

MODEL
PRODUCTION SHARING AGREEMENT
BETWEEN
THE GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA
AND
TANZANIA PETROLEUM DEVELOPMENT CORPORATION
AND
ABC OIL COMPANY

PRODUCTION SHARING AGREEMENT

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PRODUCTION SHARING AGREEMENT

This Agreement is made on the _____ day of _____ and constitutes the agreement between:

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

and

The Tanzania Petroleum Development Corporation (hereinafter referred to as “T.P.D.C.”) represented by [_____], its Managing Director

and

[ABC Oil Company] a Company incorporated and existing under the laws of the (United Republic of Tanzania), hereinafter referred to as [_____] or “Company”, represented by [_____] .

WITNESSETH

WHEREAS, Petroleum in or under any land in Tanzania is vested in the United Republic; and

WHEREAS the Tanzania Petroleum Development Corporation (T.P.D.C.) has been established by law for the purpose (inter alia) of promoting the development of the petroleum industry and the production of petroleum; and

WHEREAS, the Petroleum (Exploration and Production) Act 1980 (“the Act”) makes provision with respect to exploring for and producing petroleum and for that purpose subject to certain limitations and conditions authorises the Minister to grant Exploration Licences; and

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

WHEREAS, T.P.D.C. with the approval of the Minister wishes to engage ABC Oil Company to carry out on its behalf Petroleum Operations in the area of the said licence and in the area of any Development Licence(s) granted to T.P.D.C. hereunder; and

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

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

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

- (a) “Development Area”, “Development Licence” “Development Operations” “Exploration Operations” “In Default”, “Location”, “Minister” and “Petroleum” shall have the meanings assigned to them respectively in Section 5 of the Act; “Adjoining Block” and “Discovery Block” shall have the meanings assigned to them respectively in Section 33 of the Act.
- (b) “Affiliated Company” or “Affiliate” means any company holding directly or indirectly a majority of shares in any company which is controlled directly or indirectly by any such aforesaid company.

For the purpose of the foregoing definition:

- (i) a company is directly controlled by another company or companies holding shares carrying in the aggregate the majority of votes exercised at general meetings;
 - (ii) a particular company is indirectly controlled by a company or companies (hereafter called “the parent company or companies”) if a series of companies can be specified, beginning with the parent company, so related that each company of the series, except the parent company or companies, is directly controlled by one or more of the companies earlier in the series.
- (c) “Appraisal Well” means any well drilled following a discovery of Petroleum in the Contract Area for the purpose of ascertaining the quantity of Petroleum in the petroleum reservoir to which that discovery relates.
 - (d) A “barrel” means a quantity consisting of forty-two (42) United States gallons, liquid measure, corrected to a temperature of sixty degrees (60 degrees) Fahrenheit.
 - (e) A “Calendar Month” or “Month” means any of the twelve months of the Calendar Year.
 - (f) “Calendar Quarter” or “Quarter” means a period of three (3) consecutive months starting with the first day of January, April, July or October.

- (g) “Calendar Year” or “Year” means a period of twelve (12) consecutive months starting with January 1 and ending with December 31.
- (h) “Casinghead Gas” means Natural Gas which existed or exists in a reservoir in solution with Crude Oil, or as free gas cap gas, and in or could be produced with Crude Oil from a well the predominant production of which is or would be Crude Oil.
- (i) “Contract Area” means the area which in accordance with Article 3(b) hereof constitutes the contract area for the purpose of this Agreement.
- (j) “Contract Expenses” means Exploration Expenses, Development Expenses, Operating Expenses, Service Costs and General and Administrative Costs.
- (k) “Crude Oil” means any hydrocarbon which:-
 - (i) is in a liquid state at the well head or gas/oil separator or which is extracted from the gas or casinghead gas in a plant including distillate and condensate, and
 - (ii) except where in Article 15 hereof the context requires otherwise, has been produced from the Contract Area.
- (l) “Delivery Point” means the point FOB of the Tanzania loading facility at which Crude Oil reaches the inlet flange of the lifting tankship’s intake pipe or such other point which may be agreed between T.P.D.C and the Company.
- (m) “Development Expenses” means those expenses as so categorised in Annex “D”, the Accounting Procedure.
- (n) “Effective Date” means the date on which this Agreement is signed by the Government, T.P.D.C. and ABC Oil Company.
- (o) “Exploration Expenses” means those expenses as so categorised in Annex “D”, the Accounting Procedure.
- (p) “Exploration Period” means a period of exploration referred to in Article 4(b).
- (q) “Exploration Well” means a well drilled in the course of Exploration Operations conducted hereunder but does not include an Appraisal Well.
- (r) “General and Administrative Costs” means those costs as so categorised in Annex “D”, the Accounting Procedure.

- (s) “Natural Gas” means natural gas both associated and non-associated and all its constituent elements produced from any well in the Contract Area and all non-hydrocarbon substances therein.
- (t) “Non-Associated Gas” means all gaseous hydrocarbons produced from gas reservoirs, and includes wet gas, dry gas and residue gas remaining Natural Gas other than Casinghead Gas.
- (u) “Operating Expenses” means those expenses as so categorised in Annex “D”, the Accounting Procedure after the extraction and liquid hydrocarbons therefrom.
- (v) “Operator” means the person designated as the operator under an operating agreement executed by the persons constituting the Company or the operating agreement executed by T.P.D.C. and the Company pursuant to Article 7.
- (w) “Service Costs” means those costs as so categorised in Annex “D”, the Accounting Procedure.

ARTICLE 2
AGREEMENT

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

ARTICLE 3

RESPONSIBILITIES AND GRANT OF RIGHTS

- (a) As soon as possible, but in any event not later than 30 days, after the Effective Date T.P.D.C. will apply for and Government, under and in accordance with the Act, will grant to T.P.D.C. an Exploration Licence over the area described in Annex “A” and shown on the map in Annex “B” hereof. The said licence shall be substantially in the form of the draft set out in Annex “C” hereof.
- (b) Subject as hereinafter provided in sub-article (g) (ii) of this Article and sub-article (d) of Article 6, the areas which at any particular time are subject to the said Exploration Licence or subject to any Development Licence granted to T.P.D.C. for which application was made by T.P.D.C. at the request of the Company hereunder constitute for the purpose of this Agreement the Contract Area.
- (c) Save where Joint Operations have been established pursuant to Article 7, the Company, on the terms and conditions set out herein, shall have the exclusive right to conduct, on behalf of T.P.D.C. as licence holder, Petroleum Operations in the Contract Area. Where the Company is constituted by more than one person ABC Oil Company shall be the operator and the duties and obligation under this Agreement shall be joint and several except where the parties specifically have agreed otherwise in this Agreement. No change in Operatorship shall take effect unless it has been approved blocks to be relinquished by T.P.D.C. in accordance with the requirements by the Minister.
- (d) The Company will:-
 - (i) carry out the Petroleum Operations in the Contract Area diligently, with due regard to good oil field practices and in such manner as to ensure that in respect of matters which are the responsibility of the Company hereunder T.P.D.C. is not in default;
 - (ii) furnish T.P.D.C. with such information, reports, records and accounts relating to the Petroleum Operations in the Contract Area as may be necessary to enable T.P.D.C. to meet its obligations under the Act and in particular, but without prejudice to the generality of the foregoing, to meet the requirement of First Schedule thereof;
 - (iii) if the Company has requested T.P.D.C. to apply for any extension of the said Exploration Licence , select the of this Agreement and the Act;

- (iv) pay T.P.D.C. within 30 days of the Effective Date the sum of US\$[_____]in respect of geological and geophysical data relating to the Contract Area;
 - (v) subject to Article 8, reimburse T.P.D.C. within 30 days from the date of payment thereof, for the annual charges in respect of the said Exploration Licence or any Development Licence granted to T.P.D.C. at the request of the Company hereunder, payable by T.P.D.C. pursuant to section 84 of the Act; and
 - (vi) notify TPDC promptly of any change in its circumstances, or those of any affiliate upon whom it is dependent for efficient execution of its petroleum operations, which has or is likely to have an adverse impact upon its ability to meet its obligations under this Agreement.
- (e) T.P.D.C.:-
- (i) will, as licence holder, take such steps as may be necessary from time to time to ensure that in respect of the Contract Area it is not in default under the Act and will not in the Contract Area, without the prior consent in writing of the Company, surrender any block or blocks, make any request that any block or blocks be declared a Location, or apply for Development Licence;
 - (ii) if the Company so requests will:-
 - (a) apply for such extensions of the said Exploration Licence as the Act may permit;
 - (b) When any application is made for an extension of the said Exploration Licence, relinquish to meet the requirements of the Act only blocks selected for that purpose by the Company,
 - (c) pursuant to Section 33(1) (a) of the Act, request that a Discovery Block within the Contract Area and such adjoining blocks not exceeding eight selected by the Company be declared by the Minister to be a Location;
 - (d) apply for a Development Licence or Licences over such block or blocks within the Contract Area as the Company may specify for that purpose; and

- (e) make such other applications, requests, or representations in respect of the Contract Area which the Act may require or permit to be made by a licence holder.
- (f) The Government:-
 - (i) will take such actions (if any) as may be necessary from time to time to ensure that T.P.D.C. carries out its obligations hereunder and will not without the consent of the Company seek or acquiesce in any waiver by T.P.D.C. in respect of the Contract Area of its rights as licence holder under the Act;
 - (ii) undertakes that, where in the case of discovery of petroleum referred to in Section 29(1) of the Act, T.P.D.C. makes an application for further extension of the said Exploration Licence the Minister will, in respect of any block to which paragraph (b) of subsection (1) of that Section applies, grant an extension for such period not exceeding three years as may be required to appraise the discovery;
 - (iii) subject to sub-article d(iv) of this Article, will at the Company's expense make available to the Company geological and geophysical data referred to in the said sub-article d(iv) in the possession or under the control of Government resulting from petroleum exploration by any other Company in the Contract Area and the Company shall treat data as confidential;
 - (iv) subject to any requirement in the laws of Tanzania and subject to respect by the Company for the rights of the others, will permit the Company, its servants and agents to have at all times access to the Contract Area for the purpose of carrying on the Petroleum Operations hereunder and for such purpose to move freely therein; and
 - (v) shall afford to every expatriate employee, as defined in the Income Tax (Exemption) (Expatriate Staff Engaged in the Petroleum and Mining Industry) Order No. 411, published on 15th August 1986, of the Company, including any expatriate employee of any contractor of the Company, who is engaged in Exploration Operations hereunder such tax concessions as would ensure that, during the several periods into which Exploration Operations are divided hereunder, the amount of income tax payable by or on behalf of the expatriate employee does not exceed the net salary received by the expatriate employee.
- (g) (i) The Company, on giving to T.P.D.C. not less than 90 days notice in writing:-

- (a) may, if its obligations in respect of any Exploration Period have been fulfilled at any time thereafter during that period, surrender its rights and be relieved of its obligations in respect of the whole of the Contract Area;
 - (b) may, at any time after the grant of the said Exploration Licence, surrender its rights and be relieved of its obligations in respect of any block or blocks forming part of the Contract Area; provided however that no surrender by the Company of its rights over any part of the Contract Area shall relieve the Company of its obligations to spend the sums and carry out the work described in Article 4 hereof.
- (ii) where pursuant to this sub-paragraph the Company has surrendered its rights and been relieved of its obligations in respect of any block or blocks forming part of the Contract Area notwithstanding that the said block or blocks continue to be subject to any Exploration or Development Licence referred to in sub-article (b) of this Article the said blocks shall not for the purpose of this Agreement constitute part of the Contract Area.

ARTICLE 4

EXPLORATION PROGRAMME

- (a) Subject to the provisions of this Article in discharge of its obligation to carry out Exploration Operations in the Contract Area the Company shall during the several periods into which Exploration Operations are divided hereunder carry out the work described and spend not less than the sums specified in sub-article (b).

(b) **Initial Exploration Period**

Commencing on the day on which the Exploration Licence is granted to T.P.D.C. pursuant to Article 3 and terminating on the fourth anniversary of that date:

Description of Work : Undertake geological and Geophysical surveys and related activities as deemed necessary by the Company; shoot [_____] kms of seismic; and drill[_____] Exploration Wells.

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

First Extension Period

Commencing on the day on which a first extension of the licence granted is issued to T.P.D.C. pursuant to Article 3 takes effect and terminating on the fourth anniversary of that date:

Description of Work : Drill [_____] Exploration Wells; and undertake any additional geological and geophysical surveys and related activities as deemed necessary by the Company.

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

Second Extension Period

Commencing on the day on which a second extension of the licence granted to T.P.C.D.C pursuant to Article 3 takes effect and terminating on the third anniversary of that dated:

Description of Work : Drill [_____] Exploration Wells; and undertake any additional geological and geophysical surveys and related activities as deemed necessary by the Company.

Minimum Expenditure

For this period : US\$[_____]million.

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

- (i) the economic basement is encountered or
- (ii) insurmountable technical problems are encountered which, in accordance with good oilfield practice, makes further drilling unsafe or impractical; provided that if the said well is abandoned owing to the said problems before reaching the economic basement, the Company shall drill a substitute Exploration Well in the Contract Area to the same minimum depth as aforesaid unless otherwise agreed with the Minister.

For the purpose of this sub-article “economic basement” means any stratum in and below which the geological structure or physical characteristics of the rock sequence do not have the properties necessary for the accumulation of petroleum in commercial quantities and which reflects the maximum depth at which any such accumulation can be reasonably expected.

- (d) Where in any Exploration Period the Company has spent more than the minimum expenditure specified in sub-article (b) for that period the excess shall be credited against the minimum expenditure specified in that sub-article for the next succeeding Exploration Period; provided however that nothing in this sub-article shall be construed as extinguishing or modifying any obligation of the Company to drill Exploration Wells pursuant to this Article.
- (e) The Exploration Licence issued to T.P.D.C. pursuant to Article 3 and any extension thereof shall be on terms and conditions relating to Work Programmes, and Minimum Expenditure which correspond to the obligation of the Company under this Article and it is accordingly understood and agreed that discharge by the Company of its obligations under this Article in respect of any Exploration

Period will discharge for that period the obligations of T.P.D.C. relating to the Work Programme and minimum expenditure in respect of the licence issued pursuant to Article 3 and the terms and conditions of the licence aforesaid and any extension thereof shall be drawn up accordingly.

- (f) The minimum expenditure for each period specified in subarticle (b) shall not have been satisfied unless the total expenditure attributable to the work described in sub-article (b) equals or exceeds the same mentioned in the said sub-article; provided that for this purpose all such attributable expenditures shall be adjusted, commencing from the Effective Date, by dividing each of them by the following factor 1, where:

$$I = A/B$$

and where:

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

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

- (g) For the purpose of this Article expenditure by the Company on an appraisal programme required to discharge the obligations of T.P.D.C. under Section 32(2) of the Act shall not treated as expenditure for the purpose of satisfying the minimum expenditure obligations set out in sub-article (b).

ARTICLE 5

WORK PROGRAMMES AND ADVISORY COMMITTEE

- (a) Within 30 days of the Effective Date, the Company shall prepare and submit to T.P.D.C. a detailed Work Programme and Budget setting forth the Exploration Operations which the Company propose to carry out in the Calendar Year in which the Exploration Licence is first issued to T.P.D.C. hereunder and the estimated cost thereof.
- (b) So long as the Exploration Licence issued to T.P.D.C. hereunder remains in force, at least three months prior to the beginning of each subsequent Calendar Year, the Company shall prepare and submit to T.P.D.C. a detailed Work Programme and Budget setting forth the Exploration Operations which the Company propose to carry out in that Calendar Year and the estimated cost thereof.
- (c) Every Work Programme and Budget submitted to T.P.D.C. pursuant to this Article and every revision or amendment thereof shall be consistent with the requirements set out in Article 4 relating to work and expenditure for the Exploration Period within which the Work Programme and Budget will fall.
- (d) Every Work Programme and budget and, as the case may be, the appraisal programme referred to in Article 6(e), submitted by the Company to T.P.D.C. shall be reviewed by a joint committee to be established by T.P.D.C. and the Company. This committee, hereinafter referred to as the "Advisory Committee", shall consist of four (4) members, two(2) of whom shall be appointed by T.P.D.C. and two(2) by the Company. The Chairman of the Advisory Committee shall be selected by T.P.D.C. from among the members appointed by it. Should T.P.D.C. wish to propose a revision of the proposed Work Programme and Budget, or appraisal programme, as the case may be, shall within three(3) weeks after receipt thereof so notify the Company specifying in reasonable detail its reasons. Promptly thereafter, the parties will meet and endeavor to agree upon the revisions proposed by T.P.D.C. Following review by the Advisory Committee the Company shall make such revisions as it deems appropriate and submit the work Programme and Budget or, without prejudice to Article 6(f), appraisal programme, as appropriate, to T.P.D.C.
- (e) Subject to Article 4, on giving notice to T.P.D.C. the Company may amend any Work Programme or Budget or any revised Work Programme or Budget submitted to T.P.D.C. but subject to any such amendment the Company shall carry out the Exploration Operations set forth in the Work Programme or revised Work Programme and spend not less than the sum provided for in the Budget or revised Budget.

In the case of an appraisal programme, any amendments thereto proposed to T.P.D.C. by the Company will be subject to section 32(2) of the Act; where an appraisal programme has been agreed by the Advisory Committee as referred to in Article 6(f), no amendment shall be made without the approval of the Advisory Committee. A notice under this sub-article shall state the reasons why in the opinion of the Company an amendment is necessary or desirable.

- (f) Where the Company has discharged its obligations under this Article, the Minister will not suspend or cancel any Exploration Licence granted to T.P.D.C. hereunder by reason only that T.P.D.C. has failed to comply strictly with the requirements of paragraph (a) of sub-section (1) of Section 30 of the Act or has failed to meet the requirements deemed to be included in an Exploration Licence by reasons of that provision.

ARTICLE 6

DISCOVERY AND DEVELOPMENT

- (a) If Petroleum is discovered in the Contract Area, the Company will, within thirty days from the date on which evaluated test results relating to the discovery are submitted to T.P.D.C., inform T.P.D.C. by notice in writing whether or not the discovery is in the opinion of the Company, of potential commercial interest.
- (b) If the Company informs T.P.D.C. that in its opinion the discovery is not of potential commercial interest then T.P.D.C. will have the option to require the Company surrender its rights and be relieved of its obligations in respect of the block or blocks comprising the geological feature (as outlined by the relevant seismic data) in which the discovery is located.
- (c) The option aforesaid will lapse if not exercised by T.P.D.C. within twelve months from the date on which notice was given to T.P.D.C. by the Company pursuant to sub-article (a) of this Article and during the said period of twelve months, and any subsequent period if the option lapses without being exercised, the Minister will in respect of the discovery to which that notice relates exempt T.P.D.C. from the requirements of Section 32(2) of the Act.
- (d) Where pursuant to sub-article (b) of Article, the Company has surrendered its rights and been relieved of its obligations in respect of any block or blocks in which the discovery is located, notwithstanding that the said block or blocks continue to be subject to the Exploration Licence referred to in sub-article (b) of Article 3, the said block or blocks shall not for the purpose of this Agreement, constitute part of the Contract Area.
- (e) Where the Company, pursuant to sub-article (a) of this Article, has informed T.P.D.C. that, in its opinion the discovery of potential commercial interest, the Company will, as soon as practicable thereafter, submit, for the consideration of the Advisory Committee, its proposals for an appraisal programme to meet the requirements of Section 32(2) of the Act.
- (f) Where:
 - (i) the Advisory Committee has agreed on an appraisal programme submitted by the Company as aforesaid or on a revision thereof; and
 - (ii) a Location has been declared;

the Minister will, to the extent necessary, extend the period within which application may be made by T.P.D.C. for a Development Licence so as to ensure

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

- (g) Where the Company has requested T.P.D.C. to make application for a Development Licence, the proposals accompanying such application pursuant to paragraph (a) of Section 36 of the Act shall:
 - (i) be drawn up by the Company after consultation with T.P.D.C.;
 - (ii) be designed to ensure the recovery from the Development Area of the maximum quantity of Petroleum which the economics of the development shall justify; and
 - (iii) accord with good oilfield practices.
- (h) Where a Location has been declared, the Minister will not, without the prior agreement of the Company, give any direction to T.P.D.C. pursuant to Section 34(1) of the Act; provided however that if application is made for a Development Licence in respect of any block or blocks within that Location, nothing in this sub-article shall be construed as limiting the scope of any notice which the Minister may give to T.P.D.C. pursuant to Section 37(2) of the Act.

ARTICLE 7

JOINT OPERATIONS

- (a) Save as provided in sub-article (b) and sub-article (c) (iii) of this Article, the Company shall bear and pay all Contract Expenses incurred in carrying out Petroleum Operations hereunder and the Company shall recover such expenses only from the Petroleum to which it is entitled at hereinafter provided in Article 9.
- (b) (i) T.P.D.C. may at any time, by notice in writing to the Company, elect to contribute in the Specified Proportion to Contract Expenses other than Exploration Expenses (such Exploration Expenses to include expenses in respect of an appraisal programme) incurred in the first and every subsequent Development Area from the date such notice is rendered, providing that in the case of a second and each subsequent development T.P.D.C. has the option, exercisable separately at or before the time the Development Plan is approved, not to participate in Joint Operations in respect of which T.P.D.C. has elected to contribute expenses as aforesaid. Any election in respect of any Development Area shall be irrevocable. The Specified Proportion shall remain as indicated in such notice unless and until such time that T.P.D.C. renders a further notice in writing to the Company indicating a specified proportion in excess of the Specified Proportion indicated in the previous notice.
- (ii) For the purpose of this Agreement the “Specified Proportion” means a proportion specified in a notice given by T.P.D.C. pursuant to sub-paragraph (i) of this sub-article, which does not exceed the maximum indicated below with respect to the daily total production rate in the entire Contract Area:

Daily total production rates in the Contract Area		Maximum Specified Proportion
Up to	12,500 BOPD	5%
12,500 -	25,000 BOPD	7.5%
25,001 -	50,000 BOPD	10%
50,001 -	75,000 BOPD	12.5%
75,001 -	100,000 BOPD	15%
100,001-	125,000 BOPD	17.5%
Above	125,000 BOPD	20%

- (c) Joint operations shall be conducted hereunder in accordance with the terms and conditions of an Operating Agreement to be concluded between T.P.D.C. and the Company immediately following the first notice given to the Company by T.P.D.C. pursuant to sub-paragraph () of sub-article (b) of this Article. The operating Agreement aforesaid will include provisions to give effect to the following principles:
- (i) ABC Oil Company shall be the sole Operator of the Joint Operations under properly defined rights and obligations and will carry out all operations pursuant to work programmes and budgets approved by a Joint Operating Committee. The parties may review at any time the Operatorship of the Joint Operations.
 - (ii) A joint Operating Committee shall be established on which T.P.D.C. and the Company shall be equally represented. The representatives aforesaid shall have equal voting rights on the Joint Operating Committee on all matters. In case of disagreement a third party expert, who shall be mutually agreed upon and selected will resolve the disagreement and his decision shall be final and binding on the parties to the disagreement;
 - (iii) T.P.D.C. shall be liable to contribute ~~the~~ Specified Proportion of the Contract Expenses other than Exploration Expenses (such Exploration Expenses to include expenses in respect of an appraisal programme) of Joint Operations in all Development Areas in respect of which T.P.D.C. has elected to participate.

The balance of such expenses shall be contributed by the Company. The contributions aforesaid shall be in such currencies as may be required from time to time by the Operator for the Joint Operations approved by the Joint Operating Committee but T.P.D.C. shall have the right to finance in Tanzanian Shillings and such amounts will count towards the total contribution which T.P.D.C. is obliged to make in respect of its share in Joint Operations. Failure by any party to meet calls for funds within the time limits agreed shall result in liability for interest on the unpaid amounts for the period that such amounts remain unpaid at rates substantially higher than international commercial bank rates.

ARTICLE 8

ANNUAL CHARGES

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

	US \$
Initial Exploration Period	4
First Extension Period	8
Second Extension Period	16

The annual charge in respect of a Development Licence granted to T.P.D.C., for which application was made at the request of the Company, shall be established as part of the development plan, but shall be consistent with international industry practice regarding rentals for Development Licences;

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

$$I = C/D$$

and where:

- C is the United States Industrial Goods Producer Price Index (USIGPPI) as reported for the first time in monthly publication "International Financial Statistics" of the International Monetary Fund (IMF) in the section "Prices, Production, Employment" for the Month during which the Exploration Licence is first issued to T.P.D.C. hereunder.
- D is the USIGPI as reported for the first time in the aforesaid IMF publication for the Month in which the first and any subsequent anniversary of the date on which the Exploration Licence was first issued falls.

For the purpose of this Article 8, and Articles 4(f), 13(b),13(c) and 17(c), in the event that the USIGPPI ceases to be published the parties to this agreement shall agree on an appropriate replacement index.

ARTICLE 9

RECOVERY OF COSTS AND EXPENSES AND PRODUCTION SHARING

- (a) There shall be no “ring fencing:” of exploration blocks in Tanzania. The petroleum exploration expenses in one licence area shall be carried over to the next licence area. The resulting cumulative expenses shall be recovered from the “Cost Oil” from the subsequent licence area in case of discovery.
- (b) Subject to sub-article (c) below and sub-article (a) of Article 11, all Contract Expenses incurred by the Company and, where Joint Operations have been established, by T.P.D.C. shall be recovered from a volume of Crude Oil (hereinafter referred to as “Cost Oil”) produced and saved from the Contract Area and limited in any Calendar Year to an amount not exceeding:
- (i) Sixty percent (60%) of total Crude Oil production from the Contract Area when the total cumulative production in the Contract Area after the Effective Date is equal to or less than 25 million barrels of Crude Oil, and
 - (ii) Fifty percent (50%) of the next 25 million barrels of total Crude Oil production from the Contract Area (i.e., from when the total cumulative production in the Contract Area after the Effective Date exceeds 25 million barrels but is equal to or less than 50 million barrels), and
 - (iii) Forty percent (40%) of all Crude Oil produced and saved from the Contract Area when the total cumulative production in the Contract Area after the Effective Date Exceeds 50 million barrels;

provided that where the applicable percentage changes in the course of any Calendar Year the applicable percentage shall be applied pro rata to the portion of annual Crude Oil production occurring in each band of cumulative production.

- (c) Contract Expenses which pursuant to the provision of Annex D, may be recovered from Cost Oil are hereinafter referred to as “Recoverable Contract Expenses”. Such expenses may be recovered as from the date they have been incurred. To the extent that in any Calendar Year the Recoverable Contract Expenses exceed the Cost Oil available under Article 9 (b), the unrecovered excess shall be carried forward for recovery in the next succeeding Calendar Year and, to the extent not then recovered in the subsequent Year or Years.

- (d) Where, additionally, Joint Operations have been established:
- (i) No Contract Expenses incurred by T.P.D.C. shall be recovered from the Cost Oil unless there is production from a Development Area in respect of which there are Joint Operations;
 - (ii) The available Cost Oil shall be applied first to recover Operating Expenses, and the Company and T.P.D.C. shall be entitled to recover such Expenses in proportion to their individual cumulative unrecovered Opening Expenses. After recovery of Operating Expenses any excess Cost Oil available for distribution shall be applied to recover Exploration Expenses. After recovery of Operating Expenses and Exploration Expenses any excess Cost Oil available for distribution shall be applied to recover Development Expenses, and the Company and T.P.D.C. shall be entitled to recover such expenses in proportion to their individual cumulative unrecovered Development Expenses. Any unrecovered Contract Expenses shall be recovered out of the Cost Oil available in the next succeeding Calendar Year or Years in the same manner as set out herein.
- (e) Subject to the limitations set out in sub-article (b) above, the quantity of Cost Oil which the Company and, if Joint Operations have been established, T.P.D.C. actually require and shall be entitled to in any Calendar Year will be established on the basis of the average fair market price per barrel determined in accordance with Article 10 herein
- (f) (i) For the purpose of sharing incrementally between the parties the balance of Crude Oil available in any Year after Recoverable Contract Expenses have been recovered to the extent and in the manner aforesaid (hereinafter referred to as (“Profit Oil”)), total Crude Oil production from the Contract Area shall be divided into the following increments:

Increments of daily total production rates in the Contract Area

0	-	12,500 BOPD
12,001	-	25,000 BOPD
25,001	-	50,000 BOPD
50,001	-	100,000 BOPD
Above		100,000 BOPD

- (ii) The increments of production referred to this Article 9 and also in Article 7 herein shall be specified in terms of average daily production rates (barrels of oil per day, BOPD). The average daily production rates shall be determined for each Calendar Quarter and shall be calculated by dividing the total quantity of Crude Oil produced and saved from the

Contract Area during any Quarter by the total number of days during which Crude Oil was produced in such Quarter.

- (iii) The quantity of Cost Oil required to satisfy Recoverable Contract Expenses in any Year shall be allocated to each of the applicable increments of production in the same proportion as the total production in each increment of production bears to total production from the Contract Area.
- (g) If there are no Joint Operations, after allocation of Recoverable Contract Expenses in accordance with sub-article (f)(iii) above, the resulting Profit Oil in each increment of production shall be shared as follows:

Increments of daily total Production rates in the Contract Area	T.P.D.C. Share of Profit Oil	Company Share of Profit Oil
0 - 12,500 BOPD	50%	50%
12,501 - 25,000 BOPD	55%	45%
25,001 - 50,000 BOPD	60%	40%
50,001 - 100,000 BOPD	65%	35%
Above 100,000 BOPD	70%	30%

- (h) If there are Joint Operations in all Development Areas, T.P.D.C.'s share of Profit Oil indicated in sub-article (g) above relative to each increment of production shall be increased by the number of percentage points obtained by multiplying the percentage of the Specified Proportion determined in accordance with article 7(b) (ii) by the share of Company's Profit Oil indicated in sub-article (g) above relative to such increment of Profit Oil, and the Company's share shall be reduced accordingly. However, where T.P.D.C. has elected pursuant to Article 7(b) (i) not to participate in Joint Operations in all Development Areas, the increase in T.P.D.C.'s share of Profit Oil shall be the result of the above calculation multiplied by the ratio of total production from Joint Operations total production in the Contract Area during each Year.
- (i) With respect to this Article, Cost Oil and Profit Oil calculations shall be done for each Calendar Quarter and the Crude Oil provisionally shared accordingly. To the extent that actual quantities, expenses and prices are not known, provisional estimates of such data based on the approved Work Programme, budget and any other relevant documentation or information shall be used. Within 60 days of the end of each Calendar Year a final calculation of Cost Oil and Profit Oil based on actual Crude Oil quantities, prices and recoverable costs and expenses in respect of that Calendar Year shall be prepared and any necessary adjustments to the Crude Oil sharing shall be agreed upon between the Company and T.P.D.C. and made as soon as is practicable.

- (j) Subject to Article 15(d), the Company will be free to export any Petroleum received by the Company pursuant to Article 9 and 11 of this Agreement and to retain the proceeds of the sale of such Petroleum outside Tanzania; the Company shall be exempt from any duty, tax or any other financial impost in respect of the export of Petroleum hereunder.

ARTICLE 10

VALUATION OF CRUDE OIL

- (a) The parties hereby agree that Tanzanian Crude Oil produced and saved from the Contract Area shall be sold or otherwise disposed of at competitive international market prices. The average fair market price of Tanzania Crude Oil marketed in any Calendar Quarter shall, for the purpose of giving effect to this Agreement, be determined as follows:
- (1) as soon as possible after the end of each Calendar Quarter in which Crude Oil has been produced from any Development Area pursuant to this Agreement an average price (in terms of US\$ per barrel, FOB the Company's actual loading point for export from Tanzania) for each separate volume of Crude Oil of the same gravity, sulphur and metal content, pour point, product yield and other relevant characteristics ("quality") shall be determined in respect of production during that Calendar Quarter. It is understood that production from different Development Areas may be of differing quality and that separate average prices may accordingly be appropriate for any Calendar Quarter in respect of production for each Area, in which event the overall price applicable to production from the Contract Area shall be determined by taking the arithmetic weighted average (weighted by volume) of all such prices separately determined.
 - (2) The prices aforesaid shall be determined on the basis of international fair market value as follows:
 - (i) in the event that 50% or more of the total volume of sales made by the Company during the Calendar Quarter of Crude Oil of a given quality produced and saved hereunder have been third party arms length sales transacted in foreign exchange (hereinafter referred to as "Third Party Sales"), the fair market valuation for all Crude Oil of that quality will be taken to be the simple arithmetic average price actually realised in such Third Party Sales. This will be calculated by dividing the total receipts from all Third Party Sales by the total number of Barrels of Crude Oil sold in such sales;
 - (ii) subject to sub-paragraph (3) below, in the event that less than 50% of the total volume of sales made by the Company during the Calendar Quarter of Crude Oil of a given quality produced and saved hereunder have been Third Party Sales, the fair market valuation for all Crude Oil of that quality will be determined by the arithmetic weighted average of:

- (A) the simple arithmetic average price actually realised in the Third Party Sales during the Calendar Quarter of such Crude Oil produced and saved hereunder, if any, calculated by dividing the total receipts from all Third Party Sales by the total number of Barrels of Crude Oil sold in such sales;

and

- (B) the simple arithmetic average price per Barrel at which a selection of major competitive crude oils of generally similar quality to that of Tanzanian Crude Oil produced hereunder were sold in international markets during the same period; the prices of the crude oils used for reference will be adjusted for differences in quality, quantity, transportation costs, delivery time, payment and other contract terms.

The selected crude oils will be agreed between the Company and Government, in consultation with T.P.D.C., in advance for each Calendar year and in making the selection preference will be given to those crude oils of similar quality to Tanzanian Crude Oil which are produced in Africa or the Middle East and are regularly sold in the same markets as Tanzanian Crude Oil is normally sold.

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

- (iii) all such prices will adjusted to FOB the Company's actual loading point for export from Tanzania;
- (iv) for the purposes of this Article, Third Party Sales of Crude Oil made by the Company shall include any third party arms length sales made by the Company on Government's behalf pursuant to Article 15 herein but shall exclude:
 - (A) Sales, whether direct or indirect through brokers or otherwise, of any seller to any Affiliate of such seller.
 - (B) Crude Oil exchanges, barter deals or restricted or distress transactions, and more generally any Crude Oil transaction which is motivated in whole or in part by considerations

other than the usual economic incentives for commercial arms length crude oil sales.

- (3) In the event that less than 50% of the total volume of sales by the Company during the Calendar Quarter of Crude Oil of a given quality produced and saved hereunder have been Third Party Sales, the Company shall promptly notify Government and T.P.D.C. of the applicable percentage and respective volumes and prices realised. Government and T.P.D.C. shall have the right to elect for the fair market valuation for all Crude Oil of that quality to be determined for that Quarter in accordance with sub-article 10 (a) (2) (i) above. If Government and T.P.D.C. so elect they will notify the Company in writing within 14 days of receipt of the original notification from the Company, and the fair market valuation of the aforesaid Crude Oil shall be determined accordingly. If Government and T.P.D.C. do not so elect then the fair market valuation shall be determined in accordance with sub-article 10 (a) (2) (ii) above.
- (b) The Company shall be responsible for establishing the relevant average prices for Crude Oil in accordance with this Article and such prices shall be subject to agreement by T.P.D.C. before they shall be accepted as having been finally determined. The Company shall provide T.P.D.C. with all relevant material in order that it can satisfy itself that the average price determined by the Company is fair. If the parties fail to agree on the average price for any Calendar Quarter within 30 days following the end of such Quarter then the calculation of the relevant average price shall be referred to a sole expert appointed pursuant to sub-article (d) below. The sole expert's determination shall be final and binding.
- (c) During the Calendar year in which production from the Contract Area commences the parties will meet in order to establish a provisional selection of the major competitive crude oils and an appropriate mechanism for the purposes of giving effect to sub-article 10(a) (2)(ii) (B) above. The selection of crude oils will be reviewed annually and modified if necessary.
- (d) In the event of any difference or dispute between the Company and Government or T.P.D.C. concerning selection of the major competitive crude oils, or more generally about the manner in which the prices are determined according to the provisions of this Article 10, the matter or matters in issue shall finally be resolved by a sole expert appointed by agreement between the parties or, in the absence of such agreement, by the British Institute of Petroleum. The costs of the expert shall be shared equally between the Company on the one hand and the Government and T.P.D.C. on the other hand.

ARTICLE 11

NATURAL GAS

- (a) (1) Where the Company has informed T.P.D.C. that Non-Associated Natural Gas discovered in the Contract Area is of potential commercial interest, the parties will, as soon as possible after completion by the Company of an appraisal programme, meet together with a view to reaching an agreement on the development, production, processing and sale of such gas.
- (2) For the purpose of the aforesaid, the parties undertake to negotiate in good faith and in doing so will seek to give effect to the following principles:
- (i) all Contract Expenses directly attributed to the discovery and production of such gas shall be recovered from part thereof and the remainder of the gas shared between the Company and T.P.D.C. as far as possible in accordance with the scheme for cost recovery and sharing of Profit Oil set out in Article 9;
 - (ii) to the extent that market conditions permit, gas will be valued for cost recovery and sold for processing or export at prices which will give to the Company a fair return on its investment.

(b) Where:-

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

the Minister will, if T.P.D.C. at the request of the Company applies in that behalf, extend for a reasonable time, not to exceed five (5) years, the period within which T.P.D.C. may apply for a Development Licence over a Block or Blocks within that Location.

- (c) Subject to the provisions of the Act, Natural Gas associated with Crude Oil and not used in Petroleum Operations may be flared only if the use thereof is uneconomic. However, T.P.D.C. may elect to offtake, free of charge, at the wellhead or gas oil separator and use for domestic requirements such Natural Gas that would otherwise be flared, provided that all costs associated with T.P.D.C.'s

utilisation of the Natural Gas be borne by T.P.D.C. It is understood that such offtake should not be detrimental to the prompt conduct of oil field operations according to good oil field practice.

ARTICLE 12

TAXATION AND ROYALTY

- (a) Subject to sub-article (b) below [option (2)], to tax, duty, fee or other impost shall be imposed on the Company or its shareholders in respect of income derived from Petroleum Operations hereunder or in respect of any property held or thing done for any purpose authorised or contemplated hereunder other than:
- (i) Additional Profits Tax at the rates and calculated in the manner herein provided;
 - (ii) Subject to the provision of Article 19, import duties at the rates specified from time to time in the Customs Tariff Act.
 - (iii) Taxes, duties, fees or other imposts for specific services rendered on request or to the public or commercial enterprises generally and rent due to the Government in respect of any land rights granted or assigned to the Company;
 - (iv) Local Government rates or taxes not in excess of those generally applicable in Tanzania;
 - (v) Stamp duties, registration fees, licence fees and any other tax, duty, fee or other impost of a minor nature.
- (b) [option (1)]

The Company shall not be subject to taxes on income derived from Petroleum Operations hereunder and Government shall pursuant to Section 15 of the Income Tax Act 1973 grant any exemption necessary to give effect to this accordingly.

or

[option (2)]

In addition to the taxes, duties, fees and imposts listed in sub-article (a) above, the Company shall be subject to Tanzanian taxes on income derived from Petroleum Operations hereunder and T.P.D.C. shall pay such tax on behalf of the Company in accordance with the provisions of the Income Tax Act 1973 as amended from time to time. Provided, however, that where in any tax year the value of T.P.D.C.'s share of Profit Oil, net of the royalty payable pursuant to sub-article (d) below, is less than such income taxes to which the Company is subject in respect of that tax year pursuant to Section 15 of the Income Tax Act exempt the Company from

payment of income taxes of such amount as represents the difference between the taxes payable by the Company and the value of the aforesaid T.P.D.C.'s share of Profit Oil net of the royalty payable in the aforesaid tax year. The Company will be responsible for submitting returns to the Income Tax Department and the Commissioner of Income Tax will issue the Company with a receipt evidencing payment of the income tax determined in accordance with this sub-article. Such receipt shall detail the tax year in respect of which the tax is paid, the amount of tax paid and the effective tax rate applied as a result of the exemption granted by the Government pursuant to Section 15 of the Income Tax Act 1973. For the purpose of the Income Tax Act 1973 the Company's income derived from Petroleum Operations shall be calculated by deducting from gross income the recoverable costs.

For the purpose of this sub-article (b):

“gross income” means the fair market value of the Company's share of Cost Oil and Profit Oil as determined in accordance with Article 10, the proceeds (if any) from the sale of Natural Gas to which the Company was entitled, any other income related to the Petroleum Operations and a sum equal to Tanzanian income tax paid for the preceding tax year,

“recoverable costs” means the Company's share of all costs deductible under the Income Tax Act 1973, and includes the values of oil delivered as royalty pursuant to sub-article (d) below as well as any Additional Profits Tax paid pursuant to Article 13 herein.

(c) [With option (b)(2)]

Where the Company is more than one person:

- (i) each such person separately shall be subject to Tanzanian taxes his income derived from Petroleum Operations and T.P.D.C. shall pay such taxes on behalf of each such person;
 - (ii) each such person shall separately calculate, prepare and file his Tanzanian tax return;
 - (iii) without prejudice to the generality of the foregoing, income from Petroleum Operations for the purposes of the Income Tax Act 1973 shall be separately ascertained for each such person.
- (d) T.P.D.C. shall discharge its obligation to pay royalty under Section 81 of the Act in respect of petroleum obtained from the Contract Area by delivery to the Government of the minimum share of Profit Oil received by T.P.D.C. pursuant to Article 9 of this Agreement (and being equivalent at all times to 12.5% of total Crude Oil production from the Contract Area) at such location as the Minister may

direct, and the Government may require T.P.D.C. to dispose of such royalty otherwise to be delivered to the Government in such manner as the Minister may direct.

ARTICLE 13

ADDDITIONAL PROFITS TAX

- (a) The Company shall be subject to an Additional Profits Tax (hereinafter referred to as “APT”) that shall be calculated on a Development Area basis in accordance with the provisions of this Article 13. APT will be calculated for each Calendar Year and will vary with the real rate of return earned by the Company on the net cash flow from the Development Area in question. If, for any Development Area, either:
- (i) the “first accumulated net cash position” (as calculated in the manner set out hereafter and hereinafter referred to as the “FANCP”);

or

 - (ii) each of the FANCP and the “second accumulated net cash position” (as calculated in the manner set out hereafter and hereinafter referred to as the “SANCP”)

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

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

$$\text{FANCP} = A(100\% + B) + C$$

where:

- “A” equals the FANCP denominated in US dollars at the end of the Calendar Year preceding the Calendar Year for which the calculation is being made.
- “B” equals twenty percent (20%) plus the percentage change, for the Calendar Year for which the calculation is being made, in the annual average level of the United States Industrial Goods Producer Price Index (USIGPPI) as reported for the first time in the monthly publication “International Financial Statistics” of the International Monetary Fund (IMF) in the section “Prices, Production, Employment”.

“C” equals the net cash position denominated in US dollars (which may be a positive or negative amount) for the Calendar Year for which the calculation is being made, calculated as follows:

- (i) the Company’s share of Cost Oil and Profit Oil for that Calendar Year valued in accordance with Article 10 hereof and allocated to the Development Area in question in accordance with the provisions of Annex “ D” to this Agreement

plus

- (ii) the Company’s share of all credits to the accounts under this Agreement in respect of the Calendar Year, calculated and allocated to the Development Area in question in accordance with the provisions of Annex “ D” to this Agreement

minus

- (iii) the Company’s share of all charges to the accounts under this Agreement in respect of that Calendar Year, calculated and allocated to the Development Area in question in accordance with the provisions of Annex D to this Agreement, except that for this purpose the Company’s share of charges shall not include any amounts in respect of interest on loans obtained for the purpose of carrying out Petroleum Operations.

- (c) The SANCP on any Development Area for any Calendar Year shall be calculated according to the same formula given under sub-article (b) above except that:

“A” equals the SANCP denominated in US dollars at the end of the Calendar Year preceding change, for the Calendar Year for which the calculation is being made, in the annual average level of the USIGPPI as reported for the first time in the monthly publication “International Financial Statistics” of the IMF in the section “Prices, Production, Employment”.

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

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

- (d) If for any Calendar Year the FANCP is positive amount, the FANCP at the end of that Calendar year shall be deemed to be zero for the purpose of calculating the FANCP for the subsequent Calendar Year.

- (e) If for any Calendar Year the SANCP is a positive amount, the SANCP at the end of that Calendar Year shall be deemed to be zero for the purpose of calculating the SANCP for the subsequent Calendar Year.
- (f) The Company shall maintain proper records and books of accounts in accordance with the provisions of Annex “D” enabling the calculations described in this Article 13 to be performed. From the Effective Date the Company shall maintain and submit to the Government annually, or more frequently if so requested, a statement of the FANCP and SANCP.
- (g) The APT due, if any, shall be paid in cash at such time and in such manner as the Commissioner of Income Tax may reasonably require.

ARTICE 14

REPORTING, INSPECTION AND CONFIDENTIALITY

- (a) The Company shall prepare and, at all times while this Agreement is in force, maintain accurate and current records of its operations in the Contract Area.
- (b) The Company shall save and keep for a reasonable period of time a representative portion of each sample of cores, cuttings and fluids taken from drilling wells, to be disposed of or forwarded to the Government or its representative in a manner directed by T.P.D.C. All samples acquired by the Company for its own purpose shall be considered available for inspection at any reasonable time by the Government or its representative. Any such samples which the Company has kept for a period of twelve (12) months with the full knowledge of T.P.D.C. without receipt of instruction to forward the same to T.P.D.C., Government or its representative may be disposed of by the Company at its discretion, provided T.P.D.C. has been given prior notice of not less than thirty (30) days of the Company's intention to do so and given the opportunity to take such samples.
- (c) Notwithstanding sub-article (b) above, the Company shall be freely permitted to export samples for purposes of investigation in laboratories abroad. Originals of records may be exported provided at least one copy has been retained in Tanzania
- (d)
 - (i) T.P.D.C. through its duly appointed representatives shall be entitled to observe the Petroleum Operations conducted by the Company hereunder and at all reasonable times to inspect all assets, records and data kept by the Company relating to such operations. In the exercise of its rights under this sub-article T.P.D.C. shall not unreasonably interfere with the Company's operations.
 - (ii) The Company shall provide T.P.D.C. promptly with copies of any and all data (including, but not limited to geological and geophysical reports, logs and well surveys), information and interpretations of such data and information obtained by the Company in the course of carrying out Petroleum Operations hereunder. All such data, information and interpretations, as well as cores and cuttings taken from drilling wells, shall be the property of Government and, save as provided in sub-articles (b) , (c) and (d) of this Article, the same may not be published reproduced or otherwise dealt with by the Company without the prior written consent of Government or T.P.D.C.
 - (iii) All data and information and every interpretation thereof provided by the Company to T.P.D.C. shall, so long as it relates to an area which is a part of the Contract Area, be treated as confidential and each of the parties hereto undertakes not to disclose the same to any other person without the consent of the other parties.

However, such data, information and interpretations may be disclosed to Affiliated companies or contractors carrying out any part of the Petroleum Operations and to advisers of T.P.D.C. and Government who will treat as confidential all that is disclosed to them and undertake not to disclose the same to any other person without the consent of the Company and T.P.D.C. Notwithstanding what is provided in this sub-clause (d) (iii) of this Article the Minister may, using such data, information and reports supplied by the Company, publish summaries of data, information and reports from geophysical surveys and exploration wells, including lithological groups, letter classification boundaries and hydrocarbon zones:

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

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

- (iv) The Company undertakes not to disclose to third parties any data, information or any interpretation thereof which relates to an area which has ceased to be part of the Contract Area for a period of four (4) years from the date on which the area to which such data, information or any interpretation thereof relates ceased to be part of the Contract Area or from the date on which this Agreement expires or is terminated whichever occurs first. However, where during the aforesaid period the Company carries on Petroleum Operations in the Contract Area, such data, information and interpretations may be disclosed to Affiliated Companies or contractors carrying out any part of the petroleum Operations.
- (v) Any public disclosure regarding the interpretation of information acquired in Petroleum Exploration shall not be made without the Government's consent.

ARTICLE 15

LIFTING, MARKETING AND DOMESTIC SUPPLY OBLIGATION

- (a) The quantity of production to which T.P.D.C. is entitled pursuant to Article 9 herein shall be delivered to T.P.D.C. or its nominee at the Delivery Point, at which title in production will pass to T.P.D.C. or its nominee subject to the terms of the agreement referred to in sub-article (b) below. T.P.D.C. shall be responsible for costs associated with its lifting entitlement after the Delivery Point. The Company, and in the event of Joint Operations, T.P.D.C. shall be responsible for all costs prior to the Delivery Point.
- (b) Within six months after the Minister's approval of a development plan, the Company shall propose to T.P.D.C. an offtake procedure to govern the method whereby the parties will nominate and lift their respective shares of Crude Oil. The details of such procedure shall be discussed and agreed upon between T.P.D.C. and the Company for the Minister's approval. The major principles of such procedure shall include the following:
 - (i) Lifting by the parties shall be carried out so as to avoid interference with Petroleum Operations.
 - (ii) Lifting rights and schedules will be subject to operations tolerances and constraints so that each party shall be entitled to lift full cargo loads.
 - (iii) Within reasonable limits and subject to future correction of imbalances, each party may lift more or less than its lifting entitlement so as to allow the lifting of full cargo loads.
 - (iv) In general priority for lifting shall be given to the party having the greatest unlifted lifting entitlement.
- (c) The Company shall, if requested by the Minister with at least three months advance notice, market abroad on competitive terms all or part of T.P.D.C.'s lifting entitlement subject to payment by T.P.D.C. of direct costs normally borne by a seller in such transactions as may be agreed by T.P.D.C. but excluding any commission or marketing fee in respect of such service.
- (d) T.P.D.C. shall use its share of production from all Crude Oil production in Tanzania to meet the requirements of the domestic market of Tanzania.

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

- (e) Crude Oil sold pursuant to sub-article (d) above shall be paid for in foreign exchange at a price determined in accordance with Article 10 of this Agreement.

ARTICLE 16

TANZANIAN RESOURCES

The Company shall give preference to the purchase of Tanzanian goods and materials provided such goods and materials are of an acceptable quality and are available on a timely basis in the quantity required at competitive prices, and terms as well as to the employment of Tanzanian service contractors as far as they are compatible with the Company's financial and technical requirements. The Company will establish appropriate tender procedures reflecting the above principles for the acquisition of goods, materials and services .

ARTICLE 17

EMPLOYMENT AND TRAINING

- (a) Subject to the requirement of any law relating to immigration, the Government shall provide the necessary work permits and other approvals required for the employment of expatriate personnel by the Company in Tanzania for the purposes of this Agreement .T.P.D.C. shall assist the Company in that regard.
- (b) In the conduct of the Petroleum Operations, the Company shall endeavour to employ Tanzania citizens having appropriate qualifications to the maximum extent possible.
- (c) During each year of the term of the Exploration Licence or any renewal thereof the company shall spend a minimum sum of United States dollars (US\$.....) adjusted by dividing it by the factor I as defined in Article 4(f) herein, for one or more of the following purposes:
 - (i) to provide a mutually agreed number of Government and T.P.D.C. personnel with on-the-job training in the Company's operations in Tanzania and overseas, and/or practical training at institutions abroad, particularly in the areas of logistical planning for undertaking petroleum operations, economic analysis, petroleum accounting and contract administration;
 - (ii) to send suitable Tanzanian personnel selected by the Government and by T.P.D.C. on courses at universities, colleges or other training institutions mutually selected by the Company, the Government and T.P.D.C..
 - (iii) to send Tanzanian personnel selected by the Government and by T.P.D.C. to conferences and seminars related to the petroleum industry;
 - (iv) to purchase for the Government and T.P.D.C. advanced technical books, professional publications, scientific instruments or other equipment required by the Government and T.P.D.C.

Government T.P.D.C. and the Company shall meet annually in advance in order to formulate the programmes of activities to be undertaken by the Company specified in (i) to (iv) above for the next year.

- (d) Not later than six months after the grant of a Development Licence the Company shall, in consultation with T.P.D.C. implement the programme proposed in the development plan as approved by the Government for training and employment of Tanzanian nationals in each phase and level of Petroleum Operations and for the

transfer of management and technical skills for the safe and efficient conduct of Petroleum Operations.

- (d) The provisions of the Training Levy (Imposition) Act 1972 shall not apply to the employment of any expatriate employee of the Company, including any expatriate employee of any non-resident contractor, during the several periods into which Exploration Operations hereunder are divided.

ARTICLE 18

TITLE TO ASSETS AND INSURANCE

- (a) All fixed assets, owned by the Company in connection with the Petroleum Operations carried out by the Company shall become the property of T.P.D.C. at request after this agreement expires or is terminated. Such fixed assets shall include but not be limited to buildings, piers, harbours, pipelines, wellheads, separators, compressors, pumps, power lines, telephone lines etc.
- (b) All movable assets, in connection with the Petroleum Operations carried out by the Company shall remain the Company's property on expiration or termination of this Agreement. T.P.D.C. shall have the right of first refusal in case the Company decides to sell the assets.
- (c) The Company shall retain ownership of all assets mentioned in (a) above if it either renews an expired agreement to a particular license or acquires another license in Tanzania, provided that such renewal or acquisition takes place not more than ninety (90) days from the date of expiration of the previous Agreement.
- (d) If T.P.D.C. elects to participate in Joint Operations, then title to any assets acquired pursuant to a development plan shall be held jointly by the Company and T.P.D.C. according to their respective interest in Joint Operations. Any such asset shall become completely owned by T.P.D.C. as soon as this Agreement expires or is terminated or at the time the portion of the full costs of the asset in question have been recovered by the Company out of Cost Oil, whichever occurs first.
- (e) So long as this Agreement remains in force, the Company shall have free of any charge, for the purpose of carrying on Petroleum Operations hereunder the exclusive use of assets which have become the property of T.P.D.C. pursuant to sub-articles (a), (b) or (d) above. The Company shall keep the same in good repair and working order, fair wear and tear excepted, and any maintenance expenses shall be recovered in accordance with the terms hereof.
- (f) Subject to the provisions of Article 18(a) and (b) above the Company shall give T.P.D.C. the opportunity to buy, upon such commercially reasonable terms as may be agreed, any item imported duty free under Article 19 (a) which the Company intends to dispose of or sell.
- (g) The Company shall effect and, at all times during the terms of this Agreement, maintain for Petroleum Operations hereunder insurance of such type and in such amount as is customary in the international petroleum industry in accordance with good oil field practice. The said insurance shall, without prejudice to the generally of the foregoing, cover:

- (i) any loss or damage to all assets used in Petroleum Operations;
 - (ii) pollution caused in the course of Petroleum Operations for which the Company or the Operator may be held responsible;
 - (iii) property loss or damage or bodily injury suffered by any third party in the of Petroleum Operations for which the Company may, Government or T.P.D.C. may be liable or the Company may be liable to indemnify the Government and T.P.D.C.
 - (iv) The cost of removing wrecks and cleaning up operations following an accident in the course of petroleum Operations; and
 - (v) The Company's and/or Operator's liability to its employees engaged in the Petroleum Operations.
- (h)** The Company shall require its Contractors to carry insurance of such type and in such amount as is customary in the international petroleum industry in accordance with good oil field practices.
- (i)** In order to discharge its obligations for site cleaning and abandonment of all assets and facilities which are not acquired by TPDC in accordance with the provisions of this Article 18, the Company, the Government and TPDC shall, within two years of the commencement of commercial production, enter into an agreement to establish an abandonment cost reserve fund. Such agreement shall address the administration and utilisation of funds deducted from Cost Oil in accordance with the following:
- (i) T.P.D.C and the Company shall estimate the cost for site cleaning and abandonment in good faith, on the basis of industry average costs in accordance with generally acceptable petroleum industry practice.
 - (ii) The payments deposited into the fund shall be placed in a U.S. Dollar, long term, interest bearing account in a first class bank located within Tanzania to be designated by T.P.D.C. and Company.
 - (iii) If, upon expiration or other termination of this Agreement, T.P.D.C. determines to conduct the site cleanup and abandonment operations, such funds, plus all accrued interest, shall be paid to T.P.D.C. whereupon the Company shall be released from any further obligation and liability with respect to such site cleanup and abandonment.
 - (iv) If, within sixty (60) days prior to the expiration or other termination of this Agreement, T.P.D.C. has failed to advise the Company of T.P.D.C.'s election to conduct the site cleanup and abandonment operations, such funds, plus all accrued interest, shall be paid to the Company and the Company shall thereupon conduct all such operations in accordance with generally accepted petroleum industry practises. If the reserve fund paid to

the Company is insufficient to pay the costs of cleanup and abandonment, such shortfall shall be paid by the Company. If, however, the reserve fund paid to the Company exceeds the costs incurred by the Company for site cleanup and abandonment, such excess shall be distributed between T.P.D.C. and the Company as follows:

T.P.D.C.: 50%

Company: 50%

ARTICLE 19

IMPORT DUTIES

- (a) The Company and its Contractors engaged in Petroleum Operations hereunder and T.P.D.C. in respect of Joint Operations established pursuant to Article 7 shall be permitted to import, free of duty or other taxes on imports, machinery, equipment, vehicles, materials, supplies, consumable items (other than foodstuffs and alcoholic beverages) and moveable property, where imports in any of the said categories have been certified by a responsible representatives of T.P.D.C. to be for use solely in carrying out operations under this Agreement.
- (b) Subject to Article 18, any of the items imported into Tanzania may, if no longer required for the operations hereunder, be freely exported at any time by the importing party without the payment of any export duty or import provided, however, that on the sale or transfer by the importer of any such items to any person in Tanzania, import duty shall be payable by the importer on the value thereof at the date of such sale or transfer.
- (c) The Expatriate Employee of the Company and of its contractors, shall be permitted, subject to the limitations and conditions set out in the Customs Tariff Act, 1976, to import into Tanzania free of import duty and other taxes on first arrival their personal and household effects including one automobile provided, however, that no property imported by the employee shall be resold by him in Tanzania except in accordance with Government regulations.
- (d) “Expatriate Employee” in this Article has the meaning assigned to those words in Article 20(c).

ARTICLE 20

FOREIGN EXCHANGE CONTROL

- (a) The Company shall, during the term of this Agreement, have the right:
- (i) to enter into loan agreements outside Tanzania for the purpose of financing Petroleum Operation hereunder but no payments of principal or interest in respect thereof shall be made from any source in Tanzania other than the Bank accounts referred to in sub-paragraph (ii);
 - (ii) to open and maintain Foreign Currency Accounts with a Bank which is an authorized dealer within Tanzania and freely dispose of the sums deposited therein without any restriction provided the said accounts are credited only with sums deposited in foreign currency or with the proceeds of the sale of Foreign currency being credits relating to or derived from Petroleum Operations hereunder;
 - (iii) subject to any conditions or requirements imposed by the Bank of Tanzania, to open and maintain bank accounts, in addition to those described in sub-paragraph (a)(ii) above, in Tanzania denominated in Tanzanian currency and freely dispose of the sum deposited therein within Tanzania provided the said accounts are credited only with Tanzanian currency arising from proper transactions within Tanzania relating to Petroleum Operations hereunder;
 - (iv) to open and keep bank accounts in any foreign currency outside Tanzania which may be credited without restriction and freely dispose of any sums deposited therein without restriction and without any obligation to convert into Tanzanian currency any part of the said amounts save that such accounts shall not be credited with the proceeds of the sale of any Tanzanian currency without the consent of the Bank of Tanzania;
 - (v) to purchase Tanzanian currency, through an authorised dealer, without discrimination, at the rate of exchange generally, applicable.
- (b)
- (i) Expatriate Employees of the Company and its contractors engaged in Petroleum Operations hereunder shall be entitled to:
 - (A) export freely from Tanzania, during each year of their employment their savings on salaries paid in Tanzania for an amount not exceeding one third of the gross salary for that year and freely to export from Tanzania upon termination of their contract in Tanzania any balance of

such savings as well as any sums paid to them from any provident or the like fund on termination of their employment in Tanzania.

- (B) export freely from Tanzania, upon termination of their employment in Tanzania their personal property previously imported into Tanzania or purchased with their savings on salaries in Tanzania.
- (ii) Where the Company, by notice in writing to the Commissioner of Income Tax, has guaranteed the full and proper discharge by an Expatriate Employee engaged in Petroleum Operations of his liability to income tax under the laws of Tanzania, including the provisions of Government Notice Number 411 published on 15 August 1986, the employee shall be entitled to receive freely the whole or any part of his remuneration in the country in which he is normally resident.
- (c) For the purpose of this Article “Expatriate Employee” means any employee not normally resident in Tanzania who is engaged under contract which provides for the payment of passages to and from Tanzania.

ARTICLE 21

ACCOUNTING AND AUDIT

- (a) The Company shall maintain at its business office in Tanzania accounting records relating to Petroleum Operations under this Agreement in accordance with the Accounting Procedure set out in Annex “D” of this Agreement.
- (b) T.P.D.C. shall have the right to audit Company’s accounting records in accordance with Annex “D”, the Accounting Procedure.
- (c) Nothing in this Article shall be construed as limiting the right of the Government pursuant to any statutory power to audit or cause to be audited the books of accounts of the Company.

ARTICLE 22

ENVIRONMENT AND SAFETY

- (a) In furtherance of the Registrations made under the Act or as the Government may otherwise require from time to time, the Company shall take necessary and adequate steps to:
 - (i) prevent pollution and protect the environment and the living resources of the sea and lakes:
 - (ii) ensure prompt, fair and adequate compensation for injury to persons or damage to property caused by the effects of Petroleum Operations.
- (b) If the Company's failure to comply with the provisions of sub-article (a)(i) above and the Regulations results in pollution or damage to the environment or marine life or otherwise, the Company shall take all necessary measures to remedy the failure and effects thereof. If such pollution or damage is the result of gross negligence or willful misconduct of the Company, the cost of the remedy shall not be a Recoverable Contract Expense for the purpose of Article 9 and Annex "D".
- (c) The Company shall notify the Minister and T.P.D.C. forthwith in the event of any emergency or accident affecting the environment and shall take such action as may be prudent and necessary in accordance with good international petroleum industry practice in such circumstances.
- (d) If the Company does not act promptly so as to control or clean up any pollution or make good any damage caused, T.P.D.C. may, after giving the Company reasonable notice in the circumstances, take any actions which are necessary in accordance with good international petroleum industry practice and the reasonable costs and expenses of such actions shall be borne by the Company.
- (e) The Company should undertake at its expense (but as a legitimate recoverable cost), one or more comprehensive Environmental Impact Assessment studies prior to, during and after major operations. This requirement is mandatory and the first study shall be before the start of drilling the first well in the Contract Area. However, in areas of particular environmental sensitivity, an Environmental Impact Assessment must also be undertaken prior to seismic acquisition.

ARTICLE 23

FORCE MAJEURE

- (a) Any non-performance or delay in performance by T.P.D.C. or the Company or both of any obligation in terms of Petroleum Operations under this Agreement shall be excused if and to the extent such non-performance or delay is caused by Force Majeure as defined in this Article 23. The period of any such non-performance or delay together with such period as may be necessary for the restoration of any damage caused during the period of Force Majeure shall be added to the time allowed under this Agreement for the performance of such obligation and for the performance of any obligation or the exercise of any rights dependent thereon.
- (b) The term “Force Majeure” means any act of God, perils of navigation, storm, flood, earthquake, lightning, explosion, fire, hostilities, war (declared or undeclared) blockade, insurrection, civil commotion, acts of the public enemy, quarantine restriction, epidemics, strike, accident riot, labour disturbance, any act or failure to act of a Governmental agency or local body or any other cause beyond the control of T.P.D.C. or the Company, as the case may be provided that any act or failure to act of a Governmental agency or local body shall not constitute Force Majeure unless such act or failure to act is the proximate cause of non-performance or delay in performance of any obligation in terms of Petroleum Operations under this Agreement or the exercise of any right dependent thereon.
- (c) The party claiming suspension its obligations under this Agreement on account of Force Majeure shall promptly notify the other in writing of the occurrence thereof. In such event, the Party claiming suspension of its obligations as aforesaid shall take all actions that are reasonable and legal to remove the cause thereof and, upon removal of the cause, promptly notify the other party and shall take all reasonable actions for resumption of its operations as soon as possible after removal of the Force Majeure situation.

ARTICLE 24

ASSIGNMENT

- (a) The Company may not assign or transfer to a person, firm or corporation not party hereto, in whole or in part, any of its rights privileges, duties or obligations under this Agreement without the prior written consent of the government. However, the Company shall be free to assign or transfer its rights, privileges, duties and obligations under this Agreement to an Affiliated Company, provided Government and T.P.D.C. are notified in writing in advance and provided the assignment or transfer will not adversely affect the performance of the obligations under this Agreement.
- (b) In the event that the Company wishes to assign in whole or in part any of its rights, privileges, duties or obligations hereunder as aforesaid, the written consent thereto of the Government if required under this Article shall not be unreasonably withheld.
- (c) Any assignment made pursuant to this Article shall bind the assignee to all the terms and conditions hereof and as a condition to any assignment the Company shall provide an unconditional undertaking by the assignee to assume all obligations by the company under the Agreement .
- (d) Any assignment made pursuant to the provisions of this Article shall be free of any transfer or related taxes, charges or fees.
- (e) Where the Company is more than one person the Government will be provided with copies of all agreements between them with respect to Petroleum Operations.

ARTICLE 25

CONSULTATION AND ARBITRATION

- (a) T.P.D.C. and the Company shall periodically meet to discuss the conduct of the operations envisaged under this Agreement and shall make every effort to settle amicably any problem arising therefrom.
- (b) If any dispute or difference in relation to or in connection with or arising out of any of the terms and conditions of this Agreement should arise the same shall be resolved by negotiations between the parties. In the event of no agreement being reached, either party shall except in the case of a dispute or difference as provided in sub-article 7(c) (ii), 10(b) and 10(d), have the right to have such dispute or difference settled through arbitration as provided for herein below.
- (c) Any unresolved dispute or difference aforesaid shall be finally settled by arbitration under the Rules of the Convention for the Settlement of Investment Disputes between States and Nationals of other States of 16 March 1965 and to the extent required by the said Convention, the parties hereto will, in that event, consent to the jurisdiction of the Centre. It is further agreed that although ABC Oil Company (as an Investor) is a Company established under the laws of Tanzania it is controlled by nationals of [] and shall be treated as a national of that State for the purposes of the said convention.

ARTICLE 26

APPLICABLE LAW

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

ARTICLE 27

MODIFICATION AND HEADINGS

- (a) This Agreement shall not be amended or modified in any respect except by the mutual consent in writing of the parties hereto.

- (b) The Headings of this Agreement are for convenience only and shall not be taken into account in interpreting the terms of this Agreement.

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

Signed for and on behalf
Of the Government of
Tanzania

Minister for Energy and Minerals

Signed for and on behalf
Of the Tanzania Petroleum
Development Corporation

Managing Director

Signed for and on behalf
Of ABC Oil company

[Director]

ANNEX “A”

DESCRIPTION OF THE EXPLORATION LICENCE AREA

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

ANNEX “B”

MAP

Total Number of Blocks = []

Total Area amounts to [] Square kilometers

ANNEX “C”

DRAFT EXPLORATION LICENCE

WHEREAS pursuant to Article 3(a) of the Agreement T.P.D.C. has applied for an Exploration Licence in respect of the area described in Annex “A” to the Agreement and shown on the map in Annex “B” thereof respectively:

I, _____ Minister for Energy and Minerals pursuant to the powers conferred upon me by Section 21 of the Petroleum (Exploration and Productions) Act 1980 hereby grant T.P.D.C. for a period of four years from the date hereof this Exploration Licence over the exploration area described in the First Schedule hereto conferring on T.P.D.C. the exclusive right to explore in the said exploration area for petroleum and to carry out such operations and execute such works as are necessary for that purpose.

The Exploration Licence is granted subject to the following conditions:

(ANNEX “C”)

1. (a) During the period of four years commencing from the date hereof and terminating on the fourth anniversary of the date T.P.D.C. shall in the said exploration area:-
 - (i) shoot at least [] kilometres of seismic;
 - (ii) drill at least [] exploration Wells; and carry out geological and geophysical surveys and related activities as deemed necessary by ABC Oil Company; and
 - (iii) spend a sum which, when adjusted in accordance with the formula set out in sub-article (f) of Article 4 of the Agreement, equals or exceeds [] million US dollars.
- (b) Subject to any amendment or revision thereof made pursuant to Article 5 of the Agreement, T.P.D.C. shall conduct exploration operations under this licence during the year ending 31 December, 19----- in accordance with the detailed Work Programme and Budget set out in the Second Schedule hereto and will spend the sum specified in the said budget.

(ANNEX “C”)

2. Where during any period covered by the Licence the obligations of T.P.D.C. under this Licence have been suspended by reason of Force Majeure pursuant to Article 23 of the Agreement , the period for which this licence has been granted shall be extended for a period equal to the period during which the obligations of T.P.D.C. were so suspended.

In this licence “the Agreement” means the Agreement made on _____ day of _____ between the Government of the United Republic of Tanzania, the Tanzania Petroleum Development Corporation and ABC Oil Company.

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

IN WITNESS WHEREOF, I have granted the Licence aforesaid and set out my hand and seal this _____ day of _____, 19____

Minister for Energy and Minerals

(ANNEX “C”,1)

FIRST SCHEDULE

Coordinates of the Cornerpoints of the Exploration Area

LICENCE

Points	Lat.S.	Long.E.	Due	Remarks
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(ANNEX “C”.2)

SECOND SCHEDULE

(Set out here for the Calendar Year in which this Licence is first issued the detailed Work Programme and budget submitted by ABC Oil company to T.P.D.C. pursuant to Article 5(a) of the Agreement).

ACCOUNTING PROCEDURE

This Annex is made a part of the Production Sharing Agreement (hereinafter referred to as the “Agreement”) between the Government of the United Republic of Tanzania and Tanzania Petroleum Development Corporation and ABC Oil Company made on the _____ day of _____.

SECTION I

GENERAL PROVISIONS

1.1 Definitions

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

1.2 Purpose

The purpose of this Accounting Procedure is to set out principles and procedures of accounting which will enable the Government to monitor the costs, expenditures, production and receipts so that both T.P.D.C.’s entitlement to Profit Oil and Government’s revenues from the Additional Profits Tax can be accurately determined on the basis of the Agreement.

1.3 Documentation Required to be Submitted by the Company

- (a) Within thirty (30) days of the Effective Date, the Company shall submit to and discuss with the Minister and T.P.D.C. a proposed outline of charts of accounts, operating records and reports, which outline shall reflect each of the categories and sub-categories of costs and expenditures specified in Sections 2 and 3 below and shall be in accordance with generally accepted and recognised accounting systems and consistent with normal practice for joint venture operations of the international petroleum industry,. Within ninety (90) days of receiving the above submission the Minister in consultation with T.P.D.C. shall either indicate approval of the proposal or request revisions to the proposal. Within one hundred and eighty (180) days after the Effective Date of the Agreement, the Company and the Minister in

consultation with T.P.D.C. shall agree on the outline of charts of accounts, operating records and reports which shall describe the basis of the accounting system and procedures to be developed and used under the Agreement. Following such agreement the Company shall expeditiously prepare and provide the Minister and T.P.D.C. with formal copies of the comprehensive charts of accounts related to the accounting, recording and reporting functions, and allow the Minister and T.P.D.C. to examine the manuals and to review procedures which are, and shall be, observed under the Agreement.

- (b) Notwithstanding the generality of the foregoing, the Company shall make regular Statements to the Minister and T.P.D.C. relating to the Petroleum Operations. These Statements are:
 - (i) Production Statement (see Section 5 of this Annex).
 - (ii) Value of Production, Pricing and Royalty payable Statement (see Section 6 of this Annex).
 - (iii) Statement of Expenditures and Receipts (see Section 7 of this Annex).
 - (iv) Cost Recovery Statement (see section 8 of this Annex).
 - (v) End-of-Year-Statement (see Section 9 of this Annex).
 - (vi) Budget Statement (see Section 10 of this Annex).
- (c) All reports and Statements shall be prepared in accordance with the Agreement, the laws of Tanzania and, where there are no relevant provisions in either of these, in accordance with the normal practice of the international petroleum industry.

1.4 Language, Units of Account and Exchange Rates

- (a) The Company shall maintain accounts in Tanzanian shillings and United States dollars; however, the United States dollar accounts will prevail in case of conflict. Metric units and barrels shall be employed for measurements required under the Agreement and this Annex. The language employed shall be English. [Where necessary for clarification the Company may also maintain accounts and records in other units of measurement and currencies].
- (b) It is the intent of this Accounting Procedure that neither the Government, T.P.D.C. nor the Company should experience an exchange gain or loss at the expense of, or to any of the benefit of, any of the other parties. However,

should there be any gain or loss from exchange of currency, it will be credited or charged to the accounts under the Agreement.

- (c)
 - (i) Amounts received and costs and expenditures made in Tanzanian shillings or in United States dollars shall be converted from Tanzanian shillings into United States dollars or from United States dollars into Tanzanian shillings on the basis of the monthly average of the mean of the daily official buying and selling exchange rates between the currencies in question as published by the Bank of Tanzania or failing such publication, any other publication as agreed by the parties. for the Month in which the relevant transaction occurred.
 - (iii) Notwithstanding the general policy described in the preceding subparagraph, all transactions in excess of the equivalent of two hundred and fifty thousand United States dollars (US\$250,000) shall be converted at the mean of the buying and selling exchange rates published by the Bank of Tanzania on the day the transaction occurred.
 - (iii) Amounts received and expenditures made in currencies other than United States dollars and Tanzania n shillings shall be converted into United States dollars or Tanzanian shillings on the basis of the monthly average of the mean of the daily buying and selling exchange rates between the currencies in question as published by the Bank of Tanzania or, failing such publication, as published in the Financial Times (London edition) for the Month in which the relevant transaction occurred.
 - (iv) The average monthly exchange rate calculated in accordance with sub-section 1.4(c) (i) above and, where relevant, the exchange rates employed pursuant to sub-sections 1.4(c) (ii) and (iii) above, shall be identified in the relevant Statements required under sub-section 1.3(b) of this Annex.

1.5 Payments

- (a) Subject to Article 7 (c) (iii) of the Agreement, all payments between the parties shall, unless otherwise agreed, be in United States dollars and through a bank designated by each receiving party.
- (b) Discharge of the Company's obligation with respect to T.P.D.C.'s share of Profit Oil shall be made in accordance with the Agreement.

- (c) All sums due from one party to the other under the Agreement during any Calendar quarter shall, for each day such sums are overdue during such quarter, bear interest compounded daily at an annual rate equal to the average London Interbank Offer Rate (LIBOR) for six (6) months US dollars as quoted at 11.00 a.m. London time on the first business day of such Quarter by the London office of National Westminster Bank, or such other bank as the parties may agree, plus two (2) percentage points.

1.6 Audit and Inspection Rights of Government

- (a) Without prejudice to statutory rights, T.P.D.C. shall have the right to cause to audit the Company's accounts and records maintained hereunder with respect to each Calendar year within two (2), years (or such longer period as may be required in exceptional circumstances) from the end of each such year. Notice of any exception to the accounts for any Calendar year shall be submitted to the Company within ninety (90) days of receipt by T.P.D.C. of the report of its auditors. For purposes of auditing, T.P.D.C. may examine and verify, at reasonable times, all charges and credits relating to the Company's activities under the Agreement and all books of accounts, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents, correspondence and records necessary to audit and verify the charges and credits. Furthermore, the auditors shall have the right in connection with such audit to visit and inspect at reasonable times all sites, plants, facilities, warehouses and offices of the Company directly or indirectly serving its activities under the Agreement and to visit and to inquire from personnel associated with those activities. Where T.P.D.C. requires verification of charges made by an Affiliated company it shall have the right to obtain an audit certificate from a recognised firm of public accountants acceptable to both T.P.D.C. and the Company.
- (b) The Company shall answer any notice of exception under subsection 1.6 (a) within sixty (60) days of its receipt of such notice. Where the company has after the said sixty days' period failed to answer a notice of exception made by T.P.D.C., T.P.D.C.'s exception shall be deemed as accepted by the Company and the accounts shall be adjusted accordingly.

SECTION 2

CLASSIFICATION, DEFINITION AND ALLOCATION OF COSTS AND EXPENDITURES

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

- 2.1 Exploration Expenses** are all direct and allocated indirect expenditures incurred in the search for Petroleum in area which is or was, at the time when such expenses were incurred, part of the Contract Area including:
- (a) Aerial, geophysical, geochemical palaeontological geological, topographical and seismic surveys and studies and their interpretation.
 - (b) Core hole drilling and water well drilling.
 - (c) Labour, materials and services used in drilling wells with the object of finding new Petroleum Reservoirs, or for the purposes of appraising the extent of Petroleum provided such wells are not completed as producing wells.
 - (d) Facilities used solely in support of the purposes described (a), (b) and (c) above including access roads, fixed assets and purchased geological and geophysical, all identified separately.
 - (e) Any General and Administrative Costs and Service Costs directly incurred on Exploration Operations and identifiable as such; and a portion of the remaining General and Administrative Costs and Service Costs allocated to the Exploration Operations, determined by the proportionate share of total Contract Expenses (excluding unallocated General and Administrative Costs and Service Costs) represented by all other Exploration Expenses.

- (f) Any other Contract Expenses specifically incurred in the search for Petroleum after the Effective Date and not covered under sub-section 2.2,2.3,2.4 and 2.5.

2.2 **Development Expenses** shall consist of all expenditures incurred in:

- (a) Drilling wells which are completed as producing wells and drilling wells for purposes of producing from a Petroleum Reservoir already discovered whether these wells are dry or producing, and drilling wells for the injection of water or gas to enhance recovery of Petroleum.
- (b) Completing wells by way of installation of casing or equipment or otherwise, after a well has been drilled for the purpose of bringing the well into use as a producing well, or as a well for the injection of water or gas to enhanced recovery Petroleum.
- (c) The cost of petroleum production, storage and transport facilities such as pipelines, flow lines, production and treatment units, wellhead equipment, subsurface equipment, enhanced recovery systems, offshore platforms, petroleum storage facilities and access roads for production activities.
- (d) The costs of engineering and design studies for facilities referred to in subsection 2.2.(c).
- (e) Any General and Administrative Costs and Service Costs directly incurred on development activities and identifiable as such; and a portion of the remaining General and Administrative Costs and Service Costs allocated to development activities, determined by the proportionate share of total Contract Expenses (excluding unallocated General and Administrative Costs and Service Costs) represented by all other Development Expenses.

2.3 **Operating Expenses** are all expenditures incurred in the Petroleum Operations after the start of commercial production which are other than Exploration Expenses, Development Expenses, General and Administrative Costs and Service Costs directly incurred on operating activities and identifiable as such, as well as the balance of General and Administrative Costs and Service Costs. General and Administrative Costs and Service Costs not allocated to Exploration Expenses or Development Expenses shall be allocated to Operating Expenses.

2.4 **Service Costs** are direct and indirect expenditures in support of the Petroleum Operations including warehouses, export terminals, harbours, piers, marine vessels, vehicles, motorised rolling equipment, aircraft, fire and security stations, workshops, water and sewage plants, power plants, housing, community and recreational facilities and furniture, tools and equipment used in these activities. Service Costs in any Calendar Year shall include costs incurred in such Year to

purchase and/or construct said facilities as well as the annual costs to maintain and operate the same, each to be identified separately. All Service Costs shall be regularly allocated as specified in sub-sections 2.1(e), 2.2(e) and 2.3 to Exploration Expenses, Development Expenses and Operating Expenses and shall be separately shown under each of these categories.

2.5 General and Administrative Costs are:

- (a) All main office, field office and general administrative expenses in Tanzania including but not limited to supervisory, accounting and employee relations services, but excluding commissions paid to intermediaries by the Company.
- (b) An annual overhead charge for services rendered outside Tanzania and not otherwise charged under this Accounting Procedure, for managing the Petroleum Operations and for staff advice and assistance including financial, legal, accounting and employee relations services. For the period from the Effective Date until the date on which the first Development Licence under the Agreement is granted by the Minister this annual charge shall be the verifiable costs but in no event greater than one percent (1%) of the Contract Expenses; including those covered in sub-section 2.5(a) incurred during the Calendar Year. From the date of grant of the Development Licence the charge shall be at an amount or rate to be agreed between the parties and stated in the Development Plan approved with the grant of the said Licence. The annual overhead charge shall be separately identified in all reports to the Government and T.P.D.C.
- (c) All General and Administrative Costs will be regularly allocated as specified in sub-sections 2.1(e), 2.2(e) and 2.3. to Exploration Expenses, Development Expenses and Operating Expenses and shall be separately shown under each of these categories.

SECTION 3

COSTS, EXPENSES, EXPNEDITURES AND CREDITS OF THE COMPANY

3.1 **Costs Recoverable without Further Approval of T.P.D.C.**

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

(a) Surface Rights

This covers all direct costs attributable to the acquisition, renewal, or relinquishment of surface rights acquired and maintained in force for the purposes of this Agreement.

(b) Labour and Associated Costs

- (i) Gross salaries and wages including bonuses of the Company's employees directly and necessarily engaged in the Petroleum Operations, irrespective of the location of such employees, it being understood that in case of those personnel only a portion of whose time is wholly dedicated to Petroleum Operations, only that pro-rata portion of applicable wages and salaries will be charged.
- (ii) Cost to the Company of established plans for employees' group life insurance, hospitalization, company pension, retirement and other benefits of a like nature customarily granted to the employees and the costs regarding holiday, vacation, sickness and disability payments applicable to the salaries and wages chargeable under subsection (i) above shall be allowed at actual cost, provided however that such total costs shall not exceed twenty-five per centum (25%) of the total labour costs under subsection (i) above.
- (iii) Expenses or contributions made pursuant to assessments or obligations imposed under the laws of Tanzania which are applicable to the cost of salaries and wages chargeable under (i) above.
- (iv) Reasonable travel and personal expenses of employees of the Company including those made for travel and relocation of the expatriate employees assigned to Tanzania all of which shall be in accordance with the normal practice.

- (v) Any personal income taxes of Tanzania incurred by employees of the Company and paid or reimbursed by the Company.

(c) Transportation

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

(d) Charges for Services

(i) Third Party Contracts

The actual costs of contracts, for technical and other services entered into by the Company for Petroleum Operations, made with third parties other than Affiliated Companies are recoverable; provided that the costs paid by the Company are no higher than those generally charged by other international or domestic suppliers for comparable work and services.

(ii) Affiliated Companies

Without prejudice to the charges to be made in accordance with sub-section 2.5, in the case of general services, advice and assistance rendered to the Petroleum Operations by an Affiliated Company, the charges will be based on actual costs without profits and will be competitive. The charges will be no higher than the most favourable prices charged by the Affiliated company to third parties for comparable services under similar terms and conditions elsewhere. The Company will, if requested by T.P.D.C., specify the amount of charges which constitutes an allocated proportion of the general material, management, technical and other costs of the Affiliated company, and the amount which is the direct cost of providing the services concerned. If necessary, certified evidence regarding the basis of prices charged may be obtained from the recognised auditors of the Affiliated Company

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

(e) Exclusively Owned Property

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

(f) Material and Equipment

(i) General

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

(ii) Warranty of material

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

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

- (a) Except as otherwise provided in (b) below, material purchased by the Company for use in Petroleum Operations shall be valued to include invoice price less trade and cash discounts (if any), purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, custom duties consular fees, other items chargeable against imported material and, where applicable, handling and transportation expenses from point of importation to warehouse or operating site, and its costs shall not exceed those currently prevailing in normal arms length transactions on the open market.
- (b) Material purchased from or sold to Affiliated Companies or transferred to or from activities of the company, other than petroleum Operations under this Agreement, shall be priced and charged or credited at the prices specified in (1) and (2) below:

(1) **New Material (Condition “A”)** shall be valued the current international price which shall not exceed price prevailing in normal arms length transactions on the open market.

(2) **Used Material (conditions “B” and “C”)**

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

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

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

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

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

(iii) Material which cannot be classified as Condition “B” or Condition “C” shall be priced at a value to be agreed between T.P.D.C. and the Company.

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

(v) When the use of material is temporary and its service to Petroleum Operations does not justify the reduction in prices as provided for in sub-paragraph (2) (ii) above, such material shall be priced on a basis that will result in a net charge to the accounts under the Agreement consistent with the value of the service rendered.

(g) Rentals, Duties and Other Assessments

All rentals, taxes, levies, charges, fees, contributions and any other assessments and charges levied by the Government in connection with Petroleum Operations and paid directly by the Company, except any Additional Profits Tax paid pursuant to Article 13.

(h) Insurance and Loses

Insurance premia and costs incurred for insurance pursuant to Article 18, provided that if such insurance is wholly or partly placed with an Affiliated company such premia and costs shall be recoverable only to the extent generally charged by competitive insurance companies other than an Affiliated Company.

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

(i) Legal Expenses

All reasonable costs and expenses of litigation and legal or related services necessary or expedient for the procuring, perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving the Area or any third party claim arising out of activities under the Agreement, or sums paid in respect of legal services necessary or expedient for the protection of the joint interest of Government, T.P.D.C. and the Company are recoverable. Where legal services are rendered in such matters by salaried or regularly retained lawyers of the Company or an Affiliated company, such compensation shall be included instead under sub-section 3.1(b) or 3.1(b) or 3.1(d) above as applicable.

(j) Training Costs

All costs and expenses incurred by the Company in training of its Tanzanian employees engaged in Petroleum Operations and such other training as is required under Article 17 of the Agreement.

(k) General and Administrative Costs

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

3.2 Costs not Recoverable under the Agreement

The following costs shall not be recoverable for the purposes of Profit Oil sharing, and shall not be taken into account for the determination of APT:

- (a) All Costs incurred before the Effective Date
- (b) Interest and any other financing charges incurred on loans raised by the Company.
- (c) Petroleum marketing or transportation costs of Petroleum beyond the Delivery Point.
- (d) The costs of any bank guarantee or letter of guarantee required under the Agreement (and any other amounts spent on indemnities with regard to non-fulfillment of contractual obligations).
- (e) Costs of arbitration and the sole expert in respect of any dispute under the Agreement.
- (f) Fines and penalties imposed by courts of law in Tanzania.
- (g) Costs incurred as a result of willful misconduct or negligence of the Company.
- (h) Donations and contributions made by the Company.
- (i) Any costs which, by reference to general oil industry practices, can be shown to be excessive.

3.3 Other costs and Expenses

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

3.4 Credits under the Agreement

The net proceeds received from Petroleum Operations (other than the proceeds from the sale of Crude Oil and Natural Gas), including but not limited to the transactions listed below, will be credited to the accounts under the Agreement. For Profit Oil sharing purposes such credits shall be offset against Recoverable Contract Expenses and for the calculation of Additional Profits Tax the credits shall be included in the definition of the net cash position as provided in Article 13 of the Agreement.

- (a) The net proceeds of any insurance or claim in connection with Petroleum Operations or any assets charged to the accounts under the Agreement when such operations or assets were insured and the premia charged to the accounts under the Agreement.
- (b) Legal expenses charged to the accounts under Section 3.1(i) and subsequently recovered by the Company.
- (c) Revenue received from third parties including Affiliated Companies for the use of property or assets charged to the accounts under the Agreement.
- (d) Any adjustment received by the Company from the suppliers manufacturers or their agents in connection with defective material, the cost of which was previously charged by the Company to the accounts under the Agreement.
- (e) Rentals, refunds or other credits received by the Company which apply to any charge which has been made to the accounts under the Agreement but excluding any award granted to the Company under arbitration or sole expert proceedings.
- (f) The net proceeds for material originally charged to the accounts under the Agreement and subsequently exported from Tanzania without being used in Petroleum Operations.
- (g) The net proceeds from the sale or exchange by the Company of materials, equipment, plant or facilities, the acquisition costs of which have been charged to the accounts under the Agreement.
- (h) The proceeds from the sale of any petroleum information which relates to the Contract Area provided that the acquisition costs of such rights and information have been charged to the accounts under the Agreement.
- (i) The proceeds derived from the sale or licence of any intellectual property the development costs of which were incurred under this Agreement.

3.5 Duplication of Charges and Credits

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

SECTION 4

RECORDS AND VALUATION OF ASSETS

The Company shall maintain detailed records of property and assets in use for Petroleum Operations in accordance with normal practice in exploration and production activities of the international petroleum industry. At six monthly intervals the Company shall notify T.P.D.C. in writing of all assets acquired during the preceding six (6) months indicating the quantities, costs and location of each asset. At reasonable intervals but at least once a year with respect to movable assets and once every four (4) years with respect to immovable assets, inventories of the property and assets under the Agreement shall be taken by the Company. The Company shall give T.P.D.C. at least thirty (30) days written notice of its intention to take such inventory and T.P.D.C. shall have the right to be represented when such inventory and T.P.D.C. shall have the right to be represented when valuation of the inventory has been based. When an assignment of rights under the Agreement takes place a special inventory may be taken by the Company at the request of the assignee provided that the costs of such inventory are borne by the assignee.

SECTION 5

PRODUCTION STATEMENT

- 5.1 Upon commencement of production from the Contract Area, the Company shall submit a monthly Production Statement to T.P.D.C. showing the following information for each Development Area and for the Contract Area:
- (a) The quantity and quality of Crude Oil produced and saved.
 - (b) The quantity and composition of Natural Gas produced and saved.
 - (c) The quantities of Petroleum used for the purposes of carrying on drilling and production operations and pumping to field storage as well as quantities injected into the formation.
 - (d) The quantities of Petroleum unavoidably lost.
 - (e) The quantities of Natural Gas flared.
 - (f) The size of Petroleum stocks held at the beginning of the Month in question.
 - (g) The size of petroleum stocks held at the end of the Month in question.
 - (h) The number of days in the Month during which Petroleum was produced from each development area within the Contract Area.
- 5.2 At the end of each Calendar quarter aggregated statements in respect of the three Months comprising that quarter shall be submitted for each of the items (a) to (g) in sub-section 5.1 above. Additionally, the average daily production rate for the Quarter shall be calculated in accordance with Article 9 of the Agreement.
- 5.3 The Production Statement for each Month or quarter shall be submitted to Government and T.P.D.C. not later than seven (7) days after the end of such Month or quarter.

SECTION 6

VALUE OF PRODUCTION, PRICING AND ROYALTY STATEMENT

- 6.1 The Company shall, for the purposes of Article 10 of the Agreement, prepare a Statement providing calculations of the value of Crude Oil produced saved during each Calendar Quarter. This Statement, which shall be prepared for each Quality of Tanzanian Crude Oil produced and saved from the Contract Area, shall contain the following information:
- (a) The quantities, prices and receipts realised therefore by the Company in third Party Sales of Tanzanian Crude Oil during the Calendar Quarter in question.
 - (b) The quantities, prices and receipts realised therefore by the Company in sales of Tanzanian Crude Oil during the Calendar quarter in question, other than in Third Party Sales.
 - (c) The value of stocks of Crude Oil held at the beginning of the Calendar Quarter in question.
 - (d) The value of stocks of Crude Oil held at the end of the Calendar Quarter in question.
 - (e) The percentage volume of total sales of Tanzanian Crude Oil made by the Company during the Calendar Quarter that the Third party Sales.
 - (f) All information available to the Company, if relevant for the purposes of Article 10 of the Agreement, concerning the prices of the selection of major competitive crude oils, including contract prices, discounts and premia, and prices obtained on the spot markets.
 - (g) The statement of Royalty payable.
- 6.2 The Value of Production and Pricing Statement for each Calendar quarter shall be submitted to Government and T.P.D.C. not later than twenty (20) days after the end of such Calendar Quarter.

SECTION 7

STATEMENT OF EXPENDITURE AND RECEIPTS

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

SECTION 8

COST RECOVERY STATEMENT

- 8.1 The Company shall prepare with respect to each Calendar Quarter a Cost Recovery Statement containing the following information:
- (a) Recoverable Contract Expenses carried forward from the previous Quarter, if any.
 - (b) Recoverable Contract Expenses for the Quarter in question.
 - (c) Total Recoverable Contract Expenses for the Quarter in question (sub-section 8.1(a) plus sub-section 8.1(b)).
 - (d) Quantity and value of Cost Oil taken and disposed of by the Company for the Quarter in question.
 - (e) Contract Expenses recovered for the Quarter in question.
 - (f) Total cumulative amount of Contract Expenses recovered up to the end of the Quarter in question.
 - (g) Amount of Recoverable Contract Expenses to be carried forward into the next Quarter.
- 8.2 The cost recovery information required pursuant to sub-section 8.1 above shall be presented in sufficient detail so as to enable Government and T.P.D.C. to identify how the cost of assets are being recovered for the purposes of Article 18 of the Agreement.
- 8.3 The Cost Recovery Statement for each Quarter shall be submitted to Government and T.P.D.C. not later than twenty one (21) days after the end of such Quarter.

SECTION 9

END-OF-YEAR STATEMENT

The Company shall prepare a definitive End-of-Year Statement. The Statement will contain aggregated information for the Year in the same format as required in the Value of Production, Pricing Statement, and Royalty payable statement Cost Recovery Statement and Statement of Expenditures and Receipts and Additional Profit Tax Statement but will be based on the actual quantities of Petroleum produced and the costs and expenses incurred. The End-of-Year Statement for each Calendar Year shall be submitted to Government and T.P.D.C. within sixty (60) days of the end of such Calendar Year.

SECTION 10

BUDGET STATEMENT

- 10.1 The Company shall prepare an annual Budget Statement. This Statement shall distinguish between Exploration Expenses, Development Expenses and Operating Expenses and shall show the following:
- (a) Forecast expenditure and receipts for the budget year under the Agreement.
 - (b) Cumulative expenditures and receipts to the end of the said budget year.
 - (c) A schedule showing the most important and individual items of Development Expenses for the said budget year.
- 10.2 The Budget Statement shall be submitted to Government and T.P.D.C. with respect to each budget year no less than ninety (90) days before the start of the year except in the case of the year in which the Effective Date falls, when the Budget Statement shall be submitted within thirty (30) days of the Effective Date.

SECTION 11

REVISION OF ACCOUNTING PROCEDURE

- 11.1 The provisions of this Accounting Procedure may be amended by agreement between the Company, Government and T.P.D.C. The amendments shall be made in writing and shall state the date upon which the amendments shall become effective.
- 11.2 In the event, and at the time, that T.P.D.C. elects to participate in Joint Operations as defined in Article 7 of this Agreement the parties shall modify this Accounting Procedure to reflect T.P.D.C.'s status as a party to the Operating Agreement.
- 11.3 Following any second discovery in the Contract Area the parties will meet in order to establish specific principles and procedures for identifying all costs, expenditures and credits, and for allocating Cost Oil and Profit Oil, on a Development Area basis, it being understood that costs, expenditures and credits which do not uniquely arise in respect of any one Development Area shall be apportioned between Development Areas in a reasonable, equitable and consistent manner.

SECTION 12

CONFLICT WITH THE AGREEMENT

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

ANNEX E

APT SAMPLE CALCULATION METHODOLOGY

Hard data input per Petroleum Agreement

- | | |
|---|----------------|
| 1. First Account Tax Rate | Percent 25.00% |
| 2. Second Account Tax Rate | Percent 40.00% |
| 3. First Account Real Rate of Return | Percent 35.00% |
| 4. Second Account Real Rate of Return | Percent 35.00% |
| 5. First Account APT Taxes are Deductible when
Calculating Second Account Balances | |

Assumptions

1. Assumed Annual Change in USIGPPI = Two (2) Percent (Added to Account Rates of Return to reflect the “Real” nature of these ROR’s).
2. Cash Flow is for Illustrative Purposes Only; data entirely assumed.

Calculation Methodology

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