

MODEL

PRODUCTION SHARING AGREEMENT

BETWEEN

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

AND

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

AND

ABC OIL COMPANY

November 2004

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PRODUCTION SHARING AGREEMENT

This Agreement is made on the _____ day of _____ 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;

and

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

(all hereinafter called collectively “First Party”)

and

ABC Oil Company a Company organised and existing under the laws of the United Republic of Tanzania hereinafter referred to as “ABC” with office and legal representative in Tanzania, represented by its Chief Executive Officer, hereinafter called “ABC” or “Contractor” or “Second Party” which expressions shall, where the context so admits, include its successors-in-title and assigns. Any entity, which constitutes Contractor, may also hereinafter be referred to as “Contractor Party”.

PREAMBLE

WITNESSETH

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, the Tanzania Petroleum Development Corporation (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 Petroleum (Exploration and Production) Act 1980 (“the Act”) 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

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 ABC Oil Company 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 Oil Company is willing on certain terms and conditions to undertake the 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 the 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) “Affiliated 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, so related that each company of the series, except the parent company or companies, is directly controlled by one or more of the companies earlier in the series.
- (b) “Appraisal” means the activity carried out after the discovery of Petroleum to better define the parameters of the Petroleum and the reservoir to which the discovery relates and determine its commerciality and includes activity carried out under an appraisal programme. This activity shall include:
- (i) drilling of appraisal 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.
- (c) “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.
- (d) “Barrel” means the 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.
- (e) “Block”, “Development Area”, “Development Licence” “Development Operations” “Exploration Operations” “In Default”, “Location”, “Minister”, “Petroleum” “Regulations” and “Well” shall have the meanings assigned to them respectively in Section 5 of the Act; “Adjoining Block” and “Discovery

Block” shall have the meanings assigned to them respectively in Section 33 of the Act.

- (f) “Calendar Month” or “Month” means any of the twelve months of the Calendar Year.
- (g) “Calendar Quarter” or “Quarter” means a period of three (3) consecutive months starting with the first day of January, April, July or October.
- (h) “Calendar Year” or “Year” or “Civil Year” means a period of twelve (12) consecutive months according to the Gregorian Calendar beginning on January 1 and ending on December 31.
- (i) “Casinghead 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.
- (j) “Contract Area” means on the Effective Date the area described in Annex A and shown on the 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.
- (k) “Contract Expenses” means Exploration Expenses, Development Expenses, Operating Expenses, Service Costs and General and Administrative Costs as more fully set forth in Annex D.
- (l) “Crude Oil” means any hydrocarbon which:-
 - (i) is in a liquid state at the well head or gas/oil separator or which is extracted from the gas or casinghead gas in a plant including distillate and condensate, and
 - (ii) except where in [Article 16](#) hereof the context requires otherwise, has been produced from the Contract Area.
- (m) “Delivery Point” means the point Freight-On-Board of the Tanzania loading facility at which Crude Oil reaches the inlet flange of the lifting tankship’s intake pipe or such other point which may be agreed between TPDC and the Contractor.
- (n) “Development Expenses” means those expenses as so categorised in Annex “D”, the Accounting Procedure.
- (o) “Effective Date” means the date on which this Agreement is signed by the Government, TPDC and ABC Oil Company.
- (p) “Exploration Expenses” means those expenses as so categorised in Annex “D”, the Accounting Procedure.

- (q) “Exploration Period” means a period of exploration referred to in [Article 5\(b\)](#).
- (r) “Exploration Well” means any well whose purpose at the commencement of drilling is to explore for an accumulation of hydrocarbons whose existence was at that time unproven by drilling.
- (s) “General and Administrative Costs” means those costs as so categorised in Annex “D”, the Accounting Procedure.
- (t) “Natural Gas” or “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 gas 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.
- (u) “Non-Associated Gas” means Natural Gas other than Casinghead Gas.
- (v) “Operating Expenses” means those expenses as so categorised in Annex “D”, the Accounting Procedure after the extraction and liquid hydrocarbons therefrom.
- (w) “Operator” means the person designated as the operator under an operating agreement executed by the persons constituting the Contractor or the operating agreement executed by TPDC and the Contractor pursuant to [Article 9](#).
- (x) “Petroleum Operations” means any and all operations and activities in connection with Exploration Operations, Appraisal Operations, Development Operations, and Production Operations, including all abandonment activities as required under [Article 22](#).
- (y) “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 Crude Oil and Gas 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.
- (z) “Service Costs” means those costs as so categorised in Annex “D”, the Accounting Procedure.
- (aa) “Subcontractor” shall mean any business hired by Contractor to carry out all or a portion of Petroleum Operations as approved by Contractor under the terms of this Agreement.

- (ab) “Recoverable Contract Expenses” shall have the meaning ascribed in [Article 11](#)
- (c).
- (ac) “Work Programme and Budgets” shall have the meaning ascribed in [Article 6](#).

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 not later than 30 days, after the Effective Date TPDC will apply for and Government, under and in accordance with the Act, will grant to TPDC an Exploration Licence over the area described in Annex “A” and shown on the map in Annex “B” hereof. The said licence shall be substantially in the form of the draft set out in Annex “C” hereof.
- (b) Subject as hereinafter provided in sub-article (g) (ii) of this Article and sub-article (d) of [Article 8](#), 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 9](#), the Contractor, on the terms and conditions set out herein, shall have the exclusive right to conduct, on behalf of TPDC as licence holder, Petroleum Operations in the Contract Area. Where the Contractor is constituted by more than one person, ABC Oil Company shall be the operator and the duties and obligations under this Agreement shall be joint and several except where the parties specifically have agreed otherwise in this Agreement. No change in Operatorship shall take effect unless it has been approved by the Minister.
- (d) The Contractor will:-
- (i) carry out the Petroleum Operations in the Contract Area diligently, with due regard to good oil field 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;
 - (ii) 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 and in particular, but without prejudice to the generality of the foregoing, to meet the requirement of First Schedule thereof;
 - (iii) if the Contractor has requested TPDC to apply for any extension of the said Exploration Licence, select the blocks to be relinquished by TPDC in accordance with the requirements of this Agreement and the Act;
 - (iv) pay TPDC within 30 days of the Effective Date the sum of US\$[]in respect of geological and geophysical data relating to the Contract Area;
 - (v) subject to [Article 10](#), reimburse TPDC within 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 at the request of the Contractor hereunder, payable by TPDC pursuant to section 84 of the Act; and

- (vi) notify TPDC promptly of any change in its circumstances, or those of any affiliate 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.

(e) 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 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;
- (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 Section 33 (1) (a) of the Act, request that a Discovery Block within the Contract Area and such adjoining blocks not exceeding eight 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.

(f) The Government:-

- (i) will take 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 as may be required to appraise the discovery;
 - (iii) subject to sub-article d (iv) 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 d (iv) in the possession or under the control of Government resulting from petroleum exploration by any other Contractor in the Contract Area and the Contractor shall treat such data as confidential;
 - (iv) subject to any requirement in the laws of Tanzania and subject to respect by the Contractor for the rights of the others, will permit the Contractor, its servants 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; and
- (g) (i) The Contractor, on giving to TPDC not less than 90 days notice in writing:-
- (a) may, if its obligations in respect of any Exploration Period have been fulfilled at any time thereafter during that period, surrender its rights and be relieved of its obligations in respect of the whole of the Contract Area;
 - (b) may, at any time after the grant of the said Exploration Licence, surrender its rights and be relieved of its obligations in respect of any block or blocks forming part of the Contract Area; provided however that no surrender by the Contractor of its rights over any part of the Contract Area shall relieve the Contractor of its obligations to spend the sums and carry out the work described in [Article 5](#) hereof.
- (ii) Where pursuant to this sub-paragraph the Contractor has surrendered its rights and been relieved of its obligations in respect of any block or blocks forming part of the Contract Area notwithstanding that the said block or blocks continue to be subject to any Exploration or Development Licence referred to in sub-article (b) of this Article the said blocks shall not for the purpose of this Agreement constitute part of the Contract Area.

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) This Agreement shall come to an end:
 - (i) subject to the Act and this Agreement, on surrender by Contractor of its rights in respect of the whole of the Contract Area pursuant to Article 3(g);
 - (ii) where the Contractor is in default the Government may by notice in writing served on the Contractor terminate this Agreement.
- (c) The Government shall not terminate the Agreement on the grounds of any default unless:
 - (i) it has, by notice in writing served on the Contractor, given not less than thirty 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 pursuant to paragraph (b).
- (d) 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.
- (e) 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.
- (f) Where two or more persons constitute the Contractor the Government shall not, under sub-article (e) of 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.

- (g) On the termination of this Agreement, the rights of the Contractor hereunder cease, but the termination does not affect any liability incurred before the termination and any legal proceedings that might have been commenced or continued against the former Contractor may be commenced or continued against it.
- (h) In this Article “in default” in relation to the Contractor means in 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.
- (i) 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 this Article in discharge of its obligation to carry out Exploration Operations in the Contract Area the Contractor shall during the several periods into which Exploration Operations are divided hereunder carry out the work described and spend not less than the sums specified in sub-article (b) of this Article.

(b) Initial Exploration Period

Commencing on the day on which the Exploration Licence is granted to TPDC pursuant to [Article 3](#) and terminating on the fourth anniversary of that date:

Description of Work: (To be specified in detail, however, the undertaking of 2D and 3D seismic surveys and at least one well commitment expected).

Minimum Expenditure for this period: US\$ [_____] million.

First Extension Period

Commencing on the day on which a first extension of the licence granted is issued to TPDC pursuant to [Article 3](#) takes effect and terminating on the fourth anniversary of that date:

Description of Work: (To be specified in detail, however, the undertaking of 2D and 3D seismic surveys and at least one well commitment expected).

Minimum Expenditure for this period: US\$ [_____] million.

Second Extension Period

Commencing on the day on which a second extension of the licence granted to TPDC pursuant to [Article 3](#) takes effect and terminating on the third anniversary of that date:

Description of Work: (To be specified in detail, however, the undertaking of 2D and 3D seismic surveys and at least one well commitment expected).

Minimum Expenditure For this 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 good oilfield practice, makes 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 spent more than the minimum expenditure specified in sub-article (b) of this Article, for that period the excess shall be credited against the minimum expenditure specified in that sub-article for the next succeeding Exploration Period; provided however that nothing in this sub-article shall be construed as extinguishing or modifying any obligation of the Contractor to drill Exploration Wells pursuant to this Article.
- (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 and it is accordingly 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 actual 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 multiplying each of them by the following factor I, where:

$$I = A/B$$

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 expenditure by the Contractor on an appraisal programme required to discharge the obligations of TPDC under Section 32(2) of the Act shall not be treated as expenditure for the purpose of satisfying the minimum expenditure obligations set out in sub-article (b) of this Article.
- (h) During Exploration Period.....(Section 20 of the Act)

ARTICLE 6: WORK PROGRAMMES

- (a) Within 30 days of the Effective Date, 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 and the estimated cost thereof.
- (b) So long as the Exploration Licence issued to TPDC hereunder remains in force, at least three 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 proposes 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 within which the Work Programme and Budget will fall.
- (d) Every Work Programme and Budget and, as the case may be, the appraisal programme referred to in [Article 8\(g\)](#), submitted by Contractor to TPDC shall be reviewed by a joint committee to be established by TPDC and Contractor pursuant to [Article 7](#). 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. Promptly thereafter, the parties will meet and endeavour 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 8\(j\)](#), appraisal programme, as appropriate, to TPDC.
- (e) Subject to [Article 5](#), on 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 programme, any amendments 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 8\(g\)](#), 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.
- (f) Where Contractor has discharged its obligations under this Article, the Minister will not suspend or cancel any Exploration Licence granted to TPDC

hereunder by reason only that TPDC has failed to comply strictly with the requirements of paragraph (a) of sub-section (1) of Section 30 of the Act or has failed to meet the requirements deemed to be included in an Exploration Licence by reasons of that provision.

ARTICLE 7: 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 Advisory Committee meetings cannot take place unless at least three (3) of its members are present.
- (b) 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:
 - (i) to coordinate all the Advisory Committee's activities;
 - (ii) 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 ;
 - (iii) to establish the agenda of the meetings, which shall include all matters which the Parties have asked to be discussed;
 - (iv) to convey to the Parties all decisions of the Advisory Committee, within five (5) working days after the meetings;
 - (v) 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;
 - (vi) 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;
 - (vii) to convey to the Parties all information and data provided to him by the Contractor for the Parties.
- (c) 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.
- (d) 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.
- (e) Each member of the Advisory Committee shall have one (1) 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. 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.

- (f) Members 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.
- (g) The Contractor shall appoint the Secretary to the Advisory Committee from among its representatives.
- (h) 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.
 - (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 8: DISCOVERY AND DEVELOPMENT

- (a) If Crude Oil is discovered in the Contract Area, Contractor will, within thirty days from the date on which evaluated test results relating to the discovery are submitted to TPDC, inform TPDC by notice in writing whether or not the discovery is in the opinion of Contractor of potential commercial interest.
- (b) If Contractor informs TPDC that, in its opinion, utilizing good oilfield practice, the discovery is of eventual commercial interest and TPDC agrees with such determination, then the Minister shall be advised to agree to allow the Contractor to retain the Discovery Block for the duration of the Exploration Licence and any renewal thereof, provided that:
 - (i) the determination of eventual and/or potential commerciality shall be based on relevant economic criteria, including but not limited to, potential crude oil production rates, crude oil prices, development costs, operating costs as well as any other relevant criteria, as established by the Contractor;
 - (ii) Contractor shall reassess the commerciality of Discovery every two (2) years, based on the same economic criteria as set out in Article 8(b)(i) above; in case of further discoveries that could be tied and developed together in order to make economies of scale; the Contractor shall inform TPDC accordingly;
 - (iii) Contractor shall within 30 days after the re-assessment inform TPDC whether it determines the Discovery still to be of eventual commercial interest. TPDC shall inform the Minister the re-assessment study results;
 - (iv) if the results of Contractor's re-assessment determine that the Discovery has become of potential commercial interest, the provisions of Articles 9(f) and 8(g) shall apply;
 - (v) if the results of Contractor's assessment in the first instance in (b) above or re-assessment determine that the discovery is or remains only of eventual commercial interest, but TPDC considers that it is of present commercial interest, at the election of either Party by notice to the other, the dispute shall be referred for determination by a sole expert to be appointed by agreement between the Parties. If the Parties fail to appoint the expert within thirty (30) days after receipt of such notice, the Parties may apply to British Institute of Petroleum, for appointment of an expert in accordance with its Rules. In each instance, the sole expert to whom the matter in dispute is to be referred shall be an authority in the discipline or disciplines relating to the matter in dispute. The expert shall make his determination within sixty (60) days of his appointment, or such earlier date that the Parties may agree, in accordance with the

provisions contained herein and on the basis of the terms of reference agreed by the Parties to the dispute; provided that, if such Parties are not able to agree on such terms of reference, the expert shall decide such terms. Representatives of the Parties shall have the right to consult with the expert and furnish him with data and information, provided the expert may impose reasonable limitations on this right. The expert shall be free to evaluate the extent to which any data, information or other evidence is substantiated or pertinent. The expert's fees and expenses, and the costs associated with an appointment, if any, made by the above mentioned chosen institution, shall be borne equally by the Parties to the dispute. The determination of the expert shall be final and binding;

- (vi) if the results of Contractor's re-assessment determine that the Discovery is no longer of potential commercial interest, the provisions of Article 8 (c) below shall apply.
- (c) If Contractor informs TPDC that in its opinion the discovery is not of potential commercial interest then TPDC will have the option to require the Contractor to surrender 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.
- (d) The option in sub-articles (c) of this Article will lapse if not exercised by the TPDC within twelve months from the date on which notice was given to TPDC by Contractor pursuant to sub-article (a) of this Article and during the said period of twelve months, and any subsequent period if the option lapses without being exercised, the Minister will in respect of the discovery to which that notice relates exempt TPDC from the requirements of Section 32 (2) of the Act.
- (e) Where pursuant to sub-article (c) 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.
- (f) Where, Contractor pursuant to sub-article (a) of this Article, has informed TPDC that, in its opinion the discovery is of potential commercial interest, Contractor will, as soon as practicable thereafter, submit to TPDC, for the consideration of the Advisory Committee, its proposals for an appraisal programme to meet the requirements of Section 32 (2) of the Act.
- (g) Subject to Article 13(b) where, the Advisory Committee has agreed on an appraisal programme submitted by Contractor as aforesaid or on a revision thereof, and a Location has been declared, the Minister will, to the extent necessary, extend the period within which an application may be made by TPDC for a Development Licence, if TPDC at the request of the Contractor applies in that behalf, for a period not more than four (4) years, so as to

ensure that the appraisal programme can be carried out and the results thereof assessed before the said period expires.

- (h) Where Contractor has requested TPDC to make application for a Development Licence, the proposals accompanying such application pursuant to paragraph (a) of Section 36 of the Act shall:
 - (i) be drawn up by Contractor after consultation with TPDC;
 - (ii) be designed to ensure the recovery from the Development Area of the maximum quantity of Petroleum which the economics of the development shall justify; and
 - (iii) be in compliance with good oilfield practice.
- (i) Where a Location has been declared, the Minister will not, without the prior agreement of Contractor, give any direction to TPDC pursuant to Section 34 (1) of the Act; provided however that if application is made for a Development Licence in respect of any Block or Blocks within that Location, nothing in this sub-article shall be construed as limiting the scope of any notice which the Minister may give to TPDC pursuant to Section 37 (2) of the Act.
- (j) Where the Exploration Licence is due to expire during the above mentioned period allowed by the Minister for application for a Development Licence under Article 8(g), or, in the case of Non-Associated Natural Gas, under Article 13(b), then the Minister shall prior to the expiry of the Exploration Licence grant to TPDC for such period, a new Exploration Licence on the requisite terms as may be appropriate to enable TPDC to apply, upon request of Contractor, for a Development Licence related to the Blocks forming the previous Location as per Article 8(g)(ii) or, in the case of Non-Associated Natural Gas, Article 13(b).
- (k) Where TPDC, upon request of Contractor, makes an application for a Development Licence as per Article 8(j) above, in respect of a Block or Blocks forming the previous Location as per Article 8(g) (ii) or, in the case of Non-Associated Natural Gas, Article 13(b), then the Minister shall grant, on such conditions as are necessary to give effect to the application for the Licence, the Development Licence applied for.

ARTICLE 9: 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 11.
- (b) (i) TPDC may at any time, by notice in writing to Contractor, elect to contribute in the Specified Proportion to Contract Expenses other than Exploration Expenses (such Exploration Expenses to include expenses in respect of an appraisal programme) incurred in the first and every subsequent Development Area from the date such notice is rendered, providing that in the case of a second and each subsequent development TPDC has the option, exercisable separately at or before the time the Development Plan is approved, not to participate in Joint Operations in respect of which TPDC has elected to contribute expenses as aforesaid. Any election in respect of any Development Area shall be irrevocable. The Specified Proportion shall remain as indicated in such notice unless and until such time that TPDC renders a further notice in writing to Contractor indicating a specified proportion in excess of the Specified Proportion indicated in the previous notice.
- (ii) For the purpose of this Agreement the “Specified Proportion” means a proportion specified in a notice given by TPDC pursuant to subparagraph (i) of this sub-article, which does not exceed the maximum indicated below with respect to the daily total production rate in the entire Contract Area:

| Daily total production rates in Contract Area onshore and shelf areas | Maximum Specified Proportion |
|--|-------------------------------------|
| 0 to 12,499 | 5% |
| 12,500 24,999 | 7.5% |
| 25,000 49,999 | 10% |
| 50,000 74,999 | 12.5% |
| 75,000 99,999 | 15% |
| 100,000 149,999 | 17.5% |
| 150,000 and above | 20% |

| Daily total production rates in Contract Area deep water areas | | Maximum Specified Proportion |
|---|---------|-------------------------------------|
| 0 to | 49,999 | 5% |
| 50,000 | 74,999 | 7.5% |
| 75,000 | 99,999 | 10% |
| 100,000 | 124,999 | 12.5% |
| 125,000 | 149,999 | 15% |
| 150,000 | 199,999 | 17.5% |
| 200,000 and above | 200,000 | 20% |

(c) Joint Operations shall be conducted hereunder in accordance with the terms and conditions of an Operating Agreement to be concluded between TPDC and Contractor immediately following the first notice given to by TPDC pursuant to sub-paragraph (i) of sub-article (b) of this Article. The Operating Agreement aforesaid will include provisions to give effect to the following principles:

- (i) ABC Oil Company shall be the sole Operator of the Joint Operations under properly defined rights and obligations and will 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 on which all Contractor entities and TPDC shall be equally represented. 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 in this Agreement, all decisions, approvals and other actions of the Joint Operating Committee on all proposals coming before it shall be decided by the 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-venturer as per Article 9(b)(i) and 9(c)(iii).
- (iii) TPDC shall be liable to contribute the Specified Proportion 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 will 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 any party 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 the going market rate.

ARTICLE 10: ANNUAL CHARGES

- (a) The annual charge in respect of which the Contractor is obliged to reimburse TPDC pursuant to Article 3(d) (v) hereof in respect of the said Exploration Licence shall be an equivalent amount in Tanzania shillings calculated subject to paragraph (b) below by charging the following amounts for every square kilometre of the Contract Area retained:

US \$

| | |
|----------------------------|----|
| Initial Exploration Period | 4 |
| First Extension Period | 8 |
| Second Extension Period | 16 |

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 established as part of the development plan, but shall be consistent with international industry practice regarding rentals for Development Licences;

- (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 10](#), and Articles 6(f) and 18(c), in the event that the USIGPPI ceases to be published the parties to this agreement shall agree on an appropriate replacement index.

ARTICLE 11: RECOVERY OF COSTS AND EXPENSES AND PRODUCTION SHARING

- (a) Subject to sub-article (c) of this Article and sub-article (a) of Article 13, all Contract Expenses incurred by the Contractor and, where Joint Operations have been established, by TPDC shall be recovered from a volume of Crude Oil (hereinafter referred to as “Cost Oil”) produced and saved from the Contract Area and limited in any Calendar Year to an amount not exceeding fifty percent (50%) and seventy percent (70%) of total Crude Oil production from the Contract Area in the onshore/shelf areas, and in the deep water respectively.
- (b) Contract Expenses which pursuant to the provision of Annex D, may be recovered from Cost Oil are hereinafter referred to as “Recoverable Contract Expenses”. Such expenses may be recovered as from the date they have been incurred. To the extent that in any Calendar Year the Recoverable Contract Expenses exceed the Cost Oil available under Article 11 (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.
- (c) Where, additionally, Joint Operations have been established:
 - (i) No Contract Expenses incurred by TPDC shall be recovered from the Cost Oil unless there is production from a Development Area in respect of which there are Joint Operations;
 - (ii) The available Cost Oil 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. After recovery of Operating Expenses any excess Cost Oil available for distribution shall be applied to recover Exploration Expenses. After recovery of Operating Expenses and Exploration Expenses any excess Cost Oil available for distribution shall be applied to recover Development Expenses, and the Contractor and TPDC shall be entitled to recover such expenses in proportion to their individual cumulative unrecovered Development Expenses. Any unrecovered Contract Expenses shall be recovered out of the Cost Oil available in the next succeeding Calendar Year or Years in the same manner as set out herein.
- (d) Subject to the limitations set out in sub-article (a) of this Article, the quantity of Cost Oil which the Contractor and, if Joint Operations have been established, TPDC actually require and 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 12 herein.

- (e) (i) For the purpose of sharing profit oil between the Contractor and TPDC, the balance of Crude Oil available in any Year shall be divided based on one of the following contractually agreed options:

OPTION (1)

Increments 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 | 74,999 |
| 75,000 | 99,999 |
| 100,000 and above | |

Increments of daily total production rates in the Contract Area in the Deep Water

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

- (ii) The increments of production referred to in this Article 11 and also in Article 9 herein shall be specified in terms of average daily 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 produced and saved from the Contract Area during any Quarter by the total number of days during which Crude Oil was produced in such Quarter.
- (iii) The quantity of Cost Oil required to satisfy Recoverable Contract Expenses in any Year shall be allocated to each of the applicable increments of production in the same proportion as the total production in each increment of production bears to total production from the Contract Area.
- (f) If there are no Joint Operations, after allocation of Recoverable Contract Expenses in accordance with sub-article (e) (iii) of this Article , the resulting Profit Oil in each increment of production shall be shared as follows:

OPTION (1.1)

| Increments of daily total Production rates in the Contract Area onshore and shelf areas | | TPDC Share of Profit Oil | Contractor Share of Profit Oil |
|--|--------|-------------------------------------|---|
| 0- | 12,499 | 50% | 50% |
| 12,500 | 24,999 | 55% | 45% |
| 25,000 | 49,999 | 60% | 40% |
| 50,000 | 99,999 | 65% | 35% |
| 100,000 and above | | 70% | 30% |

OPTION (1.2)

| Increments of daily total Production rates in the Contract Area in the deep water (BOPD) | | TPDC Share of Profit Oil | Contractor Share of Profit Oil |
|---|----------|-------------------------------------|---|
| 0 | - 49,999 | 50% | 50% |
| 50,000 | 99,999 | 55% | 45% |
| 100,000 | 149,999 | 60% | 40% |
| 150,000 | 199,999 | 65% | 35% |
| 200,000 | | 70% | 30% |

- (g) If there are Joint Operations in all Development Areas, TPDC's share of Profit Oil indicated in sub-article (f) of this Article relative to each increment of production shall be increased by the number of percentage points obtained by multiplying the percentage of the Specified Proportion determined in accordance with Article 9 (b) (ii) by the Contractor's share of Profit Oil indicated in sub-article (f) of this Article relative to such increment of Profit Oil, and the Contractor's share shall be reduced accordingly. However, where TPDC has elected pursuant to Article 9 (b) (i) not to participate in Joint Operations in all Development Areas, the increase in TPDC's share of Profit Oil shall be the result of the above calculation multiplied by the ratio of total production from Joint Operations total production in the Contract Area during each Year.

OPTION (2)

- (h) The R Factor

The R Factor to be used for the purposes of sub-article (i) of this Article shall mean and be calculated as the ratio of Contractor's cumulative revenues from the Effective Date until the end of the preceding month to Contractor's cumulative expenditures from the Effective Date until the end of the preceding month, all as relates to Petroleum Operations in the Contract Area.

- (i) The cumulative revenues shall be the aggregate value determined pursuant to this Article 11 of the Contractor's share of Cost Oil and Profit Oil.
 - (ii) The cumulative expenditures shall be the aggregate amount of the expenditure previously incurred by the Contractor as Contract Expenses.
- (i) The balance of Crude Oil available in any period after deducting Recoverable Contract Expenses (hereinafter referred to as "Profit Oil") shall be shared between the parties in accordance with the table below:

Profit Oil Sharing

| R Factor | TPDC's Share | CONTRACTOR's Share |
|----------------------|--------------|--------------------|
| $0 < R < 1.00$ | | |
| $1.00 \leq R < 1.25$ | | |
| $1.25 \leq R < 1.50$ | | |
| $1.50 \leq R < 2.00$ | | |
| $2.00 \leq R < 2.50$ | | |
| $R \geq 2.50$ | | |

- (j) With respect to this Article 11, Cost Oil and Profit Oil calculations shall be done for each Calendar Quarter and the Crude Oil 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 Programme, budget and any other relevant documentation or information shall be used. Within 60 days of the end of each Calendar Year a final calculation of Cost Oil and Profit Oil based on actual Crude Oil quantities, prices and recoverable costs and expenses in respect of that Calendar Year shall be prepared and any necessary adjustments to the Crude Oil sharing shall be agreed upon between the Contractor and TPDC and made as soon as is practicable.
- (k) Subject to Article 16 (d), the Contractor will be free to export any Petroleum received by the Contractor pursuant to Article 11 and Article 13 of this Agreement and to retain the proceeds of the sale of such Petroleum outside Tanzania.

ARTICLE 12: VALUATION OF CRUDE OIL

- (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 Tanzania 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 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 arms 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 realised 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 realised 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 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 Government, in consultation with TPDC, 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 the 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 Tanzania;
- (iv) for the purposes of this Article, Third Party Sales of Crude Oil made by the Contractor shall include any third party arms length sales made by the Contractor on Government's behalf pursuant to Article 16 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 arms 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 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 realised. Government and TPDC shall have the right to elect for the fair market valuation for all Crude Oil of that quality to be determined for that Quarter in accordance with sub-Article 12 (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 12 (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 12 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 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 12 (a) (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 12, 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 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.

ARTICLE 13: NATURAL GAS

- (a) Where Contractor has informed TPDC that Non-Associated Natural Gas discovered in the Contract Area is of potential commercial interest, the parties will meet together with a view to reaching an agreement on the development, production and processing and sale of such gas.
- (b) For the purpose of the aforesaid, the parties undertake to negotiate in good faith and in so doing 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 set out in Article 11;
 - (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.
- (c) Where:-
 - (i) Non-Associated Natural Gas has been discovered in the Contract Area, and
 - (ii) a Location has been declared in respect of a Block or Blocks in which such discovery is located, and
 - (iii) the parties agree that the Non-Associated Gas discovered by the Contractor exists in the Contract Area in quantities sufficient to justify consideration of an export scheme,

the Minister will, if 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.
- (d) 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 offtake, 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 utilisation of the Natural Gas be borne by TPDC. It is understood that such offtake should not be detrimental to the prompt conduct of oil field operations according to good oil field practice.

ARTICLE 14: TAXATION AND ROYALTY

- (a) The Contractor shall be subject to Tanzanian taxes on income derived from Petroleum Operations hereunder. The Contractor will be responsible for submitting returns to the Tanzania Revenue Authority.
- (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 authorised or contemplated hereunder shall be further taxed as follows:
 - (i) subject to the provision of Article 22, import duties at the rates specified from time to time in the Customs Tariff Act;
 - (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 Tanzania;
 - (iv) stamp duties, registration fees, licence fees and any other tax, duty, fee or other impost of a minor nature.
- (c) TPDC shall discharge its obligation to pay royalty under Section 81 of the Act in respect of petroleum obtained from the Contract Area by delivery to the Government of the minimum share of Profit Oil received by TPDC pursuant to Article 11 of this Agreement (and being equivalent at all times to 12.5% in the case of onshore and continental shelf and 5% in the case of deep water of total Crude Oil production from the Contract Area) 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 Minister may direct.

ARTICLE 15: REPORTING, INSPECTION AND CONFIDENTIALITY

- (a) The Contractor shall prepare and, at all times while this Agreement is in force, maintain accurate and current records of its operations in the Contract Area.
- (b) The Contractor shall save and keep for a reasonable period of time 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 twelve (12) months with the full knowledge of TPDC without receipt of instruction to forward the same to TPDC, Government or its representative may be disposed of by the Contractor at its discretion, provided TPDC has been given prior notice of not less than thirty (30) days of the Contractor's intention to do so and given the opportunity to take such samples.
- (c) Notwithstanding sub-article (b) of this Article, the Contractor shall be freely permitted to export samples for purposes of investigation in laboratories abroad. Originals of records may be exported provided at least one copy has been submitted to TPDC.
- (d)
 - (i) TPDC through its duly appointed representatives shall be entitled to monitor the Petroleum Operations conducted by the Contractor hereunder and at all reasonable times to inspect all assets, records and data kept by the Contractor relating to such operations. In the exercise of its rights under this sub-article TPDC shall not unreasonably interfere with the Contractor's operations.
 - (ii) 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 sub-articles (b), (c) and (d) of 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.
 - (iii) 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 consent of the other parties. However, such data, information and interpretations may be disclosed to Affiliated

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 consent of the Contractor and TPDC Notwithstanding what is provided in this sub-article (d) (iii) 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, letter classification boundaries and hydrocarbon zones:

- (A) in the case of discovery wells, five years after completion of drilling; and
- (B) in any other case, at any time.

For purposes of this sub clause a discovery well means a well in which a substantial petroleum accumulation has been encountered.

- (e) 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 to Affiliated Companies or contractors carrying out any part of the Petroleum Operations.
- (f) Any public disclosure regarding the interpretation of information acquired in Petroleum Operation shall not be made without the Government's consent.

ARTICLE 16: LIFTING, MARKETING AND DOMESTIC SUPPLY OBLIGATION

- (a) The quantity of production to which TPDC is entitled pursuant to Article 11 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. The Contractor, and in the event of Joint Operations, 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 offtake procedure to govern the method whereby the parties will nominate and lift their respective shares of Crude Oil. 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 operational 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.
 - (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 the Minister with at least three 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 shall use its share of production from all Crude Oil production in Tanzania to meet the requirements of the domestic market of Tanzania.

If there is domestic demand in excess of TPDC's total entitlement then the Contractor may be required to sell Crude Oil in Tanzania on a pro rata basis with other producers in Tanzania (except TPDC) according to the quantity of Crude Oil of each producer. TPDC shall give the Contractor at least three months notice in advance of said requirements and the term of the supply will be on an annual basis. The volume of Crude Oil which TPDC may require the Contractor to sell to meet the requirements of the domestic market shall not exceed the share of Profit Oil.

- (e) Crude Oil sold pursuant to sub-article (d) of this Article shall be paid for in foreign exchange at a price determined in accordance with Article 12 of this Agreement.

ARTICLE 17: TANZANIAN RESOURCES

The Contractor shall:

- (a) give preference to the purchase of Tanzanian goods, services and materials provided such goods and materials are of an acceptable quality and are available on a timely basis in the quantity required at competitive prices and terms;
- (b) make maximum use of Tanzanian service companies, where services of comparable standards with those obtained elsewhere are available from such contractors at competitive prices and on competitive terms;
- (c) establish with TPDC the appropriate tender procedures governed by Tanzanian laws to give effect to this Article 17;
- (d) ensure that provisions in terms of sub-articles (a) to (c) of this Article are contained in contracts between Contractor and its subcontractors.

ARTICLE 18: EMPLOYMENT, TRAINING AND TRANSFER OF TECHNOLOGY

- (a) Subject to the requirement of any law relating to immigration, the Government shall provide the necessary work permits and other approvals required for the employment of expatriate personnel by the Contractor in Tanzania for the purposes of this Agreement. TPDC shall assist the Contractor in that regard.
- (b) In the conduct of the Petroleum Operations, the Contractor shall endeavour to employ Tanzania 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 program for Tanzanian employees in each phase and level of operations, taking into account the requirements and the need to maintain reasonable standards of efficiency in the conduct of the Petroleum Operations. Such employees may be trained in Tanzania or abroad as required by the training programmes prepared by the Contractor.
- (c) During each year of the term of the Exploration Licence or any renewal thereof the Contractor shall spend a minimum sum of United States dollars (US\$.....) adjusted by dividing it by the factor I as defined in Article 5 (f) 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's operations in Tanzania and overseas, and/or practical training at institutions abroad, particularly in the areas of natural earth sciences, engineering, technology, accounting, economics 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, seminars and workshops related to the petroleum industry; and
 - (iv) to purchase for the Government and TPDC advanced technical books, professional publications, scientific instruments or other equipment required by the Government and TPDC.

Government and TPDC shall prepare the programmes of activities to be undertaken by the Contractor specified in (i) to (iv) above for the following year.

- (d) Not later than six 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.
- (e) The provisions of the Skills Development Levy (Imposition) Act 1972 shall not 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.

ARTICLE 19: TITLE TO ASSETS

- (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 the portion of the full costs of the acquisition of the asset in question have been recovered by Contractor out of Cost Oil, 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 costs of the acquisition of the assets in question not later than 30 days after such cost recovery. Such fixed assets shall include but not be limited to buildings, piers, harbours, pipelines, wellheads, separators, compressors, pumps, power lines, telephone lines etc.
- (b) Subject to this Article, all movable assets, in connection with the Petroleum Operations carried out by the Contractor shall remain Contractor's property on expiration or termination of this Agreement. TPDC shall have the right of first refusal in case Contractor decides to sell the assets.
- (c) If TPDC elects to participate in Joint Operations, then title to any assets acquired pursuant to a Development Plan shall be held jointly by Contractor and TPDC according to their respective interest in Joint Operations. Any such asset shall become completely owned by TPDC at its option 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 have been recovered by Contractor out of Cost Oil, 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.
- (d) 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 exclusive use of assets which have become the property of TPDC pursuant to sub-articles (a), or (c) of this Article. Contractor shall keep the assets in good repair and working order, fair wear and tear excepted, and any maintenance expenses shall be recovered in accordance with the terms hereof.
- (e) Subject to the provisions of this Article 19(a) and (b) above Contractor shall give TPDC the opportunity to buy, upon such commercially reasonable terms as may be agreed, any item imported duty free under Article 22 (a) which Contractor intends to dispose of or sell.

ARTICLE 20: INSURANCE

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 the international petroleum industry in accordance with good oil field practice. 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) pollution caused in the course of Petroleum Operations for which Contractor or the Operator may be held responsible;
- (iii) property loss or damage or bodily injury suffered by any third party in the course of Petroleum Operations for which Contractor, the Operator, Government or TPDC may be liable or Contractor may be liable to indemnify the Government and TPDC;
- (iv) the cost of removing wrecks and cleaning up operations following an accident in the course of Petroleum Operations; and
- (v) Contractor's and/or Operator's liability to its employees engaged in the Petroleum Operations.

Contractor shall require its sub-contractors to carry insurance of such type and in such amount as is customary in the international petroleum industry in accordance with good oil field practices.

ARTICLE 21: SITE CLEANING AND ABANDONMENT

In order to discharge obligations for site cleaning and abandonment of all assets and facilities used for Petroleum Operations, Contractor, the Government and TPDC shall, within two years of the commencement of commercial production, enter into an agreement to establish an abandonment cost reserve fund. Such agreement shall address the administration and utilization of funds deducted from Cost Oil in accordance with the following:

- (i) TPDC and Contractor shall estimate the cost for site cleaning and abandonment in good faith, on the basis of industry average costs in accordance with generally acceptable petroleum industry practice;
- (ii) the payments deposited into the fund shall be placed in a U.S. Dollar, long term, interest bearing account in a first class commercial bank located within Tanzania to be designated by TPDC and Contractor. The bank so designated shall have a long term rating of not less than “AA” by Standard and Poor’s Corporation or “P-1” by Moody’s Investor Service or a comparable rating by another mutually agreed rating service;
- (iii) if, upon expiration or termination of this Agreement, TPDC determines to conduct the site cleanup and abandonment operations, such fund, 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 and abandonment operations, such fund, plus all accrued interest, shall be paid to Contractor and Contractor shall thereupon conduct all such operations in accordance with generally accepted petroleum industry practices; and
- (v) if the reserve fund in (iii) and (iv) above is insufficient to pay the costs of cleanup and abandonment, such shortfall shall be paid by Contractor. If, however, the reserve fund for site cleanup and abandonment exceeds the costs incurred by Contractor or TPDC whichever case may be, such excess shall be distributed between TPDC and Contractor as follows:

TPDC: 50%

Contractor: 50%

ARTICLE 22: IMPORT DUTIES

- (a) The Contractor and its subcontractors engaged in Petroleum Operations hereunder and TPDC in respect of Joint Operations established pursuant to Article 9 shall be permitted to import, free of duty or other taxes on imports, machinery, equipment, vehicles, materials, supplies, consumable items (other than foodstuffs 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 Article 19, any of the items imported into 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 or impost provided, however, that on the sale or transfer by the importer of any such items to any person in Tanzania, import duty shall be payable by the importer on the value thereof at the date of such sale or transfer.
- (c) The Expatriate Employee of the Contractor and of its subcontractors, shall be permitted, subject to the limitations and conditions set out in the Customs Tariff Act, 1976, to import into Tanzania free of import duty and other taxes on first arrival their personal and household effects including one automobile provided, however, that no property imported by the employee shall be resold by him in Tanzania except in accordance with Government regulations.
- (d) “Expatriate Employee” in this Article has the meaning assigned to those words in Article 23(b).

ARTICLE 23: FOREIGN EXCHANGE CONTROL

- (a) The Contractor shall, during the term of this Agreement, have the right:
- (i) to enter into loan agreements outside Tanzania for the purpose of financing Petroleum Operation hereunder but no payments of principal or interest in respect thereof shall be made from any source in Tanzania other than the Bank accounts referred to in sub-paragraph (ii);
 - (ii) to open and maintain Foreign Currency Accounts with a Bank which is an authorized dealer within Tanzania and freely dispose of the sums deposited therein without any restriction provided the said accounts are credited only with sums deposited in foreign currency or with the proceeds of the sale of Foreign currency being credits relating to or derived from Petroleum Operations hereunder;
 - (iii) subject to any conditions or requirements imposed by the Bank of Tanzania, to open and maintain bank accounts, in addition to those described in sub-paragraph (a) (ii) above, in Tanzania denominated in Tanzanian currency and freely dispose of the sum deposited therein within Tanzania provided the said accounts are credited only with Tanzanian currency arising from proper transactions within Tanzania relating to Petroleum Operations hereunder;
 - (iv) to open and keep bank accounts in any foreign currency outside Tanzania which may be credited without restriction and freely dispose of any sums deposited therein without restriction and without any obligation to convert into Tanzanian currency any part of the said amounts save that such accounts shall not be credited with the proceeds of the sale of any Tanzanian currency without the consent of the Bank of Tanzania;
 - (v) to purchase Tanzanian currency, through an authorised dealer, without discrimination, at the rate of exchange generally, applicable.
- (b) For the purpose of this Article “Expatriate Employee” means any employee not normally resident in Tanzania who is engaged under contract which provides for the payment of passages to and from Tanzania.

ARTICLE 24: ACCOUNTING AND AUDIT

- (a) The Contractor shall maintain at its business office in Tanzania full and proper 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 pursuant to any statutory power to audit or cause to be audited the books of accounts of the Contractor.

ARTICLE 25: ENVIRONMENT AND SAFETY OF PERSONS AND OPERATIONS

- (a) In furtherance of the Regulations made under the Act or as the Government may otherwise require from time to time, the Contractor shall take necessary and adequate steps to:
 - (i) conduct its Petroleum Operations in a manner likely to conserve the natural resources of Tanzania and protect the environment;
 - (ii) employ the best available techniques in accordance with Good Oilfield 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 sea and lakes;
 - (iii) implement the proposal contained in 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 distributed by Petroleum Operations;
 - (iv) prevent pollution and protect the environment and the living resources of lands, sea and lakes; and
 - (v) ensure prompt, fair and adequate compensation for injury to persons or damage to property caused by the effects of Petroleum Operations.
- (b) If the Contractor's failure to comply with the provisions of sub-article (a) (i) of this Article and the Regulations results in pollution or damage to the environment or marine life or otherwise, the Contractor shall take all necessary measures to remedy the failure and effects thereof. If such pollution or damage is the result of gross negligence or wilful misconduct of the Contractor, the cost of the remedy shall not be a Recoverable Contract Expense for the purpose of Article 11 and Annex "D".
- (c) The Contractor shall notify the Minister and TPDC forthwith in the event of any emergency or accident affecting the environment and shall take such action as may be prudent and necessary in accordance with good international petroleum industry practice in such circumstances.
- (d) If the Contractor does not act promptly so as to control or clean up any pollution or make good any damage caused, TPDC may, after giving the Contractor reasonable notice in the circumstances, take any actions which are necessary in accordance with good international petroleum industry practice and the reasonable costs and expenses of such actions shall be borne by the Contractor.

- (e) The Contractor should undertake at its expense (but as a legitimate recoverable cost), one or more comprehensive Environmental Impact Assessment studies prior to, during and after any major Petroleum Operation.

ARTICLE 26: FORCE MAJEURE

- (a) Any non-performance or delay in performance by TPDC or the Contractor or both of any obligations in terms of Petroleum Operations under this Agreement shall be excused if and to the extent such non-performance or delay is caused by Force Majeure as defined in this Article 26. The period of any such non-performance or delay together with such period as may be necessary for the restoration of any damage caused during the period of Force Majeure shall be added to the time allowed under this Agreement for the performance of such obligation and for the performance of any obligation or the exercise of any rights dependent thereon.

- (b) The term “Force Majeure” means any act of God, perils of navigation, storm, flood, earthquake, lightning, explosion, fire, hostilities, war (declared or undeclared), blockade, insurrection, civil commotion, acts of the public enemy, quarantine restriction, epidemics, strike, accident, riot, labour disturbance, any act or failure to act of a Governmental agency or local body or any other cause beyond the control of TPDC or the Contractor, as the case may be; provided that any act or failure to act of a Governmental agency or local body shall not constitute Force Majeure unless such act or failure to act is the proximate cause of non-performance or delay in performance of any obligation in terms of Petroleum Operations under this Agreement or the exercise of any right dependent thereon.

- (c) The party claiming suspension of its obligations under this Agreement on account of Force Majeure shall promptly notify the other in writing of the occurrence thereof. In such event, the Party claiming suspension of its obligations as aforesaid shall take all actions that are reasonable and legal to remove the cause thereof and, upon removal of the cause, promptly notify the other party and shall take all reasonable actions for resumption of its operations as soon as possible after removal of the Force Majeure situation.

ARTICLE 27: ASSIGNMENT AND PREFERENTIAL RIGHTS

- (a) The Contractor may not assign or transfer to a person, firm or corporation not party hereto, in whole or in part, any of its rights, privileges, duties or obligations under this Agreement without the prior written consent of the Government. However, the Contractor shall be free to assign or transfer its rights, privileges, duties and obligations under this Agreement to an Affiliated Company, provided Government and TPDC are notified in writing in advance and provided the assignment or transfer will not adversely affect the performance of the obligations under this Agreement.
- (b) 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.
- (c) Any assignment made pursuant to this Article 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.
- (d) Any assignment made pursuant to the provisions of this Article shall be free of any transfer or related taxes, charges or fees.
- (e) Where the Contractor is more than one person the Government will be provided with copies of all assignments and agreements between them with respect to Petroleum Operations and will be classified as confidential.
- (f) Where the Contractor is more than one person the Contractor shall provide 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.

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 8 (b) (v), 12(b) and 12(d), have the right to have such dispute or difference settled through arbitration as provided for herein below.
- (c) Any unresolved dispute or difference aforesaid shall be finally settled by arbitration under the Rules of the Convention for the Settlement of Investment Disputes between States and Nationals of other States of 16 March 1965, and to the extent required by the said Convention, the parties hereto will, in that event, consent to the jurisdiction of the Centre. It is further agreed that although ABC Oil Company (as an Investor) is a Company established under the laws of Tanzania it is controlled by nationals of [] and shall be treated as a national of that State for the purposes of the said convention.

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: CHANGE IN LEGISLATION

- (a) The terms of this Contract have been negotiated and agreed having due regard to the terms of the Petroleum (Exploration and Production) Act, 1980.
- (b) If at any time or from time to time there should be a change in legislation or regulations which materially affects the commercial and fiscal benefits afforded by the Contractor under this Contract, the Parties will consult each other and shall agree to such amendments to this Contract as are necessary to restore as near as practicable such commercial benefits which existed under the Contract as of the Effective Date.

ARTICLE 31: MODIFICATION 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.

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
Tanzania

Minister for Energy and Minerals

Witnessed by

Signed for and on behalf
of the Tanzania Petroleum
Development Corporation

Managing Director

Witnessed by

Signed for and on behalf
of ABC Oil Company

[Director]

Witnessed by

**ANNEX “A”: DESCRIPTION OF THE EXPLORATION
LICENCE AREA**

| | Point | Latitude | Longitude | |
|------|--------------|-----------------|------------------|--|
| From | A | - | - | Due [North, South East, West] to B |
| | B | | (etc) | |

ANNEX “B”: MAP OF THE EXPLORATION LICENCE AREA

**Total Number of
Blocks** = []

**Total Area
amounts to** [] **square
kilometers**

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 Productions) Act 1980 hereby grant TPDC for a period of four 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 years commencing from the date hereof and terminating on the fourth anniversary of the date, TPDC shall in the said exploration area:-
 - (i) shoot at least [] kilometres of seismic;
 - (ii) drill at least [] exploration Wells; and carry out geological and geophysical surveys and related activities as deemed necessary by ABC Oil Company; and
 - (iii) spend a sum which, when adjusted in accordance with the formula set out in sub-article (f) of Article 5 of the Agreement, equals or exceeds [] million US dollars.
- (c) Subject to any amendment or revision thereof made pursuant to Article 6 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 26 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 Oil Company.

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

(ANNEX “C”•1)

FIRST SCHEDULE

Coordinates of the Corner-points of the Exploration Area

LICENCE

| Points | Lat.S. | Long.E. | Due | Remarks |
|--------|--------|---------|-----|---------|
|--------|--------|---------|-----|---------|

(ANNEX “C”•2)

SECOND SCHEDULE

(Set out here for the Calendar Year in which this Licence is first issued the detailed Work Programme and Budget submitted by ABC Oil Company to TPDC pursuant to Article 6 (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 ABC Oil Company made on the _____ day of _____.

SECTION I

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 to monitor the costs, expenditures, production and receipts so that both TPDC’s entitlement to Profit Oil and Government’s revenues can be accurately determined on the basis of the Agreement.

1.3 Documentation Required to be Submitted by the 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 recognised accounting systems and consistent with normal practice for joint venture operations of the international petroleum industry. Within ninety (90) days of receiving the above submission the Minister in consultation with 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 of the Agreement, 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 allow 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 are:
 - (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 Expenditures and Receipts (see Section 7 of this Annex).
 - (iv) Cost Recovery Statement (see section 8 of this Annex).
 - (v) End-of-Year-Statement (see Section 9 of this Annex).
 - (vi) Budget Statement (see Section 10 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 shall be employed for measurements required under the Agreement and this Annex. The language employed shall be English. [Where necessary for clarification the Contractor may also maintain accounts and records in other units of measurement and currencies].
- (b) It is the intent of this Accounting Procedure that neither the Government, 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 9 (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.
- (b) Discharge of the Contractor's obligation with respect to TPDC's share of Profit Oil 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 two (2) percentage points.

1.6 Audit and Inspection Rights of Government

- (a) Without prejudice to statutory rights, TPDC shall have the right to cause to audit the Contractor's accounts and records maintained hereunder with

respect 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 Affiliated Company it shall have the right to obtain an audit certificate from a recognised 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) 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 the 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 Programme 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) 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 (c) above including access roads, fixed assets and purchased geological and geophysical, all identified separately;
- (e) any General and Administrative Costs and Service Costs directly incurred on Exploration Operations and identifiable as such; and a portion of the remaining General and Administrative Costs and Service Costs allocated to the Exploration Operations, determined by the proportionate share of total Contract Expenses (excluding unallocated General and Administrative Costs and Service Costs) represented by all other Exploration Expenses;
- (f) any other Contract Expenses specifically incurred in the search for Petroleum after the Effective Date and not covered under sub-section 2.2, 2.3, 2.4 and 2.5.

2.2 Development Expenses 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 2D and 3D geophysical surveys, production geology, modelling and simulation of deposits 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, harbours, piers, marine vessels, vehicles, motorised 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 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 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 until the date on which the first Development Licence under the Agreement is granted by the Minister this annual charge shall be the 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 Licence 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 Licence. 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 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.

SECTION 3

COSTS, EXPENSES, EXPENDITURES AND CREDITS OF THE CONTRACTOR

3.1 Costs Recoverable without Further Approval of TPDC

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 by the Contractor under the Agreement:

(a) Surface Rights

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) Labour and Associated Costs

- (i) Gross salaries and wages including bonuses of the Contractor's employees directly and necessarily engaged in the Petroleum Operations, irrespective of the location of such employees, 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.
- (ii) Cost to the Contractor of established plans for employees' group life insurance, hospitalization, Contractor 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 centum (25%) of the total labour costs under subsection (i) above.
- (iii) Expenses or contributions made pursuant to assessments or obligations imposed under the laws of 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 Tanzania all of which shall be in accordance with the normal practice.
- (v) Any personal income taxes of Tanzania incurred by employees of the Contractor and paid or reimbursed by the Contractor.

(c) Transportation

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

(d) 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 Affiliated 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) Affiliated 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 an Affiliated Company, the charges will be based on actual costs without profits and will be competitive. The charges will be no higher than the most favourable prices charged by the Affiliated 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 Affiliated 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 recognised auditors of the Affiliated Company

(iii) In the event that the prices and charges referred to in subparagraphs (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.

(e) 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.

(f) 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 the Contractor from the suppliers/manufacturers or their agents will be credited to the accounts under the Agreement.

(iii) **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 arms length transactions on the open market.

(b) Material purchased from or sold to Affiliated 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 arms 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 fifth 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 sub-paragraph (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, 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.

(h) Insurance and Loses

Insurance premiums and costs incurred for insurance pursuant to Article 20, provided that if such insurance is wholly or partly placed with an

Affiliated company such premiums and costs shall be recoverable only to the extent generally charged by competitive insurance companies other than an Affiliated Company.

Costs and losses incurred as a consequence of events which are, and in so far as, not made good by insurance are recoverable unless costs have resulted solely from an act of wilful misconduct or negligence of the Contractor.

(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 Affiliated 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 its Tanzanian employees engaged in Petroleum Operations and such other training as is required under Article 18 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 sharing:

- (a) all costs incurred before the Effective Date other than the sum of US\$[] incurred by the Contractor in purchasing data relating to the licence area;
- (b) petroleum marketing or transportation costs of Petroleum beyond the Delivery Point;
- (c) the costs of any bank guarantee or letter of guarantee required under the Agreement (and any other amounts spent on indemnities with regard to non-fulfilment of contractual obligations);

- (d) costs of arbitration and the sole expert in respect of any dispute under the Agreement;
- (e) fines and penalties imposed by courts of law in Tanzania;
- (f) costs incurred as a result of wilful misconduct or negligence of the Contractor;
- (g) donations and contributions made by the Contractor;
- (h) any costs which, by reference to general oil industry practices, can be shown to be excessive;
- (i) 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 Tanzania whereby such a research is conducted in collaboration with TPDC;
- (j) interest and financial charges paid to the creditors of the Contractor, provided that the same are at competitive commercial rates, provided that the debts or loans to which they refer are required by Petroleum Operations and correspond to the financing needed for these operations.

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 the 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 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 Affiliated 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 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 licence 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 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 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 quantities of Natural Gas flared;
 - (f) the size of Petroleum stocks held at the beginning of the Month in question;
 - (g) the size of petroleum stocks held at the end of the Month in question;
 - (h) 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 11 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 12 of the Agreement, prepare a Statement providing calculations of the value of Crude Oil produced and saved during each Calendar Quarter. This Statement, which shall be prepared for each Quality of Tanzanian Crude Oil produced and saved from the Contract Area, shall contain the following information:
- (a) the quantities, prices and receipts realised therefore by the Contractor in Third Party Sales of Tanzanian Crude Oil during the Calendar Quarter in question;
 - (b) the quantities, prices and receipts realised therefore by the Contractor in sales of Tanzanian Crude Oil during the Calendar Quarter in question, other than in Third Party Sales;
 - (c) the value of stocks of Crude Oil held at the beginning of the Calendar Quarter in question;
 - (d) the value of stocks of Crude Oil held at the end of the Calendar Quarter in question;
 - (e) the percentage volume of total sales of Tanzanian Crude Oil made by the Contractor during the Calendar Quarter that are the Third Party Sales;
 - (f) all information available to the Contractor, if relevant for the purposes of Article 12 of the Agreement, concerning the prices of the selection of major competitive crude oils, including contract prices, discounts and premiums, and prices obtained on the spot markets;
 - (g) 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 EXPENDITURE AND RECEIPTS

- 7.1 The Contractor shall prepare with respect to each Calendar Month a Statement of Expenditure and Receipts 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 expenditure and receipts (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 expenditure and receipts (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;
 - (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 Expenditure and Receipts 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 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.
- 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 19 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

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, and Royalty payable Statement, Cost Recovery Statement and Statement of Expenditures and Receipts but will 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 10

BUDGET STATEMENT

- 10.1 The Contractor shall prepare an annual Budget Statement. This Statement shall distinguish between 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;
 - (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 11

REVISION OF ACCOUNTING PROCEDURE

- 11.1 The provisions of this Accounting Procedure may be amended by agreement between the Contractor, 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 9 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 Profit Oil, 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 12

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.