”), total Crude Oil production from the Contract Area shall be shared between the Contractor and TPDC based on the following tranches:

Tranches of daily total production rates (barrels of oil per day, BOPD) in the Contract Area in the onshore and shelf areas

BOPD		
0	-	12,499
12,500	-	24,999
25,000	-	49,999
50,000	-	99,999
100,000	-	and above

Tranches of daily total production rates (barrels of oil per day, BOPD) in the Contract Area for the deep water areas

BOPD		
0	-	49,999
50,000	-	99,999
100,000	-	149,999
150,000	-	199,999
200,000	-	and above

- (i)(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”), total Natural Gas production from the Contract Area shall be shared between the Contractor and TPDC based on the following tranches:

Tranches of daily total production rates (million standard cubic feet) of gas per day in the Contract Area in the onshore and shelf areas

MMSCFD		
0	-	19.99
20	-	39.99
40	-	59.99
60	-	79.99
80	-	and above

Tranches of daily total production rates (million standard cubic feet) of gas per day in the Contract Area in the deep water areas

MMSCFD		
0	-	149.999
150	-	299.999
300	-	449.999
450	-	599.999
600	-	749.999
750	-	and above

- (ii) The tranches of daily total production referred to in this Article 12 and also in Article 10 herein shall be specified in terms of average daily total production rates. The average daily production rates shall be determined for each Calendar Quarter and shall be calculated by dividing the total quantity of Crude Oil and/or Natural Gas produced and saved from the Contract Area during any Quarter by the total number of days during which Crude Oil and/or Natural Gas was produced in such Quarter.
  - (iii) The quantity of Cost Oil and/or Cost Gas required to cover Recoverable Contract Expenses in any Calendar Year shall be allocated to each of the applicable tranches of daily total production in the same proportion as the total production in each tranche of daily total production bears to total production from the Contract Area.
- (h) (i) If there are no Joint Operations, after allocation of Recoverable Contract Expenses in accordance with sub-article (f) (iii) of this Article, the resulting Profit Oil in each tranche of daily total production shall be shared as follows:

Tranches of daily total Production (BOPD) rates in the Contract Area for onshore and shelf areas		TPDC Share of Profit Oil	ABC Share Contractor of Profit Oil
0-	12,499	70%	30%
12,500-	24,999	75%	25%
25,000-	49,999	80%	20%
50,000-	99,999	85%	15%
100,000-	and above	90%	10%

Tranches of daily total Production(BOPD) rates in the Contract Area for deep waters and Lake Tanganyika North		TPDC Share of Profit Oil	ABC Contractor Share of Profit Oil
0-	49,999	65%	35%
50,000-	99,999	70%	30%
100,000-	149,999	75%	25%
150,000-	199,999	80%	20%
200,000-	and above	85%	15%

- (ii) If there are no Joint Operations, after allocation of Recoverable Contract Expenses in accordance with sub-article (f) (iii) of this Article, the resulting Profit Gas in each tranche of daily total production shall be shared as follows:

Tranches of daily total Production (MMSCFD) rates in the Contract Area for onshore and shelf areas		TPDC share of Profit Gas	ABC Contractor Share of Profit Gas
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%

Tranches of daily total Production (MMSCFD) rates in the Contract for deep water Areas and Lake Tanganyika North		TPDC share of Profit Gas	ABC Contractor Share of Profit Gas
0	149.999	60%	40%
150	299.999	65%	35%
300	449.999	70%	30%
450	599.999	75%	25%
600	749.999	80%	20%
750	and above	85%	15%

- (i) If there are Joint Operations in all Development Areas, TPDC's share of Profit Oil/Gas indicated in sub-article (h) of this Article relative to each tranche of daily total production shall be increased by the number of percentage points obtained by multiplying TPDC's working interest of not less than twenty five (25%) per cent in accordance with Article 10 (b) by the share of the Contractor's Profit Oil/Gas indicated in sub-article (h) (i) and (ii) respectively of this Article relative to such increment of Profit Oil/Gas, and the Contractor's share shall be reduced accordingly. However, where TPDC has elected pursuant to Article 10 (b) not to participate in Joint Operations in all Development Areas, the increase in TPDC's share of Profit Oil/Gas shall be the result of the above calculation multiplied by the ratio of total production from Joint Operations in which TPDC participates over total production in the Contract Area during each Year.
- (ii) With respect to this Article 12, Cost Oil and/or Cost Gas and Profit Oil and/or Profit Gas calculations shall be done for each Calendar Quarter and the Crude Oil/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. Within sixty (60) days of 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 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 TPDC and made as soon as is practicable.

## ARTICLE 13: VALUATION OF PETROLEUM

- (a) The parties hereby agree that Tanzanian 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 Tanzanian 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 the United Republic of Tanzania) for each separate volume 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. the prices aforesaid shall be determined on the basis of international fair market value as follows:
    - (i). 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 transacted in foreign exchange (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;
    - (ii). subject to sub-paragraph (3) 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:
      - (A) 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

- (B) the simple arithmetic average price per Barrel at which a selection of major competitive crude oils of generally similar quality to that of Tanzanian 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 will be agreed between the Contractor and TPDC, in consultation with the Government in advance for each Calendar year and in making the selection preference will be given to those crude oils of similar quality to Tanzanian Crude Oil which are produced in Africa or the Middle East and are regularly sold in the same markets as Tanzanian Crude Oil is normally sold.

The arithmetic weighted average aforesaid will be determined by the percentage volume of sales of Tanzanian Crude Oil by Contractor that are, (A), and that are not, (B) as the case may be, Third Party Sales during the Calendar Quarter in question.

- (iii). all such prices will be adjusted to FOB the Contractor's actual loading point for export from the United Republic of Tanzania;
  - (iv). 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 18 herein but shall exclude:
    - (A) Sales, whether direct or indirect through brokers or otherwise, of any seller to any Affiliate of such seller.
    - (B) 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.
3. 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 Government and TPDC of the applicable percentage and respective volumes and prices realized. Government and TPDC 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 sub-article (a) 2 (i) of this Article. If Government and TPDC 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 TPDC do not so elect then the fair market valuation shall be determined in accordance with sub-article (a) (2) (ii) of this Article.

- (b) The Contractor shall be responsible for establishing the relevant average prices for Crude Oil in accordance with this Article 13, and such prices shall be subject to agreement by TPDC before they shall be accepted as having been finally determined. The Contractor shall provide TPDC with all relevant material in order that it can satisfy itself 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 sub-article (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 sub-article (a) (1) and (2)(ii) (B) 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 TPDC 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 13, 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, by the British Energy Institute (formerly British Institute of Petroleum). The costs of the expert shall be shared equally between the Contractor on the one hand and the Government and TPDC 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 sub-article (e) above.

#### **ARTICLE 14: MEASUREMENT OF PETROLEUM**

- (a) All Petroleum produced, saved and not used in Petroleum Operations shall be measured at the Measurement Points approved in the 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 Weights and Measures Act CAP 340 and Best International Petroleum Industry Practices. All measurement equipment shall be installed, maintained and operated by Contractor. TPDC 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 TPDC, using sound and current means and methods in accordance with the Weights and Measures Act 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 may be 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 TPDC'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 previous 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 and temperature sixty (60) degrees Fahrenheit and 14.7 psia.



## ARTICLE 15: NATURAL GAS

- (a) Where Contractor has informed TPDC 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 TPDC, for the consideration of the Advisory Committee, 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 TPDC as far as possible in accordance with the scheme for cost recovery and sharing of Profit Oil/Gas set out in Article 12; 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, in accordance with the Act, if TPDC at the request of the Contractor applies in that behalf, extend for a reasonable time, not to exceed three (3) years, the period within which TPDC may apply for a Development Licence over a Block or Blocks within that Location.

- (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. However, TPDC 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 TPDC's utilization of the Natural Gas be borne by TPDC. 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.

## **ARTICLE 16: TAXATION AND ROYALTY**

- (a) The Contractor shall be subject to Tanzanian taxes on income derived from Petroleum Operations hereunder, as provided for under the provisions of the Law.
- (b) In addition to taxes paid in accordance with sub-article (a) above 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 23, import duties at the rates specified from time to time in the First Schedule to the East African Customs Union Protocol;
  - (ii) taxes, duties, fees or other imposts for specific services rendered on request or to the public or commercial enterprises generally and rent due to the Government in respect of any land rights granted or assigned to the Contractor;
  - (iii) local Government rates or taxes not in excess of those generally applicable in the United Republic of Tanzania; and
  - (iv) stamp duties, registration fees, licence fees and any other tax, duty, fee or other impost of a minor nature.
- (c) TPDC on behalf of itself and the Contractor shall discharge the obligation to pay Royalty under the Act in respect of petroleum obtained from the Contract Area, by delivering to the Government 12.5% for onshore/shelf areas and 7.5% for offshore of total Crude Oil/Natural Gas production (prior to Cost Oil and/or Cost Gas recovery) at such location as the Minister may direct and the Government may require TPDC to dispose of such royalty otherwise to be delivered to the Government in such manner as the Government may direct. For the purposes of this Article onshore areas include shelf up to water depths of 500 meters and offshore areas include water depths beyond 500 meters.

## ARTICLE 17: ADDITIONAL PROFITS TAX

- (a) Contractor shall be subject to an Additional Profits Tax (hereinafter referred to as "APT") that shall be calculated on a Development Area basis in accordance with the provisions of this Article 17. APT will be calculated for each Calendar Year and will vary with the real rate of return earned by Contractor on the net cash flow from the Development Area in question. If, for any Development Area, either:
- (i) the "first accumulated net cash position" (as calculated in the manner set out hereafter and a sample calculation methodology shown in Annex "E" and hereinafter referred to as the "FANCP");
- or
- (ii) each of the FANCP and the "second accumulated net cash position" (as calculated in the manner set out hereafter and a sample hereinafter and referred to as the "SANCP").

is a positive amount, then the APT from the Development Area in question for any Calendar Year shall be either, in case (i): twenty five percent (25%) of the FANCP for that Year, or in case (ii): the aggregate of twenty five percent (25%) of the FANCP for that Year and thirty five percent (35%) of the SANCP for that Year. If in any Year the FANCP or the SANCP is a negative amount then no APT shall be due with reference to that FANCP or SANCP.

- (b) The FANCP on any Development Area for any Calendar Year shall be calculated according to the following formula:

FANCP = A (100%+B) +C where:

- "A" equals the FANCP denominated in US dollars at the end of the Calendar Year preceding the Calendar Year for which the calculation is being made
- "B" equals twenty percent (20%) plus the percentage change, for the Calendar Year for which the calculation is being made, in the annual average level of 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".
- "C" equals the net cash position denominated in US dollars (which may be a positive or negative amount) for the Calendar Year for which the calculation is being made, calculated as follows:
- (i). Contractor's share of Cost Oil and Profit Oil for that Calendar Year valued in accordance with Article 12 hereof and allocated to the Development Area in question in accordance with the provisions of Annex " D" to this Agreement

plus

- (ii). Contractor's share of all credits to the accounts under this Agreement in respect of the Calendar Year, calculated and allocated to the Development Area in question in accordance with the provisions of Annex "D" to this Agreement

minus

- (iii). Contractor's share of all charges to the accounts under this Agreement in respect of that Calendar Year, calculated and allocated to the Development Area in question in accordance with the provisions of Annex "D" to this Agreement, except that for this purpose Contractor's share of charges shall not include any amounts in respect of interest on loans obtained for the purpose of carrying out Petroleum Operations.
- (c) The SANCP on any Development Area for any Calendar Year shall be calculated according to the same formula given under sub-article (b) above except that:

"A" equals the SANCP denominated in US dollars at the end of the Calendar Year preceding the Calendar Year for which the calculation is being made,

"B" equals thirty percent (30%) plus the percentage change, for the Calendar Year for which the calculation is being made, in the annual average level the USIGPPI as reported for the first time in the monthly publication "International Financial Statistics" of the IMF .in the section "Prices, Production, Employment".

To the amount calculated under (iii) in the definition of "C" is sub-article (b) above shall be added any Additional Profits Tax which would be payable from the Development Area if reference were made hereunder only to the FANCP.

- (d) If for any Calendar Year the FANCP is 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.
- (e) If for any Calendar Year the SANCP is a positive amount, 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.
- (f) Contractor shall maintain proper records and books of accounts in accordance with the provisions of Annex "D" enabling the calculations described in this Article 17 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 Quarter, the Contractor shall submit to TPDC statement showing the position on additional profit tax
- (g) The APT due, if any, shall be paid in cash at such time and in such manner as the Commissioner of Income Tax may reasonably require.

**ARTICLE 18: 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 shall not be limited to; the geological, geophysical, technical, financial and economic reports, studies, interpretations and analyses prepared by or on behalf of the Contractor, the Government or the TPDC.
- (b) Within thirty (30) days, after the Effective Date Contractor shall establish and maintain an office in the United Republic of Tanzania with sufficient competence and capacity to conduct and perform Petroleum Operations in accordance with the terms of this Agreement
- (c) Within thirty (30) days after the effective date Contractor shall designate a representative residing in the United Republic of Tanzania who shall have full authority to represent it in respect of matters related to the Agreement and to receive notices addressed to 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, 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 and expenditures.
- (e) The records and information referred to in the sub-article (a) of this Article shall be kept at the Operator's office in the United Republic of Tanzania.
- (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 TPDC. All samples acquired by the Contractor for its own purpose shall be considered available for inspection at any reasonable time by the Government or its representative. Any such samples which the Contractor has kept for a period of forty - eight (48) months with the full knowledge of TPDC without receipt of instruction to forward the same to TPDC, Government or its representative, the samples may be disposed of by the Contractor at its discretion, provided TPDC has been given prior notice of not less than ninety (90) days of the Contractor's intention to do so and given the opportunity to take such samples.
- (g) Notwithstanding sub-article (b) of this Article, the Contractor shall be freely permitted to export samples for purposes of investigation in laboratories abroad, provided that the Contractor submits samples equivalent in size and quality to TPDC. Originals of records and data may be exported only with the permission of TPDC and provided at least one comparable copy of such records and data has been submitted to TPDC. Such exports shall be repatriated to Tanzania without undue delay and on the understanding that they belong to

the Government.

- (h) The Contractor is obliged to comply with the Act, Regulations and individual administrative decisions issued there under 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 individual 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 in this Agreement.
- (k) The Government and TPDC, 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 at all reasonable times 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. The Contractor shall provide TPDC 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 TPDC, which consent shall not be unreasonably withheld or delayed.
- (l) The Government and TPDC, 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 at all reasonable times 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. 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 provided by the Contractor to TPDC 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 TPDC 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 TPDC. Notwithstanding what is provided in this sub-article (m) of this Article, the Minister 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 for a period of four (4) years from the date on which the area to which such data, information or any interpretation thereof relates ceased to be part of the Contract Area or from the date on which this Agreement expires or is terminated, whichever occurs first. However, where during the aforesaid period 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 obligation 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 19: LIFTING, MARKETING AND DOMESTIC SUPPLY OBLIGATION**

- (a) The quantity of production to which TPDC is entitled, pursuant to Article 12 herein, shall be delivered to TPDC or its nominee at the Delivery Point, at which title in production will pass to TPDC or its nominee subject to the terms of the agreement referred to in sub-article (b) of this Article. TPDC shall be responsible for costs associated with its lifting entitlement after the Delivery Point. Where there is no Joint Operations the Contractor, shall be responsible for all costs prior to the Delivery Point. In the event of Joint Operations both the Contractor and TPDC shall be responsible for all costs prior to the Delivery Point.
- (b) Within six months after the Minister's approval of a Development Plan, the Contractor shall propose to TPDC an off take 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 TPDC and the Contractor for the Minister's 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 TPDC with at least three (3) months advance notice, market abroad on competitive terms all or part of TPDC's lifting entitlement subject to payment by TPDC of direct costs normally borne by a seller in such transactions as may be agreed by TPDC but excluding any commission or marketing fee in respect of such service.
- (d) TPDC and the Contractor shall have the obligation to satisfy the domestic market in Tanzania from their proportional share of production. The domestic Natural Gas price shall be determined based on the strategic nature of the project to be undertaken by the Government. The volume of the Crude Oil/Natural Gas which TPDC 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 the United Republic of Tanzania. TPDC shall give 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 TPDC and Contractor's share of Profit Oil/Gas.

- (e) Crude Oil/Natural Gas sold pursuant to sub-article (d) above shall be paid for in foreign exchange or its equivalent at a price determined in accordance with Article 13 and 15 of this Agreement.

## **ARTICLE 20: LOCAL CONTENT**

The Contractor shall:

- (a) Comply with the Government's Local Content Policy in force and as modified from time to time
- (b) purchase Tanzanian goods, services and materials provided such goods and materials are of certified standard and quality in accordance with Tanzania authorities namely Tanzania Bureau of Standards, Tanzania Foods and Drugs Authority or any other relevant authority established and operating under the Law;
- (c) give assurance to Local Enterprises in respect of prompt payment for goods and services actually provided for Contractor and its Sub Contractors both foreign and Local;
- (d) make use of Tanzanian service companies and contractors, where services of certified standards are available from such contractors at competitive prices and on competitive terms;
- (e) 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 TPDC for review;
- (f) Ensure that the unskilled manpower requirement is reserved for Tanzanian nationals only.
- (g) ensure that provisions in terms of sub-articles (a) to (f) of this Article are contained in contracts between Contractor and its subcontractors;
- (h) employ United Republic of Tanzania nationals in order to give effect to Section 37(b) of the Act; and
- (i) 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.
- (j) Employ Tanzanian nationals in order to give effect to the Law and ensure that opportunities are given for the employment of nationals of the Tanzanian.
- (k) The contractor shall also :
  - i. provide to TPDC together with the annual work programme and budgets required under Articles 5 and 7 a list of all projects to be undertaken as well as all goods and services that are required for the conduct of Petroleum Operations;

- ii. TPDC 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 TPDC's website; and
  - iii. the Contractor shall in collaboration with TPDC invite qualified suppliers and contractors to bid for the supply or execution of the projects as the case may be.
- (l) All tenders are to be advertised, evaluated and awarded in the United Republic of Tanzania. Contractor shall apply to TPDC for prior approval where the circumstances warrant that any part of the tender process be conducted outside of United Republic of Tanzania.
- (m) give preference to Tanzania companies and by ensuring access to all tender invitations and by including high weighting on local value added in the tender evaluation criteria.
- (n) In order to give effect to this Article, the Contractor shall collaborate with TPDC and or any public authority responsible for local content promotion or other public body to identify a list of Tanzanian services and goods suppliers and contractors.
- (o) 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 support;
  - (iii). operations and maintenance support;
  - (iv). maritime services;
  - (v). business support services, including accounting and auditing, human resource services, consulting, marketing and contract negotiations;
  - (vi). financing; and
  - (vii). trading.
- (p) For the purposes of this Article,
- (i). "Tanzanian goods", means goods manufactured, obtained or produced in the United Republic of Tanzania; "Tanzania Services" means services provided by Tanzanians or Tanzanian companies; and "Tanzanian Materials "means materials obtained, produced or manufactured in the United Republic of Tanzania;
  - (ii). "Tanzanian Companies" means companies incorporated in the United Republic of Tanzania and whose shares are wholly or at least 51% owned by in Tanzanian nationals.

## **ARTICLE 21: EMPLOYMENT, TRAINING AND TRANSFER OF TECHNOLOGY**

- (a) Subject to the requirement of the law relating to immigration, TPDC 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 the United Republic of Tanzania for the purposes of this Agreement. (b) Without prejudice to Article 20), in the conduct of the Petroleum Operations, the Contractor shall employ Tanzanian citizens having appropriate qualifications to the maximum extent possible. In this connection the Contractor shall, in consultation with Government and TPDC, propose and carry out an effective training and employment programme for Tanzanian employees 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 the United Republic of Tanzania or abroad as required by the training programme prepared by the Contractor.
- (b) During each year of the term of the Exploration Licence and Development Licence or any renewal thereof the Contractor shall spend a minimum sum of four hundred thousand United States dollars (US\$ 500,000) adjusted by dividing by the factor I as defined in Article 5 (e) herein, for one or more of the following purposes:
- (i) to provide a mutually agreed number of Government and TPDC personnel with on the -job training in the Contractor operations in the United Republic of Tanzania and overseas, and/or training at institutions abroad or the United Republic of Tanzania, including natural earth sciences, engineering, technology, petroleum accounting and economics, economic analysis, contract administration and law as related to the fields of oil and gas exploration and production;
  - (ii) to send suitable Tanzanian personnel selected by the Government and by TPDC on courses at universities, colleges or other training institutions mutually selected by the Contractor, the Government and TPDC;
  - (iii) to send Tanzanian personnel selected by the Government and by TPDC to conferences workshops and seminars related to the petroleum industry; and
  - (iv) to purchase for the Government and TPDC advanced technical books, professional publications, technical software, scientific instruments, technical software or other equipment required by the Government and TPDC.
- (c) Not later than six (6) months after the grant of a Development Licence, the Contractor shall, in consultation with TPDC, implement the programme proposed in the Development Plan as approved by the Government for training and employment of Tanzanian nationals 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 the transfer of management and operation functions to Tanzanian nationals within a period not exceeding five (5) years from the commencement of commercial operations.

- (d) In addition to the requirements in sub article (e) of this Article Contractor shall ensure that the development of people in key areas allows nationals to participate in value-adding, analytical and management areas of:
  - (i) of a technical or professional nature including general management, design engineering, project management, seismic data processing, human resource development, legal; and
  - (ii) Business strategic skills including leadership, business development, executive management, commercial, analytical, negotiating, strategy development and trading know how and acumen.
- (e) The provisions of the Vocational Education and Training Act 1994 (Cap 82) 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 Tanzanian goods, material and services;
  - (ii) a detailed plan and programme for Tanzanian 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 shall, together with the annual report on Petroleum Operations in the Contract Area, submit and publish an annual report, which shall be verified by a competent and independent third party, describing the Contractor's activities and results on Tanzanian content and the local value adding other than the production sharing and fiscal obligations.

**ARTICLE 22: 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 TPDC at the option of TPDC 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) TPDC's aforesaid option in sub-article (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, harbors, pipelines, wellheads, separators, compressors, pumps, power lines, telephone lines etc.
- (c) Subject to this Article, all movable assets in connection with the Petroleum Operations carried out by the Contractor shall remain TPDC's property on expiration or termination of this Agreement.
- (d) If TPDC 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 TPDC according to their respective interest in Joint Operations. Any such asset shall become completely owned by TPDC 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. TPDC'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 22 (a) and 22(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 TPDC, pursuant to sub-articles (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, fair wear and tear excepted, 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, TPDC may elect to have the title to the asset transferred from the Contractor to the TPDC upon payment by the TPDC 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 TPDC 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 sub-article (a)-(h) of this Article. A Contractor shall not be required under this Article to transfer to the Government or the TPDC other assets rented or leased by the Contractor for use in Petroleum Operations and which are of the type customarily leased for use in accordance with.
- (i) Subject to the provisions of sub article (a) and (b) of this Article, Contractor shall give TPDC the opportunity to buy, upon such commercially reasonable terms as may be mutually agreed upon, any item imported duty free under Article 21(a) 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 Insurance Act 2009 and Best International Petroleum Industry Practices and/or as required by TPDC in accordance with their minimum insurance guidelines/requirements. The said insurances shall be taken out with Tanzanian registered insurance company(s) approved by TPDC, in accordance with the Insurance Act 2009 and Regulations made thereunder,, and where required be reinsured into International reinsurance markets with minimum Standard and Poor's 'A-' rating or the equivalent. All insurances must be approved by TPDC and as appropriate include TPDC as a Named Insured and include a waiver of subrogation against TPDC. 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) operators 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 TPDC 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 TPDC may be liable or Contractor may be liable to indemnify the Government and TPDC;
  - (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 TPDC 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 TPDC in accordance with their minimum insurance guidelines/requirements. The said insurances shall be taken out with Tanzanian registered company(s) approved by TDPC in accordance with Tanzanian Insurance Law and as applicable include TPDC as named insured and waive rights of subrogation against TPDC.
- (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 Minister 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 Environmental Management Act, 2004 and generally Best International Petroleum Industry Practices
- (o) In order to discharge its obligations for site cleaning, decommissioning and abandonment, the Contractor, Government and TPDC shall, within two (2) years of the commencement of commercial production, enter into an agreement to establish an 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, TPDC 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 Environmental Management Act, 2004 and generally Best International Petroleum Industry Practices
- (ii) The payments deposited into the Decommissioning Fund shall be placed in a U.S. Dollar, long term, interest bearing account in a commercial bank located within the United Republic of Tanzania to be designated by TPDC and Contractor.
- (iii) If, upon expiration or other termination of this Agreement, TPDC determines to conduct the site cleanup, decommissioning and abandonment operations, such funds, plus all accrued interest, shall be paid to TPDC 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, TPDC has failed to advise Contractor of TPDC'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 Environmental Management Act, 2004 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 TPDC.
- (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 23: IMPORT DUTIES**

- (a) The Contractor and its sub-contractors engaged in Petroleum Operations hereunder and TPDC in respect of Joint Operations established pursuant to Article 10 shall be permitted, subject to the limitations and conditions set out in the Law to import, free of duty or other taxes on imports, machinery, equipment, materials, supplies, consumable items (other than foodstuffs cosmetics, personal effects, and alcoholic beverages) and moveable property, where imports in any of the said categories have been certified by a responsible representative of TPDC to be for use solely in carrying out operations under this Agreement.
- (b) Subject to sub-article (a) above, any of the items imported into the United Republic of Tanzania 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 the United Republic of Tanzania, import duty shall be payable by the importer on the value thereof at the date of such sale or transfer.

## **ARTICLE 24: ACCOUNTING AND AUDIT**

- (a) The Contractor shall maintain at its business office in the United Republic of Tanzania accounting records relating to Petroleum Operations under this Agreement in accordance with the Accounting Procedure set out in Annex “D” of this Agreement.
- (b) TPDC shall have the right to audit Contractor’s accounting records in accordance with Annex “D”, the Accounting Procedure.
- (c) Nothing in this Article shall be construed as limiting the right of the Government and or its agents pursuant to any statutory power to audit or cause to be audited the books of accounts of the Contractor.

## **ARTICLE 25: HEALTH SAFETY AND ENVIRONMENT**

- (a) The Contractor shall comply with the Occupational Health and Safety Act 2003, Atomic Energy Act 2003, The Pharmaceuticals and Poisons Act 1978 CAP 219, , the Regulations and individual administrative decisions issued by virtue of the Law, all other legislation at any time in force in the United Republic of Tanzania 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 a management system designed to ensure compliance with the health, safety and environment requirements in accordance with the Best International Petroleum Industry Practices.
- (c) The Contractor shall ensure that the management of health, safety and the environment comprises the activities, resources, processes and organisation 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 fulfill the 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 assignment in the activities covered by these regulations.
- (e) The responsible party shall stipulate and further develop objectives and strategies to improve health, safety and the environment.
- (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. A yearly health and safety plan shall be established for the activities required to meet the long term and short-term objectives.
- (g) The objectives shall be expressed so that the degree of achievement can be assessed.
- (h) The Contractor shall carry out risk analyses that provide a balanced and most comprehensive possible picture 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 analyses 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 and environmental risk. Necessary assessments shall be carried out of sensitivity and uncertainty.
- (i) In order to achieve a high level of safety, international standards like International Organisation for Standardizations (ISO), International Maritime Organization (IMO), International Electrotechnical Commission(IEC)and International Petroleum Industry

Environmental Conservation Association (IPIECA), shall be used. When the responsible party makes use of a relevant international standard or other standard referred to in the regulation, the responsible party can normally assume that the regulatory requirements have been met.

- (j) When other solutions than those recommended above are used, the Contractor shall be able to document that the chosen solution fulfills the regulatory requirements. Combinations of parts of standards shall be avoided.
- (k) The Contractor shall ensure that hazard and accident situations that have occurred and that may lead to or have led to acute pollution or other harm, are duly recorded and examined 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.
- (l) 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 e.g. contribute to improving the employees' health, welfare and safety and to prevent personal injuries, fatalities and work-related illness.
- (m) The Contractor shall ensure that the persons engaged in Petroleum Operations shall at all times possess the necessary competence and qualifications to carry out the activities in a prudent manner.
- (n) The Contractor shall put in place programmes to deal with awareness and control of HIV/AIDS malaria and other epidemic outbreaks in the Contract Area, the areas around the Contract Area and other areas around Petroleum Operations. .
- (o) 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 and fauna and including but not limited to natural resources, including the living resources of the land, air, sea and lakes of the United Republic of Tanzania;
  - (ii) employ the best available techniques in accordance with Best International Petroleum Industry Practices for the prevention of environmental damage to which its Petroleum Operations might contribute and for the minimization of the effect of such operations on adjoining or neighbouring lands, air, sea and lakes;
  - (iii) implement its Development Plan regarding the prevention of pollution, the treatment of wastes, the safeguarding of natural resources and the progressive reclamation and rehabilitation of lands disturbed by Petroleum Operations;

- (iv) prevent and minimize pollution; and
  - (v) ensure prompt, fair and adequate compensation for injury or loss to persons, loss or damage of property caused by the effects of Petroleum Operations.
- (p) If Contractor's failure to comply with the provisions of sub-article (a) (i) of this Article and the Law results in pollution or damage to the environment or marine life or otherwise, 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 gross negligence or willful misconduct of the Contractor, the cost of the remedy shall not be a Recoverable Contract Expense for the purpose of Article 12 and Annex "D".
- (q) The Contractor shall notify the Minister and TPDC 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 Environmental Management Act, 2004 and 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 Gross Negligence or Willful Misconduct of Contractor for the purpose of Article 12 and Annex "D".
- (r) 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, TPDC may, after giving the Contractor reasonable notice in the circumstances, take any actions which are necessary in accordance with the Environmental Management Act, 2004 and Best International Petroleum Industry Practices, and the reasonable costs and expenses of such actions shall be borne by the Contractor.
- (s) The Contractor shall undertake at its expense (but as a legitimate recoverable cost) social and environmental impact assessment studies prior to, during and after any major Petroleum Operations. Notwithstanding the generality of the foregoing, the Contractor shall undertake a comprehensive Social and Environmental Impact Assessment *prior to* conducting the following activities:
- (i) reconnaissance and 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.

- (t) The Contractor shall not flare or vent Petroleum without an authorisation from the Government.
- (u) The Minister may grant the Contractor an authorisation 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.
- (v) In case of an emergency, and where there is insufficient time to request an authorisation from the Minister, the Contractor may vent or flare without the prior consent of the Minister 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 TPDC of the event.
- (w) The Contractor shall, in consultation with TPDC and upon the Minister's approval, established a safety zone surrounding each petroleum facility, well or transportation system including abandoned facilities, or parts of these facilities.
- (x) 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 authorities of the United Republic of Tanzania that are mandated to protect petroleum operations in the Contract Area. The Contractor shall be liable for pollution damage, injury or loss caused by or resulting from the Petroleum Operations without regard to fault or negligence.
- (y) 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 in the United Republic of Tanzania. If the reserve funds in the Petroleum Spill Reserve Fund are insufficient to pay the costs of clean-up and rehabilitation, such shortfall shall be paid by the Contractor.



## **ARTICLE 26: 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 management 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 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 the later of 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).

(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 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 are 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**

Contractor may terminate this Contract upon a three (3) month written notice to Minister if the fulfillment of the obligation of either Party under this Contract is affected by a Force Majeure Event during the Exploration Period or any extension thereof 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 27: 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 Government, 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 the Government 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 Government 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 the Government 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) For each assignment or Transfer made to a non-Affiliate, by any entity or entities comprising Contractor, shall attract a transfer or assignment fee which will be payable to the Government at the following rates to the corresponding amounts or value of the consideration:
- (i) For every dollar of the first US\$100 million: 1%.
  - (ii) For every dollar of the next US\$100 million: 1.5%
  - (iii) For every dollar thereafter: 2%
- (i) The Minister reserves the right to employ the services of an independent consultant, at the cost of Contractor or any of the 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 rates stated in sub article (h) 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.
- (j) No assignment or Transfer amount payable under Sub-Article 27 (h) shall be chargeable on any assignment or transfer made under this Article where stamp duty on such assignment or transfer is paid by any entity comprising Contractor. If an amount paid on an assignment or transfer subsequently becomes subject to stamp duty, such amount shall be refunded.
- (k) 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.
- (l) 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.
- (m) 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.
- (n) Any assignment or transfer under this Article shall be subject to the relevant tax law,

including capital gain tax.

- (o) TPDC has the right of first refusal to acquire 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 TPDC 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, TPDC shall notify the assigning company whether TPDC elects to exercise the right of first refusal;
  - (iii) if TPDC does not exercise the right of first refusal by failing to give the notification referred to in the preceding subparagraph, then TPDC shall be deemed to have waived the right of first refusal in respect of such assignment;
  - (iv) if TPDC exercises the right of first refusal by giving the notification referred to in paragraph (o) (ii) of this Article, then TPDC and the assignor company shall execute the assignment under the terms and conditions contained in the notification referred to in paragraph (o) (i) of this Article.
- (p) In the event of TPDC not exercising the right of first refusal referred to in the preceding paragraph, such right shall pass to any Affiliate of TPDC.
- (q) 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 28: CONSULTATION AND ARBITRATION**

- (a) TPDC 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.
- (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. In the event of no agreement being reached, either party shall, except in the case of a dispute or difference as provided in sub-article 9(h), 13(b) and 13(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. 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 this Article 28(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.

The arbitration procedure shall be commenced by request addressed by the applicant Party to the Secretariat of the 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.

In the context of the procedure set out in this Article 28(c), the arbitration procedure shall commence within sixty (60) Days following expiry of the thirty (30) Day period defined in Article 28(c) plus, if applicable, any additional time provided in the same paragraph.

Each Party shall designate its arbitrator and notify the other Party and the 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 Rules of Conciliation and Arbitration, and request that it makes such designation within the shortest possible time.

The arbitrators shall not be of the same nationality as either of the Parties.

Within forty-five (45) Days after the date of designation of the last of them, 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 Rules of Conciliation and Arbitration shall be requested by the most diligent Party to designate this third arbitrator within the shortest possible time.

The arbitrators are free to choose the procedure they intend to apply. The decision of the arbitrators is final; it is binding on the Parties and will be enforceable under the United Republic of Tanzania laws.

- (e) The place of arbitration shall be Dar es Salaam, in the United Republic of Tanzania. The Language used shall be English, the applicable law shall be the law of the United Republic of Tanzania and the provisions of this Agreement shall be interpreted in accordance with that law.
- (f) The Parties will bear the expenses and fees of Arbitration equally. These costs are not 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 29: APPLICABLE LAW**

This Agreement shall be governed by, interpreted and construed in accordance with the Laws of the United Republic of Tanzania.

**ARTICLE 30: WORKING LANGUAGE**

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

### **ARTICLE 31: THIRD PARTY ACCESS TO PETROLEUM FACILITIES**

- (a) The Contractor, [and TPDC where TPDC 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 the Minister for approval unless the Minister decides otherwise. The Minister 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, the Minister may stipulate the tariffs and other conditions for such third party access.
- (d) Where the Minister decides to stipulate, modify or alter or set terms and conditions for third party access to petroleum facilities pursuant to this Article (b)-(c), the Minister 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 the Minister through TPDC 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) The Minister may appoint representatives who shall be entitled to participate with an observer status at any meeting on negotiations pursuant to this Article. The Contractor shall ensure that the observer who is appointed by the Minister promptly receives any relevant information for the purpose of efficient representation of the Minister at the meetings.

## **ARTICLE 32: 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 licence area, the Contractor shall not develop such petroleum accumulation without seeking an agreement with the contractor or the licensee 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. 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 46 of the Act.
- (b) Subsequent to the Minister's approval of an agreement in accordance with sub-article (a), a collective proposal for a common Development Plan of the deposit of Petroleum in accordance with Article 9, 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 licence, the Minister may grant TPDC a licence to develop and produce the petroleum accumulation, and may require the petroleum accumulation to be developed as a single unit. Sub-Article (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 shall forthwith notify the Minister and TPDC where the Contractor discovers that a Petroleum accumulation straddles between an international boundary of the United Republic of Tanzania and an international boundary of another sovereign state.
- (f) The Contractor shall inform the Minister and TPDC where the Contractor, within the scope of this Agreement, assesses that there may be a potential need for assessing a potential for unitisation or coordination of Petroleum Operations for Petroleum accumulations straddling between- or in proximity with- the international boundary of the United Republic of Tanzania and an international boundary of another sovereign state.

### **ARTICLE 33: 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 the Republic of Tanzania from time to time.
- (b) The Contractor shall, in accordance with the Foreign Exchange Act ( CAP 271) the Law and this Contract, have the right:
  - (i) to open and keep one or more accounts denominated Tanzanian currency or United States Dollars, or other currency as duly authorised, with banks in the United Republic of Tanzania.
  - (ii) to purchase Tanzanian currency and United States Dollars, or other currency as duly authorised, from any bank in the United Republic of Tanzania or other financial institutions, authorised for this purpose by the Central Bank of Tanzania.
  - (iii) Without prejudice to withholding tax due, all non-resident subcontractors if duly authorized by the relevant authorities in Tanzania and all the expatriate personnel shall be entitled to receive in any currency the whole or any part of their remunerations outside the Republic of Tanzania. All payments to resident subcontractors shall be made exclusively in Tanzania.
  - (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 Tanzania, under the terms of the Law.
  - (v) The Contractor has the obligation to inform the Central Bank of Tanzania 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 Central Bank of Tanzania and the Minister and as otherwise required by the authorities in accordance with the Law. The Central Bank of Tanzania 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 of Tanzania in respect of such information and accounts in order to facilitate any such audits.

#### **ARTICLE 34: ANTI-CORRUPTION**

- (a) The Contractor and TPDC shall in accordance with the Prevention and Combating of Corruption Act, CAP. 329, establish and implement anti-bribery and anti-corruption 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 to such Party.

**ARTICLE 35: 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 36: 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 specified in this Article 32 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 Government:

The Permanent Secretary  
Ministry of Energy and Minerals  
P.O. Box 2000  
DAR ES SALAAM  
Telephone: 255-222 117 156-9  
Fax: 255-222 116 719  
E-mail: [psmem@mem.go.tz](mailto:psmem@mem.go.tz)

If to TPDC:

The Managing Director  
Tanzania Petroleum Development Corporation  
P.O. Box 2774  
DAR ES SALAAM  
Telephone: 255-222 200 103/4  
Fax: 255-222 200 113  
Email: [tpdcmd@tpdc-tz.com](mailto:tpdcmd@tpdc-tz.com)

If to: ABC LTD, TANZANIA

The Director,  
ABC Ltd, Tanzania  
DAR ES SALAAM  
**TANZANIA**



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 Government of the United Republic of Tanzania

By: \_\_\_\_\_ Name: \_\_\_\_\_  
Title: Minister for Energy and Minerals Witnessed by \_\_\_\_\_

Signed for and on behalf of the Tanzania Petroleum  
Development Corporation

By: \_\_\_\_\_ Name: \_\_\_\_\_  
Title: Managing Director Title: \_\_\_\_\_

Signed for and on behalf of ABC Limited

By: \_\_\_\_\_ Name: \_\_\_\_\_  
Chief Executive Officer Title: ABC

## **ANNEX "A": DESCRIPTION OF EXPLORATION LICENCE AREA**

The application area is described as totaling (...) square kilometers as per the TPDC Map in Annex B.

<b>Point</b>	<b>Longitudes</b>	<b>Latitudes</b>	<b>Remarks</b>
A			Due (west, east, south north) B
B			

**ANNEX "B": MAP OF EXPLORATION LICENCE AREA**

Total Number of Blocks = [ ]

Total area amounts to [ ] sq. km.

## **ANNEX "C": DRAFT EXPLORATION LICENCE**

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

I, \_\_\_\_\_ Minister for Energy and Minerals pursuant to the powers conferred upon me by Section 21 of the Petroleum (Exploration and Production) Act, 1980 hereby grant TPDC for a period of four (4) years from the date hereof this Exploration Licence over the exploration area described in the First Schedule hereto conferring on TPDC 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 Licence 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, TPDC shall in the said exploration area:
  - (i) Reprocess existing seismic data.
  - (ii) Acquire minimum (...) kilometres of 2D and or (...) square kilometres of 3D seismic data
  - (iii) Drill at least (...) exploration wells; and carry out geological and geophysical surveys and related activities in the area; and
  - (iv) spend a sum which, when adjusted in accordance with the formula set out in sub article (e) 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, TPDC shall conduct exploration operations under this licence 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 Licence the obligations of TPDC under this Licence have been suspended by reason of Force Majeure pursuant to Article 25 of the Agreement, the period for which this Licence has been granted shall be extended for a period equal to the period during which the obligations of TPDC were so suspended.

In this licence "the Agreement" means the Agreement made on \_\_\_\_ day of \_\_\_\_ between the Government of the United Republic of Tanzania, the Tanzania Petroleum

Development Corporation and ABC Limited.

Unless the context otherwise requires words and phrases in this Licence shall have the same meaning as those used in the Petroleum (Exploration and Production) Act, 1980.

IN WITNESS WHEREOF, I have granted the Licence aforesaid and set out my hand and seal  
this \_\_\_\_\_ day of \_\_\_\_\_ 20....

Minister for Energy and  
Minerals

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**ANNEX “C”1: FIRST SCHEDULE**

**Coordinates of the corner-points of Exploration Licence Area**

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Point	Longitudes	Latitudes	Remarks
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**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 TPDC 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 Government of the United Republic of Tanzania and Tanzania Petroleum Development Corporation 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 TPDC to monitor the costs, expenditures, production and receipts so that both TPDC's entitlement to Profit Oil/Gas and Government's revenues can be accurately determined on the basis of the Agreement.

#### **1.3 Documentation Required to be Submitted by Contractor**

(a) Within thirty (30) days of the Effective Date, the Contractor shall submit to and discuss with the Minister and TPDC a proposed outline of charts of accounts, operating records and reports, 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 generally accepted and recognized accounting systems and consistent with normal practice for joint venture operations of the international petroleum industry and the National Board of Accountants and Auditors. Within ninety (90) days of receiving the above submission the Minister in consultation with TPDC shall either indicate approval of the proposal or request revisions to the proposal. Within one hundred and eighty (180) days after the Effective Date Effective Date, the Contractor and the Minister in consultation with TPDC shall agree on the outline of charts of accounts, operating records and reports which shall describe the basis of the accounting system and procedures to be developed and used under the Agreement. Following such agreement the Contractor shall expeditiously prepare and provide the Minister and TPDC with formal copies of the comprehensive charts of accounts related to the accounting, recording and reporting functions, and allows the Minister and TPDC 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 TPDC 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) APT Statement (see Section 9 of this Annex)
  - (iv) End-of-Year-Statement (see Section 10 of this Annex).
  - (v) Budget Statement (see Section 11 of this Annex).
- (c) All reports and Statements shall be prepared in accordance with the Agreement, the laws of Tanzania and, where there are no relevant provisions in either of these, in accordance with 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 and barrels, 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 TPDC 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 Bank of Tanzania 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-paragraph, 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 Bank of Tanzania 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 or, failing such publication, as published in the Financial Times (London edition) for the Month in which the relevant transaction occurred.
- (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 (c) (iii) of the Agreement, all payments between the parties shall, unless otherwise agreed, 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 TPDC's share of Profit Oil/Gas shall be made in accordance with the Agreement.
- (c) 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 one (1) percentage point.

## **1.6 Audit and Inspection Rights of Government**

- (a) Without prejudice to statutory rights, TPDC shall have the right to cause to audit to each Calendar year within two (2), 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 TPDC of the report of its auditors. For purposes of auditing, TPDC may examine and verify, at reasonable times, 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 TPDC 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 TPDC and the Contractor.

- (b) The Contractor shall answer any notice of exception under subsection 1.6 (a)
- (c) 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 TPDC, TPDC's exception shall be deemed as accepted by Contractor and the accounts shall be adjusted accordingly.

## **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 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, expenditure records shall be maintained in expenditures to each Development Area.

2.1 **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, palaeontological, geological, topographical and seismic surveys and studies and their interpretation;
- (b) Deep well and core hole drilling and water well 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
- (e) above including access roads, fixed assets and purchased geological and geophysical, all identified separately;
- (f) 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;
- (g) 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** 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, modeling 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, 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;
- (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 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. General and Administrative Costs and Service Costs not allocated to Exploration Expenses or Development Expenses shall be allocated to Operating Expenses.

2.4 Service Costs are direct and indirect expenditures in support of the Petroleum Operations including warehouses, export terminals, harbors, 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 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(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.

**2.5 General and Administrative Costs are:**

- (a) all main office, field office and general administrative expenses in the United Republic of Tanzania 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 the United Republic of Tanzania and not otherwise charged under this Accounting Procedure, for managing the Petroleum Operations and for staff advice and assistance including financial, legal, accounting and employee relations services. For the period from the Effective Date Effective Date until the date on which the first Development License under the Agreement is granted by the Minister this annual charge shall be itemized and verifiable costs but in no event greater than one percent (1%) of the Contract Expenses; including those covered in sub-section 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 Development Plan approved with the grant of the said License. The annual overhead charge shall be separately identified in all reports to the Government and TPDC;
- (c) 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.

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

### **3.1 Recoverable Costs**

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 out of 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 Tanzania, 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 not exceed commercial obtainable salaries and wages in Tanzania and shall be reviewed and approved by TPDC on annual basis.
- (ii) Cost to the Contractor of 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 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 labor costs under subsection (i) above.
- (iii) Expenses or contributions made pursuant to assessments or obligations imposed under the laws of the United Republic of Tanzania which are applicable to the cost of salaries and wages chargeable under (i) above.
- (iv) Reasonable travel and personal expenses of employees of the Contractor including those made for travel and relocation of the expatriate employees assigned to the United Republic of Tanzania all of which shall be in accordance with the normal practice.
- (v) Any personal income taxes of the United Republic of Tanzania incurred by employees of the Contractor and paid or reimbursed by the Contractor.
- (vi)

**(b) Transportation**

The cost of transportation of; employees, equipment, materials and supplies necessary for the conduct of the Petroleum Operations and not provided for elsewhere.

**(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 paid by the Contractor are no higher than those generally charged by other international or domestic suppliers for comparable work and services.

**(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 charges will be no higher than the most favorable prices charged by the Affiliate Company to third parties for comparable services under similar terms and conditions elsewhere. The Contractor will, if requested by TPDC, specify 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.

(iii). In the event that the prices and charges referred to in sub-paragraphs (i) and (ii) above are shown to be uncompetitive then TPDC 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 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 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**

The Contractor does not warrant material beyond the supplier's or manufacturer's guarantee 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 Charged to the Accounts under the Agreement**

(a) Except as otherwise provided in (b) below, material 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, 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.

(b) 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 (Condition "A")** shall be valued the current international price which shall not exceed price prevailing in normal arm's length transactions on the open market.

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

(i) Material which is in sound and serviceable condition and is suitable for 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 defined in (1) above.

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

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

(b) is serviceable for original function but substantially not suitable for reconditioning, shall 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 which cannot be classified as Condition “B” or Condition “C” shall be priced at a value to be agreed between TPDC and the Contractor.

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

(v) When the use of material is temporary and its service to Petroleum Operations does not justify the reduction in prices as provided for in subparagraph (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, taxes (other than income tax, withholding tax, remittance tax and Additional Profits Tax), levies, charges, fees, contributions 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 annual charges for licenses shall not be recovered.

**(h) Insurance and Loses**

Insurance premiums and the costs incurred for insurance pursuant to and in accordance with Article 21 shall be recoverable provided they are incurred in accordance with TPDC 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, TPDC 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(b) or 3.1(d) above as applicable.

**(j) Training Costs**

All costs and expenses incurred by the Contractor in training of Tanzanian employees engaged in Petroleum Operations and such other training as is required under Article 21 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).

**3.2 Costs not Recoverable under the Agreement**

The following costs shall not be recoverable for the purposes of Profit Oil/Gas sharing:

- (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 including charges incurred by Contractor for 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-fulfillment of contractual obligations);
- (e) costs of arbitration and the sole expert in respect of any dispute under the Agreement;
- (f) fines and penalties imposed by courts of law in the United Republic of Tanzania;
- (g) costs incurred as a result of willful misconduct or negligence of the Contractor;
- (h) donations and contributions made by the Contractor;
- (i) Signature bonus and production bonus;
- (j) any costs which, by reference to the **Best International Petroleum Industry Practices**, can be shown to be excessive;
- (k) 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 United Republic of Tanzania

whereby such a research is conducted in collaboration with TPDC; and

- (l) interest and financial charges paid to the creditors of the Contractor,
- (m) bonuses paid to employees and directors.

### **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 TPDC.

### **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:

- (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 but excluding any award granted to the Contractor under arbitration or sole expert proceedings;
- (f) the net proceeds for material originally charged to the accounts under the Agreement and subsequently exported from the United Republic of Tanzania without being used in Petroleum Operations;
- (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.

#### **SECTION 4: RECORDS AND VALUATION OF ASSETS**

The Contractor shall maintain 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 TPDC 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 TPDC 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 TPDC showing the following information for each Development Area 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;
  - (e) the size of Petroleum stocks held at the beginning of the Month in question;
  - (f) the size of petroleum stocks held at the end of the Month in question;
  - (g) the number of days in the Month during which Petroleum was produced from each Development Area within the Contract Area;
- 5.2 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 (g) in sub-section 5.1 above. Additionally, the average daily production rate for the Quarter shall be calculated in accordance with Article 12 of the Agreement.
- 5.3 The Production Statement for each Month or quarter shall be submitted Government and TPDC 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, for the purposes of Article 13 and 14 of the Agreement, prepare a Statement providing calculations of the value of Crude Oil/Natural Gas produced and saved during each Calendar Quarter. This Statement, which shall be prepared for each Quality of Tanzanian Crude Oil /Natural Gas produced and saved from 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 Tanzanian Crude Oil/Natural Gas during the Calendar Quarter in question;
- (c) the quantities, prices and receipts realized therefore by the Contractor in sales of Tanzanian 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 Tanzanian 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 13 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.

6.2 The Value of Production and Pricing Statement for each Calendar Quarter shall be submitted to Government and TPDC 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. 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 TPDC 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 TPDC 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 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 22
- 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 TPDC to identify how the cost of assets are being recovered for the purposes of Article 21 of the Agreement.
- 8.3 The Cost Recovery Statement for each Quarter shall be submitted to Government and TPDC not later than twenty one (21) days after the end of such Quarter.

**SECTION 9: ADDITIONAL PROFIT TAX STATEMENT**

(details for parameters required to calculate the APT as per Article 17 are being drafted)

**SECTION 10:           END-OF-YEAR STATEMENT**

The Contractor shall prepare a definitive End-of-Year Statement. The Statement will contain aggregated information for the Year in the same format as required in the Value of Production, Pricing Statement, Royalty payable Statement, Abandonment Cost Reserve Fund Statement, Cost Recovery Statement and Statement of Receipts and Expenditure to be based on the actual quantities of Petroleum produced and the costs and expenses incurred. The End-of-Year Statement for each Calendar Year shall be submitted to Government and TPDC within sixty (60) days of the end of such Calendar Year.

**SECTION 11: BUDGET STATEMENT**

10.1 The Contractor shall prepare an Annual Budget Statement. This Statement shall set out separately Exploration Expenses, Development Expenses and Operating Expenses and shall show the following:

- (a) forecast expenditure and receipts for the budget year under the Agreement;
- (b) cumulative expenditures and receipts to the end of the said budget year; and
- (c) a schedule showing the most important and individual items of Development Expenses for the said budget year;

10.2 The Budget Statement shall be submitted to Government and TPDC with respect to each budget 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 within thirty (30) days of the Effective Date.

**SECTION 12: REVISION OF ACCOUNTING PROCEDURE**

- 11.1 The provisions of this Accounting Procedure may be amended by agreement between the Contractor, the Government and TPDC. The amendments shall be made in writing and shall state the date upon which the amendments shall become effective.
- 11.2 In the event, and at the time, that TPDC elects to participate in Joint Operations as defined in Article 10 of this Agreement the parties shall modify this Accounting Procedure to reflect TPDC's status as a party to the Operating Agreement.
- 11.3 Following any second discovery in the Contract Area the parties will meet in order to establish specific principles and procedures for identifying all costs, expenditures and credits, and for allocating Cost Oil and/or Cost Gas and Profit Oil and/or Profit Gas, on a Development Area basis, it being understood that costs, expenditures and credits which do not uniquely arise in respect of any one Development Area shall be apportioned between Development Areas in a reasonable, equitable and consistent manner.

### **SECTION 13: CONFLICT WITH THE AGREEMENT**

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

## ANNEX "E": APT SAMPLE CALCULATION METHODOLOGY

Hard data input per Petroleum Agreement

1. First Account Percent 25.00%
2. Second Account Tax Rate Percent 40.00%
3. First Account Real Rate of Return Percent 35.00%
4. First Account APT Taxes are Deductible when calculating Second Account Balances

Assumptions

1. Assumed Annual Change in USIGPPI = Two (2) Percent (Added to Account Rates of Return to reflect the "Real" nature of these ROR's).
2. Cash Flow is for illustrative purposes only; data entirely assumed.

### Calculation Methodology

Year	Assumed Pretax Cash Flow US\$MM	FANCP First Account Balance	First Account APT Payable	SANCP Second Account Balance US\$MM	Second Account APT Payable	Total APT Payable US\$MM
1	-3.00	-3.00	0.00	-3.00	0.00	0.00
2	-10.00	-13.81	0.00	-14.11	0.00	0.00
3	-40.00	-57.54	0.00	-59.33	0.00	0.00
4	10.00	-63.08	0.00	-71.28	0.00	0.00
5	40.00	-40.11	0.00	-57.65	0.00	0.00
6	80.00	29.06	7.27	-6.25	0.00	7.27
7	100.00	100.00	25.00	66.44	26.58	51.58
8	100.00	100.00	25.00	75.00	30.00	55.00
9	60.00	60.00	15.00	45.00	18.00	33.00
10	20.00	20.00	5.00	15.00	6.00	11.00
11	-20.00	-20.00	0.00	-20.00	0.00	0.00
12	10.00	-15.00	0.00	-17.40	0.00	0.00
13	20.00	0.44	0.11	-3.95	0.00	0.11
14	30.00	30.00	7.50	17.09	6.84	14.34
15	20.00	20.00	5.00	15.00	6.00	11.00



## **ANNEX "F": PARENT COMPANY GUARANTEE**

Tanzania Petroleum Development Corporation  
P. O. Box 2774,  
**DAR ES SALAAM**

We, the UNDERSIGNED hereby DECLARE that:

- A. The obligations set forth in Article 3(d)(ii) and Article 5 and reflected in the Guarantee shall be continuing and absolute guarantees, and the obligations set forth in Article 3(d)(ii) 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 3(d)(ii) 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, TPDC or the United Republic of Tanzania 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(g).
- B. If ABC shall fail to make any required payment guaranteed pursuant to Article 3(g) following demand thereof, the ABC Parent shall, within ten (10) days following the giving of notice of such failure and the demand by TPDC or the United Republic of Tanzania 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 TPDC or the United Republic of Tanzania 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 TPDC or the United Republic of Tanzania 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 TPDC or the United Republic of Tanzania shall be available against TPDC or the United Republic of Tanzania,

respectively, in any suit or action brought by TPDC or the United Republic of Tanzania, as the case may be, 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(g) should give rise to a right of subrogation, the Guarantor will waive any and all rights of subrogation with respect to TPDC or the United Republic of Tanzania until such time as TPDC and the United Republic of Tanzania's obligations for any indebtedness have been satisfied in full.

Signed for and on behalf  
of ABC Parent

President/CEO  
ABC Parent

Name:.....

Signed: .....

Date: .....

Witnessed:

Title: .....

Name: .....

Signed: .....

Date: .....

CC: The Hon. Minister  
Ministry of Energy and Minerals  
P.O. Box 2000,  
DAR ES SALAAM