

**PRODUCTION SHARING CONTRACT**

**BETWEEN**

**NIGERIAN NATIONAL PETROLEUM  
CORPORATION**

**AND**

- 1. GAS TRANSMISSION AND  
POWER LIMITED**
- 2. ENERGY 905 SUNTERA LIMITED**
- 3. IDEAL OIL AND GAS LIMITED**

**COVERING BLOCK 905 ANAMBRA  
BASIN**

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THIS CONTRACT is made this 28<sup>th</sup> day of April 2007 BETWEEN the NIGERIAN NATIONAL PETROLEUM CORPORATION, a Corporation established under the laws of the Federal Republic of Nigeria, with its head office at NNPC Towers, Herbert Macaulay Way, Central Business District, Abuja (hereinafter referred to as "the CORPORATION" which expression shall, where the context so admits, include its successors-in-title and assigns) of the one part,

and

GAS TRANSMISSION AND POWER LIMITED a company incorporated under the laws of the Federal Republic of Nigeria having its registered office at Plot 515 Usuma Close, Maitama, Abuja Nigeria (hereinafter referred to as "GTPL" which expression shall, where the context so admits, include its successors-in-title and assigns); ENERGY 905 SUNTERA LIMITED a company incorporated under the laws of the Federal Republic of Nigeria having its registered office at 2, Siji Soetan Street, Off Onikepo Akande Street, Off Admiralty Way, Lekki Peninsula, Lagos, Nigeria (hereinafter referred to as "ENERGY 905" which expression shall, where the context so admits, include its successors-in-title and assigns) and IDEAL OIL AND GAS, a company incorporated under the laws of the Federal Republic of Nigeria having its registered office at 17 New Court Road, Ibadan, Oyo State, Nigeria (hereinafter referred to as "IDEAL OIL" ("LCV") which expression shall, where the context so admits, include its successors-in-title and assigns) of the other part.

GTPL, ENERGY 905 and IDEAL OIL are hereinafter collectively referred to as "CONTRACTOR".

IDEAL OIL is also hereinafter referred to as LCV.

WHEREAS, by virtue of Section 1 of the Petroleum Act Cap 350 Laws of the Federation of Nigeria ("LFN") 1990 as amended, the Federal Government of the Federal Republic of Nigeria is vested with the entire ownership and control of all petroleum in, under or upon any land which is in Nigeria or under the territorial waters of Nigeria or forms part of the continental shelf of Nigeria or within the Exclusive Economic Zone of Nigeria; and

WHEREAS, the CORPORATION is entitled to hold the Oil Prospecting License (OPL) No. 905 described in Annex A hereto and any subsequent Oil Mining Lease (OML) derived therefrom; and

WHEREAS, by virtue of the Nigerian National Petroleum Corporation Act 1977 Cap 320 LFN 1990, the CORPORATION has the right, power and authority to enter into this Contract; and

WHEREAS, pursuant to the 2005 Nigeria Bidding Round, the CONTRACTOR has been selected to be a CONTRACTOR to the CORPORATION for OPL No.905 subject to terms contained herein and

WHEREAS, the CONTRACTOR represents that it together with its Affiliates, has the technical competence and professional skills necessary to conduct Petroleum Operations and has the funds, both local and foreign for carrying on the said operations and has agreed to conduct the said operations; and

WHEREAS, the said area of the OPL No. 905 and any subsequent OML emanating from the OPL and issued for this Contract shall constitute the Contract Area; and

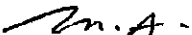
WHEREAS, GTPL is designated Operator under Clause 28 of this Contract.

NOW THEREFORE, in consideration of the premises and the mutual covenants herein reserved and contained, It is hereby agreed as follows:

**CLAUSE 1: DEFINITIONS**

As used in this Contract, unless otherwise specified, the following terms shall have the respective meaning herein ascribed to them.

- (a) "Accounting Procedure" means, the rules and procedures as set forth in Annex B and attached to and forming part of this Contract.



- (b) "Affiliate" means, a company or other entity that controls or is controlled by a Party to this Contract, or which is controlled by a company or other entity which controls a Party to this Contract, it being understood that control shall mean ownership by one company or entity of at least fifty (50%) percent of:
- (i) the voting stock, if the company is a corporation issuing stock; or
  - (ii) the controlling rights or interests, if the entity is not a corporation.
- (c) "Appraisal Well" means, any well whose purpose at the time of commencement of drilling such well is the determination of the extent or volume of hydrocarbons contained in a discovery;
- (d) "Available Crude Oil" means, the Crude Oil won and saved from the Contract Area.
- (e) "Barrel" means, a quantity or unit of Crude Oil, equal to forty-two (42) United States gallons at the temperature of sixty degrees (60°) Fahrenheit at normal atmospheric pressure.
- (f) "Budget" means, the cost estimate of activities relating to Petroleum Operations included in a Work Programme.
- (g) "Calendar Year" means, a period of twelve (12) months commencing from January 1 and ending the following December 31, according to the Gregorian Calendar.
- (h) "Capital Cost" means, those expenditures incurred and obligations made in accordance with Article II.2 of the Accounting Procedures.
- (i) "Commercial Quantity" means, the quantity of Crude Oil discovered in the Contract Area, which the Parties agree shall be economically, and profitably produced to the benefit of the Parties but shall not in any event be lower than the commercial quantity as defined in the Petroleum Act Cap 350 LFN 1990.

- (j) **"Concession Rentals"** means, the rents payable annually on the OPL and any OML derived therefrom under the Petroleum Act CAP 350 LFN 1990.
- (k) **"Contract"** means, this Production Sharing Contract, together with the Annexures and Appendices attached to this Contract, and any extension, renewal or amendment hereof agreed to in writing by the Parties.
- (l) **"Contract Area"** means, in relation to the OPL as described in Annex A, the area of the OPL and in relation to the OML, the area of the OML derived from the OPL in line with the Oil Prospecting Licences (Conversion to Oil Mining Leases, etc) Regulation 2004.
- (m) **"Contractor"** means, all of the Contractor Parties jointly and collectively.
- (n) **"Contractor Party"** means, any one of GTPL, ENERGY 905 and IDEAL OIL and any of their successors or permitted assignees and **"Contractor Parties"** means, all of GTPL, ENERGY 905 and IDEAL OIL and any of their successors or permitted assignees.
- (o) **"Contract Year"** means, a period of twelve (12) consecutive months according to the Gregorian Calendar, from the Effective Date of this Contract or from the anniversary of the Effective Date.
- (p) **"Cost Oil"** means, the quantum of Available Crude Oil allocated to the CONTRACTOR for recovery of Operating Costs incurred in respect of Petroleum Operations after the allocation of Royalty Oil to the CORPORATION.
- (q) **"Crude Oil"** means, the liquid petroleum, which has been treated but not, refined and includes condensates but excludes basic sediments and water.
- (r) **"Decommissioning"** means, the plugging and abandonment of wells; the removal and disposal of equipment and facilities including well heads, processing and storage facilities, platforms, pipelines, transport and export

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facilities, plants, machinery, fixtures, the restoration of sites and structures including the payment of damages relating thereto;

- (s) **"Deep Offshore"** means, any water depth beyond 200 metres.
- (t) **"Department"** means, the Department of Petroleum Resources of the Ministry of Petroleum Resources referred to as Petroleum Inspectorate under the Nigerian National Petroleum Corporation Act CAP 320 LFN 1990 or any successor thereof delegated with the Department's responsibility.
- (u) **"Effective Date"** means, the date of this Contract.
- (w) **"Exploration Period"** shall have the same meaning as described in Clause 4.2.
- (x) **"Exploratory Well"** means, the well on any geological structure(s), which at the time of commencement of drilling is to explore for an accumulation of hydrocarbons whose existence at the time was unproven by drilling;
- (y) **"Field Development Programme"** means, the programme of activities presented by the CONTRACTOR to the Management Committee and approved by the Management Committee outlining the plans for the development of a Commercial Quantity. Such programme of activities shall include, but not be limited to:
  - a. reservoir, geological and geophysical studies and surveys;
  - b. drilling of production and injection wells;
  - c. design, construction, installation, connection and initial testing of equipment, pipelines, systems, facilities, plants and related activities necessary to produce and operate said wells,
  - d. undertake re-pressurising, recycling and other secondary or tertiary recovery projects;
- (z) **"Foreign Currency"** means, currency other than that of Nigeria.



- (aa) **"Government"** means, the Government of the Federal Republic of Nigeria.
- (ab) **"Gross Negligence"** means, any act or failure to act of any Senior Supervisory Personnel (whether sole, joint or concurrent) which was intended to cause, or which was in reckless disregard of or wanton indifference to the harmful consequences such act or failure to act would have on (a) the safety of personnel or property or (b) Petroleum Operations or (c) books and accounts and oil industry accounting standards and procedures.
- (ac) **"Joint Operating Agreement (JOA)"** has the meaning assigned to it in Clause 14.3.
- (ad) **"Lifting Procedure"** means, the Rules and Procedures set forth in Annex D and attached to and forming part of this Contract.
- (ae) **"Local Content"** means the quantum of composite value added to, or created in the Nigerian economy through a deliberate utilization of Nigerian human and material resources and services in the Nigerian petroleum industry which includes all activities connected with the exploration, development, exploitation, transportation and sale of Nigerian Crude Oil and Natural Gas resources.
- (af) **"Minister"** means, the Minister charged with the responsibility for Petroleum Resources in Nigeria.
- (ag) **"Ministry"** means, the Ministry charged with the responsibility for Petroleum Resources in Nigeria.
- (ah) **"Natural Gas"** means, all gaseous hydrocarbons produced in association with the Crude Oil and/or from reservoirs, which produce mainly gaseous hydrocarbons.
- (ai) **"Non-Capital Costs"** means, those expenditures incurred and obligations made in accordance with Article II.1 of the Accounting Procedures.

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- (aj) "Oil Mining Lease" ("OML") means, a lease granted by the Minister under the Petroleum Act CAP 350, LFN 1990 as amended, to a lessee to search for, win, work, carry away and dispose of petroleum.
- (ak) "Oil Prospecting License" ("OPL") means a license granted by the Minister under the Petroleum Act CAP 350, LFN 1990 to a licensee to prospect for petroleum.
- (al) "Operating Costs" means, expenditures incurred and obligations made as determined in accordance with Article II of the Accounting Procedure.
- (am) "Operator" means, the company designated as Operator in accordance with Clause 28.
- (an) "Participating Interest" means, the rights and obligations of the Contractor Parties under this Contract, which shall be held in the respective Participating Interests described in Appendix 1.
- (ao) "Party" means, either the CORPORATION or the CONTRACTOR and "Parties" means, the CORPORATION and the CONTRACTOR.
- (ap) "Petroleum Operations" means, the winning or obtaining and transportation of petroleum or chargeable oil in Nigeria by or on behalf of a company for its own account by any drilling, mining, extracting or other like operations or process, not including refining at a refinery, in the course of business carried on by the company engaged in such operations, and all operations incidental thereto and any sale of or any disposal of chargeable oil by or on behalf of the company.
- (aq) "Petroleum Profit Tax" or "PPT" means, the tax pursuant to the Petroleum Profits Tax Act CAP 354 LFN 1990.

- (ar) **"Proceeds"** means, the amount in U.S. Dollars determined by multiplying the Realizable Price by the number of Barrels of Available Crude Oil lifted by either Party.
- (as) **"Profit Oil"** means, the balance of Available Crude Oil after the allocation of Royalty Oil, Tax Oil, and Cost Oil.
- (at) **"Realizable Price"** means, the price in U.S. Dollars per Barrel determined pursuant to Clause 10.
- (au) **"Relinquished Area"** means, the 50% of the Contract Area that is relinquished at the end of the Exploration Period, subject to Clause 5 hereof.
- (av) **"Royalty"** means, the amount of Royalty payable to the Government in Nigeria as fully described in Clause 16.1 hereof.
- (aw) **"Royalty Oil"** means, the quantum of Available Crude Oil produced from the Contract Area that will generate an amount of Proceeds equal to the actual payment of Royalty.
- (ax) **"Senior Supervisory Personnel"** means, with respect to a Contractor Party, or any of its Affiliates or sub-contractor providing services, any senior supervisory employee who functions in Petroleum Operations and who is in charge of on-site drilling, construction, production, installations or facilities and related operations, or any other field operations, or employee who functions at a management level equivalent to or superior to the described positions, any person to whom such person reports (such as an officer or director of such Contractor Party or of any such Affiliate of such Contractor Party).
- (ay) **"Tax Oil"** means, the quantum of Available Crude Oil produced from the Contract Area and allocated to the CORPORATION which will generate an amount of Proceeds equal to the actual payment of PPT under this Contract.

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(ba) "Work Programme" means activities relating to Petroleum Operations defined in Clause 6 and Exploration Period, detailed in Annex G, which shall be carried out by the Contractor in the Contract Area for the applicable period.

(bb) "Year" means, a period of twelve (12) consecutive months according to the Gregorian Calendar.

Reference to the singular includes a reference to the plural and vice versa.

The headings used in this Contract are for convenience only and shall not be used to construe or interpret the Contract.

Any law, statute or regulation referred to in this Contract shall mean the law, statute or regulation as it exists on the date of execution of this Contract and any amendment(s) thereto.

## **CLAUSE 2: BONUSES**

2.1 CONTRACTOR shall pay to the Department, Signature Bonus in the amount specified in Appendix 2 upon initialling but prior to the date of execution of this Agreement. The Bonus referred to in this Clause 2.1 shall be paid into an account to be designated in writing by the Department.

CONTRACTOR shall submit to the CORPORATION evidence of payments of the Bonus specified in Clause 2.1 prior to the execution of this Contract.

2.2 CONTRACTOR shall pay to the CORPORATION a Production Bonus as follows:

- (a) One hundred thousand barrels (100,000 bbls) or cash equivalent on attainment of cumulative production of one million barrels (1,000,000 bbls).
- (b) One million barrels (1,000,000 bbls) or cash equivalent on attainment of cumulative production of two hundred and twenty million barrels (220,000,000 bbls).

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(c) One million barrels (1,000,000 bbls) or cash equivalent on attainment of cumulative production of five hundred million barrels (500,000,000 bbls).

2.3 The Production Bonus provided for in this Clause 2.2 hereof shall be payable within thirty (30) days of such production level being first attained.

2.4 The Bonuses provided for in this Clause 2 shall not be recoverable as Cost Oil.

2.5 The Bonuses referred to in Clause 2.2 above shall be paid into an account to be designated in writing by the CORPORATION.

**CLAUSE 3: SCOPE**

3.1 This Contract is a Production Sharing Contract, governed in accordance with the terms and provisions hereof. Petroleum Operations and provision of financial and technical requirements by the CONTRACTOR under this Contract shall be with the prior approval of the CORPORATION as required in Clauses 6.3(4), 7.2(c), (e), (f) and (g), 8.4, 12.1, 12.6, 12.7, 13.5, 19, 20.2, 23.5(d) and Annex E, Article 1.3 (a) and (b) and Articles 2.5, 3.3, 3.6 and 5.6 and any other clause requiring approval of CORPORATION under this Contract. The CORPORATION, as holder of all rights in and to the Contract Area, hereby appoints and conveys to the CONTRACTOR, the exclusive right to conduct Petroleum Operations in the Contract Area.

3.2 During the term of this Contract the total Available Crude Oil shall be allocated to the Parties in accordance with the provisions of Clause 9, the Accounting Procedure (Annex B) and the Allocation Procedure (Annex C).

3.3 The CONTRACTOR together with its Affiliates shall provide funds and bear interest on funds, in addition to bearing the risk of Operating Costs and the risk required to carry out Petroleum Operations and shall therefore have an economic interest in the development of Crude Oil and Natural Gas discovered subject to the provisions of Clause 23 of this Contract.

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3.4 The CONTRACTOR is engaged in Petroleum Operations pursuant to Petroleum Profits Tax Act Cap 354 LFN 1990 ("PPT Act") and accordingly, the Companies Income Tax Act 1979 Cap 60 LFN 1990, shall have no application.

**CLAUSE 4: TERM**

4.1 The term of this Contract, subject to Clause 20 herein, shall be for a period of thirty (30) years commencing from the Effective Date, inclusive of ten (10) years Exploration Period and twenty (20) years OML period.

4.2 a) CONTRACTOR shall commence operations not later than thirty (30) days after the Management Committee approves the first Work Programme.

b) The ten (10) years Exploration Period shall be divided into two separate phases as follows:

Phase I - Years 1 to 5 commencing from the Effective Date.

Phase II - Years 6 to 10 commencing from the end of Phase I.

4.3 If in the opinion of CORPORATION, CONTRACTOR has fulfilled its obligations under Phase I as described in Clause 6.2. CONTRACTOR may enter Phase II, provided however that CONTRACTOR gives the CORPORATION thirty (30) days written notice of its intention thereof.

4.4 Provided the CONTRACTOR has fulfilled its obligations relative to the current phase of the Exploration Period as described in Clause 6 hereof, CONTRACTOR may terminate the Contract at the end of any phase during the Exploration Period, according to Clause 20 hereof.

4.5 Upon the discovery of Commercial Quantity, CONTRACTOR shall recommend to the CORPORATION conversion of the OPL to OML. Such recommendation shall include delineation of the proposed OML area. The CORPORATION shall review CONTRACTOR's recommendation and if satisfied apply for the conversion of the OPL to OML.



- 4.6 At the end of the twenty (20) year OML period, the CORPORATION shall seek the maximum allowed renewal period of the OML subject to the performance of all the CONTRACTOR's obligations, to the satisfaction of the CORPORATION during the expiring period of the OML. If such renewal is granted, the terms of this Contract shall be revised and agreed by the Parties for the duration of such renewal at the option of either Party.

Parties hereby agree that the new terms shall be based on prevailing conditions obtainable in the global oil and gas industry and shall not be less favourable to Government and CORPORATION than the terms contained in this Contract.

#### **CLAUSE 5: EXCLUSION AND RELINQUISHMENT OF AREAS**

- 5.1 CONTRACTOR shall relinquish fifty per cent (50%) of the Contract Area upon conversion from OPL to OML or at the expiration of the Exploration Period whichever is earlier.
- 5.2 The fifty percent (50%) of the Contract Area to be relinquished shall be agreed by the Parties and shall as much as possible under the relevant regulations, exclude part of the Contract Area corresponding to surface areas of fields in which petroleum has been discovered in Commercial Quantity.
- 5.3 Any excluded and/or Relinquished Area shall revert to the Government.

#### **CLAUSE 6: WORK PROGRAMME AND EXPENDITURE**

- 6.1 Within two (2) months after the Effective Date and thereafter at least three (3) months prior to the beginning of each Calendar Year the CONTRACTOR shall prepare and submit for review and approval by the Management Committee, pursuant to Clause 7, a Work Programme and Budget for the Contract Area (for the Exploration Period, such Work Programme and Budget shall not be less than the Work Programme and Budget in Annex G) setting forth the Petroleum Operations which CONTRACTOR proposes to carry out during the ensuing

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Calendar Year, or in case of first Work Programme and Budget, during the remainder of the current Calendar Year. The Management Committee shall review and approve such Work Programme and Budget in accordance with Clause 7.4(e) prior to presentation of the Work Programme and Budget to the Department.

6.2 The minimum Work Programme to be executed by the CONTRACTOR during the exploration period of this Contract shall be as follows:

- a) Phase I – Drill two (2) Exploratory Wells and acquire and process 500km of 2D seismic data and 50 sq. km of 3D seismic data in the Contract Area. The seismic acquisition shall be designed to capture deep potentials.
- b) Phase II – Drill two (2) Exploratory and/or Appraisal Wells and acquire and process 500 km of 2D seismic data and 50 sq. km of 3D seismic data in the Contract Area. The seismic acquisition shall be designed to capture deep potentials.
- c) The minimum Work Programme referred to in clauses 6.2(a) and (b) is as detailed in Annex G and attached to this Contract.

### 6.3 Minimum Financial Commitment

1. CONTRACTOR shall be obligated to incur the following Minimum Financial Commitment:

Phase I – fifteen million seven hundred and fifty thousand US Dollars (USD15,750,000)

Phase II – fifteen million seven hundred and fifty thousand US Dollars (USD15,750,000)

2. If CONTRACTOR fulfils the minimum Work program set forth in Clause 6.2 above for each phase of the Exploration Period, then CONTRACTOR shall be deemed to have satisfied the minimum financial commitment for each such phase.

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3. If at the end of the period of Phase I or II, CONTRACTOR fails to fulfill the minimum Work Programme as specified in this Clause 6, CONTRACTOR shall forfeit and pay to the CORPORATION the amount of money left outstanding under the Performance Bond pursuant to Clause 6.5.

4. Petroleum Operations and expenditures carried out and incurred under this Contract shall be with the prior approval of the CORPORATION and in accordance with the provisions of this Contract:

In the event that CONTRACTOR carries out Petroleum Operations without the prior approval of the CORPORATION or, not in accordance with the provisions of this Contract, or incurs budgetary overruns in excess of 10% of an approved budget, without the CORPORATION's prior approval, all costs arising from any or all of the above, shall not form part of the Operating Costs and shall not be recoverable from Cost Oil.

6.4 An Exploratory Well or an Appraisal Well shall be considered to have satisfied the minimum Work Programme if any one of the following events occurs:

- a) A discovery is made and further drilling may cause irreparable damage to such discovery; or
- b) Basement is encountered; or
- c) CORPORATION and CONTRACTOR agree that the well is drilled for the purpose of fulfilling the obligation to complete the minimum Work Programme; or
- d) Technical difficulties are encountered which, in the judgment of CONTRACTOR and to the satisfaction of the CORPORATION, in accordance with reasonable and prudent international oilfield practice, makes further drilling impracticable, uneconomic, unsafe or a danger to the environment.

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## 6.5 Performance Bond

- (a) Within thirty (30) days from the execution of this Contract, CONTRACTOR shall submit to the CORPORATION a performance bond from a reputable international financial institution acceptable to the CORPORATION in the sum of fifteen million US Dollars (USD15,000,000) to cover the Minimum Work Programme for Phase I. The Performance Bond to be submitted to the CORPORATION shall be in the format depicted in Annex F.
- (b) Should the CONTRACTOR satisfy the conditions for continuing exploration in Phase II pursuant to Clause 6.2 above, CONTRACTOR shall submit to the CORPORATION a new performance bond in the sum of fifteen million US Dollars (USD15,000,000) within thirty (30) days commencing from date that CONTRACTOR entered into Phase II to cover the minimum Work Programme for Phase II.
- (c) The Performance Bond that CONTRACTOR shall submit herein shall be provided by the Operator. The other Contractor Party(ies) shall submit to the Operator a back to back performance bond from a financial Institution or a bank acceptable to the Operator.

6.6 The value of the Performance Bonds shall be reduced annually by deducting from the Performance Bond the verified expenditures incurred by the CONTRACTOR. The Performance Bond shall terminate at the end of each phase, if the minimum financial commitment for that phase has been fulfilled.

## 6.7 Guarantee

Within thirty days from the execution of this Contract, each Contractor Party shall, submit a guarantee from its parent company for such Contractor Party's obligations under this Contract. Where a parent company is not applicable, a Corporate Guarantee from an Affiliate or a company acceptable to the CORPORATION shall be submitted by the Contractor Party. The guarantee to be submitted shall be in the format specified in Appendix 4. Except in the event

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of an assignment pursuant to Clause 19, such guarantee shall survive the term of this Contract for a period of five (5) years.

#### 6.8 Incremental Investment.

- (i) If CONTRACTOR has established that additional capital investment (Incremental Investment) is required for the purposes of increasing production in the Contract Area, CONTRACTOR shall develop a programme for such Incremental Investment and submit same to the CORPORATION for review and approval. The CORPORATION shall on receipt of the programme either approve or disapprove such Incremental Investment.
- (ii) Incremental Investment shall include but shall not be limited to installation of additional facilities to an existing facility, plants, machinery or the undertaking of a new project within the Contract Area.
- (iii) If the programme developed by the CONTRACTOR is approved by the CORPORATION pursuant to Clause 6.8(i), CONTRACTOR shall within eighteen (18) months from the date of receipt of such approval, commence implementation of such Incremental Investment.
- (iv) In the event that the CORPORATION refuses to approve the Incremental Investment, such Incremental Investment shall not be undertaken by the CONTRACTOR.
- (v) Cost incurred with respect to the Incremental Investment shall be segregated from all costs incurred prior to such Incremental Investment and shall be recovered from production realised from such project.
- (vi) For the avoidance of doubt the terms of this Contract shall mutatis mutandis apply to the Incremental Investment.

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## CLAUSE 7: MANAGEMENT COMMITTEE

- 7.1 A Management Committee shall be established within thirty (30) days from the date of execution of this Contract for the purpose of providing orderly direction of all matters pertaining to the Petroleum Operations and Work Programme.
- 7.2 The powers and duties of the Management Committee shall include but not be limited to the following:
- a) the revision, and approval of all proposed Work Programmes and Budgets in accordance with Clauses 6.1 and 7.4(e);
  - b) the revision, and approval of any proposed recommendations made by either Party or by any sub-committee, pursuant to Clause 7.7 with respect to Petroleum Operations;
  - c) determine, with the approval of the CORPORATION when a commercial discovery is to be declared;
  - d) ensuring that the CONTRACTOR carries out the decisions of the Management Committee and conducts Petroleum Operations pursuant to this Contract;
  - e) the consideration of and decision on matters relating to the relinquishment of areas in the Contract Area pursuant to Clause 5; and in accordance with the petroleum laws;
  - f) settlement of claims and litigations in excess of ten million Naira (N10,000,000) or the equivalent thereof in foreign currency, or such other amount as may be approved by the Management Committee provided, however, for such claims or settlements, any single or aggregate claims or settlements which exceed twenty five million Naira (N25,000,000) or the equivalent in foreign currency thereof shall be with the prior approval of the CORPORATION;

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- g) consideration and approval of the sale or disposal of any items or movable property relating to Petroleum Operations in accordance with the provisions of this Contract, except for Items of historic costs of less than one million (N1,000,000) Naira (or such other amount as may be approved by the Management Committee) provided that any intention to sell or dispose of fixed assets shall be with prior approval of the CORPORATION;
- h) settlement of unresolved audit exceptions arising from audits as provided for in Clause 15.3 of this Contract;
- i) ensuring that the CONTRACTOR implements the provisions of the Accounting Procedure (Annex B), the Lifting Procedure (Annex D), and the Procurement and Project Implementation Procedures (Annex E) and all amendments and revisions thereto as agreed by the Parties;
- j) any other matters relating to Petroleum Operations except:
  - a. those matters, reserved to the Parties in their respective rights pursuant to Clause 8; or
  - b. those matters elsewhere provided for in this Contract;
- k) consideration and approval of the sale, disposal or exchange of information to third parties other than routine exchange of seismic data and other such data commonly exchanged within the industry; and
- l) consideration and determination of any other matter relating to the Petroleum Operations which may be referred to it by any Party (other than any proposal to amend this Contract) or which is otherwise designated under this Contract for reference to it.
- m) to give effect to clause 13.8 of this Contract, ensuring that CONTRACTOR shall provide an annual budget for capacity building of the CORPORATION's personnel in all facets of Petroleum Operations.



7.3 a) The Management Committee shall consist of ten (10) persons appointed by the Parties as follows:

CORPORATION - 5

CONTRACTOR - 5

- b) Each Party, including the LCV, shall designate by notice in writing to the other Parties, the names of its representatives to serve as members of the Management Committee as provided in Clause 7.3(a) hereof and their respective alternates, which members or alternates shall be authorised to represent that Party with respect to the decisions of the Management Committee. Such notice shall give the names, titles and addresses of the designated members and alternates.
- c) At least fourteen (14) working days prior to each scheduled Management Committee meeting, the secretary shall provide an agenda of matters, with briefs, to be considered during such meeting. Any Party desiring to have other matters placed on the agenda shall give notice to the other Party not less than seven (7) working days prior to the scheduled meeting. No other matter may be introduced into the agenda thereafter for deliberation at the meeting unless mutually agreed by the Parties. No agenda shall be required in the event of an emergency meeting called pursuant to Clause 7.4(b).
- d) Either Party may change any of its respective members or alternates as described in Clause 7.3(b) from time to time by notifying the other Party in writing not less than ten (10) days in advance of the effective date of such change.
- e) The CORPORATION shall appoint one of its five (5) members as the chairman of the Management Committee and the CONTRACTOR shall appoint the secretary. The secretary shall not be a member of the Management Committee but shall keep minutes of all meetings and records

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of all decisions of the Management Committee. The minutes of each meeting shall be approved by the Management Committee at the next meeting and copies thereof shall be supplied to the Parties. In addition, the secretary shall at each meeting, prepare a written summary of any decision made by the Management Committee for approval and signature by the Parties.

- 7.4 a) Not later than the twenty-eighth (28th) day of February of each Year, the chairman shall prepare and forward to the Parties, a calendar of meetings as agreed by the Management Committee for that Year.
- b) The Management Committee shall meet at least once every four (4) calendar months, or at such other intervals or venue as may be agreed by the Management Committee and, in addition, whenever requested by a Party by giving at least twenty-one (21) days notice in writing to the other Parties which notice shall specify the matter or matters to be considered at the meeting; or, when summoned by the chairman or by the CONTRACTOR as an emergency meeting for which no specified notice period shall be required.
- c) The quorum for any meeting of the Management Committee shall consist of a minimum of three (3) representatives of the CORPORATION and three (3) representatives of the CONTRACTOR. The chairman or his alternate and the CONTRACTOR's designated lead representative or his alternate must be present at every Management Committee meetings for a quorum to be formed. If no such quorum is present, the chairman shall call another meeting of the Management Committee giving at least fourteen (14) days written notice of such meeting.
- d) The secretary shall in consultation with the chairman convene all meetings of the Management Committee other than emergency meetings.
- e) Within eight (8) weeks after the submission of a Work Programme and Budget by the CONTRACTOR, the Management Committee shall meet to

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consider and approve such submissions. Should the CORPORATION wish to propose a revision as to certain specific features of the said Work Programme and Budget, it shall within eight (8) weeks after receipt of such Work Programme and Budget so notify the CONTRACTOR in writing specifying in reasonable detail the changes requested and its reasons thereof. The Management Committee shall resolve the request for revisions proposed by the CORPORATION. If the CORPORATION has not proposed any revisions in writing within eight (8) weeks, then the said Work Programme and Budget as submitted shall be approved by resolution of the Management Committee. Any portion of a Work Programme about which the CORPORATION has not proposed a revision shall in so far as possible be carried out as prescribed therein.

- 7.5 a) Except as may be expressly provided for in this Contract, the Management Committee shall determine and adopt rules to govern its procedures. All documents required for such meeting shall be made available to the members 7 days prior to the meeting.
- b) Members attending a meeting of the Management 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 or in any way participate in decisions, but may contribute in a non-binding way to discussions or debates of the Management Committee.
- c) Except as otherwise expressly provided in this Contract all decisions of the Management Committee shall be made by the unanimous vote of the Parties. If unanimity is not obtained on any matter (including any matter pertaining to a Work Programme or Budget) proposed to the Management Committee, then the Management Committee shall meet again to attempt to resolve such matter not later than fourteen (14) days after the meeting in which the proposed matter failed to be resolved. Any portion of such proposal that is not rejected shall insofar as possible be carried out. At least seven (7) days prior to such second meeting, the Party casting the dissenting vote shall provide to the other Parties in writing in reasonable

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detail, the reasons for such dissenting vote. If such reasons are not provided at least seven (7) days prior to such second meeting, then the proposal shall be deemed approved. In such second meeting the agenda shall comprise of such written reasons as provided by the dissenting Party. If unanimity is not obtained in the second meeting, then the Management Committee shall meet a third time within fourteen (14) days after the second meeting. If unanimity is not obtained in the third meeting then the CORPORATION and the CONTRACTOR may agree to appoint an independent qualified expert to advise on the matter, which advice shall be binding on the Parties. In the event of failure of the Parties to agree to the appointment of the said expert, the provisions of Clause 26 shall apply.

- d) The Parties shall be bound and abide by, each decision of the Management Committee duly made in accordance with the provisions of this Contract.

7.6 Any matter which is within the powers and duties of the Management Committee may be determined by the Management Committee without a Management Committee meeting if such matter is submitted in writing by either Party to the other Parties with due notice and with sufficient information regarding the matter to be determined so as to enable the Parties to make an informed decision with respect to such matter. The other Parties to whom the information is submitted shall agree in writing with the proposed request for the said decision to be carried out subject further to the provisions herein:

- a) Except for urgent matters referred to in Clause 7.6 (b), each Party shall cast its vote with respect to such matter within twenty-one (21) days of receipt of such notice and such manner of determination shall be followed unless a Party objects, within fourteen (14) days of receipt of such notice, to having the matter determined in such manner. If any Party fails to vote by the expiry of the twenty-one (21) day period for voting, it shall be deemed to have voted in the affirmative. The secretary shall promptly advise the Parties of the results of such vote and shall draft a resolution to be signed as soon as possible by the Parties.

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- b) The decisions made pursuant to this Clause 7.6 shall be recorded in the minutes of the next scheduled meeting of the Management Committee, and shall be binding upon the Parties to the same extent as if the matter had been determined at a meeting of the Management Committee.
- c) Each Party shall nominate one of its officers as its representative from whom the other Party may seek binding decisions on urgent matters, including, but not limited to ongoing drilling operations, by e-mail, by telephone, registered or hand delivered letter, facsimile transmission, or in person. The Parties shall advise each other in writing of the persons so nominated and any changes thereof.

7.7 The Management Committee shall establish exploration and technical sub-committees and any other advisory subcommittees, as it considers necessary from time to time such as finance and budget, and legal services sub-committees:

- a) Each sub-committee established pursuant to Clause 7.7 shall be given terms of reference and shall be subject to such direction and procedures as the Management Committee may give or determine.
- b) The Management Committee shall appoint the members of the sub-committee, which shall be comprised of equal representation from the Parties. The chairman and the secretaries of the sub-committees shall be appointed by the Management Committee.
- c) The deliberations and recommendations of any subcommittee shall be advisory only and shall become binding and effective upon acceptance by the Management Committee.



**CLAUSE 8: RIGHTS AND OBLIGATIONS OF THE PARTIES**

8.1 In accordance with this Contract, the CONTRACTOR shall:

- a) provide personnel and all necessary funds for payment of Operating Costs including, but not limited to, funds required to provide all materials, equipment, supplies, and technical requirements purchased, paid for or leased in Foreign Currency;
- b) provide such other funds for the performance of Work Programmes including payments to third parties who perform services in accordance with terms contained therein as sub-contractors;
- c) prepare Work Programmes and Budgets and carry out approved Work Programmes in accordance with internationally acceptable petroleum industry practices and standards and applicable local laws with the objective of avoiding waste and obtaining maximum ultimate recovery of Crude Oil at minimum costs;
- d) ensure that all leased equipment paid for in Foreign Currency and brought into Nigeria for Petroleum Operations are treated in accordance with the terms of the applicable leases;
- e) have the right of ingress to and egress from the Contract Area and to and from facilities therein located at all times during the term of this Contract;
- f) submit to the CORPORATION for permanent custody copies of all geological, geophysical, drilling, well production, operating and other data and reports as it may compile during the term hereof and at the end of the Contract surrender all original data and reports to the CORPORATION;
- g) prepare estimated and final PPT returns with respect to the Contract Area and submit same to the CORPORATION on a timely basis in accordance with the PPT Act;

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- h) have the right to lift in accordance with Annex D and freely export and to retain abroad the receipts from the sale of Available Crude Oil allocated to it here under;
- i) prepare and carry out plans and programmes for industry training and education of Nigerians for all job classifications with respect to Petroleum Operations in accordance with the Petroleum Act Cap 350 LFN 1990;
- j) employ only such personnel as required to conduct the Petroleum Operations in a prudent and cost effective manner giving preference to Nigerian citizens;
- k) the CONTRACTOR and its sub-contractors shall, as the case may be, pay all customs duties and like charges as are imposed by law in Nigeria, subject to the provisions of this Contract, CONTRACTOR and its sub-contractors shall not be treated differently from any other companies and their sub-contractors engaged in similar Petroleum Operations in Nigeria;
- l) indemnify and hold the CORPORATION harmless against all losses, damages, injuries, expenses, actions of whatever kind and nature including but not limited to legal fees and expenses suffered by any third party where such loss, damage, injury is as the result of Gross Negligence of the CONTRACTOR or its sub-contractors except where such losses are shown to result from any action or failure to act on the part of the CORPORATION.
- m) indemnify and hold the CORPORATION harmless against all losses, damages, injuries, expenses, actions of whatever kind and nature suffered by the CORPORATION where such loss, damage or injury is as the result of Gross Negligence of the CONTRACTOR or its sub-contractors except where such losses are shown to result from any action or failure to act on the part of the CORPORATION, provided however, that for either Gross Negligence or negligence, the CONTRACTOR shall not be liable to the

CORPORATION for any consequential losses or consequential damages, including but not limited to lost production or lost profits.

- n) determine with the CORPORATION the technical and cost aspects of any field development under this Contract and thereafter agree with the CORPORATION on the development decision prior to the development of a field in the Contract Area;
- o) not exercise all or any rights or authority over the Contract Area in derogation of the rights of the CORPORATION;
- p) in the event of any emergency requiring immediate operational action, take all actions it deems proper or advisable to protect the interests of the Parties and any costs so incurred shall be included in the Operating Costs. Prompt notification of any such action taken by the CONTRACTOR and the estimated cost shall be given to the CORPORATION within forty-eight (48) hours of the event. The notice shall be given to the CORPORATION within forty eight (48) hours of when the CONTRACTOR became aware of the event, if CONTRACTOR can demonstrate to the satisfaction of the CORPORATION that it was not aware of the event at the time the event occurred. If the CORPORATION is not notified within the period of forty eight (48) hours, then the CONTRACTOR shall be solely responsible for the costs incurred for such operational action between the end of the forty eight (48) hour notice period and the actual time of receipt of the notice by the CORPORATION; such costs shall not be recoverable as Operating Costs. If the CORPORATION is not provided with a cost estimate within seven (7) days from the event or from the date CONTRACTOR became aware of the event, then the costs of such operational action shall not be recoverable as Operating Cost;
- q) shall within six (6) months commencing from the Effective Date of this Contract execute the Joint Operating Agreement referred to in Clause 14.3. The Joint Operating Agreement shall be submitted to the CORPORATION within thirty (30) days of its execution. If CONTRACTOR

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executes a heads of agreement prior to executing such Joint Operating Agreement, a copy of the heads of agreement shall be provided to CORPORATION within fifteen (15) days of its execution.

- r) submit to the CORPORATION technical and economic data, or other relevant information generated by the CONTRACTOR relating to the Contract Area, as and when required by the CORPORATION, provided however, that CONTRACTOR shall not be required to submit its internal proprietary or confidential information which are not directly related to this Contract.
- (s) not to commence the execution of any major project until the project including the local components thereof are properly scoped out and agreed by the CORPORATION.
- (t) take on supervisory responsibilities of the LCV to ensure that the portion of the Work Programme allocated to the LCV as described in Annex G which may be changed from time to time is performed in a diligent, safe and efficient manner in accordance with petroleum industry practices.
- (u) support the LCV to provide the necessary paraphernalia to perform the portion of the Work Programme assigned to it locally (and to the largest extent possible) using locally procured goods and services only.
- (v) convene an annual programme meeting to appraise the CORPORATION and thereafter Department on the progress, competence and development of the LCV and the relationship between the Operator and the LCV highlighting transfer of technology so far achieved, new activities and performance of the LCV.
- (w) where more than one entity constitute the LCV, ensure that the representative nominated by LCV to serve on the Management Committee under this Contract, and the operating committee under the JOA, shall rotate amongst the entities that constitute the LCV.

8.2 In accordance with this Contract, the CORPORATION shall:

- a) pay to the Government in a timely manner on receipt of the appropriate Royalties, Concession Rentals and PPT accruing out of Petroleum Operations and indemnify and hold the CONTRACTOR harmless against all losses, damages, expenses, actions of whatever kind and nature including but not limited to legal fees and expenses suffered by the CONTRACTOR as a result of any failure to so timely pay;
- b) with its professional staff assigned pursuant to Clause 13 jointly work with the CONTRACTOR's professional staff in the Exploration, Petroleum Engineering, Facilities/Material, Legal, Finance and Environmental and Safety Departments and other areas in the Petroleum Operations;
- c) assist and expedite the CONTRACTOR's execution of Petroleum Operations and Work Programmes including, but not limited to, assistance in supplying or otherwise making available all necessary visas, work permits, rights of way and easements as may be requested by the CONTRACTOR (costs of the CORPORATION arising from services rendered in 8.2(b) and expenses incurred at the CONTRACTOR's request in providing assistance shall be recovered from cost oil and/or reimbursed to the CORPORATION by the CONTRACTOR in accordance with Clause 11.1 herein). The CONTRACTOR shall include such reimbursements in the Operating Costs; which reimbursement will be made against the CORPORATION's invoice and shall be in U.S. Dollars computed at the rate of exchange published by the Central Bank of Nigeria or the Federal Ministry of Finance on the date the expense was incurred);
- d) have title to all original data resulting from the Petroleum Operations including but not limited to geological, geophysical, engineering, well logs, completion, production, operations, status reports and any other data as the CONTRACTOR may compile during the term hereof, provided however, that the CONTRACTOR shall keep and use such original data during the

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term of this Contract and the CORPORATION shall at all time have access to such original data during the term of this Contract;

- e) not exercise all or any of its rights or authority over the Contract Area in derogation of the rights of the CONTRACTOR; and
- f) apply for conversion of the OPL to OML upon the request of CONTRACTOR and shall exercise all the rights and comply with all the obligations of the Licensee or Lessee under the Petroleum Act Cap 350 Laws of the Federation of Nigeria, 1990 as amended.

8.3 In accordance with this Contract the LCV shall:

- a) Pay for Work Programme according to its Participating Interest and fulfill all its obligations under this Contract. In the event of any default by the LCV to meet a cash call obligation under this Contract, the following provisions shall apply:
  - (i) The Operator shall promptly give written notice of such default to the defaulting LCV, the CORPORATION and the non-defaulting Contractor Party.
  - (ii) The CORPORATION shall promptly take all necessary measures to make the defaulting LCV remedy the default.
  - (iii) During the continuation of any default, the defaulting LCV shall not be represented at Management Committee meetings or have access to any data or information relating to Petroleum Operations.
  - (iv) If the defaulting LCV fails to remedy the default, then sixty (60) days after the date of the default notice, the Operator shall notify the defaulting LCV, the CORPORATION and the non-defaulting Contractor Party accordingly, whereupon the CORPORATION shall pursuant to Clause 20 terminate this Contract against the defaulting LCV.
  - (v) CORPORATION shall notify the Department of the default and with the Department's approval, reallocate the Participating Interest of the Defaulting LCV to another LCV that possesses the requisite financial standing and competence to meet the defaulting LCV's

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financial and operational obligations under this Contract, provided however that such other LCV shall submit a written undertaking to assume the outstanding obligations of the defaulting LCV under this Contract and provided further that such other LCV is acceptable to the other Contractor Party(ies). Prior to reallocating the Participating Interest of the defaulting LCV to a third party, the Contractor Parties shall have the right to carry out due diligence on such third party. If such third party is not acceptable to one or more of the other Contractor Parties, they shall have the right upon 30 days written notice to the CORPORATION to object to the participation of such third party. The replacement of such third party rejected by one or more of the other Contractor Parties shall continue until a third party acceptable to the Contractor Parties is found.

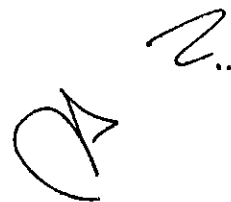

- b) Assign qualified personnel to the Operator to manage and administer specific parts of the Work Programme as bid and more particularly described in Annex G. Such work shall be carried out in Nigeria. Operator and LCV shall mutually agree on the number of LCV's personnel to be assigned to the Operator.
  - c) Retain the Participating Interest assigned to it under this Contract or transfer to other Nigerian entities after prior written approval by the Parties, such approval not to be unreasonably withheld, provided, however that the LCV shall not transfer any of its Participating Interest to a foreign entity.
- 8.4 The portion of the Work Programme described in Annex G shall relate to the Exploration Period only. Upon conversion to OML the portion of the Work Programme that shall be managed and administered by the LCV and the training of the LCV's personnel shall be approved by the CORPORATION upon the recommendation of the Management Committee



**CLAUSE 9: RECOVERY OF OPERATING COSTS AND CRUDE OIL ALLOCATION**

9.1 The allocation of Available Crude Oil shall be in accordance with the Accounting Procedure (Annex B), the Allocation Procedure (Annex C) and this Clause 9 as follows:

- a) Royalty Oil shall be allocated to the CORPORATION in such quantum as will generate an amount of Proceeds equal to the actual Royalty payable on the Contract Area during each month and the Concession Rental payable annually;
- b) Cost Oil shall subject to Clause 9.1 (c) and (d) herein below be allocated to the CONTRACTOR in such quantum as will generate an amount of Proceeds sufficient for recovery of Operating Costs in OPL 905 and any OML derived therefrom after allocation of Royalty Oil to the CORPORATION. All costs will be recovered in U.S. Dollars and recovered through Cost Oil allocation;
- c) The Cost Oil Ceiling shall be 65% of Available Crude Oil. The mechanism for recovery shall be in accordance with the PPTA and Annex B Articles II and IV, 5 (b) (ii) of this Contract.
- d) The Realizable Price established in accordance with Clause 10 of this Contract shall be used in determining the amount of Cost Oil allocated to the CONTRACTOR in respect of Crude Oil produced and lifted pursuant to this Contract. The parameters for new Crude Oil streams produced from the Contract Area shall also be determined in accordance with the provisions of Clause 10 of this Contract.
- e) Tax Oil shall be allocated to the CORPORATION in such quantum as will generate an amount of Proceeds equal to the PPT liability payable during each month;



- f) If the quality of the seismic is approved by the Management Committee, reasonable seismic data acquisition and processing cost confirmed by Department and committed to or incurred in the relevant OPL prior to the Effective Date of this Contract shall be recoverable and count towards satisfying the minimum Work Programme.
- g) Profit Oil, being the balance of Available Crude Oil after deducting Royalty Oil, Cost Oil and Tax Oil shall be allocated to each Party pursuant to Schedule B-2 Section C of the Accounting Procedure (Annex B) as follows:

R Factor	CONTRACTOR Share	CORP. Share
R < 1.2	P = 70%	100% - P
1.2 < R < 2.5	$P = 25\% + [(2.5 - R) / (2.5 - 1.2)] * (70\% - 25\%)$	100% - P
R > 2.5	P = 25%	100% - P

Where, for each Contract Area:

$$R^n = ((PO^1 + CO^1) * RP^1 + (PO^2 + CO^2) * RP^2 + \dots + (PO^{n-1} + CO^{n-1}) * RP^{n-1}) / (\text{Cumulative capital} + \text{cumulative non-capital costs})$$

Where

PO=Contractor share of profit oil  
 CO=Cost oil  
 RP=Realizable price  
 n= The actual accounting period

Cumulative capital + cumulative non-capital costs = All costs allocated to the Contract Area up to and including the previous accounting period, as defined under Article II of Annex B.

In the event of a discovery of a field which cannot be economically developed under the above profit splits, or the completion of the development of such field proves uneconomic, the Parties shall meet to agree the appropriate terms and conditions and Profit Oil splits which would provide for the

development or completion of development of such field to the economic benefit of the Parties.

- 9.2 Each Party shall take in kind, lift and dispose of its allocation of Available Crude Oil in accordance with the Lifting Procedure (Annex D). In the event of any difference arising from reconciliation, the records of the Department shall be the official records.
- 9.3 Allocation of Royalty Oil and Tax Oil to the CORPORATION shall be applied towards the liabilities of the CONTRACTOR and the CORPORATION for Royalty, Concession Rentals, and PPT and the Proceeds therefrom shall be paid to the Government by the CORPORATION on behalf of both Parties.
- 9.4 Either Party may at the request of the other, lift the other Party's Available Crude Oil pursuant to Clause 9.2 and the lifting Party within sixty (60) days shall transfer to the account of the non-lifting Party the Proceeds of the sale to which the non-lifting Party is entitled. Overdue payments shall bear interest at the rate of one (1) month LIBOR plus two (2%) percent.
- 9.5 The CONTRACTOR may purchase any portion of the CORPORATION's allocation of Available Crude Oil from the Contract Area under the CORPORATION's terms and conditions including valuation and pricing of the Crude Oil as applicable to third party buyers of the CORPORATION's Crude Oil.
- 9.6 The Parties shall meet on a monthly or at least on a quarterly basis to reconcile all Crude Oil produced, allocated and lifted during the period in accordance with Article III (7) of Annex D.

CLAUSE 10: VALUATION OF AVAILABLE CRUDE OIL

10.1 Available Crude Oil allocated to each Party shall be valued in accordance with the following procedures:

- a) On the attainment of commercial production, each Party shall engage the services of an independent laboratory of good repute to determine the assay of the new Crude Oil.
  
- b) When a new Crude Oil stream is produced, a trial marketing period shall be designated which shall extend for the first six (6) months period during which such new stream is lifted or for the period of time required for the first ten (10) liftings, whichever is longer. During the trial marketing period the Parties shall:
  - i. collect samples of the new Crude Oil upon which the assays shall be performed as provided in Clause 10.1 (a) above;
  
  - ii. determine the approximate quality of the new Crude Oil by estimating the yield values from refinery modelling;
  
  - iii. share in the marketing such that each Party markets approximately an equal amount of the new Crude Oil and to the extent that one Party lifts the other Party's allocation of Available Crude Oil, payments thereof, shall be made in accordance with Clause 9.4;
  
  - iv. provide information to a third party who shall compile the information and maintain all individual Party Information confidential with regard to the marketing of the new Crude Oil including documents which verify the sales price and terms of each lifting;
  
  - v. apply the actual F.O.B. sales price to determine the value for each lifting which F.O.B. sales pricing for each lifting shall continue after the trial marketing period until the Parties agree to a valuation of the new

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Crude Oil but in no event longer than ninety (90) days after conclusion of the trial marketing period.

- c) As soon as practicable but in any event not later than sixty (60) days after the end of the trial marketing period, the Parties shall meet to review the assay, yield, and actual sales data. Each Party may present a proposal for the valuation of the new Crude Oil. A valuation formula for the Realizable Price shall be agreed to by the Parties not later than nine (9) months after the first lifting. Such valuation formula shall be in accordance with the Realizable Price provisions established by the Management Committee. It is the intent of the Parties that such prices shall reflect the true market value based on arm's length transactions for the sale of the new Crude Oil. The valuation formula as determined hereinbefore (including the product yield values) shall be mutually agreed within thirty (30) days of the aforementioned meeting failing which, determination of such valuation shall be as provided in Clause 10.2.
  - d) Upon the conclusion of the trial marketing period, the Parties shall be entitled to lift their allocation of Available Crude Oil pursuant to Clause 9 and the Lifting Procedure.
  - e) When a new Crude Oil stream is produced from the Contract Area and is commingled with an existing Crude Oil produced in Nigeria, which has an established Realizable Price basis, then such basis shall be applied to the extent practicable for determining the Realizable Price of the new Crude Oil. The Parties shall meet and mutually agree on any appropriate modifications to such established valuation basis, which may be required to reflect any change in the market value of the Crude Oil as a result of commingling.
- 10.2 If in the opinion of either Party an agreed price valuation method fails to reflect the market value of Crude Oil produced in the Contract Area, then such Party may propose to the other Party modifications to such valuation method once in every six (6) months but in no event more than twice in any Year. The Parties shall then meet within thirty (30) days of such proposal and mutually

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agree on any modifications to such valuation within thirty (30) days from such meeting, failing which, determination of such valuation shall be referred to a mutually agreed independent expert for his opinion.

10.3 Segregation of Crude Oil of different quality and/or grade shall be by agreement of the Parties taking into consideration, among other things, the operational practicality of segregation and the cost benefit analysis thereof. If the Parties agree on such segregation the following provisions shall apply:

- a) Any and all provisions of the Contract concerning valuation of Crude Oil shall separately apply to each segregated Crude Oil produced;
- b) Each grade or quality of Crude Oil produced and segregated in a given Year shall contribute its proportionate share to the total quantity designated in such Year as Royalty Oil, Tax Oil, Cost Oil and Profit Oil.

#### **CLAUSE 11: PAYMENT**

11.1 The method of payment of any sum due from the CONTRACTOR to the CORPORATION and vice versa shall be in accordance with the prevailing guidelines of the Federal Ministry of Finance and of the Central Bank of Nigeria and in accordance with the Accounting Procedure, Annex B.

11.2 Unless otherwise provided herein, any payment which the CORPORATION is required to make to the CONTRACTOR or which the CONTRACTOR is required to make to the CORPORATION pursuant to this Contract shall be made within thirty (30) days following the end of the month in which the obligation to make such payments occurs. Overdue payments shall bear interest at the annual rate of one (1) month LIBOR ("London Inter-Bank Offer Rate") plus two (2%) percent.



11.3 Each Party shall have the right of set off against the other Party for sums due and payable to the other Party under this Contract provided that no set off shall be made without 30 days prior notice to the other Party and receipt of a written consent thereof.

**CLAUSE 12: TITLE TO EQUIPMENT/DECOMMISSIONING**

12.1 The CONTRACTOR shall finance the cost of purchasing all equipment to be used in Petroleum Operations in the Contract Area pursuant to the Work Programme and such equipment shall become the property of the CORPORATION on arrival in Nigeria. The CONTRACTOR and the CORPORATION shall have the right to use such equipment exclusively for Petroleum Operations in the Contract Area during the term of this Contract. Should the CORPORATION desire to use such equipment outside the Contract Area, such use shall be subject to terms and conditions agreed by the Parties, provided that it is understood that Petroleum Operations hereunder shall take precedence over such use by the CORPORATION. The CONTRACTOR shall only lease equipment with the approval of the CORPORATION, such approval not to be unreasonably withheld if such lease is in the best interest of the Petroleum Operations.

12.2 The CONTRACTOR's right to use such purchased equipment shall cease with the termination or expiration (whichever is earlier) of this Contract.

12.3 The provisions of Clause 12.1 with respect to the title of property passing to the CORPORATION shall not apply to leased equipment belonging to local or foreign third parties, and such equipment may be freely exported from Nigeria in accordance with the terms of the applicable lease.

12.4 All lands purchased or otherwise acquired by the CONTRACTOR for the purposes of Petroleum Operations and all movable property utilized in the Contract Area and incorporated permanently in any premises, location and structures for the purpose of Petroleum Operations hereunder shall be in the name of the CONTRACTOR and CORPORATION. Upon cost recovery of the

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costs of such property, the CORPORATION shall take full possession of such lands and property relating to Petroleum Operations under the Contract on a "where is as is" basis. CONTRACTOR shall hand over such lands and property within thirty (30) days.

12.5 Subject to Clause 12.3 hereof, all fixed assets purchased or otherwise acquired by the CONTRACTOR for the purposes of Petroleum Operations hereunder shall become the property of the CORPORATION. Upon termination of this Contract pursuant to Clause 20 the CONTRACTOR shall hand over possession of such fixed assets to the CORPORATION.

12.6 During the term of this Contract, any sales of equipment, land, fixed assets, materials and machinery acquired for the purpose of the Petroleum Operations hereunder shall be with prior approval of the CORPORATION. Such sales shall be conducted by the CONTRACTOR on the basis of the highest price obtainable and the proceeds of such sale shall be credited to the CORPORATION.

#### 12.7 Decommissioning

Decommissioning costs will be estimated on a field basis and on the basis of technical studies by the CONTRACTOR to be agreed by the Management Committee. The CONTRACTOR shall either (i) provide security, with prior approval of the CORPORATION which shall not be unreasonably withheld, in the form of a standby letter of credit or corporate or bank guarantee, or (ii) set aside decommissioning fund in U.S. Dollars to be held in an interest-bearing escrow account jointly established by the Parties at a first class commercial bank. The bank so designated shall have a long term rating of not less than "AA" by Standard and Poor's Corporation or "Aa2" by Moody's Investor Service or a comparable rating by another mutually agreed rating service. Preference shall be given to banks in Nigeria possessing the required rating.



The Decommissioning fund shall be set aside commencing at a time and at a rate to be agreed by the Management Committee. Such rate shall take into account the relationship between the estimated total Decommissioning cost and the anticipated production revenues, and shall be reviewed on an annual basis as part of the budgeting process.

The Decommissioning fund including accrued interest shall be used solely for the purposes of paying for decommissioning and abandonment operations. No Party shall mortgage, pledge, encumber or otherwise use such decommissioning fund for any purpose whatsoever except as expressly provided herein. The Decommissioning fund may be invested only in investments approved by both Parties.

Any balance remaining in the Decommissioning fund after total Decommissioning and cost recovery for all fields in the Contract Area shall revert to the CORPORATION.

#### **CLAUSE 13: EMPLOYMENT AND TRAINING OF PERSONNEL**

13.1 Each Calendar Year, the CONTRACTOR shall submit a detailed programme for recruitment and training for the following Calendar Year in respect of the Nigerian personnel of CONTRACTOR in accordance with the Petroleum Act CAP 350 LFN 1990 and a detailed account of the attainment of the percentages of Nigerian employees specified in Clause 13.3 (b).

13.2 Qualified Nigerians shall be employed in all non-specialized positions.

13.3 (a) Qualified Nigerians shall also be employed in specialized positions such as those in exploration, drilling, engineering, production, environmental, safety, finance etc. The CONTRACTOR shall have the right, subject to applicable laws, rules and regulations, to employ non-Nigerians in such specialized positions where qualified Nigerians are not available provided that the CONTRACTOR shall recruit and train Nigerians for such specialized

positions, such that the number of non-Nigerian staff shall be kept to a minimum.

b) The CONTRACTOR shall ensure that:

(i) ten (10) Years from the Effective Date of this Contract the number of citizens of Nigeria employed by the CONTRACTOR in connection with the Petroleum Operations in managerial, professional and supervisory positions shall reach at least seventy five (75%) percent of the total number of persons employed by CONTRACTOR in those positions. The CONTRACTOR shall further ensure that at the 15<sup>th</sup> and 20<sup>th</sup> Year after the Effective Date of this Contract, the minimum level of the total number of Nigerian citizens engaged in Petroleum Operations in managerial, supervisory and other professional positions shall reach eighty (80%) percent and eighty five (85%) percent respectively; and

(ii) all skilled, semi-skilled and unskilled workers employed by the CONTRACTOR are citizens of Nigeria.

13.4 Pursuant to Clause 8.2(b) competent professionals of the CORPORATION shall be assigned to work with the CONTRACTOR and such personnel and the CONTRACTOR's personnel shall not be treated differently with regard to salaries and other benefits. CONTRACTOR and CORPORATION shall mutually agree on the number of CORPORATION's staff to be assigned to the Petroleum Operations. The costs and expenses of such CORPORATION personnel shall be included in Operating Costs.

13.5 The CORPORATION shall agree on the organization chart of the Operator which shall include Nigerian and non-Nigerian staff in key positions.

13.6 No Nigerian employed under this Contract shall be disengaged without the prior written approval by the Ministry of Petroleum Resources or other designated government agency; in accordance with applicable laws and

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regulations. Request for such approval shall be made through the CORPORATION.

13.7 Operator shall supervise the LCV in the selection of LCV's personnel that shall perform certain aspects of the Petroleum Operations under this Contract.

13.8 CONTRACTOR shall train on an annual basis, an agreed number of the CORPORATION's personnel in all facets of Petroleum Operations.

**CLAUSE 14: LOCAL CONTENT POLICY**

14.1 The CORPORATION and the CONTRACTOR aspire to maximise local content in all areas of the Petroleum Operations under this Contract.

14.2 CONTRACTOR shall give preference to such goods, which are available in Nigeria or services that can be rendered by Nigerian nationals provided they meet the specifications and the standards of the goods and services.

14.3 A Joint Operating Agreement (JOA) shall be established between Contractor Parties to govern the funding and conduct of Petroleum Operations under this Contract.

14.4 The LCV shall be required to fully meet all its financial and operational obligations under the JOA. In the event of default or failure to meet any of its financial and operational obligations, the following provisions shall apply:

(a) The Operator shall promptly give written notice of such default to the defaulting LCV, the CORPORATION and the non-defaulting Contractor Party.

(b) The CORPORATION shall promptly take all necessary measures to make the defaulting LCV remedy the default.

(c) During the continuation of any default, the defaulting LCV shall not be represented at Management Committee, or to have any access to any data and information relating to Petroleum Operations.

(d) In the event that the defaulting LCV fails to remedy the default then sixty (60) days after the date of the default notice, the Operator shall notify the defaulting LCV, the CORPORATION and the non-defaulting Contractor Party accordingly, whereupon the CORPORATION shall pursuant to Clause 20 terminate this Contract against the defaulting LCV.

(e) The CORPORATION shall notify Department of the default and with the Department's approval re-allocate the Participating Interest of the defaulting LCV to another LCV that possesses the requisite financial standing and competence to meet the defaulting LCV's financial and operational obligations under this Contract, provided however that such other LCV shall submit a written undertaking to assume the outstanding obligations of the defaulting LCV under this Contract, and provided further that such other LCV is acceptable to the other Contractor Parties. Prior to reallocating the Participating Interest of the defaulting LCV to a third party, the Contractor Parties shall have the right to carry out due diligence on such third party. If such third party is not acceptable to one or more of the other Contractor Parties, they shall have the right upon 30 days written notice to the CORPORATION to object to the participation of such third party. The replacement of such third party rejected by one or more of the other Contractor Parties shall continue until a third party acceptable to the Contractor Parties is found.

14.5 Termination of the Contract against the defaulting LCV shall not give rise to any reimbursement to, or claim or cause of action against the CORPORATION or the other Contractor Parties by, the defaulting LCV for payments made by the defaulting LCV prior to termination.

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**CLAUSE 15: BOOKS, ACCOUNTS AND AUDIT**

**15.1 Books and Accounts**

The CONTRACTOR shall be responsible for keeping complete books of accounts consistent with modern petroleum industry and accounting practices and procedures. The statutory books and accounts of this Contract shall be kept in Naira and U.S. Dollars. All other books of accounts as the CONTRACTOR may consider necessary shall be kept in columnar form in both Naira and U.S. Dollars. Officials of the CORPORATION and the CONTRACTOR shall have access to such books and accounts. The accountants of CORPORATION assigned pursuant to Clause 13 shall participate in the preparation of same. Where the accountants of the CORPORATION are prevented by the CONTRACTOR from participating in the preparation of such books of accounts, costs presented in such books of accounts shall not be cost recoverable.

15.2 All statutory books of account shall be kept at the registered address of the Operator in Nigeria.

**15.3 Audits**

**(i) Books of Accounts**

The CORPORATION shall have the right to inspect and audit the accounting records relating to this Contract for any Calendar Year by giving thirty (30) days written notice to the CONTRACTOR and the CONTRACTOR shall facilitate the work of such inspection and auditing; provided however that such inspection and auditing shall be carried out within two (2) Calendar Years following the end of the Calendar Year in question, and if not, the books and accounts relating to such Calendar Year shall be deemed to be accepted by the Parties as satisfactory. Any exception must be made in writing within ninety (90) days following the end of such audit and failure to give such

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written notice within such time shall establish the correctness of the books and accounts.

ii) The CORPORATION may undertake the inspection and audit in Clause 15.3 (i) above either through its own personnel or through a qualified firm of chartered accountants registered in Nigeria appointed for the purpose by the CORPORATION; provided, however, that the transportation and per diem costs of the CORPORATION's own personnel shall be borne by the CONTRACTOR as general administrative costs and shall be cost recoverable. For the qualified firm of chartered accountants, the costs shall be borne by the CORPORATION.

iii) Notwithstanding that the said period of two (2) Calendar Years may have expired, if the CONTRACTOR has been found guilty of Gross Negligence under this Contract, the CORPORATION shall have the right to conduct a further audit to the extent required to investigate such Gross Negligence in respect of any earlier periods; provided, however, that the costs of such investigations shall be charged to Operating Costs.

iv) The CORPORATION shall receive a copy of all audit reports carried out by a Contractor Party on Petroleum Operations or any activities of the Operator that may affect the conduct of the Work Programme. Such reports shall be forwarded to the CORPORATION by the Contractor Party responsible for the audit(s) within three (3) calendar months of conclusion of the said audit(s).

v) **Materials**

The CONTRACTOR shall maintain physical and accounting controls of materials in stock in accordance with general practice in the international petroleum industry. The CONTRACTOR shall carry out total audit of such materials in stock at least once in a Calendar Year

and shall give the CORPORATION a four (4) week written notice prior to such inventory. The CORPORATION and or Its external auditors shall be entitled to audit such inventory. The CORPORATION may however carry out partial or total check of such inventories at its own expense, whenever It considers necessary, provided such exercise does not unreasonably disrupt Petroleum Operations.

**15.4 Home Office Overhead Charges**

The CONTRACTOR shall include the following percentages on total annual capital expenditure as overhead charges in calculating total Operating Costs:

- First - \$200 million 1% of Capex
- Next - \$200 million 0.75% of Capex
- Next - \$100 million 0.5% of Capex
- Above - \$500 million 0%

15.4.1 The overhead charges realised pursuant to Clause 15.4 hereinabove shall be recovered through Cost Oil.

**CLAUSE 16: ROYALTY AND TAXES**

**16.1 Royalty**

Royalty rates shall be as provided in the Petroleum Act, Cap 350, Laws of the Federation of Nigeria, 1990, as amended, and the prevailing fiscal laws and regulations.

For the purpose of this Contract the following Royalty rate shall apply:

- Onshore areas..... 20.00%
- Areas up to 100 metres water depth..... 18.50%
- Areas from 101 to 200 metres water depth..... 16.50 %
- Areas from 201 to 500 metres water depth ..... 12.00%

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- Areas from 501 to 800 metres water depth ..... 8.00%
- Areas from 801 to 1000 metres water depth.... ..... 8.00%
- Areas in water depth higher than 1000 meters..... 8.00%
- Inland Basins ..... 10.00%

**16.2 Petroleum Profits Tax (PPT)**

- a) The PPT shall be in accordance with the PPT Act Cap 354 LFN 1990.
- b) The applicable PPT rate shall be variable according to the following respective terrain:-

<u>Terrain</u>	<u>Tax Rate</u>
Onshore/Shallow offshore	First five years (new comers) 65.7%
	First five years (existing companies) 85.00%
	Subsequent years (all companies) 85.00%
Deep Offshore and Inland basins: Flat rate	50.00%

The PPT rates shall be applied to the chargeable profits for the duration of the Contract.

16.3 The CORPORATION shall pay to Government all Royalty, Concession Rentals and PPT on behalf of itself and the CONTRACTOR out of Available Crude Oil allocated to it under Clause 9.1 of this Contract.

16.4 The Realizable Price established in accordance with Clause 10 of this Contract shall be used in determining the amount payable on Royalty and PPT in respect of Crude Oil produced and lifted pursuant to this Contract. The parameters for new Crude Oil streams produced from the Contract Area shall also be determined in accordance with the provisions of Clause 10 of this Contract.

16.5 The CORPORATION shall make available to the CONTRACTOR copies of receipts issued by the Federal Inland Revenue Service bearing the name of

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the Party for the payment made for PPT in accordance with each Party's Tax Oil allocation as provided in Annex B Schedule B.1 CORPORATION shall provide to CONTRACTOR a copy of the payment advice within thirty (30) days of issuance.

#### 16.6 Investment Tax Allowance (ITA)

- a) The ITA shall be in accordance with the PPT Act Cap 354 LFN1990 and the Deep Offshore and Inland Basin Act 1999
- b) The applicable ITA rate shall be variable according to the following respective terrain:-

<u>Terrain</u>	<u>ITA Rate</u>
Land operation	5%
Offshore depth < 100m	10%
Offshore from 100m to 200m	15%
Deep offshore (water depth greater than 200 metres)	50%
Inland Basin	50%

The ITA applicable shall be a flat rate for the duration of the Contract.

#### CLAUSE 17: INSURANCE

17.1 All property acquired under the provisions of this Contract shall be adequately insured with an insurance company of good repute by the CONTRACTOR in consultation with the CORPORATION, in the names of the Parties. The premium for such policies shall be included in Operating Costs. All policies shall name the CORPORATION as a co-insured with a waiver of subrogation rights in favour of the CORPORATION.

17.2 In case of loss or damage to property, indemnifications paid by the insurance companies shall be entirely received by the CONTRACTOR for Petroleum Operations. The CONTRACTOR shall determine whether the lost or damaged property should be repaired, replaced or abandoned. If the decision is to repair or replace, the CONTRACTOR shall immediately replace or repair such lost or

damaged property. Any excess cost of repair or replacement above the amount reimbursed by the insurance companies shall be regarded as Operating Costs. If the decision is to neither repair nor replace then the proceeds of any coverage shall be credited to CORPORATION. In the event that the loss or damage is attributable to the CONTRACTOR's Gross Negligence the cost of replacement or repair shall not be recoverable as Cost Oil.

17.3 The CONTRACTOR shall take out and maintain an insurance policy covering any and all damages caused to third parties as a direct or indirect result of Petroleum Operations.

17.4 All insurance policies under this Clause 17 shall be based on good international petroleum industry practice, and shall be taken out in the Nigerian insurance market except for those concerning risks for which the CONTRACTOR cannot obtain coverage in Nigeria which shall be taken out abroad, to the extent required by law.

17.5 In entering into contracts with any sub-contractor for the performance of Petroleum Operations, the CONTRACTOR shall require such sub-contractor to take out adequate insurance in accordance with Clauses 17.1 and 17.3 above and to properly indemnify the CORPORATION and the CONTRACTOR for any damage done and to properly indemnify and hold the CORPORATION and the CONTRACTOR harmless against claims from third parties.

17.6 The CONTRACTOR shall maintain other insurance policies required under Nigerian law.

#### **CLAUSE 18: CONFIDENTIALITY AND ANNOUNCEMENTS**

18.1 The CONTRACTOR and the CORPORATION shall keep information furnished to each other in connection with Petroleum Operations and all plans, maps, drawings, designs, data, scientific, technical and financial reports and other data and information of any kind or nature relating to Petroleum Operations including

any discovery of petroleum as strictly confidential, and shall ensure that their entire or partial contents shall under no circumstances be disclosed in any announcement to the public or to any third party without the prior written consent of the other Party(ies). The provisions of this Clause 18 shall not apply to disclosure to.

- a) Subcontractors, Affiliates, assignees, auditors, financial consultants or legal advisers, provided that such disclosures are required for the effective performances of the aforementioned recipients' duties related to Petroleum Operations;
- b) Comply with statutory obligation or the requirements of any governmental agency or the rules of a stock exchange on which a Party's or Affiliate's stock is publicly traded in which case the disclosing Party will notify the other Parties of any information to be disclosed prior to such disclosure.
- c) Financial institutions involved in the provision of finance for the Petroleum Operations hereunder provided, in all such cases, that the recipients of such data and information agree in writing to keep such data and information strictly confidential.
- d) A third party for the purpose of negotiating an assignment of interest hereunder provided such third party executes an undertaking to keep the information disclosed confidential.

18.2 The Parties shall take necessary measures in order to make their employees, agents, representatives, proxies and sub-contractors comply with the same obligation of confidentiality provided for in this Clause 18.

18.3 The provisions of this Clause 18 shall terminate five (5) Years after the expiration of this Contract.

18.4 The Parties shall use best endeavours to ensure that their respective servants, employees, agents and sub-contractors shall not make any reference in public

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or publish any notes in newspapers, periodicals or books nor divulge, by any other means whatsoever, any information on the activities under the Petroleum Operations, or any reports, data or any facts and documents that may come to their knowledge by virtue of this Contract, without the prior written consent of the other Parties.

18.5 The CONTRACTOR shall submit to the CORPORATION all statutory reports and information for submission to Government and other statutory bodies.

**CLAUSE 19: ASSIGNMENT**

19.1 A Contractor Party shall not sell, assign, transfer, convey or otherwise dispose of part of all of its rights and interest under this Contract to other parties, including Affiliates, without prior written notice to and without prior written consent of the CORPORATION which consent shall not be unreasonably withheld.

19.2 If the written consent by the CORPORATION is given, the Contractor Party shall be relieved of its liability to the extent of the assignment of its rights and obligations under this Contract.

19.3 Any request for consent to assign or dispose as aforesaid, made by a Contractor Party to the CORPORATION shall include the proposed deed of assignment and other relevant information relating to financial and corporate standing of the assignee, and its capability to contribute to the Petroleum Operations under this Contract.

**CLAUSE 20: TERMINATION**

20.1 Termination by the CORPORATION:

The CORPORATION shall be entitled to terminate this Contract with the CONTRACTOR or a Contractor Party including the LCV, as applicable, if any of the following events occur:

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- a) CONTRACTOR defaults in the performance of any of its obligations set forth in Clause 8 herein;
- b) CONTRACTOR has failed to fully execute the minimum Work Programme described in Clause 6.2(a) or Clause 6.2 (b); or fails to pay the bonuses specified in Clause 2.2.
- c) A Contractor Party assigns its rights and interests under this Contract without prior written notice to and prior written consent of the CORPORATION;
- d) A Contractor Party is adjudged insolvent or bankrupt by a court of competent jurisdiction in Nigeria;
- e) A Contractor Party liquidates or terminates its corporate existence; or
- f) Warranties made by a Contractor Party under Clause 24 herein are found to be untrue when made.
- g) A Contractor Party fails to pay the bonuses specified in Clause 2.1.
- h) LCV fails to meet its financial and operational obligations pursuant to Clause 14.4 (d).

20.2 Termination for any of the events specified in Clause 20.1 (c), (d), (e) and (f) above, shall be with immediate effect and the CORPORATION may by written notice to the Contractor Party declare the Contract terminated as to the Contractor Party concerned. Termination as to one Contractor Party shall not constitute termination as to the other Contractor Party(ies) and the other Contractor Party(ies) shall after payment of corresponding cost be entitled to receive, such Contractor Party's Participating Interest proportionate to their respective Participating Interests, subject to the CORPORATION's approval of such assignment, such approval not to be unreasonably withheld.

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20.3 If the cause for termination is an event specified in Clauses 20.1(a) and (b), the CORPORATION shall give written notice thereof to CONTRACTOR to remedy such default within a period not more than ninety (90) days of receipt of CORPORATION's notice or such additional days as the CORPORATION deems appropriate in the circumstances. If upon the expiration of the said period such default has not been remedied or removed, the CORPORATION may by written notice to the CONTRACTOR declare the Contract terminated as to the Contractor Party concerned.

20.4 With the exception of such rights of the CONTRACTOR that may have accrued prior to the date of termination, CONTRACTOR's rights shall cease upon the termination of this Contract. Such termination shall take place without prejudice to any other rights or remedies, which may be available to either Party. This Clause 20.4 shall not apply to termination under Clause 14.5

20.5 Without prejudice to all other rights of the CORPORATION herein contained, CONTRACTOR shall upon the termination of this Contract permit inspection, copying and auditing of its accounts and records in respect of the Petroleum Operations.

20.6 Termination by the CONTRACTOR:

Upon ninety (90) days notice, CONTRACTOR shall have the right, at its sole discretion to relinquish its rights and to terminate this Contract without further obligations or liabilities, provided it has satisfied the minimum Work Programme provided in Clause 6.2(a) or Clause 6.2(b).

20.7 Termination by Effluxion of Time:

However, this Contract shall terminate if no petroleum is found in the Contract Area after ten (10) Years from the Effective Date.

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**CLAUSE 21: FORCE MAJEURE**

- 21.1 Any failure or delay on the part of any Party in the performance of its obligations or duties under this Contract shall be excused to the extent attributable to force majeure. A force majeure situation includes delays, defaults or inability to perform under this Contract due to any event beyond the reasonable control of any Party. Such event may be, but is not limited to, any act, happening, or occurrence due to natural causes; and acts or perils of navigation, fire, hostilities, war (declared or undeclared), blockage, labour disturbances, strikes, riots, Insurrection, civil commotion, quarantine restrictions, epidemics, storms, floods, earthquakes, accidents, blowouts, lightning, and, acts of or orders of Government.
- 21.2 If Petroleum Operation is delayed, curtailed or prevented by force majeure, then the time for carrying out the obligation and duties thereby affected, and rights and obligations hereunder, shall be extended for a period equal to the period of such delay.
- 21.3 The Party who is unable to perform its obligations as a result of the force majeure shall promptly notify the other Parties thereof not later than forty-eight (48) hours after the establishment of the commencement of the force majeure, stating the cause, and the Parties shall do all that is reasonably within their powers to remove such cause.
- 21.4 An event shall not be consider force majeure if the notice in clause 21.3 is not given
- 21.5 The CONTRACTOR's failure or inability to find Crude Oil in commercial quantity for reasons other than as specified in Clause 21.1 hereof shall not be deemed force majeure.





**CLAUSE 22: LAWS AND LANGUAGE**

22.1 This Contract shall be governed by and construed in accordance with the Laws of the Federation of Nigeria.

22.2 Policy pronouncements made or issued by Government relating to local content shall apply to this Contract.

22.3 All affairs related to this Contract shall be conducted in the English language in which this Contract was drawn up.

**CLAUSE 23: NATURAL GAS**

23.1 If the CONTRACTOR discovers sufficient volumes of Natural Gas whether or not associated with Crude Oil that could justify commercial development, the CONTRACTOR shall report the volume of potentially recoverable Natural Gas to the CORPORATION and shall upon CORPORATION's request, investigate and submit proposals to the CORPORATION for the commercial development of said Natural Gas taking into consideration local strategic needs as may be identified by the CORPORATION. Any cost in respect of such proposals or investigation after the final investment decision has been achieved presented by the CONTRACTOR to the CORPORATION shall be included in operating costs for the commercialisation of the Natural Gas.

23.2 For the commercial development of Natural Gas, the CORPORATION and CONTRACTOR shall enter into a gas development agreement. Such agreement shall recognize that the CONTRACTOR has the right to participate in such development project, with the right to recover the costs and share in the profits.

23.3 Notwithstanding the provisions of Clause 23 hereof, the CONTRACTOR may utilize, at no cost any proportion of the produced Natural Gas required as fuel for production operations; gas recycling, gas injection, gas lift, or any other Crude Oil enhancing recovery schemes, stimulation of wells necessary for maximum Crude Oil recovery in the field discovered and developed by the

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CONTRACTOR and such usage shall be with prior written consent of the CORPORATION, which consent shall not be unreasonably withheld.

23.4 The attainment of recovery of Crude Oil through an efficient, economic and technically acceptable method shall always be paramount in all decisions regarding associated Natural Gas. However with respect to associated gas that remains unutilised after the attainment of the primary objective of recovery of crude oil, CONTRACTOR shall submit to the CORPORATION a programme for the utilization of such associated gas.

23.5 The sequence of establishing discovery of commercially viable quantity of Natural Gas shall be as follows:

- a) CONTRACTOR shall have a period of three (3) months (unless otherwise mutually agreed by the Parties) commencing from the date of discovery of Natural Gas to declare whether the discovery could justify commercial development;
- b) CONTRACTOR shall have eighteen (18) months period commencing from the date of discovery to appraise the discovery;
- c) CONTRACTOR shall within a period of one (1) year from completion of the appraisal of a discovery declare whether the appraised discovery is commercial;
- d) CONTRACTOR shall within twenty seven (27) months from the date of the declaration of commerciality submit a Field Development Programme to the CORPORATION for approval and thereafter diligently commence the development of the commercial discovery.

All Work Programme shall receive the consent of the Department prior to taking effect in line with current petroleum legislations and regulations.



**CLAUSE 24: REPRESENTATIONS AND WARRANTIES**

24.1 In consideration of the CORPORATION entering into this Contract, each Contractor Party warrants as follows:

- a) The Contractor Party has the power to enter into and perform this Contract and has taken all necessary action to execute, deliver and perform the Contract in accordance with the terms herein contained and has been granted all concessions, licenses, permits and authorization on Petroleum Operations.
- b) The execution and delivery of this Contract by the Contractor Party will not contravene in any respect, any of the provisions of:
  - i. any law or regulations or order of any governmental authority, agency or court applicable to or by which the Contractor Party may be bound;
  - ii. any mortgage, contract or other undertaking or Instrument to which the Contractor Party is a party or which is binding upon it or any of its respective revenues or assets.
- c) Full disclosure has been made to the CORPORATION prior to the Effective Date of all facts in relation to the Contractor Party and its financial condition and affairs as are material and should be made known to the CORPORATION.
- d) That the Contractor Party together with its Affiliates have the funds both in foreign and local currencies to carry out Petroleum Operations under this Contract.
- e) The representations and warranties set out above shall remain for the duration of this Contract.

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**CLAUSE 25: CONCILIATION AND ARBITRATION**

25.1 Should there be a difference or dispute between the Parties concerning the interpretation or performance of this Contract such that this dispute cannot be resolved by mutual consent, the Parties may refer the matter to an independent expert. For any decision referred to an independent expert under Clause 10.2 or Clause 25 of this Contract, the Parties agree that such decision shall be conducted expeditiously by such expert selected unanimously by the Parties to the dispute. The expert is not an arbitrator of the dispute and shall not be deemed to be acting in an arbitral capacity. The Party desiring the expert determination shall give the other Party(ies) to the dispute written notice of the request for such determination. If the Parties are unable to agree upon an expert within ten (10) days then any Party may request that the expert be appointed by the International Centre for Expertise of the International Chamber of Commerce (ICC) and shall administer such expert determination through the ICC's Rules for Expertise. The expert, once appointed, shall have no ex parte communications with any of the Parties to the dispute. All Parties agree to cooperate fully in the expeditious conduct of such expert determination and to provide the expert with access to make a fully informed decision in an expeditious manner. Before issuing his final decision, the expert shall issue a draft report and allow the Parties to the dispute to comment upon it. The expert shall endeavour to resolve the dispute within thirty (30) days (but no later than sixty (60) days) after his appointment taking into account the circumstances requiring an expeditious resolve of the matter in dispute. The expert's decision shall be final and binding on the Parties unless challenged in an arbitration pursuant to this Clause 25 within sixty (60) days of the date the expert's final decision is received by the Parties to the dispute and until replaced by such subsequent arbitral award. In such arbitration (i) the expert determination on the specific matter shall be entitled to a rebuttable presumption of correctness; and (ii) the expert shall not (without the written consent of the Parties to the dispute) be appointed to act as an arbitrator or as an adviser to the Parties to the dispute.

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25.2 Where an independent expert is used, CORPORATION and CONTRACTOR shall furnish the expert with all written information, which he may reasonably require for his opinion. The cost of the services of the expert, if appointed, shall be shared equally between CORPORATION and CONTRACTOR.

25.3 If a difference or dispute arises between the CORPORATION and the CONTRACTOR, concerning the interpretation or performance of this Contract, and if the Parties fail to settle such difference or dispute by amicable agreement, or through an independent expert or if a Party does not agree to the use of an independent expert, then either Party may serve on the other a demand for arbitration.

25.4 Within thirty (30) days of such demand being served, each Party shall appoint an arbitrator and the two arbitrators thus appointed shall within a further thirty (30) days appoint a third arbitrator, who shall be of a nationality which is different from that of Parties Involved in the dispute and of the other arbitrators (the nationality of a company shall be deemed to be that of the country under the laws of which it and/or its owners are incorporated). If the arbitrators do not agree on the appointment of such third arbitrator, or if either Party fails to appoint the arbitrator to be appointed by it, such arbitrator or third arbitrator shall be appointed by the President of the Court of Arbitration of the International Chamber of Commerce (ICC) In Paris on the application of the other Party (notice of the intention to apply having been duly given in writing by the applicant Party to the other Party). The third arbitrator when appointed shall convene meetings of the arbitration panel and act as chairman. If an arbitrator refuses or neglects to act or is incapable of acting or dies, a new arbitrator shall be appointed in his place and the above provisions of appointing arbitrators shall govern the appointment of any such new arbitrator or arbitrators.

25.5 The arbitration award shall be binding upon the Parties. The Nigerian Arbitration and Conciliation Act Cap 19, LFN, 1990 shall apply to this Contract and the judgment upon the award rendered by the arbitrators may be entered in a court having jurisdiction thereof. Each Party shall pay its own attorney's fees and costs

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The venue of the arbitration shall be any where in Nigeria as may be agreed by the Parties.

**CLAUSE 26: EFFECTIVE DATE**

26.1 This Contract shall come into force and effect on the Effective Date.

26.2 This Contract shall not be amended or modified in any respect except by mutual consent, in writing, of the Parties hereto.

26.3 Parties hereby agree that this Contract shall not govern the second OML which the Department may grant pursuant to the Oil Prospecting Licences (Conversion to Oil Mining Leases, etc) Regulation 2004.

**CLAUSE 27: CHANGES IN LEGISLATION**

27.1 The Parties agree that the commercial terms and conditions of this Contract are based on the existing fiscal terms in accordance with the provisions of the Deep Offshore and Inland Basin Production Sharing Contracts Act, 1999 and the fiscal terms as contained in Clause 16 of this Contract. If such fiscal terms are changed, the Parties agree, subject to Clause 27.2, to review the terms and conditions of this Contract affected by such changes to align such terms and conditions with the fiscal terms.

27.2 If at any time or from time to time there should be a change in legislation or regulations which materially affects the commercial benefits afforded the Contractor Parties 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.

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**CLAUSE 28: OPERATOR**

28.1 GTPL as the lead Contractor Party is designated the Operator under the Contract to execute on CORPORATION's behalf, the Petroleum Operations in the Contract Area.

28.2 The Operator, on behalf of CORPORATION shall have the exclusive control and administration of the Petroleum Operations. The Operator, on behalf of the CORPORATION and within the limits defined by the Management Committee and this Contract, shall execute contracts, incur expenses, make commitments, and implement other actions in connection with the Petroleum Operations.

**CLAUSE 29: NON-GRATIFICATION**

29.1 Each Party represents and warrants that it did not engage any person, firm or company as a commission agent for purposes of this Contract and that it has not given or offered to give (directly or indirectly) to any person any bribe, gift, gratuity, commission or other thing of significant value, as an inducement or reward for doing or forbearing to do any action or take any decision in relation to the Contract, or for showing or forbearing to show favour or disfavour to any person in relation thereto.

29.2 Each Party further represents that it shall not either directly or indirectly give to any person, director, employee, representative or agent of the other Party or any government official any commission, fee rebate, gift or any entertainment of significant cost or value, and shall not procure the services of any commission agent or other third party to give any such gift, fee, reward, concession, bribe, entertainment of significant cost or value or anything of a similar nature, for the purposes of influencing or inducing positively or adversely the award of the Contract or doing any act in connection with the Contract.

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**CLAUSE 30: NOTICES**

30.1 Any notice required to be given by each Party to the other Parties shall be in writing and shall be deemed to have been duly given and received if sent by fax, or registered post to, or hand delivered at the following registered offices:

THE CORPORATION:  
THE GROUP MANAGING DIRECTOR  
NIGERIAN NATIONAL PETROLEUM CORPORATION  
NNPC TOWERS  
CENTRAL AREA, HERBERT MACAULAY WAY  
ABUJA.

Fax: +234-(09)-413-4760.

THE CONTRACTOR:

THE MANAGING DIRECTOR,  
GAS TRANSMISSION AND POWER LIMITED  
PLOT 515 USUMA CLOSE,  
MAITAMA,  
ABUJA.

Fax: 234

THE MANAGING DIRECTOR,  
ENERGY 905 SUNTERA LIMITED  
2, SIJI SOETAN STREET,  
OFF ONIKEPO AKANDE STREET  
OFF ADMIRALTY WAY, LEKKI PENINSULA  
LAGOS.

Fax:

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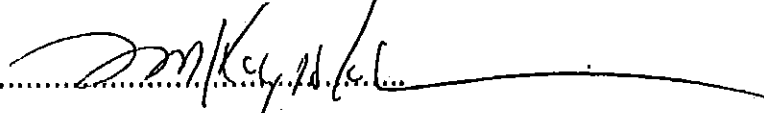
THE MANAGING DIRECTOR  
IDEAL OIL AND GAS  
17 NEW COURT ROAD,  
IBADAN,  
OYO STATE

Fax:

Each Party shall notify the other promptly of any change in the above address.

IN WITNESS WHEREOF THE PARTIES herein have caused this Contract to be executed the day and year first above written.

SIGNED AND DELIVERED for and on behalf of  
**NIGERIAN NATIONAL PETROLEUM CORPORATION**

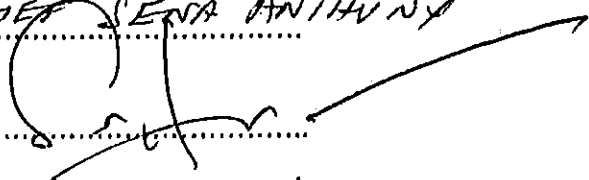
By: 

Name: G. M. KUROLOKUN

Designation: GROUP MANAGING DIRECTOR

In the presence of:

Name: CHEF SENA ANTHONY

Signature: 

Designation: GM CSLD / SEC TO THE CORP.

Address: NNPC ABUJA









SIGNED AND DELIVERED for and on behalf of  
GAS TRANSMISSION AND POWER LIMITED

By: Makoji

Name: MAKOJI ADUKU

Designation: MANAGING DIRECTOR / CHIEF EXECUTIVE

In the presence of:

Name: NDIBUAKU KSEPH OBINNA

Signature: [Signature]

Designation: COMPANY SECRETARY

Address: 11 USUMA CLOSE, MAITAMA, ABUJA

SIGNED AND DELIVERED for and on behalf of  
ENERGY 905 SUNTERA LIMITED

By: [Signature]

Name: PHILIP ARUNDEL

Designation: MANAGING DIRECTOR / CHIEF EXECUTIVE

In the presence of:

Name: Chika Oson

Signature: [Signature]

Designation: Geologist

Address: 11 USUMA CLOSE, MAITAMA  
ABUJA

CM-A

[Signature]

[Signature]



ANNEX A

TO THE PRODUCTION SHARING CONTRACT BETWEEN CORPORATION and  
CONTRACTOR dated this 23<sup>rd</sup> day of April, 2007  
OPL 905 COORDINATES

ANAMBRA BASIN

DESCRIPTION

All that parcel of land contained in Anambra/Enugu States of the Federal Republic of Nigeria, edged red on plan prepared by GEODETIC POSITIONING SERVICE LIMITED attached to this schedule for OPL 905 and containing an approximate area of 2603.32 square kilometres, the vertices and boundaries of which are described as follows:-

VERTICES

Vertex 905-01 (the datum point) is the intersection of Latitude 06° 40' 17" North and Longitude 07° 02' 17" East and it coincides with vertex 3 of OPL915.

Vertex 905-02 is the intersection of Latitude 06° 40' 21" North and Longitude 07° 31' 52" East and it coincides with vertex 6 of OPL 914.

Vertex 905-03 is the intersection of Latitude 06° 54' 32" North and Longitude 07° 31' 50" East and it coincides with vertex 5 of OPL 914.

Vertex 905-04 is the intersection of Latitude 06° 08' 18" North and Longitude 06° 42' 05" East and it coincides with vertex 1 OPL 906.

Vertex 905-05 is the intersection of Latitude 06° 27' 23" North and Longitude 07° 45' 59" East and it coincides with vertex 6 of OPL 908.

Vertex 905-06 is the intersection of Latitude 06° 27' 18" North and Longitude 07° 02' 19" East and it coincides with vertex 1 of OPL 907.

BOUNDARY DESCRIPTIONS

From the datum point, 905 whose NTM (Nigeria Transverse Mercator) grid coordinate are 563448.815 meters East and 3216585.407 meters North, boundaries run in straight lines, the bearings and distances of which are as follows:

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FROM	BEARING	DISTANCES	TO
Vertex 905-01	90° 00'	54503.90m	Vertex 135-02
Vertex 905-02	00° 00'	26130.98m	Vertex 135-03
Vertex 905-03	90° 00'	15330.29m	Vertex 135-04
Vertex 905-04	180° 00'	50000.00m	Vertex 135-05
Vertex 905-05	270° 00'	80476.59m	Vertex 135-06
Vertex 905-06	00° 00'	23924.34m	Vertex 135-01

All the bearing and distances are approximate. Bearings are referred to the NTM with Central Meridian 9° East and Origin Equator.

Area of the concession is calculated from the following co-ordinates.

OPL 905		
VERTEX	EASTING (m)	NORTHING (m)
905- 01	563448.185	321685.407
905- 02	589421.505	321630.087
905- 03	589421.505	271630.087
905-04	508944.915	271630.087
905- 05	508944.915	295554.427
905- 06	563448.815	29555.427

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ANNEX B

TO THE PRODUCTION SHARING CONTRACT BETWEEN  
CORPORATION and CONTRACTOR dated this 28<sup>th</sup> day of April 2007

ACCOUNTING PROCEDURE

Article I

General Provisions

1. Definitions

This Accounting Procedure attached to and forming a part of the Contract is to be followed and observed in the performance of either Party's obligations thereunder. The defined terms appearing herein shall have the same meaning as are ascribed to them in the Contract.

2. Accounts and Statements

CONTRACTOR's accounting records and books shall be kept as provided under Clause 15.1 of the Contract in accordance with generally accepted and recognized accounting standards, consistent with modern petroleum industry practices and procedures. All original books of accounts together with original supporting documentation shall be kept and maintained in Nigeria in compliance with all Nigerian laws and regulations.

3. Others

In the event of a conflict of the terms of this procedure and the Contract the terms of the Contract shall apply.

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## Article II

### Operating Costs

Operating Costs shall be defined as all costs, expenses paid and obligations incurred in carrying out Petroleum Operations and shall consist of (1) Non-capital costs, and (2) Capital costs.

#### 1. Non-capital Costs

Non-capital costs mean those costs incurred that are chargeable to the current year's operations. Non-capital costs include, but are not limited to the following:

- (a) General office expenses - office, services and general administration services pertaining to Petroleum Operations including but not limited to, services of legal, financial, purchasing, insurance, accounting, computer, and personnel department, communications, transportation, rental of specialized equipment, scholarships, charitable contributions and educational awards.
- (b) Labour and related costs - salaries and wages, including bonuses, of employees of the CONTRACTOR who are directly engaged in the conduct of Petroleum Operations, whether temporarily or permanently assigned, irrespective of the location of such employee including but not limited to, the costs of employee benefits, customary allowance and personal expenses incurred under the CONTRACTOR's practice and policy, and amounts imposed by applicable Governmental authorities which are applicable to such employees.

These costs and expenses shall include:

- (i) Cost of established plans for employee group life insurance, hospitalisation, pension, retirement, savings and other benefit

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plan;

- (ii) Cost of holidays, vacations, sickness and disability benefits.
  - (iii) Cost of living, housing and other customary allowances;
  - (iv) Reasonable personal expenses that are reimbursable under the CONTRACTOR's standard personnel policies;
  - (v) Obligations imposed by governmental authorities;
  - (vi) Cost of transportation of employees, other than as provided in paragraph (c) below, as required in the conduct of Petroleum Operations; and
  - (vii) Charges in respect of employees temporarily engaged in Petroleum Operations, which shall be calculated to reflect the actual costs thereto during the period or periods of such engagement.
- (c) Employee relocation costs - costs for relocation, transportation and transfer of employees of CONTRACTOR engaged in Petroleum Operations including but not limited to the cost of freight and passenger service of such employees' families and their personal and household effects together with meals, hotel and other expenditures related to such transfer incurred with respect to:
- (i) employees of the CONTRACTOR within Nigeria including expatriate employees, engaged in Petroleum Operations;
  - (ii) transfer to Nigeria for engagement in Petroleum Operations; ~











- (iii) relocation costs and other expenses incurred in the final repatriation or transfer of the CONTRACTOR's expatriate employees and families in the case of such employees' retirement, or separation from the CONTRACTOR, or in case of such employees' relocation to the CONTRACTOR's point of origin. Provided that relocation costs incurred in moving an expatriate employee and his family beyond point of origin, established at the time of his transfer to Nigeria, will not be recoverable as Operating Costs;
- (iv) Nigerian employees on training assignments outside the Contract Area.
- (d) Services provided by third parties - cost of professional, technical, consultation, utilities and other services procured from third party sources pursuant to any contract or other arrangements between such third parties and the CONTRACTOR for the purpose of Petroleum Operations.
- (e) Legal expenses - All costs or expenses of handling, investigating, asserting, defending, and settling litigation or claims arising out of or relating to Petroleum Operations or necessary to protect or recover property used in Petroleum Operations including, but not limited to, legal fees, court costs, arbitration costs, cost of investigation or procuring evidence and amount paid in settlement or satisfaction of any such litigation, arbitration or claims in accordance with the provisions of this Contract.
- (f) Services provided by Affiliates of the CONTRACTOR - professional, administrative, scientific, and technical services for the direct benefit of Petroleum Operations, including, but not limited to, services provided by the exploration, production, legal, financial, purchasing, insurance, accounting and computer services department of such Affiliates. Charges for providing

these services shall reflect the actual cost only and must be consistent with international market prices and shall not include any element of profit. Such charges shall be benchmarked by CORPORATION against the oil industry average for similar services provided by Affiliates of other operators.

- (g) Insurance premiums and settlements - premiums paid for insurance normally required to be carried for the Petroleum Operations together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including fees and deductibles relating to the CONTRACTOR's performance under the Contract.
- (h) Duties and taxes - all duties and taxes, fees and any Government assessments, including but not limited to, gas flare charges, licence fees, custom duties, and any other than Royalties, PPT and Concession Rental.
- (i) Intangible drilling costs - expenditure for labour, fuel, repairs, maintenance, hauling, and supplies and materials (not including, casing and other well fixtures) which are for or incidental to drilling, cleaning, deepening or completion wells or the preparation thereof incurred in respect of:
  - (i) determination of well locations, geological, geophysical, topographical and geographical surveys for site evaluation preparatory to drilling including the determination of near surface and near sea bed hazards;
  - (ii) cleaning, draining and levelling land, road-building and the laying of foundations;
  - (iii) drilling, shooting, testing and cleaning wells;

- (iv) erection of rigs and tankage assembly and installation of pipelines and other plants and equipment required in the preparation or drilling of wells producing Crude Oil.
- (j) Geological and geophysical surveys - labour, materials and services used in aerial, geological, topographical, geophysical and seismic surveys incurred in connection with exploration excluding however the purchase of data from CORPORATION.
- (k) Operating expenses - labour, materials and services used in day to day oil well operations, oil field production facilities operations, secondary recovery operations, storage, transportation, delivering and marketing operations; and other operating activities, including repairs, well workovers, maintenance and related leasing or rental of all materials, equipment and supplies.
- (l) Exploration, appraisal and development drilling - all expenditures incurred in connection with exploration drilling, and the drilling of the first two appraisal wells in a particular field, and drilling of development wells which are dry, including costs incurred in respect of casing, well cement and well fixtures.
- (m) Decommissioning - a provision for all expenditures incurred in connection with the plugging of wells, the removal and disposal of equipment and facilities including well heads, processing and storage facilities, platforms, pipelines, transport and export facilities, roads, buildings, wharves, plants, machinery, fixture, the restoration of sites and structures including the payment of damages to property lessors.
- (n) Head office overhead charge, parent company guarantee overhead in the amount specified in Clause 15.4 of the Contract.



2. Capital Costs

Capital Costs means, without limitations, expenditures, which are subject to a Capital Allowance under the PPT Act. Such expenditures normally have a useful life beyond the year incurred and include but not limited to the following:

- (a) Plant expenditures - expenditures in connection with the design, construction, and installation of plant facilities (including machinery, fixtures, and appurtenances) associated with the production, treating, and processing of Crude Oil (except such costs properly allocable to intangible drilling costs) including offshore platforms, secondary or enhanced recovery systems, gas injection, water disposal, expenditures for equipment, machinery and fixtures purchased to conduct Petroleum Operations such as office furniture and fixtures, office equipment, barges, floating crafts, automotive equipment, petroleum operational aircraft, construction equipment, miscellaneous equipment.
- (b) Pipeline and storage expenditure - expenditures in connection with the design, installation, construction of pipeline, transportation, storage and terminal facilities associated with Petroleum Operations including tanks, metering and export lines.
- (c) Building expenditure - expenditures incurred in connection with the construction of building, structures or works of a permanent nature including workshops, warehouses, offices, roads, wharves, furniture and fixtures related to employee housing and recreational facilities and other tangible property incidental to construction.
- (d) Drilling expenditures - expenditures for tangible goods in connection with drilling wells such as casing, tubing, surface and sub-surface production equipment, flowlines, instruments and costs incurred in connection with acquisition of rights over the Contract Area pursuant to paragraph 1(d)(i)

of the Second Schedule of the PPT Act

- (e) Material inventory - cost of materials purchased and maintained as inventory items solely for Petroleum Operations subject to the following provisions:
- (i) The CONTRACTOR shall supply or purchase any materials required for the Petroleum Operations, including those required in the foreseeable future. Inventory stock levels shall take account of the time necessary to provide the replacement, emergency needs and similar considerations.
  - (ii) Materials purchased by the CONTRACTOR for use in the Petroleum Operations shall be valued so as to include invoice price (less prepayment discounts, cash discounts, and other discounts if any) plus freight and forwarding charges between point of supply and point of destination but not included in the invoice price, inspection costs, insurance, custom fees and taxes, on imported materials required for this Contract.
  - (iii) Materials not available in Nigeria supplied by the CONTRACTOR or from its Affiliates' stocks shall be valued at the current competitive cost in the international market.
  - (v) The CONTRACTOR shall maintain physical and accounting controls of materials in stock in accordance with general practice in the international petroleum industry. The CONTRACTOR shall make a total inventory at least once a year to be observed by the CORPORATION and its external auditors. The CORPORATION may however carry out partial or total inventories at its own expenses, whenever it considers necessary, provided such exercise does not unreasonably disrupt Petroleum Operations.

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- (vi) Parties hereby agree that CONTRACTOR shall under no circumstance be entitled to recover interest on loan facilities or commissions on bank overdrafts incurred in the conduct of Petroleum Operations whether such Interest or commissions relates to loan facilities or bank overdraft undertaken to finance capital or non-capital costs.

### Article III

#### Computation of Royalty, Concession Rentals and PPT

1. The CONTRACTOR shall compute the amount of Royalty and Concession Rentals payable by the CORPORATION pursuant to Clause 16 of this Contract. Such amounts shall be computed as provided under the Deep Offshore and Inland Basin Production Sharing Contracts Act, 1999 as amended and the provisions of this Contract for purpose of Article IV hereof, the CONTRACTOR shall compute the Royalty payment for remittance to Government in a given month based on the prevailing fiscal value of the Crude Oil produced during the second preceding month. Annual Concession Rental payments shall be taken into account when such payments are remitted. The CORPORATION shall remit all required payments of Royalty and Concession Rentals to the Government. The Royalty rates will be as provided in the Deep Offshore and Inland Basin Production Sharing Contracts Act 1999, as amended, and the prevailing fiscal laws and the regulations.
  
2. (a) The CONTRACTOR shall compute the PPT payable by CORPORATION pursuant to Clause 8.2(a) of this Contract in accordance with the provisions of the PPT Act Cap 354 Laws of the Federation of Nigeria 1990, as amended, as well as any prevailing Government fiscal Incentives including, but not limited to, any credit which offsets PPT liability.

- (b) The PPT shall be in accordance with the PPT Act Cap 354 Laws of the Federation of Nigeria 1990, as amended.
- (c) The PPT rate applicable to the Contract Area shall be in accordance with Clause 16.2 of the Contract.
- (d) The CORPORATION shall make all required PPT payments to Federal Inland Revenue Service. The CONTRACTOR shall prepare all returns required under the PPT Act and timely submit them to the CORPORATION for onward filing with the Federal Inland Revenue Service. The monthly PPT payable shall be determined from such PPT returns. The U.S. Dollar shall be used as the currency for calculating cost recovery and taxes.

#### Article IV

#### Accounting Analyses

1. A monthly accounting analysis in the form of Schedule B-1 attached to this Accounting Procedure shall be prepared by the CONTRACTOR and furnished to the CORPORATION within sixty (60) days of the end of the period covered by such analysis, for consideration and approval.
2. The Realizable Price and the quantities actually lifted by the Parties shall be used to compute the Proceeds as reflected in Section A of each Schedule B-1 and the allocation of such Proceeds in the categories described under Clause 9.1 of the Contract shall be reflected in Section B thereof.
3. The allocation of the quantity of Available Crude Oil to each Party pursuant to Clause 9 of the Contract shall be according to and governed by provisions of the Allocation Procedure.
4. The priority of allocation of the total Proceeds for each period shall be as

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follows:

- (a) Royalty Oil,
- (b) Cost Oil,
- (c) Tax Oil,
- (d) Profit Oil.

5. The amount chargeable to and recoverable from Royalty Oil, Tax Oil and Cost Oil to be entered in Section B of the Schedule B-1 shall be determined as follows:

(a) Royalty Oil - The sum of royalties payable during such month, and, where applicable, the annual amount of Concession Rentals as provided under Article III.1 for purposes of Royalty Oil.

(b) Cost Oil - The Operating Costs applicable to such month for purposes of Cost Oil as follows:

(i) Non-Capital Costs shall be the amount recorded in the books and accounts of the CONTRACTOR for such month in accordance with this Accounting Procedure;

(ii) Capital Costs recorded in the books and accounts of the CONTRACTOR shall be recoverable in full and chargeable in equal instalments over five (5) year period or the remaining life of the Contract, whichever is less. Amortization of such costs shall be in accordance with the method prescribed under the Schedule of the PPT Act, or over the remaining life of the Contract, whichever is less;

(iii) Qualifying Pre-Production Costs for the Contract Area shall be in accordance with the PPT Act as amended.

(c) Tax Oil - The sum of the PPT payable for such month as provided under



Article III.2 for the purposes of Tax Oil.

- (d) Any carryover from previous months as provided under paragraph 6 of this Article.
6. Any amounts chargeable and recoverable in excess of the allocation of Proceeds for the month to Royalty Oil, Tax Oil and Cost Oil shall be carried forward to subsequent months. Carryovers shall be determined as follows:
- (a) A Royalty Oil value carryover results when the Proceeds for such month are insufficient for recovery of the Royalty Oil due for the month.
  - (b) A Cost Oil value carryover results when the Proceeds remaining after allocating a portion of the Proceeds to Royalty Oil is insufficient for recovery of Cost Oil due for the month, including the costs described in Clause 8.1(b) of the Contract.
  - (c) A Tax Oil value carryover results when the Proceeds remaining after allocating a portion of the Proceeds to Royalty Oil and Cost Oil are insufficient for recovery of the Tax Oil due for the month.
7. Profit Oil results where Proceeds remain after allocations to Royalty Oil, Cost Oil and Tax Oil pursuant to paragraph 5 of this Article IV. Profit Oil shall be allocated to the Parties pursuant to Clause 9.1(g) of this PSC.

In the event of a discovery of a field which cannot be economically developed under the above referenced profit splits, or the completion of the development of such field proves uneconomic, the Parties shall meet to agree the appropriate terms and conditions and Profit Oil splits which would provide for the development or completion of development of such field to the economic benefit of the Parties.

A computation of Profit Oil shares in the form of Schedule B-2 attached to this Accounting Procedure shall be submitted monthly in conjunction with Schedule B-1.

Article V

Other Provisions

1. The CONTRACTOR shall open and keep bank accounts in Nigeria in Naira and US Dollars where all funds remitted from abroad shall be deposited for the purpose of meeting local expenditures. For purposes of keeping the books of accounts, any Foreign Currency remitted by the CONTRACTOR into Nigeria shall be converted into Naira at the monthly exchange rates advised by the Central Bank of Nigeria.
2. The CONTRACTOR shall prepare financial accounting and budget statements in accordance with the CORPORATION's prescribed reporting format.
3. With respect to any agreed sum arising out of this Contract owing between the Parties that is past due, any set-off pursuant to Clause 11.3 of the Contract shall be exercised by giving the other Party written notice thereof accompanied by sufficient description of the offsetting sums to allow the Parties to properly account thereof.

The CONTRACTOR shall report on the cumulative production in the Contract Area in the Form on Schedule B-3 Attached.

Schedule B - 1  
Monthly Accounting Analysis  
 Month of \_\_\_\_\_.

**Section A - Lifting Summary**

Lifting Date	Crude Type	RP Bbl	US\$	Volume Bbl	Proceeds US \$	Proceeds Received By:	
						CORPORATION	CONTRACTOR
Totals							

**Section B - Allocation of Proceeds - Expressed in U.S. Dollars**

CATEGORY						
Royalty Oil						
Cost Oil						
Tax Oil						
CORPORATI ON Profit Oil						
CONTRACT OR Profit Oil						
Totals						

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**Schedule B-2  
Profit Oil Shares**

Month of \_\_\_\_\_, \_\_\_\_\_

**Section A – Total Production  
for the month**

Production Field	Total Net Barrels

**Section B – Total Profit Oil  
for the month**

Category	U.S. Dollar
Proceeds	
Royalty Oil	
Cost Oil	
Tax Oil	
Profit Oil	

**Section C – Calculation of Profit Oil Share**

RANGE FOR CUMM. PROD. IN MMB FROM CONTRACT AREA	PROFIT OIL SHARING RATIO		CUMULATIVE PRODUCTION ACHIEVED	APPLICABLE PROFIT RATIO		AVAILABLE PROFIT OIL	CORP. SHARE U.S. Dollar	CONTR. SHARE U.S. Dollar
	CORP.	CONTR.		CORP.	CONTR.			

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**Schedule B - 3**  
**Cumulative Production Analysis**

**Section A - Monthly Production**

Crude Type	Planned Production	Planned Cumulative	Actual Production	Actual Cumulative
	for Month Bbls	For Quarter Bbls	for Month Bbls	for Quarter Bbls
<b>Totals</b>				

**Section B - Cumulative Production**

Crude Type	Cumulative Production for Quarter Bbls	Previous Quarter Cumulative Production B/F Bbls	Cumulative Production To Date Bbls
<b>Totals</b>			

**Section C - Cumulative Production/Liftings/Storages**

Crude Type	Cumulative Production	Cumulative Liftings	In Storage
<b>Totals</b>			

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ANNEX C

To The Production Sharing Contract  
Between the CORPORATION and the CONTRACTOR  
Dated This 23rd day of April 2007

ALLOCATION PROCEDURE

Article I

Application

1. This Allocation Procedure (Procedure) sets out the methods for the allocation of Available Crude Oil from the Contract Area and the Parties shall allocate all lifting of Available Crude Oil in accordance with this Procedure and the Contract.
2. In the event that the production of Available Crude Oil is segregated into two or more types or grades, the provisions of this Procedure shall apply separately to each such type or grade. To the extent that distribution on such a basis is impracticable, a separate method for the allocation of such Available Crude Oil shall be agreed upon by the Parties.
3. In the event of a conflict between the terms of this Procedure and the Contract, the terms of the Contract shall prevail.
4. The procedures set forth herein may be amended from time to time by mutual agreement of the Parties.



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## Article II

### Definitions

1. The words and expressions defined in the Contract when used herein, shall have the meaning ascribed to them in the Contract. In addition, the following words shall have the meaning set forth below:
  - (a) "Current Quarter" means the calendar quarter within which the relevant schedules are prepared and submitted;
  - (b) "Forecast Quarter" means the first calendar quarter succeeding the Current Quarter;
  - (c) "Lifting Allocation" means the quantity of Available Crude Oil, which each Party has the right to take in kind, lift and dispose of in accordance with Clause 9 of the Contract;
  - (d) "Primary Nominations" means written statement issued by each Party to the other at least thirty (30) days prior to the commencement of each quarter declaring the volume by grade of its estimated Lifting Allocation which the Party desires to lift during the Forecast Quarter;
  - (e) "Proceeds" means the amount in U.S. Dollars determined by multiplying the Realizable Price by the number of barrels of Available Crude Oil lifted by each Party; and
  - (e) "Proceeds Imbalance": means the difference between each Party's Proceeds to which it is entitled and the Proceeds which each Party has received, as reflected in each quarter's Schedule C-2 of this Procedure.



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Article III

Lifting Allocation

1. On or before September 30 of every Calendar Year, the Operator shall advise the Parties of its forecast of the Available Crude Oil to be produced by grades during each month of the first six (6) months of the next ensuing Calendar Year.
  
2. On or before March 31 of every Calendar Year, the CONTRACTOR through Operator shall advise the Parties of its forecast of Available Crude Oil to be produced by grades during each month of the six (6) months commencing July 1 of the Calendar Year.
  
3. Thirty-five (35) days before commencement of production from the Contract Area and thereafter thirty-five (35) days prior to the beginning of the Forecast Quarter, the CONTRACTOR through Operator shall notify the Parties of the estimated Lifting Allocation which can be produced and made available for disposal during the Forecast Quarter. Such estimated Lifting Allocation shall take into account any Proceeds Imbalance for the quarter first preceding the Current Quarter and any estimated Proceeds Imbalance for the Current Quarter computed in accordance with paragraph 3 of Article IV. Such notice shall be in the form of schedule C-1 attached hereto indicating the estimated quantities of Royalty Oil, Tax Oil, Cost Oil and Profit Oil, each Party's estimated Lifting Allocation and the estimated Realizable Price used to prepare such estimated Lifting Allocations.
  
4. Thirty (30) days before the commencement of production from the Contract Area and thereafter not later than thirty (30) days before the beginning of the Forecast Quarter, each Party shall notify the Operator and each other of its Primary Nomination of Available Crude Oil which it intends to lift during the Forecast Quarter which shall not exceed its estimated Lifting Allocation. Such

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notice shall include the information described in Article V. 1 of Annex D – Uniform Nomination, Ship Scheduling and Lifting Procedure.

5. The estimated Realizable Price to be used by the CONTRACTOR to prepare Schedule C-1 (Estimated Quarterly Lifting Allocation) shall be the Realizable Price of the first month of the Current Quarter.
6. Each Party shall be obliged to lift its own Lifting Allocation in accordance with Uniform Nomination, Ship Scheduling and Lifting Procedures (Annex D). In the event that one Party lifts the other Party's Lifting Allocation, pursuant to Clause 9.4 of the Contract, the lifting Party shall pay to the non-lifting Party the applicable Proceeds pursuant to Clause 9.4 of the Contract. In such case, the non-lifting Party shall be treated for all other purposes under this Contract as though it had made such lifting itself.

#### Article IV

##### Adjustments of Lifting Allocations

1. On or before thirty-five (35) days prior to the last day of the Current Quarter, the Lifting Allocation for the first preceding quarter thereto shall be computed and the Proceeds Imbalance determined and agreed to by all Parties in the Schedule C-2 attached hereto indicating liftings made by the Parties and the Proceeds therefrom. Section A of such Schedule C-2 shall be based on the actual Section B of such Schedule C-2 that shall be prepared from the Schedule B-1 (of the Accounting Procedure) for the months in the quarter.
2. On or before thirty-five (35) days prior to the last day of the Current Quarter, the Proceeds Imbalance for the Current Quarter shall be estimated, taking into account the actual Proceeds Imbalance computed for the first preceding quarter under paragraph 1 of this Article IV.
3. The Proceeds Imbalance for the first preceding quarter computed under

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paragraph 1 above and the estimated Proceeds Imbalance for the Current Quarter computed under paragraph 2 above shall be taken into account by the Parties by debiting or crediting such Proceeds Imbalances to each Party's share of the estimated Lifting Allocation reflected in Schedule C-1 for the Forecast Quarter filed by dividing the respective Proceeds Imbalance by the Realizable Price applicable for the period in question.

4. Notwithstanding the reports required to be kept by the CONTRACTOR pursuant to Article IV in Annex D, the CONTRACTOR through Operator shall keep complete records of all liftings. At the end of each quarter, the Parties will meet to reconcile the Lifting Allocations and the actual liftings with a view to making adjustments as appropriate. If any disagreement arises with respect to such reconciliation, the area of disagreement shall be mutually resolved by the Parties, in accordance with the official records of the Ministry.
5. All Lifting Allocations and actual liftings shall be audited at the end of each Calendar Year by a mutually acceptable independent auditor.



**Schedule C-1**  
**Estimated Quarterly Lifting Allocation**

Quarter (\_\_\_\_ - \_\_\_\_), \_\_\_\_\_

**Section A - Estimated Total Proceeds**

Crude Type	Estimated Lifting Volume Bbls	Estimated RP U.S. Dollar/Bbls	Estimated Proceeds U.S. Dollar
<b>Totals</b>			

**Section B - Allocation of Estimated Proceeds - Expressed in U.S. Dollars**

Category	Prior Month Carry Over	Estimated Quarter Charges	Recoverable This Quarter	Allocation of Estimated Proceeds To:	
				CORP.	CONTR.
Royalty Oil					
Cost Oil					
Tax Oil					
CORPORATION Profit Oil					
CONTRACTOR Profit Oil					
<b>Totals</b>					
Prior Quarter's Proceeds Imbalance					
Current Quarters Estimated Proceeds Imbalance - (Over)/Under					
Estimated Proceeds Allocation For Quarter					

**Section C - Estimated Lifting Allocation**

Crude Type	CORPORATION Allocation		CONTRACTOR Allocation	
	Proceeds	Bbls	Proceeds	Bbls

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**Schedule C-2**  
**Actual Quarterly Lifting Allocation**

Quarter ( \_\_\_\_\_ - \_\_\_\_\_ ); \_\_\_\_\_

**Section A - Lifting Summary**

Crude Type	Volume Bbls	Proceeds US \$	RP US \$/Bbl	Proceeds Received By	
				CORPORATION	CONTRACTOR
<b>Totals</b>					

**Section B - Allocation of Proceeds - Expressed In U.S. Dollar**

Category	Sum of Monthly Proceeds	CORPORATION		CONTRACTOR	
		Allocation of Proceeds	Lifting Proceeds Received	Allocation of Proceeds	Lifting Proceeds Received
Royalty Oil					
Cost Oil					
Tax Oil					
CORPORATION Profit Oil					
CONTRACTOR Profit Oil					
<b>Totals</b>					

Proceeds Imbalance	Quarter (Over)/Under			
	Prior Quarter (Over)/Under			
	Total (Over)/Under			

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ANNEX D

To The Production Sharing Contract  
Between CORPORATION and the CONTRACTOR Dated 23rd April 2007.

UNIFORM NOMINATION, SHIP SCHEDULING AND LIFTING  
PROCEDURE

Article I

Application

1. This Annex D sets out the procedure for the nomination, ship scheduling and lifting of Available Crude Oil from the Contract Area.
2. Pursuant to Clause 9.2 of the Contract the CORPORATION and the CONTRACTOR have the right to nominate, lift and separately dispose of their agreed allocation of Available Crude Oil produced and saved from the Contract Area.
3. The procedure set out herein may be amended from time to time by the mutual agreement of the Parties.

In the event of a conflict between the terms of this Annex D and the Contract, the terms of the Contract shall apply.

Article II

Definition and Terminology

1. Words and expressions in this annex shall have the meanings ascribed to them in the Contract. In addition, the following words shall have the following meanings:

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- (a) "Available Production" means the quantity of Crude Oil which can be efficiently and economically produced and saved from the producing wells subject to any limitations imposed by any government authority or other technical limitation resulting from operations.
- (b) "Technical Allowable Production" means the quantity of Crude Oil from time to time determined by the Ministry as being the quantity that may be produced from the Contract Area on a well by well basis for a particular period.
- (c) "Commercial Production Quota" means the quantity of Crude Oil from time to time fixed or advised by the CORPORATION as the permissible quantity that may be produced from the Contract Area on a crude stream basis for a particular month/quarter.
- (d) "Actual Production" means the quantity of Crude Oil which is produced from the Contract Area on a monthly/quarterly basis.
- (e) "Available Monthly Scheduling Quantities" means each Party's allocation of the Available Production for the calendar month plus Opening Stock.
- (f) "Combined Lifting Schedule" means the lifting programmes of the Parties for a given calendar month/quarter as prepared by the CONTRACTOR and agreed to by the Parties.
- (g) "Opening Stock" means the quantity of Crude Oil that each Party may carry forward to the succeeding month, recognizing the difficulty in lifting precisely the Available Monthly Scheduling Quantity. This quantity, which excludes unpumpable dead-stock, should not be such as to cause a production shut-in through reaching maximum stock levels in which event, the provisions of Article V will apply. The quantity

also includes credits/debits accruing after reconciliation with Available Crude Oil.

### Article III

#### Production/Notice of Availability

1. The CONTRACTOR shall endeavour to produce the aggregate volume of Crude Oil nominated by the Parties as provided in this Contract.
2. In the event that Available Crude Oil is segregated into two or more grades the provisions of this Annex D shall apply separately to each such grade. To the extent that distributions on such a basis is impracticable, separate arrangement for sharing of such Available Crude Oil shall be agreed upon by the Parties.
3. On or before September 30 of every Calendar Year, the CONTRACTOR shall advise the CORPORATION of its forecast of the Available Production to be produced by grades during each month of the first six (6) months of the next ensuing Calendar Year.
4. On or before March 31 of every Calendar Year, the CONTRACTOR shall advise the CORPORATION of its forecast of the Available Production to be produced by grades during each month of six months commencing July 1 of the Calendar Year.
5. Where for operational reasons the CONTRACTOR cannot exactly produce at the anticipated Commercial Production Quota, the CONTRACTOR shall notify the CORPORATION promptly of any required changes exceeding two (2%) percent of the quantities originally notified. In any event, when Actual Production for the month/quarter is known each Party's allocation will be recalculated and the differences between Actual Production and Commercial

Production Quota will be credited/debited to each Party, and shall form the Party's entitlement for the following month or quarter except in the case of production shut-ins where the provisions of Article VI will apply.

6. Thirty (30) days before the commencement of production from the Contract Area and thereafter not later than thirty (30) days before the beginning of each month, each Party shall notify the other of its primary nomination of Available Crude Oil which it intends to lift during the ensuing month, which shall not exceed its monthly allocation of Commercial Production Quota plus Opening Stock.
7. At the end of each month or quarter, as may be agreed, the Parties will meet to reconcile Available Monthly Scheduling Quantities with actual Available Crude Oil lifted and adjustments made where necessary. All entitlements shall be audited at the end of each Calendar Year by a mutually acceptable independent auditor.
8. The CONTRACTOR shall keep complete records of all liftings and provide same to the CORPORATION in accordance with Articles III & IV of this Annex D.

#### Article IV

#### The CONTRACTOR's Reports

1. The CONTRACTOR shall, not more than fifteen (15) calendar days after the end of each calendar month and quarter, prepare and furnish to the CORPORATION, a written statement showing in respect of the month and quarter respectively:
  - (a) Production Quota: each Party's allocation of Commercial Production Quota;

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- (b) Lifting against Available Crude Oil;
  - (c) Each Party's allocation of Available Crude Oil;
  - (d) Quantity of Crude Oil in stock for each Party at the end of the said calendar month or quarter;
  - (e) Any production losses attributable to Crude Oil used In Petroleum Operations; and;
  - (f) Cumulative Production.
2. In the event that the CORPORATION disagrees with any of the CONTRACTOR's reports, the area of the disagreement shall be mutually resolved by the CONTRACTOR and the CORPORATION to the satisfaction of the Ministry. The CONTRACTOR shall thereafter prepare a revised report to reflect the changes agreed.
3. The CONTRACTOR shall endeavour to send consistent statistical data to the different reporting bodies and should adhere to agreed formats of reporting.

#### Article V

#### Scheduling Details

1. Scheduling Notification - At least thirty (30) days prior to the beginning of a calendar month, each Party shall notify the Operator of its proposed tanker schedule for that calendar month specifying the following:
- (a) A loading date range of ten (10) days for each tanker lifting;

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- (b) The desired parcel size for each lifting in Barrels, subject always to change within a range of plus or minus five (5%) percent by the Party so nominating;
  - (c) The tanker's name or To Be Named (TBN) for each tanker lifting. Tanker nomination made as TBN shall be replaced at least seven (7) working days prior to the accepted date range, unless a shorter time is acceptable to the Operator; and
  - (d) Documentation instructions shall be given for each lifting not later than seven (7) working days prior to the first day of the accepted date range for the tanker in question.
2. Tanker Substitution - Either Party may substitute another tanker to lift its nominated volume of Crude Oil, provided such substituted tanker has the same arrival date range as the originally scheduled tanker and all other provisions of Annex C and D are complied with, and revised documentation instruction reflecting the name of the substitute tanker is given to the Operator no less than three (3) working days prior to arrival, unless otherwise agreed by the Operator.
3. Overlapping Date Ranges - In the event the Combined Lifting Schedule contains overlapping accepted date ranges, the tanker which gives its Notice of Readiness (NOR) and has provided all documentation and obtained clearances first within such accepted date ranges shall be loaded first, unless urgent operational requirements dictate otherwise in which case, demurrage shall be borne by Petroleum Operations and charged to Operating Costs.
4. Confirmation of Lifting Schedules - On or before the 10<sup>th</sup> of every month, the Operator shall either confirm the feasibility of the proposed monthly lifting schedules or, alternatively, advise necessary modifications to such schedules. Such confirmation which shall be in the form of Combined Lifting Schedule, should include a loading date range of two (2) days for each lifting, the first

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day being the earliest date of arrival and the second day being the latest date of arrival.

5. Operational Delays - The Parties recognize that occasionally environmental and technical problems in the Contract Area may cause delays and/or disruptions in the Combined Lifting Schedule. The affected Party shall promptly notify the CORPORATION through Operator of such delays and/or disruptions; and the projected termination of each of such delays and/or disruptions and advise the CORPORATION through the Operator of the revised Combined Lifting Schedule. In the event that such notification does not allow for a revised Combined Lifting Schedule on the part of the CORPORATION, then any resultant costs will be charged to Operating Costs.
  
6. Estimated Delayed Arrival of a Tanker
  - a. Whenever it becomes apparent that a tanker will not be available as scheduled or will be delayed, the Party utilizing such tanker shall notify the Operator of the circumstances and expected duration of the delays. Upon assessing the impact that the delay will have upon the Combined Lifting Schedule and Production during the current and/or next month, the Operator shall make appropriate revision(s) to the Combined Lifting Schedule to avoid disruption in production and the Party(ies) affected by the revision shall be absolved of any liability including but not limited to the impending demurrage claims resulting from such revision(s) to the Combined Lifting Schedule.
  
  - b. In the event that any Party fails to lift its Nominated Share of Production in any month/quarter, that Party shall have the right during the following month/quarter to lift the unlifted quantities, provided such inability to lift does not result in tank top situation or curtailment of production. In the event that production is curtailed as a result of the defaulting party's inability to lift its Nominated Share of Production, the defaulting party

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shall be advised in writing of the estimated quantity of curtailed production and it shall be deducted from the defaulting party's entitlement in the following month/quarter.

7. Tanker Standards - All tankers nominated for lifting by any Party shall conform to international regulations and standards concerning size, equipment, safety, maintenance and the like adopted by the Operator for the terminal in question and by the appropriate government authority. Failure of a tanker to meet such standards shall not excuse the nominating Party from the applicable consequences provided in the Contract. The CONTRACTOR shall keep the CORPORATION advised as to the current regulations and standards in use at the terminals operated by the CONTRACTOR.
8. Destination of Crude Oil - The CONTRACTOR shall at all times disclose the destination of the Crude Oil lifted under this Contract as described in the documentation instructions.

#### Article VI

##### Production Decreases/Increases Subsequent to Nomination

1. Production decreases occurring after lifting nominations have been scheduled and not resulting from the fault of any Party shall be shared by the Parties in proportion to their respective nominations.
2. Production increases occurring after lifting nominations have been confirmed by the CONTRACTOR shall be shared by the respective Parties, in proportion to their respective agreed allocation.
3. To the extent that field operations permit, a Party shall have the right to request the Operator to adjust its nomination during a month following confirmation of the Combined Lifting Schedule provided that the nominations,

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entitlements and lifting of the other Parties are not affected thereby without their express written consent. Adjusted nominations shall always be within the limits of the Party's allocated portion of the Commercial Production Quota, plus Opening Stock.

4. Any production decrease caused by or resulting directly from the actions of one Party shall not affect the availability or entitlement of the other Parties. The Operator will, to the greatest extent possible, endeavour not to affect the lifting of the other Parties.
5. For the avoidance of doubt, each Party's agreed allocations shall be based on Actual Production.

#### Article VII

#### Delivery Terms and Conditions

1. Tanker Notification: The Parties shall report, or cause the tankers nominated for lifting pursuant to this Annex D to report, by radio/telex to the CONTRACTOR, each tanker's scheduled arrival date and hour as follows:
  - (a) Seven (7) days before estimated arrival, or upon clearing at last port if there is less than seven (7) days steaming time before estimated arrival;
  - (b) Seventy-Two (72) hours before estimated arrival;
  - (c) Forty-eight (48) hours before estimated arrival;
  - (d) Twenty-four (24) hours before estimated arrival; and
  - (e) At any other time(s) between the seventy-two (72) hours notice, forty-eight (48) hours and twenty-four (24) hours notice when estimated

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arrival is to be revised- by more than twelve (12) hours from that most recently notified or after that revised by more than one-half hour.

Parties shall also cause such tanker so nominated, or their agent, to report by radio/telex to the Nigerian Government Port Head Official at the Port at least seventy-two (72) hours before each tanker's scheduled arrival date giving the tanker's name, call sign, ETA at the port(s), cargo tonnage to be loaded, number of crew, health status, whether or not a doctor is on board and request for "Free Pratique".

2. Notice of Readiness: Upon arrival at the designated safe anchorage at the port or upon the time of boarding of the mooring master, whichever is earlier, the master of the tanker shall give the Operator a Notice of Readiness (NOR) by radio or by letter, as appropriate, confirming that the tanker is ready to load cargo, berth or no berth. Laytime, as herein provided, shall commence upon the expiration of six (6) running hours after receipt by the loading terminal of such notice, or upon the tanker's completion of mooring at the sea loading terminal, whichever first occurs. However, where delay is caused to the tanker getting into berth after giving NOR for any reason over which neither the Party nor the loading terminal has control, such delay shall not count as used laytime. In addition time used by tanker while proceeding to berth or awaiting entry and "Free Pratique" by Customs after the expiration of six (6) running hours free time, shall not count as used laytime.
  
3. Early Tanker Arrival: Notwithstanding the provisions of Article VII.2 above, if the tanker arrives and tenders NOR to load prior to its agreed date range, the Operator shall endeavour to load the tanker on arrival or as soon thereafter as possible and laytime shall only commence when loading commences. If, however, the Operator is unable to accept a tanker for loading prior to the agreed date range, laytime shall commence at 0600 hours local time on the first day of the agreed date range or when the loading commences, whichever comes first.

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4. Late Tanker Arrival: If a tanker arrives and tenders NOR to load after its accepted date range and other tankers (having arrived during their accepted date range), are either loading or waiting to load, of the loading tanker shall be governed by the earliest availability of crude and loading slot, and laytime shall commence only when loading commences.
  
5. Laytime: The CONTRACTOR shall be allowed laytime in running hours equal to one-half of the voyage laytime permitted under worldscale, or such other freight scale that is issued in replacement thereof, for loading a full cargo and pro rata thereof for a part cargo, with minimum of eighteen (18) hours. Sundays and holidays included, any delay due to the fault of the tanker or its facilities to load cargo within the time allowed shall not count as used laytime. If rules of the owner of the vessel or regulations of Government or appropriate Government agencies prohibit loading of the cargo at any time, the time so lost shall not count as used laytime. Time consumed loading or discharging ballast or discharging slops shall not count as used laytime. Laytime shall continue until hoses have disconnected.

Laytime allowed for loading a full cargo is "36 running hours" with a provision for pro-rating the laytime in the case of vessels loading part cargo. When a vessel is loading one parcel only and operations commence ahead of the acceptance date, there is no demurrage involved unless the vessel completes cargo after the permissible laytime, commencing 0001 hours of the first day of the acceptance date range. When more than one parcel and more than one acceptance date is awarded, the demurrage will not count unless the total loading is completed after the expiry of the permissible laytime for the last parcel, counting 0001 hours of the first day on the last acceptance date.

6. Demurrage: If the CONTRACTOR is unable to load within the time allowed, the CONTRACTOR shall apply demurrage per running hour (pro rata for a part thereof) for laytime exceeding the allowed laytime as specified herein. The rate of demurrage will be calculated by multiplying the time by the Average Freight Rate Assessment (AFRA) as determined by the London

Tanker Brokers Panel. In the event that such determination is no longer available, a freight rate-assessment shall be mutually agreed by the Parties, which rate shall be appropriate in relation to the size of the tanker and in demurrage rate according to tanker size as specified in the Worldwide Tanker Normal Freight Scale or such other foreign scale that is issued in replacement thereof. If however, demurrage is incurred by reason of fire, storm, explosion, or by strike, picketing, lockout, stoppage or restraint or labour difficulties, or disturbances or by breakdown of machinery or equipment in or about the loading terminal, the rate of demurrage as calculated in accordance with the above shall be governed by force majeure and shall not attract any demurrage. Demurrage claims must be notified in writing together with supporting documents within ninety (90) days from Bill of Lading date.

7. Changes of Berth: The CONTRACTOR shall have the right to shift any vessel from one berth to another. Charges of running lines on arrival at and leaving and berth, wharfage and dockage charges at that berth, and any other extra port charges or port expenses incurred by reason of such shifting at the CONTRACTOR's request shall be borne by the CONTRACTOR and shall count as used laytime. If, however, it is necessary to shift the vessel from the berth because of the breakdown of machinery or other deficiency of the vessel or its crew, the resulting expenses shall be borne by the Party whose Crude Oil is being lifted. The time consumed in such circumstances, shall not count as used laytime. However, the vessel shall lose its regular turn in berth. When the vessel is ready to recommence loading, it shall so advise the CONTRACTOR and wait its turn for reberthing and such time after notice is given shall not count as used laytime.
  
8. Tanker Departure: The tanker shall vacate the berth as soon as loading is complete. The Party that scheduled such tanker shall indemnify the Operator for any direct loss or damage incurred as a result of the tanker's failure to vacate the berth promptly including such loss or damage as may be incurred due to resulting delay in the docking of the tanker awaiting the next turn to load at such berth.

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9. Loading Hoses: Hoses for loading shall be furnished by the CONTRACTOR and shall be connected and disconnected by the tanker's crew under the supervision of a suitable qualified ship's officer acting on the advice of the Operator's mooring master.
10. Partial Cargo: Should the Operator supply less than full cargo, for any reasons the tanker shall not be required to proceed to sea until all of her tanks are filled with a combination of cargo and ballast as will place her in a seaworthy condition.

### Article VIII

#### Crude Oil Quantity And Measurement

1. Certification: The quantity and origin of each shipment of Crude Oil shall be determined by the appropriate Government authority at the loading terminal and set forth in standard certificates of quantity, quality and origin. Each Party shall have the right to designate a representative at its own expense, who shall have the right to witness the determination of quantity, quality and origin. All reasonable facilities shall be supplied by the CONTRACTOR, as necessary, to such Party's representatives at the port to enable such representatives to witness the measurements taken at the loading terminal and the taking of the sample to be used by and supplied to the representative of the Party.
2. Acceptance of Certificate: If the Party in question does not appoint a representative, or if such representative appointed as aforesaid agrees with the Certificate of Quantity, Quality and Origin of a shipment of Crude Oil (in which event he shall so indicate by signing the Certificates of Quantity, Quality and Origin), such determinations shall be final and binding on the Parties.
3. Refusal of Certificate: If the determination of Quantity, Quality and Origin by the appropriate Government authority has not been approved by such a

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representative in accordance with Article VIII.2 above and dispute arises concerning the Quality, Quantity and Origin of Crude Oil, recourse shall be made to mutually agreed independent expert to resolve the dispute on the basis of his expertise. Claims about Quality, Quantity of Crude Oil delivered, shall be notified in writing with all supporting documents, within forty-five (45) days from Bill of Lading date, otherwise the claim shall be considered closed. The expert shall be selected on the basis of his special knowledge of the subject matter in this regard and shall be appointed by mutual agreement of the Parties. Such expert shall file his conclusions within thirty (30) days after his date of appointment. Any conclusions of such expert shall be binding on the Parties. Pending the determination of the dispute, the tanker may sail, unless the Parties agree otherwise.

4. Quantity Determination: The quantity of Crude Oil lifted shall be determined at the time of loading on the basis of gauging the terminal tanks before and after the lifting of such Crude Oil, or otherwise by meter reading installed on the loading line from the tanks, as approved by appropriate Government authority. The quantity in barrels of Crude Oil determined pursuant to the foregoing procedure should be corrected to a temperature of sixty-degrees Fahrenheit (60°F) in accordance with the most currently published ASTM-IP Petroleum Measurement Tables. A copy of the conversion calculation, if any shall be submitted to the lifting Party through it's representative. In addition, the bottom, sediment and water ("BS&W") content, determined in accordance with Article VIII.5 hereof, shall be deducted from the quantity loaded, for purposes of preparing the Bill of Lading for such shipment and for purposes of substantiating claims about Quantity and Quality. Any substantiated loss of Crude Oil occurring in transit between the point of such determination and delivery shall be borne by the lifting Party provided such losses do not result due to differences in method of determining BS&W between the loading and discharge terminals. For differences occurring where same method of determination at both points are used, provisions of Article VIII.3 above shall apply. The retained sample(s) shall be used in determining such loss claims.

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5. Quality Determination: The determination of API Gravity and BS&W content shall be made of each shipment of Crude Oil. BS&W content and API Gravity shall be determined according to standard international practices acceptable to the relevant Government authorities.
  
6. Samples: A sample of each shipment of Crude Oil shall be taken. The sample shall be sealed and retained by the CONTRACTOR for a minimum of ninety (90) days. The Lifting Party or its representative shall have the right to receive one (1) gallon sealed sample of the Crude Oil loaded which shall be placed on board the tanker, if so requested.



ANNEX E

To The Production Sharing Contract  
Between CORPORATION and the CONTRACTOR  
Dated 23rd April 2007

PROCUREMENT AND PROJECT IMPLEMENTATION  
PROCEDURES

Article I

Application

- 1.1 These Procurement and Project Implementation Procedures ("Procedures") shall be followed and observed in the performance of either Party's obligations under the Contract. Words and expressions defined under the Contract, when used herein, shall have the meanings ascribed to them in the Contract. In the event of a conflict between the terms of these Procedures and the Contract, the terms of the Contract shall prevail.
- 1.2 These Procedures shall be applicable to all contracts and purchase orders whose values exceed the respective limits set forth in Article 1.3 and which, pursuant thereto, require the prior concurrence of the CORPORATION. These Procedures may be amended from time to time by the Parties. The Parties acknowledge that the limits provided in this Annex E are low for deep offshore operations and that there is a need for an industry-wide review. Therefore, within nine (9) months of the Effective Date, the Parties shall review and agree on new limits which will be appropriate for deep offshore operations.
- 1.3 The CONTRACTOR shall have the authority, subject to any limitations or restrictions established by the Management Committee, to enter into any contract or place any purchase order in its own name for the performance of

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services or the procurement of facilities, equipment, materials or supplies, provided that:

- (a) Prior approval of the CORPORATION shall be obtained for all foreign contracts and foreign purchase orders awarded to third parties where the cost exceeds two hundred and fifty thousand U.S. Dollars (\$250,000);
- (b) Prior approval of the CORPORATION shall be obtained for all local contracts and purchase orders where the cost exceeds ten million Naira (N10,000,000);
- (c) The amount set forth in Article 1.3(a), (b) and (h) will be reviewed by the Management Committee whenever it becomes apparent to either party that such limits create unreasonable constraints on the Petroleum Operations. In the event of a significant change in the exchange rate of Naira to U.S. Dollar compared to that, which existed on the Effective Date, the Management Committee shall review the limits set forth in Article 1.3 (a), (b) and (h);
- (d) Such contracts shall be entered into, and such purchase orders shall be placed with third parties, which in the CONTRACTOR's opinion are technically and financially able to properly perform their obligations;
- (e) Procedures customary in the oil industry for securing competitive prices shall prevail.
- (f) The CONTRACTOR shall give preferences to contractors that are companies organized under the laws of Nigeria to the maximum extent possible provided they meet the required standards.
- (g) The CONTRACTOR shall give preferences to such goods which are manufactured or produced in Nigeria or services rendered by Nigerians

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provided they meet specifications and standards.

- (h) The above limits and these procedures shall not apply to purchase made for warehouse replenishment stock not exceeding two hundred and fifty thousand U.S. Dollars (\$250,000) or one million Naira (N1,000,000) nor shall they apply to the purchase of tubulars of less than five hundred thousand U.S. Dollars (\$500,000) or two million Naira (N2,000,000) made in furtherance of planned drilling programmes. Where there are Naira and U.S. Dollar components of such purchases, the total shall not exceed five hundred thousand U.S. Dollars (\$500,000) or two million Naira (N2,000,000).

## Article II

### Project Implementation Procedure

2.1 The CONTRACTOR realizing the need for a project or contract to which these Procedures apply pursuant to Article 1.3 above, shall introduce it as part of the proposed Work Programme and Budgets to be developed and submitted by the CONTRACTOR to the Management Committee pursuant to Clause 7 of this Contract.

(a) The CONTRACTOR shall provide adequate information with respect to the project including, without limitation, the following:

- (i) A clear definition of the necessity and objectives of the project;
- (ii) Scope of the project; and
- (iii) Cost estimate thereof.

(b) The CONTRACTOR shall transmit the project proposal along with all



related documentation to the CORPORATIONS for consideration.

- (c) The CORPORATION may make recommendations in writing to the CONTRACTOR regarding the selection, scope and timing of the project. The Management Committee shall consider the proposal and the recommendations of the CORPORATION and shall determine the matter in accordance with Clause 6 of the Contract. Any disputed issues shall be resolved by the Management Committee pursuant to Clause 7.4 of the Contract. If the CORPORATION does not submit any recommendations in writing to the CONTRACTOR within thirty (30) working days of the submittal of the project, the project as proposed by the CONTRACTOR shall be so noted in the minutes of the next meeting.

2.2 The project as approved pursuant to Article 2.1 above shall form part of the Work Programme and Budget of the Petroleum Operations. Such approval shall also constitute authorizations by the Management Committee to the CONTRACTOR to initiate contracts and purchase orders relevant to the project proposal, subject to the provisions of Article 1.3.

2.3 The resources for the project design, supervision, and management shall first be drawn from the CONTRACTOR's available in-house expertise with the full participation of the CORPORATION staff who shall be seconded pursuant to Clause 13.4 of this Contract. If the Management Committee approves, such may be performed by the CONTRACTOR's Affiliate under the approved budget for the project. Competent Nigerian Engineering/Design companies shall be given priority over others by the Management Committee for such projects. The CORPORATION staff who shall be seconded pursuant to Clause 13.4 of this Contract shall be fully involved in the project design, supervision and management.

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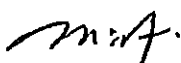
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2.4 After approval of the project/budget, the CONTRACTOR shall prepare and transmit to the CORPORATION complete details of the project including, without limitation, the following:

- (a) Project definition;
- (b) Project Specification;
- (c) Flow diagrams;
- (d) Projects implementation schedule showing all phases of the project including, without limitation, engineering design, material/equipment procurement, inspection, transportation, fabrication/construction, installation, testing and commissioning;
- (e) Major equipment specifications;
- (f) Cost estimate of the project;
- (g) An activity status report;
- (h) Local component of the project that shall be performed incountry indicating in detail estimated man-hour and cost relating thereto.

2.5 Authorization for Expenditure

CORPORATION shall approve all CONTRACTOR'S Authority For Expenditure (AFE) in respect of any single item over and above the sum of Two Hundred and Fifty Thousand (250,000.00) US Dollars.





Article III

Contract Tender Procedure

- 3.1 The following tender procedure shall apply to work/services/supply not directly undertaken by the CONTRACTOR or by the CONTRACTOR's Affiliates (as provided in Annex B Article II (1)(f):
- (a) The CONTRACTOR shall maintain a list of approved contractors for the purpose of contracts for the Petroleum Operations, (the "Approved Contractors' list"). The CORPORATION shall have the right to delete or nominate contractors to be included in the list. CORPORATION and CONTRACTOR shall be responsible for pre-qualifying any contractor to be included in the Approved Contractors' List.
  - (b) Contractors Included in the Approved Contractors' List shall be both local and/or overseas contractors or entities. Where regulations require, they shall be registered with the Department.
  - (c) When a contract is to be bid, the CONTRACTOR shall present a list of proposed bidders to the CORPORATION for concurrence not less than fifteen (15) working days before the issuance of invitations to bid to prospective contractors. The CORPORATION may propose additional names to be included in the list of proposed bidders or the deletion of any one thereof. Contract specifications shall be in English and in a recognized format used in the international petroleum industry.
  - (d) If the CORPORATION has not responded within thirty (30) working days from the date of the official receipt following the presentation of the list of proposed bidders as aforesaid, the list shall be deemed to have been approved.

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- 3.2 The CONTRACTOR shall within its limits in Article 1.3(a), (b) and (h) establish a Tender Committee who shall be responsible for pre-qualifying bidders, sending out bid invitations, receiving and evaluating bids and determining successful bidders to whom contracts shall be awarded. The CORPORATION reserves the right to nominate its staff who shall fully participate in prequalifying such bidders and evaluation of bids received from selected bidders.
- 3.3 Analysis and recommendations of bids received and opened by, the Tender Committee shall be sent by the CONTRACTOR to the CORPORATION for approval before a contract is signed within thirty (30) working days from the date of the official receipt. Approval of the CONTRACTOR's recommendations shall be deemed to have been given if the CORPORATION has not responded within the said period.
- 3.4 Prospective vendors/contractors for work estimated in excess of two hundred and fifty thousand U.S. Dollars (\$250,000) shall submit the commercial summary of their bids to the CONTRACTOR in two properly sealed envelopes, one addressed to the CONTRACTOR and one addressed to the CORPORATION. The CONTRACTOR shall retain one and send one to the CORPORATION, properly enveloped, sealed and addressed to CORPORATION.
- 3.5 In all cases in which an offshore contractor or its Nigerian Affiliate is invited to bid, the CONTRACTOR shall make full disclosure to the CORPORATION of its relationship, if any, with such contractors.
- 3.6 These Procedures may be waived in any of the cases listed below in which event the CONTRACTOR may negotiate directly with the contractor and promptly inform the CORPORATION of the outcome of such negotiations in the following cases:



- (a) emergency situations; and
- (b) in work requiring specialized skills, or when special circumstances warrant, upon the approval of the CORPORATION.

#### Article IV

##### General Conditions of Contracts

4.1 The payment terms shall provide, without limitation, that:

- (a) A minimum of 10% of contract price shall be held as a retention fee until after the end of a guarantee period agreed with the contractor which shall vary between six (6) months and twelve months, depending on the project, with the exception of drilling and seismic data acquisition, well surveys and other such services provided that, a contractor may be given the option to provide other guarantee equivalent to the 10% retention such as letter of credit or performance bond; and
- (b) Provision shall be made for appropriate withholding tax as may be applicable.

4.2 The language of all contracts shall be English.

- 4.3 (a) The governing law of all agreements signed with subcontractors shall be, to the extent feasible, Nigerian law for work to be conducted in Nigeria, and for work outside Nigeria.
- (b) Nigerian law shall apply to contractors performing in Nigeria and, as far as practicable, they shall use Nigerian resources both human and material.

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- 4.4 Each contract shall provide for early termination where necessary and the CONTRACTOR shall use all reasonable endeavours to obtain a termination provision with minimal penalty.
- 4.5 CONTRACTOR shall provide, in the case of a foreign contractor, that the local part of the work, in all cases, shall be performed by contractor's local subsidiary.

#### Article V

#### Materials and Equipment Procurement

- 5.1 The CONTRACTOR may, through own in-house or parent company procure materials and equipment subject to conditions set forth in this Article 5.
- 5.2 The provisions of this Article 5 shall not apply to lump sum or turnkey contracts/projects.
- 5.3 In ordering the equipment/materials, the CONTRACTOR shall obtain from vendors/manufactures such rebates/discounts and such warranties/guarantees that such discounts, guarantees and all other grants and responsibilities shall be for the benefit of the Petroleum Operations. Materials obtained from CONTRACTOR or Affiliates of the CONTRACTOR shall subject to Article 1.3 be at cost and shall have no profit element.
- 5.4 The CONTRACTOR shall:
- (a) By means of established policies and procedure ensure that its procurement efforts provide the best total value, with proper consideration of quality, services, price delivery and Operating Costs to the benefit of the Petroleum Operations;

- (b) Maintain appropriate records, which shall be kept up to date, clearly documenting procurement activities;
- (c) Provide quarterly and annual inventory of materials in stock;
- (d) Provide a quarterly listing of excess materials in its stock list to the CORPORATION; and
- (e) Check the excess materials listings from other companies, to identify materials available in the country prior to initiating any foreign purchase order.

5.5 The CONTRACTOR shall initiate and maintain policies and practices, which provide a competitive environment/climate amongst local and/or overseas suppliers. Competitive quotation processes shall be employed for all local procurement where the estimated value exceeds the equivalent of one hundred thousand (100,000) U.S. Dollars.

- (a) Fabrication, wherever practicable shall be done locally. To this effect, the Petroleum Operations recognize and shall accommodate local offers at a premium not exceeding ten (10%).
- (b) Subject to Article 3.1(a), the CONTRACTOR shall give preference to Nigerian indigenous contractors in the award of contracts. Contracts within the agreed financial limit of the CONTRACTOR shall be awarded to only competent Nigerian indigenous contractors. Where there are no Nigerian indigenous contractors possessing the required skill/capability for the execution of such contracts, the CONTRACTOR shall notify the CORPORATION accordingly.

5.6 Analysis and recommendation of competitive quotations of a value exceeding the limits established in Article 1.3 shall be transmitted to the CORPORATION for approval before a contract is executed or a purchase order is issued to the

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selected vendor/manufacturer. Approval shall be deemed to have been given if a response has not been received from the CORPORATION within thirty (30) working days of receipt by the CORPORATION of the said analysis and recommendations.

- 5.7 Pre-Inspection of rig, equipment/stock materials of reasonable value shall be jointly carried out at the factory site and quay before shipment at the request of either Party.

## Article VI

### Project Monitoring

- 6.1 The CONTRACTOR shall provide a project report to the CORPORATION.
- 6.2 For major projects exceeding two hundred and fifty thousand (250,000) U.S. Dollars or equivalent, the CONTRACTOR shall provide to the CORPORATION a detailed quarterly report which shall include:
- (a) Approved budget total for each project;
  - (b) Expenditure on each project;
  - (c) Variance and explanations;
  - (d) Number and value of construction change orders;
  - (e) Bar chart of schedule showing work progress and work already completed and schedule of milestones and significant events; and
  - (f) Summary of progress during the reporting period, summary of existing problems, if any, and proposed remedial action, anticipated problems,



and percentage of completion.

- (g) Local components of the project executed incountry and costs relating thereto

Provided that the CORPORATION shall have the right to send its own representatives to assess the project based on the report.

- 6.3 In the case of an increase in cost in excess of 10% on the project, the CONTRACTOR shall promptly notify the CORPORATION and obtain necessary budget approval.
- 6.4 Not later than six (6) months following the physical completion of any major project whose cost exceeds two hundred and fifty thousand U.S. Dollars (\$250,000) or equivalent, the CONTRACTOR shall prepare and deliver to the CORPORATION a project completion report, which shall include the following:
  - (a) Cost performance of the project in accordance with the work breakdown at the commencement of the project;
  - (b) Significant variation in any item or sub-item;
  - (c) Summary of problems and expected events encountered during the project; and
  - (d) List of excess materials.
  - (e) Planned versus actual local content component of the project executed incountry. In the event that the local component falls below the planned target, CONTRACTOR shall explain in detail, the reasons responsible for the short fall.

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ANNEX F

TO THE PRODUCTION SHARING CONTRACT  
BETWEEN CORPORATION and CONTRACTOR

dated 23rd day of April 2007

OPL 905 SAMPLE PERFORMANCE BOND

(BANK LETTER HEAD)

The Group Managing Director,  
Nigerian National Petroleum Corporation,  
NNPC Towers, Central Business District,  
Herbert Macaulay Way,  
Abuja.

BANKER \_\_\_\_\_  
\_\_\_\_\_

Performance Bond n° \_\_\_\_\_ for USD \_\_\_\_\_

BY THIS BOND, WE (NAME OF BANK) with a capital of \_\_\_\_\_ having its registered office at \_\_\_\_\_ (hereinafter called "the SURETY") is held and firmly bound unto the NIGERIAN NATIONAL PETROLEUM CORPORATION, a corporation established under the laws of the Federal Republic of Nigeria, having its Head Office at NNPC Towers, Herbert Macaulay Way, Central Business District, Abuja, Nigeria (hereinafter called "the CORPORATION") in the sum of ----- USD (\$----- Dollars of the United States of America) for payment of which sum the SURETY binds itself, its successors and assigns by these presents.

WHEREAS:

- (1) The CORPORATION of the one part and -----, a company established under the laws of the Federal Republic of Nigeria with registered office at -----, Nigeria (hereinafter "-----") and -----, a company established under the laws of the Federal Republic of Nigeria with registered office at ----- (hereinafter "-----") of the other part (----- and ----- are jointly referred to as "the CONTRACTOR"), executed a Production

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Sharing Contract (PSC) in Abuja, Nigeria on ----- 200-- relating to Oil Prospecting License (OPL) 905 (Offshore) Nigeria;

- (2) Under the terms of the PSC, CONTRACTOR must submit a Performance Bond for XXX USD (\$XXX Dollars of the United States of America) to cover the amount in the Work Programme for up to the fifth year pursuant to clause 6.2(a) of the said PSC;
- (3) ----- and ----- as CONTRACTOR under the PSC have agreed that the Operator post a Performance Bond in the sum of XXX USD (\$XXX Dollars of the United States of America) to cover CONTRACTOR's obligation in paragraph 2 above and the CORPORATION has agreed to accept such Bond in satisfaction of the said CONTRACTOR's obligation.
- (4) The terms used in this Performance Bond shall have the same meaning as those in the PSC.

NOW THE CONDITION of this Bond is that the SURETY hereby agrees, in the event of the CONTRACTOR failing to fulfill the minimum Work Programme obligations as stipulated in clause 6.2(a) of the PSC, to pay the CORPORATION on demand the sum of XXX USD (\$XXX Dollars of the United States of America) or such proportion thereof that is equivalent to the uncompleted portion of the Work Programme obligations, provided that the CORPORATION's demand or claim hereunder is received in writing by recorded mail delivered at the SURETY's mailing address specified herein as well as ----- registered office accompanied by the CORPORATION's written statement that CONTRACTOR has failed to fulfill certain specified Work Programme obligations stipulated in clause 6.2(a) of the PSC.

Such claim and statement by the CORPORATION shall be accepted by the SURETY as conclusive evidence that the amount claimed is due to the CORPORATION under this Performance Bond. Claims and statements as aforesaid must be signed by either the Group Managing Director of the CORPORATION or the Group General Manager, NAPIMS (a Division of the CORPORATION).

The Performance Bond will reduce on a yearly basis upon presentation to the SURETY of a notice of completion by ----- Operator countersigned by either the Group Managing Director of the CORPORATION or the Group General Manager, NAPIMS which shall be accepted as conclusive evidence that the events thereon have occurred, and that the amount of this Performance Bond is accordingly reduced.

This Performance Bond shall expire when reduced to nil in accordance with the foregoing basis or ninety (90) days after -----the expiration of the first phase of the Exploration Period under the PSC if the minimum Work Programme for the first phase of the exploration period has not been completed whichever is the earlier.

The SURETY hereby undertakes that the payment in settlement of claims lodged with the SURETY in accordance with the terms and conditions of the Performance

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Bond, shall be effected Seven (7) business days after receipt by the SURETY of such claim, by wire Transfer to the CORPORATION's account at its designated Bank.

This Performance Bond shall be governed by and construed In accordance with Nigerian Law.

In Witness whereof the SURETY has signed and sealed this Bond on this \_\_\_\_\_ day of \_\_\_\_\_ 2007.

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ANNEX G

To The Production Sharing Contract between the CORPORATION and  
CONTRACTOR dated 23<sup>rd</sup> day April 2007  
OPL 905 WORK PROGRAMME AND BUDGET

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ANNEX H

TO THE PRODUCTION SHARING CONTRACT  
BETWEEN CORPORATION and CONTRACTOR

dated 23<sup>rd</sup> day of April ..... 2007

OPL 905 MINIMUM FINANCIAL COMMITMENT

CONTRACTOR shall incur the following Minimum Financial Commitment:

Phase I – fifteen million seven hundred and fifty thousand US Dollars  
(USD15,750,000)

Phase II – fifteen million seven hundred and fifty thousand US Dollars  
(USD15,750,000)

Financial Commitment assigned to the LCV

Financial Commitment assigned to the LCV – twelve million US Dollars  
(USD12,600,000)

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APPENDIX 1

TO THE PRODUCTION SHARING CONTRACT  
BETWEEN CORPORATION and CONTRACTOR

dated 23rd day April 2007.

OPL 905 PARTICIPATING INTEREST

The rights and obligations under this Agreement for each of the Contractor Parties shall be held in the following respective percentage Participating Interests:

CONTRACTOR Parties	%
Gas Transmission and Power Limited	50
Energy 905 Suntera Limited	40
Ideal Oil and Gas	10

Appendix-1

APPENDIX 2

TO THE PRODUCTION SHARING CONTRACT  
BETWEEN CORPORATION and CONTRACTOR

dated 23<sup>rd</sup> day April ..... 2007.

OPL 905 SIGNATURE BONUS

CONTRACTOR shall pay Signature Bonus of five million, five hundred US Dollars  
(U.S.\$ 5,000,500).

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APPENDIX 3

TO THE PRODUCTION SHARING CONTRACT  
BETWEEN CORPORATION and CONTRACTOR

dated 23rd day April .....2007.

OPL 905 PROSPECTIVITY BONUS

CONTRACTOR shall pay a Prospectivity Bonus of--Nil----- US dollars (\$0.00) at OML conversion;

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APPENDIX 4

TO THE PRODUCTION SHARING CONTRACT BETWEEN NIGERIAN  
NATIONAL PETROLEUM CORPORATION AND CONTRACTOR

Dated <sup>23</sup>rd Day <sup>April</sup>.....2007

**Parent Company Guarantee**

To: Nigerian National Petroleum Corporation

Guarantee from .....(hereinafter referred to as "the Guarantor") of the performance by .....(hereinafter referred to as "the Obligor") of the obligor's obligations following the execution of the Production Sharing Contract (hereinafter referred to as the "PSC") dated .....2007 and made between Nigerian National Petroleum Corporation (NNPC) and ....., Obligor as contractor party under the PSC.

Pursuant to the said PSC and the performance of the obligations therein, the Guarantor will directly and indirectly benefit from the said PSC, wherein the Guarantor hereby agrees and covenants as follows:

1. The Guarantor unconditionally and irrevocably guarantees to NNPC the performance of all the obligations of ....., the Obligor, its Nigerian affiliate, which is organized under the laws of the Federal Republic of Nigeria and any and all its successors and assigns under the PSC.
2. Subject to Clause 6.7 of the PSC and the terms of this Guarantee, the Guarantor shall unconditionally fulfill the obligations of ....., the Obligor under the PSC forthwith upon receiving written notice from NNPC.

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3. The Guarantor absolutely, irrevocably and unconditionally guarantees to NNPC the full, due and punctual payment to NNPC by Obligor of all monies which Obligor is or shall become obliged to pay to NNPC pursuant to the PSC (the "Obligations") and, subject to the other provision of this Guarantee, irrevocably and unconditionally agrees to indemnify and hold harmless NNPC (but only to the extent of the Guaranteed Amount) in respect of any and all failure by Obligor to pay such monies PROVIDED always that the maximum aggregate liability of Guarantor under this Guarantee shall not exceed [ ] million *USD* ( ) (the "Guaranteed Amount").
4. This Guarantee shall terminate on the fifth (5<sup>th</sup>) anniversary of the date on which the PSC is terminates or otherwise expires (whichever is earlier).
5. No document, proof or other action other than herein is necessary as a condition of the Guarantor honoring any and all unfulfilled obligations of the Obligor pursuant to the provisions of the PSC. The Guarantor therefore waives any right to require as a condition of its obligations hereunder that presentment or demand be made upon Obligor.
6. Neither the Guarantor nor NNPC may assign or transfer (whether by way of security or otherwise) this Guarantee nor any interest or obligation in or under this Guarantee without the prior written consent of NNPC or the Guarantor respectively. Any purported assignment or transfer that is not in accordance with this Clause 6 shall be void. Subject to the foregoing this Guarantee shall be binding upon and enure to the benefit of and be enforceable by the respective successors, assigns and transferees of Guarantor and NNPC.
7. This Guarantee embodies the entire understanding between the Guarantor and NNPC and supersedes all prior arrangements and understandings relating to the subject matter hereof.

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8. The obligations of the Guarantor hereunder shall in no way be affected or impaired by reason, and the Guarantor, waives its right to prior notice, of the happening from time to time of any of the following:

i. extensions (whether or not material) of the time for performance of all or any portion of the Obligations;

ii. the modification or amendment in any manner (whether or not material) of the PSC or the Obligations;

iii. any failure, delay or lack of diligence on the part of NNPC, or any other person or entity to enforce, assert or exercise any right, privilege, power or remedy conferred on NNPC or any other person or entity under the PSC or at law, or any action on the part of NNPC or such other person or entity granting indulgence or extension of any kind; and

iv. a change of status, composition, structure or name of Obligor, including, without limitation, by reason of bankruptcy, liquidation, insolvency, merger, dissolution, consolidation or reorganization.

9. With the prior written consent of NNPC, which consent shall not be unreasonably withheld, this Guarantee may be replaced by a guarantee or guarantees in substantially similar form made by a guarantor of equal or better creditworthiness.

10. This Guarantee may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one document.

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11. The Guarantor shall make payment in **US Dollars** and without deductions to NNPC immediately by making available all sums due hereunder within ten (10) business days of written demand for the same by NNPC (which demand shall set forth the basis and the calculation of the amount for which demand is made and which shall in the absence of manifest error be conclusive).
12. The Guarantor warrants that this Guarantee is its legally binding obligation enforceable in accordance with its terms and further warrants that all necessary consents and authorizations for the giving and implementation of this Guarantee have been obtained.
13. If a difference or dispute arises between the Guarantor and NNPC, concerning the interpretation or performance of this Guarantee, and if the Parties fail to settle such difference or dispute by amicable agreement, either Party may serve on the other a demand for arbitration.
- 13.1 Within thirty (30) days of such demand being served, each Party to this Guarantee shall appoint an arbitrator and the two arbitrators thus appointed shall within a further thirty (30) days appoint a third arbitrator, who shall be of a nationality which is different from that of Parties involved in the dispute and of the other arbitrators (the nationality of a company shall be deemed to be that of the country under the laws of which it and/or its owners are incorporated). If the arbitrators do not agree on the appointment of such third arbitrator, or if either Party fails to appoint the arbitrator to be appointed by it, such arbitrator or third arbitrator shall be appointed by the President of the Court of Arbitration of the International Chamber of Commerce (ICC) in Paris on the application of the other Party (notice of the intention to apply having been duly given in writing by the applicant Party to the other Party). The third arbitrator when appointed shall convene meetings of the arbitration panel and act as chairman. If an arbitrator refuses or neglects to act or is incapable of

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acting or dies, a new arbitrator shall be appointed in his place and the above provisions of appointing arbitrators shall govern the appointment of any such new arbitrator or arbitrators.

13.2 The arbitration award shall be binding upon the Parties to this Guarantee. The Nigerian Arbitration and Conciliation Act Cap 19, LFN, 1990 shall apply to this Guarantee and the judgment upon the award rendered by the arbitrators may be entered in a court having jurisdiction thereof. Each Party shall pay its own attorney's fees and costs.

13.3 This venue of the arbitration shall be any where in Nigeria as may be agreed by the Parties.

14. All notices required or permitted shall be in writing and shall be deemed given when delivered in person, or, if sent by facsimile or other means of electronic transmission on the second business day following transmission, or if mailed on the second business day after being consigned to Federal Express or similar courier, at the address for notice provided below:

To the Guarantor:

NNPC:

15. This Guarantee shall in all respects be governed by and construed in accordance with, the laws of the Federal Republic of Nigeria.

FOR AND ON BEHALF OF:

Name:

Title

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