

**THIS PETROLEUM LICENSE NO: 000-000-2012**, made this \_\_\_ day of \_\_\_201\*, by and between the Government of the Republic of Sierra Leone (hereinafter referred to as “the State”), represented by the Director General of the Petroleum Directorate of the Office of the President of the Republic of Sierra Leone (hereinafter referred to as the “Director General”) and..... hereinafter referred to as “Licensee”).

**WITNESSETH:**

1. All Petroleum existing in its natural state within Sierra Leone is the property of the Republic of Sierra Leone and held in trust by the State.
2. The Director General acting on behalf of the President and Government of Sierra Leone has by virtue of the Petroleum Act of 2011 the right to invite Licensees to undertake Exploration, Development and Production of Petroleum over all blocks declared by the State to be open for Petroleum Operations.
3. The Director General has been authorized to enter into a Petroleum License with a Licensee for the purpose of Exploration, Development and Production of Petroleum.
4. The Contract Area that is the subject matter of this Petroleum License has been declared open for Petroleum Operations by the Director General and the Government of Sierra Leone desires to encourage and promote Exploration, Development and Production within the said area.
5. Licensee, having the financial ability, technical competence and professional skills necessary for carrying out the Petroleum Operations herein described, desires to enter into a Petroleum License with the State for the Exploration, Development and Production of, the Petroleum resources of the said area.

**NOW THEREFORE**, in consideration of the mutual covenants herein contained, it is hereby agreed and declared as follows:

## ARTICLE 1

### DEFINITIONS

- 1.1 In this License: “**
- 1.2 Accounting Guide”** means the accounting guide which is attached hereto as Annex 2 and made a part hereof;
- 1.3 “Affiliate”** means any person, whether a natural person, corporation, partnership, unincorporated association or other entity:
- a) in which one of the Parties hereto directly or indirectly holds more than fifty percent (50%) of the share capital or voting rights;
  - b) which holds directly or indirectly more than fifty percent (50%) of the share capital or voting rights in a Party hereto;
  - c) in which the share capital or voting rights are directly or indirectly and to an extent more than fifty percent (50%) held by a company or companies holding directly or indirectly more than fifty percent (50%) of the share capital or voting rights in a Party hereto; or
  - d) which holds directly five percent (5%) or more of the share capital or voting rights in Licensee.
- 1.4 “License”** means this License between the State and Licensee, and includes the Annexes attached hereto;
- 1.5 Appraisal Program”** means a program carried out following a Discovery of Petroleum for the purpose of delineating the accumulation of Petroleum to which that Discovery relates in terms of thickness and lateral extent and estimating the quantity of recoverable Petroleum therein;
- 1.6 “Appraisal Well”** means a well drilled for the purposes of an Appraisal Program;
- 1.7 “Associated Gas”** means Natural gas produced from a well in association with Crude Oil;
- 1.8 “Barrel”** means a quantity or unit of Crude Oil equal to forty two (42) United States gallons at a temperature of sixty (60) degrees Fahrenheit and at 14.65 psia pressure;
- 1.9 “Block”** means an area of approximately --- square kilometers as depicted on the reference map prepared by the Director General in accordance with the provisions of the Petroleum Act;

- 1.10 “Calendar Year”** means the period of twelve (12) months of the Gregorian calendar, commencing on January 1 and ending on the succeeding December 31;
- 1.11 “Commercial Discovery”** means a Discovery which is determined to be commercial in accordance with the provisions of this License;
- 1.12 “Commercial Production Period”** means in respect of each Development and Production Area the period from the Date of Commencement of Commercial Production until the termination of this License or earlier relinquishment of such Development and Production Area;
- 1.13 “Contract Area”** means the area covered by this License in which Licensee is authorized to explore for, develop and produce Petroleum, which is described in Annex 1 attached hereto and made a part of this License, but excluding any portions of such area in respect of which Licensee’s rights hereunder are from time to time relinquished or surrendered pursuant to this License;
- 1.14 “Licensee”** means \_\_\_\_ and its respective successors and assignees.
- 1.15 “Contract Year”** means a period of twelve (12) calendar months, commencing on the Effective Date or any anniversary thereof;
- 1.16 “Crude Oil”** means hydrocarbons which are liquid at 14.65 psia pressure and sixty (60) degrees Fahrenheit and includes condensates and distillates obtained from Natural Gas;
- 1.17 “Date of Commencement of Commercial Production”** means, in respect of each Development and Production Area, the date on which production of Petroleum under a program of regular production, lifting and sale commences;
- 1.18 “Date of Commercial Discovery”** means the date of approval of the Development Plan.
- 1.19 “Development” or “Development Operations”** means the preparation of a Development Plan, the building and installation of facilities for Production, and includes drilling of Development Wells, construction and installation of equipment, pipelines, facilities, plants and systems, in and outside the Contract Area, which are required for achieving Production, treatment, transport, storage and lifting of Petroleum, and preliminary Production and testing activities carried out prior to the Date of Commencement of Commercial Production, and includes all related planning and administrative work, and may also include the construction and installation of secondary and tertiary recovery systems;
- 1.20 “Development Costs”** means Petroleum Costs incurred in Development Operations;

- 1.21 “Development and Production Area”** means that portion of the Contract Area reasonably determined by Licensee on basis of the available seismic and well data to cover the areal extent of an accumulation of Petroleum constituting a Commercial Discovery, enlarged in area by ten percent (10%), where possible, such enlargement to extend uniformly around the perimeter of such accumulation;
- 1.22 “Development Period”** means in respect of each Development and Production Area, the period from the Date of Commercial Discovery until the Date of Commencement of Commercial Production;
- 1.23 “Development Plan”** means the plan for development of a Commercial Discovery prepared by Licensee;
- 1.24 “Development Well”** means a well drilled in accordance with a Development Plan for producing Petroleum, for pressure maintenance or for increasing the Production rate;
- 1.25 “Director General”** means The Director General of the Petroleum Directorate of The Office of The President of Sierra Leone;
- 1.26 “Discovery”** means finding during Exploration Operations an accumulation of Petroleum which can be and is recovered at the surface in a flow measurable by conventional petroleum industry testing methods;
- 1.27 “Discovery Area”** means that portion of the Contract Area, reasonably determined by Licensee on the basis of the available seismic and well data to cover the areal extent of the geological structure in which a Discovery is made. A Discovery Area may be modified at any time by Licensee if justified on the basis of new information, but may not be modified after the date of completion of the Appraisal Program;
- 1.28 “Effective Date”** means the date on which this License comes into effect and, unless otherwise provided, shall be the date of execution of this Directorate.
- 1.29 “Exploration” or “Exploration Operations”** means the search for Petroleum by geological, geophysical and other methods and the drilling of Exploration Well(s) and includes any activity in connection therewith or in preparation thereof and any relevant processing and appraisal work, including technical and economic feasibility studies, that may be carried out to determine whether a Discovery of Petroleum constitutes a Commercial Discovery;
- 1.30 “Exploration Period”** means the period commencing on the Effective Date and continuing during the time provided within which Licensee is authorized to carry out Exploration Operations and shall include any periods of extensions provided for in this License. The period shall terminate with respect to any Discovery Area on the Date of Commercial Discovery in respect of such Discovery Area;

- 1.31 “Exploration Well”** means a well drilled in the course of Exploration Operations conducted hereunder during the Exploration Period, but does not include an Appraisal Well;
- 1.32 “Force Majeure”** means any event beyond the reasonable control of the Party claiming to be affected by such event which has not been brought about at its instance, including, but not limited to, earthquake, storm, flood, lightning or other adverse weather conditions, war, embargo, blockade, strike, riot or civil disorder;
- 1.33 “Foreign National Employee”** means an expatriate employee of Licensee, its Affiliates, or its Sub-contractors who is not a citizen of Sierra Leone.
- 1.34 “Gross Production”** means the total amount of Petroleum produced and saved from a Development and Production Area during Production Operations which is not used by Licensee in Petroleum Operations;
- 1.35 “Month”** means a month of the Calendar Year;
- 1.36 “Natural Gas”** means all hydrocarbons which are gaseous at 14.65 psia pressure and sixty (60) degrees Fahrenheit temperature and includes wet gas, dry gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas;
- 1.37 “Non-Associated Gas”** means Natural Gas produced from a well other than in association with Crude Oil;
- 1.38 “Operator”** means ..... or such other Party as may be appointed by Licensee;
- 1.39 “Party”** means the State or Licensee, as the case may be;
- 1.40 “Petroleum”** means Crude Oil or Natural Gas or combination of both;
- 1.41 “Petroleum Costs”** means all expenditures made and costs incurred in the conduct of Petroleum Operations hereunder, determined in accordance with the Accounting Guide attached hereto as Annex 2;
- 1.42 “Petroleum Act”** means the Petroleum (Exploration and Production) Act, 2011;
- 1.43 “Petroleum Operations”** means all activities, both in and outside Sierra Leone, relating to the Exploration for, Development, Production, handling and transportation of Petroleum contemplated under this License and includes Exploration Operations, Development Operations and Production Operations and all activities in connection therewith;
- 1.44 “Petroleum Product”** means any product derived from Petroleum by any refining or other process;

- 1.45 “Production” or “Production Operations”** means activities not being Development Operations undertaken in order to extract, save, treat, measure, handle, store and transport Petroleum to storage and/or loading points and to carry out any type of primary and secondary operations, including recycling, recompression, maintenance of pressure and water flooding and all related activities such as planning and administrative work and shall also include maintenance, repair and replacement of facilities, and well workovers, conducted after the Date of Commencement of Commercial Production of the respective Development and Production Area;
- 1.46 “Production Costs”** means Petroleum Costs incurred in Production Operations;
- 1.47 “Quarter”** means a quarter, commencing January 1, April 1, July 1 or October 1;
- 1.48 “Sierra Leone”** means the territory of the Republic of Sierra Leone and includes the sea, seabed and subsoil, the Continental Shelf, the exclusive economic zone and all other areas within the jurisdiction;
- 1.49 “Specified Rate”** means the rate which the Barclays Bank, London, certifies to be the London Interbank offered rate (LIBOR) in the London Interbank Eurodollar market on thirty (30) day deposits, in effect on the last business day of the last respective preceding month, plus one per cent (1%);
- 1.50 “Standard Cubic Foot” or “SCF”** means the quantity of gas that occupies one (1) cubic foot at 14.65 psia pressure and sixty (60) degrees Fahrenheit temperature;
- 1.51 “State”** means the Government of the Republic of Sierra Leone;
- 1.52 “Subcontractor”** has the meaning assigned to that term in the Petroleum Act;
- 1.53 “Work Program”** means the annual plan for the conduct of Petroleum Operations.

## **ARTICLE 2**

### **SCOPE OF THE LICENSE AND CONTRACT AREA**

- 2.1** This License provides for the Exploration for and Development and Production of Petroleum in the Contract Area by Licensee.
- 2.2** Subject to the provisions of this License, Licensee shall be responsible for the execution of such Petroleum Operations as are required by the provisions of this License and is hereby appointed the exclusive entity to conduct Petroleum Operations in the Contract Area.
- 2.3** The Director General authorizes the Licensee pursuant to the terms set forth herein to carry out the useful and necessary Petroleum Operations in the Contract Area.
- 2.4** The Licensee undertakes, for all the work necessary for carrying out the Petroleum Operations provided for hereunder, to comply with good international petroleum industry practice and to be subject to the laws and regulations in force in Sierra Leone unless otherwise provided under this Contract.
- 2.5** The Licensee shall supply all financial and technical means necessary for the proper performance of the Petroleum Operations.
- 2.6** The Licensee shall bear alone the financial risk associated with the performance of the Petroleum Operations. The Petroleum Costs related thereto shall be recoverable by the Licensee in accordance with the provisions of this Agreement.
- 2.7** In the event that no Commercial Discovery is made in the Contract Area, or that Gross Production achieved from the Contract Area is insufficient fully to reimburse Licensee in accordance with the terms of this License, then Licensee shall bear its own loss; the Director General and the State shall have no obligations whatsoever to Licensee in respect of such loss.
- 2.8** During the term hereof, in the event of Production, the total Production arising from the Petroleum Operations shall be shared between the parties according to the terms set forth in this License.
- 2.9** On the Effective Date, the Contract Area shall be the area as defined in Annex (1) One.
- 2.10** The Licensee, within thirty (30) days from the Effective Date, shall submit to the Director General the name and other details of the appointed Operator who shall take charge of the conduct and carrying out the Petroleum Operations.
- 2.11** The State shall have a ten percent (10%) Free Carried Interest with respect to all Production Operations.

- 2.12** In addition to the Initial Interest provided for in Article 2.11, the Director General shall have the option in respect of each Development and Production Area to contribute a proportionate share not exceeding .....% of all Development and Production Costs in respect of such Development and Production Area, (or make arrangements satisfactory to Licensee to that effect) thereby acquiring an Additional Interest of up to .....% in Petroleum Operations in such Development and Production Area. The Director General shall notify Licensee of its option within ninety (90) days of the Date of Commercial Discovery.
- 2.13** If the Director General opts to take an Additional Interest as provided for in Article 2.12 then within six (6) months of its election, the Director General shall reimburse Licensee for all expenditure attributable to Director General's Additional Interest and incurred from the Date of Commercial Discovery to the date the Director General notifies Licensee of its election.
- 2.14** For the avoidance of doubt the Director General shall only be liable to contribute to Petroleum Costs:
- (a) incurred in respect of Development and Production Operations in any Development and Production Area to the extent only of any Additional Interest acquired in such Development and Production Area under Article 2.12;
- 2.15** As of the Effective Date, the Contract Area shall cover a total of approximately ...sq km as depicted by Annex (1) One and shall from time to time during the Term of this License be reduced according to the terms herein. During the Exploration Period, Licensee shall pay license fees to the State for that area included within the Contract Area at the beginning of each Calendar Year according to the provisions of this License.

## **ARTICLE 3**

### **EXPLORATION PERIOD**

- 3.1** The Exploration Period shall begin on the Effective Date and shall not cover a period of more than seven (7) years unless it is extended in accordance with the terms of this License or the License is sooner terminated.
- a)** The Exploration Period shall be divided into an Initial Exploration Period of three years (“Initial Exploration Period”) and two (2) extension periods of two years each (respectively “First Extension Period” and “Second Extension Period”) and where applicable the further periods for which provision is made hereafter.
  - b)** Where Licensee has fulfilled its work and expenditure obligations before the end of the Initial Exploration Period or, as the case may be, the First Extension Period, and has exercised its option by applying to the Director General in writing for an extension, the Director General will be deemed to have granted an extension into the First or, as the case may be, into the Second Extension Period.
  - c)** For each well drilled by Licensee during the Initial Exploration Period, the Initial Exploration Period shall be extended by three (3) months and the commencement of subsequent periods shall be postponed in their entirety accordingly.
- 3.2** Following the end of the Second Extension Period, Licensee will be entitled to an extension or extensions, of the Exploration Period as follows:
- a)** Where at the end of the Second Extension Period, Licensee is drilling or testing any well, Licensee shall be entitled to an extension for such further period as may be reasonably required to enable Licensee to complete such work and assess the results and, in the event that Licensee notifies the Director General that the results from any such well show a Discovery which merits appraisal, Licensee shall be entitled to a further extension for such period as may be reasonably required to carry out an Appraisal Program and determine whether the Discovery constitutes a Commercial Discovery;
  - b)** Where at the end of the Second Extension Period Licensee is engaged in the conduct of an Appraisal Program in respect of a Discovery which has not been completed, Licensee shall be entitled to a further extension following the end of the Second Extension for such period as may be reasonably required to complete that Appraisal Program and determine whether the Discovery constitutes a Commercial Discovery:

- c) Where at the end of the Second Extension Period Licensee has undertaken work not falling under paragraphs (a) or (b) which is not completed, Licensee will be entitled to a further extension following the end of the Second Extension Period for such period as the Director General may consider reasonable for the purpose of enabling such work to be completed.
- d) Where Licensee has before the end of the Second Extension Period, including extensions under (a), (b) and (c) above, given to the Director General a notice of Commercial Discovery, Licensee shall, if the Exploration Period would otherwise have been terminated, be entitled to a further extension of the Exploration Period in which to prepare the Development Plan in respect of the Discovery Area to which that Development Plan relates until the Director General has approved the Development Plan.

**3.3** Where Licensee has during the First Extension Period failed to fulfill its work and expenditure obligations in respect of that Period but has made reasonable arrangements to remedy its default during the Second Extension Period, Licensee shall be entitled to an extension subject to such reasonable terms and conditions as the Director General may stipulate to assure performance of the work.

**3.4** The provisions of this Article insofar as they relate to the duration of the extension period to which Licensee will be entitled shall be read and construed as requiring the Director General to give effect to the provisions of this Agreement relating to the time within which Licensee must meet the requirements of that Article.

## **ARTICLE 4**

### **PERFORMANCE GUARANTEE**

- 4.1** Within Sixty (60) days of the Effective date, the Licensee shall deliver to the Director General a Performance Security in the amount stipulated in Article 5.2 (a) as the minimum expenditure in the initial exploration period to guarantee the performance of their work obligation.
- 4.2** Within Sixty days from the day the Licensee elects to enter into any extension period in accordance with Article 3 of this License, the Licensee shall deliver to the Director General, subject to Article 5.2 (d), a Performance Security in the amount of the minimum expenditure specified in Article 5.2 (b) for the first extension period and Article 5.2 (c) for the second extension period to guarantee the performance of their work obligation for that period.
- 4.3** All Performance Security delivered under this License, shall be in the form of an unconditional and irrevocable Bank Guarantee as stipulated in Annex 3 of this License from a reputed bank in good standing, and shall be denominated in United States Dollars. The Performance Security shall be issued either (a) by a foreign bank through a correspondent bank located in Sierra Leone, or (b) with the agreement of the Director General directly by a foreign bank acceptable to the Director General.
- 4.4** Licensee shall also provide a legal opinion from its legal advisors in a form acceptable to the State, to the effect that the aforesaid guarantees have been duly signed and delivered on behalf of the guarantors with due authority and is legally valid and enforceable and binding upon them;
- 4.5** All Letters of Guarantee issued under this License shall remain effective for six (6) months after the end of the relevant Exploration period for which it has been issued, except as it may be expired prior to that time in accordance with the terms thereof.
- 4.6** In the circumstances of a default, (i.e.) failure to undertake the minimum work obligation by the end of the period for which the Performance Security is deposited, the Director General shall immediately make a demand on the guarantee, and the minimum expenditure for the period shall be paid to the Director General by the guaranteeing bank.

## ARTICLE 5

### MINIMUM EXPLORATION PROGRAM

- 5.1** Exploration Operations shall begin as soon as practicable and in any case not later than ninety (90) days after the Effective Date.
- 5.2** Subject to the provisions of this Article, in discharge of its obligations to carry out Exploration Operations in the Contract Area, Licensee shall during the several phases into which the Exploration Period is divided carry out the work specified hereinafter:
- a) Initial Exploration Period (Three years):** Commencing on the Effective Date and terminating at the end of the --- contract Year;
    - i. Description of Work:** Acquisition of 2D and 3D data from TGS-NOPEC. Acquisition of at least 2000 line Km of 2D and 2500 Sq. Km of 3D Seismic where not available at TGS-NOPEC.
    - ii.** Process and Interpret data and drill at least One (1) Exploration Well.
    - iii. Minimum expenditure:** minimum expenditure for the initial shall be \$20 million.
  
  - b) First Extension Period:** Commencing at the end of the Initial Exploration Period and terminating at the end of the ... of Contract Period.
    - i. Description of work:** Drill appraisal where deemed necessary
    - ii.** Reinterpret or reprocess the seismic data and drill at least one exploration well
    - iii. Minimum expenditure:** minimum expenditure for the second extension period shall be \$120 million.

- c) **Second Extension Period:** Commencing at the end of the First Extension and terminating at the end of seventh year of Contract Period.
  - i. **Description of Work:** Acquire process and interpret 1,500sq.km of 3D seismic.
  - ii. Drill one exploration well and three additional wells contingent upon a commercial discovery
  - iii. **Minimum Expenditure:** Minimum expenditure for work in the Second extension period shall be \$120 million.
- d) Work and expenditures accomplished in any period in excess of the above obligation may be applied as credit in satisfaction of obligations called for in any other Period. The fulfillment of any work obligation shall relieve Licensee of the corresponding minimum expenditure obligation, but the fulfillment of any minimum expenditure obligation shall not relieve Licensee of the corresponding work obligation.

**5.3** No Appraisal Wells drilled or seismic surveys carried out by Licensee as part of an Appraisal Program and no expenditure incurred by Licensee in carrying out such Appraisal Program shall be treated as discharging the minimum work obligations hereunder.

**5.4** The seismic program, when combined with existing data, shall be such as will enable a study of the regional geology of the Contract Area and the preparation of a report thereon with appropriate maps, cross sections and illustrations, as well as a geophysical survey of the Contract Area which, when combined with existing data, shall provide:

- a) a minimum seismic grid adequate to define prospective drill sites over prospective closures as interpreted from data available to Licensee, and
- b) a seismic evaluation of structural and stratigraphic conditions over the remaining portions of the Contract Area.

**5.5** Each of the Exploration Wells referred to above shall be drilled to a minimum prognosed depth of ... meters, after deduction of the water depth, or to a lesser depth if the continuation of drilling performed in accordance with good international petroleum industry practice is prevented for any of the following reasons:

- a) the basement is encountered at a lesser depth than the minimum contractual depth;
- b) continuation of drilling presents an obvious danger due to the existence of abnormal formation pressure;
- c) rock formations are encountered the hardness of which prevents, in practice, the continuation of drilling by the use of appropriate equipment;
- d) petroleum bearing formations are encountered the crossing of which requires, for their protection, the laying of casings preventing the minimum contractual depth from being reached.

In the event that any of the above reasons occurs, the Exploration Well shall be deemed to have been drilled to the minimum contractual depth.

- 5.6** Notwithstanding any provision in this Article to the contrary, the Director General and the Licensee may, at any time, agree to abandon the drilling of a well at a lesser depth than the minimum contractual depth.
- 5.7** If during an exploration period the Licensee has performed its work commitments for an amount lesser than the amount specified above, it shall be deemed to have fulfilled its investment obligations relating to that period. Conversely, the Licensee shall perform the entirety of its work commitments set forth in respect of an Exploration Period even if it results in exceeding the amount specified above for that period.
- 5.8** If in the course of drilling an Exploration Well the Licensee concludes that drilling to the minimum depth specified in this Article 5 above is impossible, impracticable or imprudent in accordance with accepted international petroleum industry drilling and engineering practice, then Licensee may plug and abandon the Exploration Well.
- 5.9** During the Exploration Period, Licensee shall have the right to perform additional Exploration Operations, including without limitation performing gravity and magnetic surveys, drilling stratigraphic wells and performing additional geological and geophysical studies, provided the minimum work obligations are performed within the applicable period.
- 5.10** During the Exploration Period, Licensee shall deliver to the Director General reports on Exploration Operations conducted during each Calendar Quarter within thirty (30) days following the end of that Quarter. Further requests for information by the Director General shall be complied with within a reasonable time and copies of documents and other material containing such information shall be provided to the Director General.



## ARTICLE 6

### RELINQUISHMENT

- 6.1** Except as otherwise provided in this License, Licensee shall relinquish portions of the Contract Area in the manner provided hereunder.
- a)** If on or before the expiration of the Initial Exploration Period, Licensee elects to enter into the First Extension Period, then at the commencement of the First Extension Period the area retained shall not exceed fifty percent (50%) of the Contract Area as at the Effective Date;
  - b)** If on or before the expiration of the First Extension Period, Licensee elects to enter into the Second Extension Period, at the commencement of the Second Extension Period the area retained shall not exceed (25%) of the Contract Area as at the Effective Date;
  - c)** On the expiration of the Second Extension Period, Licensee shall relinquish the remainder of the retained Contract Area subject to Article 6.2.
- 6.2** The Provisions of Article 6.1 shall not be read or construed as requiring Licensee to relinquish any portion of the Contract Area which constitutes or forms part of either a Discovery Area or a Development and Production Area.
- PROVIDED HOWEVER THAT if at the end of the Initial Exploration Period or the First Extension Period as the case may be Licensee elects not to enter into the First or Second Extension Period Licensee shall relinquish the entire Contract Area.
- 6.3** Each area to be relinquished pursuant to this Article shall be selected by Licensee and shall be measured as far as possible in terms of continuous and compact units of a size and shape that will permit the carrying out of Petroleum Operations in the relinquished portions subject to the approval of the Director General.

## **ARTICLE 7**

### **OBLIGATIONS AND RIGHTS OF LICENSEE**

- 7.1** Licensee shall maintain an office in Sierra Leone at which notices shall be validly served. Licensee shall appoint a General Manager and assign to those offices such representatives as it shall consider necessary for the purposes of this Agreement. The General Manager and staff shall be entrusted by Licensee with sufficient power to carry out all local written directions given to them by the Director General or his representatives under the terms of this License.
- 7.2** Subject to the provisions of this License, Licensee shall be responsible for the conduct of Petroleum Operations and shall:
- a)** conduct Petroleum Operations with utmost diligence, efficiency and economy, in accordance with accepted Petroleum Industry practices, observing sound technical and engineering practices using appropriate advanced technology and effective equipment, machinery, materials and methods;
  - b)** take all practicable steps to ensure compliance with the Petroleum Act; including ensuring the maximum conservation of Petroleum in the Contract Area in accordance with accepted Petroleum industry practices;
  - c)** prepare and maintain in Sierra Leone full and accurate records of all Petroleum Operations performed under this License;
  - d)** prepare and maintain accounts of all Petroleum Operations under this License in such a manner as to present a full and accurate record of the costs of such operations, in accordance with the Accounting Guide;
- 7.3** In connection with its performance of Petroleum Operations, Licensee shall have the right within the terms of applicable law;
- a)** to use public lands in accordance with existing law for installation and operation of shore bases, and terminals, harbors and related facilities, pipelines from fields to terminals and delivery facilities, camps and other housing;
  - b)** to receive licenses and permission to install and operate such communications and transportation facilities as shall be necessary for the efficiency of its operations;
  - c)** to bring to Sierra Leone such number of Foreign National Employees as shall be necessary for its operations, including employees assigned on permanent or resident status, with or without families, as well as those assigned on temporary basis such as rotational (rota) employees;

- d) to provide or arrange for reasonable housing, schooling and other amenities, permanent and temporary, for its employees and to import personal and household effects, furniture and vehicles, for the use of its personnel in Sierra Leone;
- e) to be solely responsible for provision of health, accident, pension and life insurance benefit plans for its Foreign National Employees and their families; and such employees shall not be required to participate in any insurance compensation or other employee or social benefit programs established in Sierra Leone; provided, however, that Licensee shall be responsible for social benefit programs and insurance benefit plans which apply under the law to employees who are Sierra Leone nationals;
- f) to have, together with its personnel, at all times the right of ingress to and egress from its offices in Sierra Leone, the Contract Area, and the facilities associated with Petroleum Operations hereunder in Sierra Leone including the offshore waters, using its owned or chartered means of land, sea and air transportation;
- g) to engage such Subcontractors, expatriate and national, including also consultants, and to bring such Subcontractors and their personnel to Sierra Leone as are necessary in order to carry out the Petroleum Operations in a skillful, economic, safe and expeditious manner; and said Subcontractors shall have the same rights as Licensee specified in this License to the extent they are engaged by Licensee for the Petroleum Operations hereunder.

**7.4** The Director General shall assist Licensee in carrying out Licensee's obligations expeditiously and efficiently as stipulated in this License, and in particular the Director General shall use its best efforts to assist Licensee and its Subcontractors to;

- a) establish supply bases and obtain necessary communications facilities, equipment and supplies;
- b) obtain necessary approvals to open bank accounts in Sierra Leone;
- c) obtain entry visas and work permits for such number of Foreign National Employees of Licensee and its Subcontractors engaged in Petroleum Operations and members of their families who will be resident in Sierra Leone and make arrangements for their travel, medical services and other necessary amenities;
- d) obtain the necessary permits to transport documents, samples or other forms of data to foreign countries for the purpose of analysis or processing if such is deemed necessary for the purposes of Petroleum Operations;

**7.5** The Director General shall use its best efforts to render assistance to Licensee in emergencies and major accidents, and such other assistance as may be requested by Licensee, provided that any reasonable expenses involved in such assistance shall be borne by Licensee.

## **ARTICLE 8**

### **ANNUAL WORK PROGRAMS AND BUDGETS**

- 8.1** Without prejudice to the rights and obligations of Licensee for day-to-day management of the operations, the Director General shall ensure that all Work Programs and Development Plans are complied with and also that accounting for costs and expenses and the maintenance of records and reports concerning the Petroleum Operations are carried out in accordance with this License and the accounting principles and procedures generally accepted in the international petroleum industry.
- 8.2** Each Work Program submitted to the Director General pursuant to this Article and every revision or amendment thereof shall be consistent with the requirements set out in this License relating to minimum work and expenditure for the period of the Exploration Period in which such Work Program or budget falls;
- 8.3** The work obligations referred to in Article 5 shall be described in an annual plan, drawn up in due detail and with the respective budget, to be prepared by the Licensee and submitted to the Director General for review and approval.
- 8.4** The annual work program should be submitted to the Director General no less than sixty (60) days before the start of the year in question.
- 8.5** The Director General will review Work Programs and budgets and any amendments or revisions thereto, and Appraisal Programs submitted to it by Licensee pursuant to this Article, and may only order it not to be implemented if it fails to comply with the Petroleum and Exploration Act of 2011 or any terms of this License.
- 8.6** In the event of all or part of the annual plan being refused, the Director General shall notify the Licensee of the fact within fifteen days of receiving the plan, indicating the reasons for the refusal.
- 8.7** In the event of refusal under the preceding paragraph, the Licensee shall draw up a new plan, or rectify the previous plan, which shall be submitted to the Director General.
- 8.8** If the plan is not refused within the period referred to in Article 8 (6), the plan may be freely implemented.
- 8.9** The Licensee may submit addenda to the annual work plan to the Director General provided they are justified on technical grounds.

- 8.10** After the date of the first Commercial Discovery, Licensee may submit a proposal for the drilling of an Exploration Well or Wells not associated with the Commercial Discovery and not otherwise required to be drilled hereunder.
- 8.11** From the first occurring Date of Commercial Discovery, the Licensee:
- i.** Within sixty (60) days after the Date of Commercial Discovery Licensee shall prepare and submit to the Director General any revisions to its annual Work Program and budget that may be necessary for the remainder of that Contract Year and for the rest of the Exploration Period.
  - ii.** At least ninety (90) days before the Commencement of each subsequent Calendar Year Licensee shall submit to the Director General for review a Work Program and budget setting forth all Development and Production Operations which Licensee proposes to carry out in that Calendar Year and the estimated cost thereof and shall also give an indication of Licensee's plans for the succeeding Calendar Year;
  - iii.** Within sixty (60) days of the Date of Commencement of Commercial Production and thereafter not later than one hundred and twenty (120) days before the commencement of each Calendar Year, Licensee shall submit to the Director General an annual production schedule which shall be in accordance with good international oilfield practice, and shall be designed to provide the most efficient, beneficial and timely production of the Petroleum resources.
- 8.12** The Licensee shall provide The Director General with lifting schedules for Development and Production Areas as well as Licensee's reports on the conduct of Petroleum Operations.

## ARTICLE 9

### COMMERCIALITY

- 9.1 Licensee shall notify the Director General in writing as soon as possible after any Discovery is made, but in any event not later than seven (7) days after any Discovery is made.
- 9.2 As soon as possible after the analysis of the test results of such Discovery is complete and in any event not later than Sixty (60) days from the date of such Discovery, Licensee shall by a further notice in writing to the Director General indicate whether in the opinion of Licensee the Discovery merits appraisal.
- 9.3 Where Licensee indicates that the Discovery merits appraisal, Licensee shall submit to the Director General an Appraisal Program to be carried out by Licensee in respect of such Discovery.
- 9.4 Unless Licensee and the Director General otherwise agree in any particular case, Licensee shall have a period of two (2) years from the date of Discovery to complete the Appraisal Program.
- 9.5 Licensee shall commence appraisal work within one (1) year from the date of submission of the Appraisal Program to the Director General. Where the Licensee is unable to commence appraisal work within one (1) year from the date of submission of the Appraisal Program to the Director General, Licensee may request an extension of time from the Director General.
- 9.6 Not later than ninety (90) days from the date on which said Appraisal Program relating to the Discovery is completed Licensee will submit to The Director General a report containing the results of the Appraisal Program. Such report shall include all available technical and economic data relevant to a determination of commerciality, including, but not limited to, geological and geophysical conditions, such as structural configuration, physical properties and the extent of reservoir rocks, areas, thickness and depth of pay zones, pressure, volume and temperature analysis of the reservoir fluids; preliminary estimates of Crude Oil and Natural Gas reserves; recovery drive characteristics; anticipated production performance per reservoir and per well; fluid characteristics, including gravity, sulphur percentage, sediment and water percentage and refinery assay pattern.
- 9.7 Not later than one hundred twenty (120) days from the date on which said Appraisal Program is completed Licensee will, by a further notice in writing, inform the Director General whether the Discovery in the opinion of Licensee is or is not commercial.
- 9.8 If Licensee informs the Director General that the Discovery is not commercial, then Licensee shall relinquish such Discovery Area; provided, however, that in appropriate cases, before declaring that a Discovery is not commercial, Licensee

shall consult with the Director General and may make appropriate representations proposing minor changes in the fiscal and other provisions of this Agreement which may, in the opinion of Licensee, affect the determination of commerciality. The Director General may, where feasible, and in the best interests of all parties agree to make such changes or modifications in the existing arrangements. In the event the Parties do not agree on such changes or modifications, then Licensee shall relinquish the Discovery Area.

**9.9** If Licensee informs the Director General that the Discovery is commercial, Licensee shall not later than one hundred and eighty (180) days thereafter, prepare and submit to the Director General a Development Plan.

**9.10** The Development plan shall be based on engineering studies and shall include:

- a)** Licensee's proposals for the delineation of the proposed Development and Production area and for the development of any reservoir(s);
- b)** the way in which the Development and Production of the reservoir is planned to be financed;
- c)** Licensee's proposals relating to the spacing, drilling and completion of wells, the production, storage, transportation and delivery facilities required for the production, storage, transportation of the Petroleum, including without limitation:
  - i)** the estimated number, size and production capacity of production platforms if any;
  - ii)** the estimated number of production wells;
  - iii)** the particulars of feasible alternatives for transportation of the Petroleum, including pipelines;
  - iv)** the particulars of onshore installations required, including the type and specifications or size thereof and;
  - v)** the particulars of other technical equipment required for the operations;
- d)** the estimated production profiles for Crude Oil and Natural Gas from the Petroleum reservoirs;
- e)** estimates of capital and operating expenditures;
- f)** the safety measures to be adopted in the course of the Development and Production Operations, including measures to deal with emergencies;



- i)** Licensee has given the Director General a separate notice indicating that such Discovery merits appraisal or confirmation; or
  - ii)** Licensee has given the Director General a separate notice indicating that such Discovery is commercial; or
- b)** any area which constitutes or forms part of a Development and Production Area.

## ARTICLE 10

### PRODUCTION OF CRUDE OIL

- 10.1** Gross Production of Crude Oil from each Development and Production Area shall be distributed in the following sequence and proportions:
- a)** The rate of Royalty for Oil Production shall be 12% and shall be delivered to the State as ROYALTY pursuant to the provisions of the Petroleum Act. Upon Notice to Licensee, the State shall have right to elect to receive its Royalty payment in kind in Crude Oil. The State's Notice shall be given to the Licensee at least 90 days in advance of each lifting period..
  - b)** After distribution of such amounts of Crude Oil as are required pursuant to (a) above, the remaining Crude Oil produced from each Development and Production area shall be the Licensee's and, the State on the basis of their respective participating Interests pursuant to Article 2.
- 10.2** Ownership and risk of loss of all Crude Oil produced from the Contract Area which is purchased, and all of its percentage Interest or other Crude Oil lifted by Licensee shall pass to Licensee at the outlet flange of the marine terminal or other storage facility for loading into tankers.
- 10.3** Licensee shall have the right freely to export and dispose of all of its Petroleum pursuant to this Article subject to Article 15.
- 10.4** The Parties shall through consultation enter into supplementary Licenses concerning Crude Oil lifting and tanker schedules, loading conditions and Crude Oil metering at the end of each Calendar Year. The Crude Oil to be distributed or otherwise made available to the Parties in each Calendar Year in accordance with the preceding provisions of this Article shall insofar as possible be in reasonably equal monthly quantities.

## **ARTICLE 11**

### **MEASUREMENT AND PRICING OF CRUDE OIL**

- 11.1** Crude Oil shall be delivered by Licensee to storage tanks constructed, maintained and operated in accordance with applicable laws and good oilfield practice. Crude Oil shall be metered or otherwise measured for quantity and tested for quality in such storage tanks for all purposes of this Agreement. Any Party may request that measurements and tests be done by an internationally recognized inspection company. Licensee shall arrange and pay for the conduct of any measurement, or test so requested provided, however, that in the case of (1) a test requested for quality purposes and (2) a test requested on metering (or measurement) devices, or where the test demonstrates that such devices are accurate within acceptable tolerances, the Party requesting the test shall reimburse Licensee for the costs associated with the test or tests.
- 11.2** Licensee shall keep full and accurate accounts concerning all Petroleum measured as aforesaid and provide the Director General with copies thereof on a monthly basis, not later than ten (10) days after the end of each month.
- 11.3** The Market Price for Crude Oil delivered by Licensee hereunder shall be established with respect to each lifting as follows:
- a)** on Crude Oil sold by Licensee in arm's length commercial transactions, the Market Price shall be the price actually realized by Licensee on such sales;
  - b)** On other sale by Licensee, on exports by Licensee without sale, the Market Prices shall be determined by reference to world market prices of comparable Crude Oils sold in arm's length transactions for export in the major world petroleum markets, and adjusted for oil quality, location and conditions of pricing, delivery and payment.
  - c)** sales in arm's length commercial transactions shall mean sales to purchasers independent of the seller, which do not involve Crude Oil exchange or barter transactions, government to government transaction, sales directly or indirectly to Affiliates, or sales involving consideration other than payment in U.S. Dollar or currencies convertible thereto, or affected in whole or in part by considerations other than the usual economic incentives for commercial arm's length Crude Oil sales;
  - d)** the price of Crude Oil shall be expressed in U.S. Dollars per barrel, F.O.B. the point of delivery by Licensee;
  - e)** if the quality of Crude Oils produced from the Contract Area is different, the Market Price shall be determined separately for each type sold and/or exported by Licensee.

- 11.4** Licensee shall notify the Director General of the Market Price determined by it for its respective lifting during each Quarter not later than thirty (30) days after the end of that Quarter.
- 11.5** If the Director General considers that the price notified by Licensee was not correctly determined, it shall so notify Licensee not later than thirty (30) days after notification by Licensee of such price, and the Director General and Licensee shall meet not later than twenty (20) days thereafter to agree on the correct Market Price.
- 11.6** If the Parties fail to agree on the Market Price applicable to a given quarter within seventy five (75) days after the end of that quarter, the Director General or the Licensee may immediately submit to an expert, appointed in accordance with the following paragraph, the determination of the Market Price (including the determination of reference crude oils if the Parties have not determined them). The expert shall determine the price within thirty (30) days after his appointment and his conclusions shall be final and binding on the Parties. The expert shall decide in accordance with the provisions of this Article.
- 11.7** The expert shall be selected by agreement between the Parties or, if no agreement is reached, by UNCITRAL/ICSID in accordance with its rules on technical expertise, at the request of the most diligent Party. The expert costs shall be charged to the Licensee and included in the Petroleum Costs.

## ARTICLE 12

### FISCAL TERMS

**12.1** The Licensees shall be subject to the following license fees, taxes and royalties in respect of activities directly related to exploration, production and sale of petroleum:

- i) Annual License Fees payable to the State per square kilometer of the area remaining at the beginning of each Calendar Year as part of the Contract Area, in the amounts as set forth below:

<b>Phase of Operation</b>	<b>License Fees Per annum</b>
Initial Exploration Period	<u>US \$40 per sq. km.</u>
1 <sup>st</sup> Extension Period	<u>US \$60 per sq. km.</u>
2 <sup>nd</sup> Extension Period	<u>US \$85 per sq. km.</u>
Development and Production Area	US \$110 per sq. km.

The License Fee is paid in advance for the entire year, and is Due on the first Business Day of the Calendar Year.

The payment pertaining to the period between the Effective date and the end of the current Calendar Year is made within (10) Business Days following the Effective date and the amount of the fee will be calculated in accordance with the period of time remaining until the end of the said Calendar Year. The same provisions will apply mutatis mutandis to the first payment after the granting of an extension, as well as for the last payment of each extension period.

- ii) Royalty as provided for in Article 10 herein;
- iii) Income Tax of (30%) thirty percent.
- A. The rate of capital allowances shall be in accordance with the Income Tax Act 2000; i.e.
- a. 100% for Exploration costs.
  - b. For Development and Production, an annual allowance of 25% for 4 years succeeding the year of expenditure.

B. A loss in any year of assessment may be carried forward as a deduction against income of the subsequent year of assessment.

iv) Payments for rental of State Property, public lands or for the provision of specific services requested by Licensee from public enterprises; provided, however, that the rate charged Licensee for such rentals or services shall not exceed the rates charged to other members of the public who receive similar rentals or services;

**12.2** Sub-Contractors and Foreign National Employees shall be exempt from paying income tax during the period of exploration and development but shall be liable to pay income tax in accordance with the Income Tax Act in force during the period of production of petroleum.

**12.3** The Licensee and Sub-Contractors may import into Sierra Leone, all plant, equipment and materials to be used solely and exclusively in the conduct of Petroleum Operations without payment of customs and other duties, taxes, fees and charges on imports.

**12.5**

**12.6** Licensee, Subcontractors and Foreign National Employees shall have the right to export from Sierra Leone all previously imported items as defined. Such exports shall be exempt from all customs and other duties, taxes, fees and charges on exports.

**12.8** Vessels or other means of transport used in the export of Licensee's Petroleum from Sierra Leone shall not be liable to any discriminatory tax, duty or charge by reason of their use for that purpose.

## ARTICLE 13

### FOREIGN EXCHANGE TRANSACTIONS

- 13.1** Licensee shall for the purpose of this License be entitled to receive, remit, keep and utilize freely abroad all the foreign currency obtained from the sales of the Petroleum assigned to it by this License or purchased hereunder, or from transfers, as well as its own capital, receipts from loans and in general all assets thereby acquired abroad. Upon making adequate arrangements with regard to its commitment to conduct Petroleum Operations, Licensee shall be free to dispose of this foreign currency or assets as it deems fit.
- 13.2** Licensee shall have the right to open and maintain in Sierra Leone bank accounts in foreign currency and Sierra Leone currency. No restriction shall be made on the import by Licensee in an authorized manner of funds assigned to the performance of the Petroleum Operations and Licensee shall be entitled to purchase Sierra Leone currency through authorized means, without discrimination, at the prevailing rate of exchange; provided, however, that such prevailing rate applicable to Licensee hereunder for all transactions for converting Sierra Leone currency into U.S. Dollars, and vice versa, shall be at a buying or selling, as the case may be, rate of exchange not less favorable to Licensee than that quoted by the State or its foreign exchange control authority to any person or entity on the dates of such conversion.
- 13.3** Licensee shall be entitled to convert in an authorized manner into foreign currencies of its choice funds imported by Licensee for the Petroleum Operations and held in Sierra Leone which exceed its local requirements at the prevailing rate of exchange and remit and retain such foreign currencies outside Sierra Leone.
- 13.4** Licensee shall have the right to make direct payments outside of Sierra Leone from its home offices or elsewhere to its Foreign National Employees, and to its Subcontractors and suppliers for wages, salaries, purchases of goods and performance of services, whether imported into Sierra Leone or supplied or performed therein for Petroleum Operations carried out hereunder, in accordance with the provisions of this License, in respect of services performed within the framework of this License, and such payments shall be considered as part of the costs incurred in Petroleum Operations. In the event of any changes in the location of Licensee's home or other offices, Licensee shall so notify the Director General. All such payments however shall be subject to the Income Act 2000 and other relevant financial Acts and Regulations currently in force.

- 13.5** All payments which this License obligates Licensee to make to the State shall be made in U.S. Dollars, except as requested otherwise. All payments shall be made by wire transfer in immediately available funds to a bank to be designated by the Director General, and reasonably accessible to Licensee by way of its being able to receive payments made by Licensee and give a confirmation of receipt thereof, or in such other manner as may be mutually agreed.
- 13.6** All payments which this License may obligate the Director General or the State to make to Licensee shall be made by wire transfer in immediately available funds in U.S. Dollars to a commercial bank to be designated by Licensee.

## **ARTICLE 14**

### **SPECIAL PROVISIONS FOR NATURAL GAS**

#### **PART 1 - GENERAL**

- 14.1** Licensee shall have the right to use Natural Gas produced from any Development and Production Area for Petroleum Operation within the Contract Area such as for, but not limited to, re-injection for pressure maintenance and/or power generation.
- 14.2** The natural gas produced from any petroleum deposit shall be exploited, and flaring of the same is expressly forbidden, except flaring for short periods of time when required for purpose of testing or other safety reasons.
- 14.3** In the case of marginal or small deposits, the Director General may authorize the flaring of associated gas in order to make its exploitation viable.
- 14.4** The authorization referred to in Article 14.3 may only be granted on submission of a duly substantiated technical and economic and environmental impact evaluation report evidencing that it is not feasible to exploit or preserve the natural gas.
- 14.5** When gas flaring is authorized, the Director General may determine that a relevant fee be charged in accordance with the quantity and quality of the gas flared and with its location.
- 14.6** Licensee shall have the right to extract Condensate and Natural Gas liquids for disposition under the provisions relating to Crude Oil. Residual Natural Gas remaining after the extraction of Condensate and Natural Gas Liquids is subject to the provisions of this Article.

#### **PART II – ASSOCIATED GAS**

- 14.7** Based on the principle of full utilization of Associated Gas and without substantial impediment to Crude Oil production, the Development Plan of each Development and Production Area shall include a plan of utilization for Associated Gas.

#### **PART III – NON-ASSOCIATED GAS**

- 14.8** Licensee shall notify the Director General in writing as soon as any discovery of Non-Associated Gas is made in the Contract Area.
- 14.9** As soon as possible after the technical evaluation of the test results of such discovery is complete and in any event not later than one hundred eighty days (180) days from the date of Discovery, Licensee shall by a further notice in

writing to The Director General (the “Notice”) indicate whether in Licensee’s opinion the Discovery merits Appraisal.

- 14.10** Where Licensee’s Notice indicates that the Discovery does not at that time merit Appraisal but may merit Appraisal or additional evaluation at a later date during the Exploration Period, then Licensee need not submit a proposed Appraisal Program at that time but instead shall indicate what other studies or evaluation may be warranted before an Appraisal Program is undertaken.
- 14.11** Where Licensee’s Notice indicates that the Discovery merits the drilling of one or more Appraisal Wells at that time, Licensee shall prepare and submit the appropriate Appraisal Program which Program shall be scheduled to be completed within two (2) years of the submission of the Notice to the Director General.
- 14.12** Not later than ninety (90) days from the date on which the Appraisal Program relating to a Discovery is concluded, Licensee shall submit a report containing the results of the Program. If the report concludes that the Discovery merits commercial assessment, Licensee shall notify the Director General within one hundred eighty (180) days from the date on which the Appraisal Program relating to the Discovery was completed of a Program of such assessment and shall conduct such Program during the rest of the Exploration Period. Notwithstanding the above, Licensee may also notify the Director General that commercial assessment of the Discovery is not warranted at that time but the Discovery may merit such assessment at a later date during the Exploration Period.
- 14.13** The purpose of the commercial assessment shall be to study the uses to which production from the Discovery Area can be devoted and whether involving exports or domestic utilization. As part of the assessment, the Parties shall also pursue discussions on the required contractual arrangements for disposition of the Natural Gas to potential purchasers and/or consumers of the Natural Gas.
- 14.14** Licensee may consult with the Director General and may make appropriate representations proposing minor changes in the fiscal and other provisions of this Agreement which may, in the opinion of Licensee, affect the above determinations. The Director General may, where feasible and in the best interests of the Parties, agree to make such changes or modifications in the existing arrangements.
- 14.15** Nothing in this Part III of Article 14 shall be read or construed as requiring Licensee to relinquish any area
  - i)** which constitutes or forms part of another Discovery Area in respect of which Licensee has given to the Director General a separate notice indicating that such Discovery merits confirmation or commercial assessments; or

- ii) which constitutes or forms part of a Development and Production Area.

#### **PART IV – NATURAL GAS PROJECTS**

- 14.16** If at any time during the commercial assessment Licensee informs the Director General in writing that the Discovery can be produced commercially, it shall as soon as reasonably possible thereafter submit its proposals for an agreement relating to the development of the Discovery on the principles set forth in this Part IV of Article 13. The Director General undertakes on receipt of such notice to negotiate in good faith with Licensee with a view to reaching agreement on terms for such production. Any such agreement will be based on terms and fiscal requirements which shall be no less favorable to Licensee than those provided elsewhere in this Agreement.
- 14.17** If at any time during the commercial assessment Licensee has identified a market in Sierra Leone for the reserves of Associated and/or Non-Associated Gas or any part thereof that can be saved without prejudice to an export project, the Parties shall proceed in good faith to negotiate the appropriate contractual arrangements for the disposition of the Gas. In the event of a domestic market for such Gas, Licensee shall receive for delivery onshore of its share of the Gas a price to be agreed between the Director General and Licensee taking into account among other things the cost of developing the Gas and the uses which will be made of the Gas.
- 14.18** In the event of a Discovery of Natural Gas in the Contract Area which is to be developed and commercially produced, the provisions of this Agreement in respect to interests, rights and obligations of the Parties regarding Crude Oil shall apply to Natural Gas, with the necessary changes in points of detail, except with respect to specific provisions in this Agreement concerning Natural Gas and different or additional provisions concerning Natural Gas which may be agreed by the Parties in the future.
- a) The system for the allocation of Natural Gas among the Parties shall follow the same general format as provided for Crude Oil, with the exception that the royalty to be delivered to the State on Natural Gas shall be at the rate of 5% as an incentive to enhance the viability of a Gas project on the basis herein provided for.
  - b) The Parties recognize that projects for the development and production of Natural Gas are generally long-term in nature for both the project developers and the customers who purchase the Natural Gas. Substantial investments and dedication of facilities require long-term commitments on both sides. This Agreement, being for a specific term of years, may not

cover the length of time for which customers in given cases will require commitments on the part of the Parties to this Agreement to deliver their respective shares of the output. Accordingly the Parties agree to consider undertaking such commitments where reasonably required for the efficient and viable development of a Natural Gas project. It is recognized that, unless otherwise agreed by the Parties hereto, Licensee will have no right or interest in the project or the Natural Gas produced and delivered after the term of this Agreement has expired.

- c) The Parties will consider collaboration in obtaining any common external financing available for Natural Gas processing or Natural Gas utilization facilities, including project financing; however, each party shall remain free to finance externally its share of such facilities to the extent it prefers to do so.

#### 14.19

- a) Where Licensee has during the continuance of the Exploration Period made a Discovery of Non-Associated Gas but has not before the end of the Exploration Period declared that Discovery to be commercial, the Director General may, if Licensee so requests, enter into a new Petroleum Agreement with Licensee in respect of the Discovery Area to which that Discovery relates;
- b) A Petroleum License entered into pursuant to this Article:
  - i) shall unless the Discovery in respect of which the License has been made is declared by Licensee to be commercial continue in force for an initial period not exceeding five (5) years;
  - ii) shall in the event that the Discovery is declared by Licensee to be commercial
    - a) continue in force for an aggregate period not exceeding thirty (30) years;
    - b) include, or be deemed to include, all the provisions which **mutatis mutandis**, would have applied to a commercial Discovery of Non-Associated Gas if Licensee had declared such Discovery to be commercial under this Agreement;
  - iii) shall contain in respect of the initial period or of any renewal period details of the evaluations or studies which Licensee proposes to undertake in order to determine or keep under review the commerciality of the discovery.

- c) Where Licensee has not, before the end of the initial period, declared the Discovery to be commercial and the Director General has in his discretion determined that further evaluation or studies may be required before the Discovery can be declared commercial, the right of Licensee to retain the Discovery Area shall continue for a further period not exceeding in the aggregate five (5) years. The right of Licensee to retain the Discovery Area aforesaid shall be secured by the renewal of the License referred to in this Article 13 or where necessary by a new License entered into by the Parties for that purpose.

## **ARTICLE 15**

### **DOMESTIC SUPPLY REQUIREMENTS (CRUDE OIL)**

- 15.1** Crude Oil for consumption in Sierra Leone (in this Article called the “Domestic Supply Requirement”) shall be supplied, to the extent possible, by the State from its respective entitlement under this License and under any other contract for the production of Crude Oil in Sierra Leone.
- 15.2** In the event that Crude Oil available to the State is insufficient to fulfill the Domestic Supply Requirements, Licensee shall be obliged together with any third parties which produce Crude Oil in Sierra Leone, to supply a volume of Crude Oil to be used for such Domestic Supply Requirements, calculated on the basis of the ratio of Licensee’s entitlement to Crude Oil to the similar entitlements of all such third parties and provided that Licensee’s obligation to supply Crude Oil for purposes of meeting the Domestic Supply Requirement Crude Oil shall not exceed the total of Licensee’s said entitlement under this Agreement. The State shall purchase any Crude Oil supplies by Licensee pursuant to this Article at the weighted average Market Price determined under this Agreement for the Month of delivery, and the State shall pay such prices within thirty (30) days after receipt of invoice, failing which Licensee’s obligations in respect of the Domestic Supply Requirement under this Article 14 shall be suspended until payment is made good, at which time deliveries shall be resumed subject to any alternative commitments that may have been reasonably entered into by Licensee to dispose of the Domestic Supply Requirement Crude Oil during the period of default in payment.

## ARTICLE 16

### INFORMATION AND REPORTS: CONFIDENTIALITY

- 16.1** Licensee shall keep the Director General regularly and fully informed of operations being carried out by Licensee and provide the Director General with all information, data, (film, paper, digital forms and magnetic tapes), samples, interpretations and reports, (including progress and completion reports) including but not limited to the following:
- (a) processed seismic data and interpretations thereof;
  - (b) well data, including but not limited to electric logs and other wireline surveys, and mud logging reports and logs, samples of cuttings and cores and analyses made therefrom;
  - (c) any reports prepared from drilling data or geological or geophysical data, including maps or illustrations derived therefrom;
  - (d) well testing and well completion reports;
  - (e) reports dealing with locations surveys, seabed conditions and seafloor hazards and any other reports dealing with well, platform or pipeline locations;
  - (f) reservoir investigations and estimates regarding reserves, field limits and economic evaluations relating to future operations;
  - (g) daily, weekly, monthly and other regular reports on Petroleum Operations;
  - (h) comprehensive final reports upon the completion of each specific project or operation;
  - (i) contingency programs and reports on safety and accidents;
  - (j) procurement plans, subcontractors and contracts for the provision of services to Licensee.
- 16.2** All information, data, logs, reports, samples, collected, processed or analysed pursuant to this License shall remain the property of the State but the Licensee shall have the right to retain for its own use in connection with the conduct of Petroleum Operations under this License copies of data, well logs, maps, magnetic tapes, other geological and geophysical information, portions of core samples and copies of reports, studies and analysis referred to in Article 16.1.
- 16.3** Not later than ninety (90) days following the end of each Calendar Year, Licensee shall submit to the Director General a report covering Petroleum Operations

performed in the Contract Area during such Calendar Year. Such report shall include, but not be limited to:

- (a) a statement of the number of Exploration Wells, Appraisal Wells and Development Wells drilled, the depth of each such well, and a map on which drilling locations are indicated;
- (b) a statement of any Petroleum encountered during Petroleum Operations, as well as a statement of any fresh water layers encountered and of any other minerals discovered;
- (c) a statement of the quantity and quality of Petroleum produced and of all other minerals produced therewith from the same reservoir or deposit;
- (d) a summary of the nature and extent of all exploration activities in the Contract Area;
- (e) a general summary of all Petroleum Operations in the Contract Area.

**16.4** All data, information, reports and statistics including interpretation and analysis supplied by Licensee pursuant to this License shall be treated as confidential and shall not be disclosed by any Party to any other person without the express written consent of the other Parties during the life of this License.

**16.5** The provisions of this Article 16.4 shall not prevent disclosure:

- (a) By the Director General or the State:
  - (i) To any agency of the State or to any adviser or consultant to the Director General or the State;
  - (ii) For the purpose of obtaining a Petroleum License in respect of any acreage adjacent to the Contract Area; or
  - (iii) For the purpose of complying with the State's international obligations for the submission of statistics and related data.
- (b) by Licensee:
  - i) to its Affiliates, advisers or consultants;
  - ii) to a bona fide potential assignee of all or part of Licensee's interest hereunder;

- iii) to banks or other lending institutions for the purpose of seeking external financing of costs of the Petroleum Operations;
- iv) to Non-Affiliates who shall provide services for the Petroleum Operations, including subcontractors, vendors and other service contractors, where this is essential for their provision of such services;
- v) to governmental agencies for obtaining necessary rulings, permits, licenses and approvals, or as may be required by applicable law or financial stock exchange, accounting or reporting practices.

**16.6** Any Party disclosing information or providing data to any third party under this Article shall require such persons to undertake the confidentiality of such data.

## **ARTICLE 17**

### **INSPECTION, SAFETY AND ENVIRONMENTAL PROTECTION**

- 17.1** The Director General shall be responsible for monitoring and inspecting all activities undertaken by the Licensee under the scope of this Petroleum License.
- 17.2** The Director General or his duly authorized representatives shall have the right of access to all sites and offices of Licensee and the right to inspect all buildings and installations used by Licensee relating to Petroleum Operations. Such inspections and access shall take place in consultation with Licensee and at such times and in such manner as not unduly to interfere with the normal operations of Licensee. Such representatives may make a reasonable number of surveys, drawings, and tests for the purpose of enforcing this agreement. They shall, for this purpose, be entitled to make reasonable use of the machinery and instruments of the Licensee on the condition that no danger or impediment to the operations hereunder shall arise directly or indirectly from such use. Such representatives shall be given reasonable assistance by the agents and employees of the Licensee so that none of their activities endanger or hinder the safety or efficiency of the operations. The Licensee shall offer such representatives all privileges and facilities accorded to its own employees in the field and shall provide them, free of charge, the use of reasonable office space and of adequate housing while they are in the field for the purpose of facilitating the objectives of this Article.
- 17.3** Licensee shall save and keep a representative portion of each sample of cores and cuttings taken from drilling wells, to be disposed of, or forwarded to the Director General. All samples acquired by the Licensee for their own purposes shall be considered available for inspection at any reasonable time by the Director General or his representatives.
- 17.4** The Licensee shall provide the Director General with copies of any and all data (including, but not limited to, geological and geophysical reports, logs and well surveys), information and interpretation of such data, and other relevant information in Licensees possession.
- 17.5** Licensee shall take all necessary steps, in accordance with accepted Petroleum Industry practice, to perform activities pursuant to the Agreement in a safe manner.
- 17.6** Licensee shall provide an effective and safe system for disposal of water and waste oil, oil base mud and cuttings in accordance with accepted Petroleum Industry practice, and shall provide for the safe completion or abandonment of all boreholes and wells.
- 17.7** Licensee shall exercise its rights and carry out its responsibilities under this Agreement in accordance with accepted Petroleum Industry practice, and shall take steps in such manner as to:

- (a) Result in minimum ecological damage or destruction;
- (b) Control the flow and prevent the escape or the avoidable waste of Petroleum discovered in or produced from the Contract Area;
- (c) Prevent damage to Petroleum-bearing strata;
- (d) Prevent the entrance of water through boreholes and wells to Petroleum-bearing strata, except for the purpose of secondary recovery;
- (e) Prevent damage to onshore lands and to trees, crops, buildings or other structures;
- (f) Prevent damage to marine life and fishing activities in offshore operations; and
- (g) Avoid any actions, which would endanger the health or safety of persons.

**17.8** If Licensee's failure to comply with the requirements of Article 17.5 results in the release of Petroleum or other materials on the seabed, in the sea, on land or in fresh water, or if Licensee's operations result in any other form of pollution or otherwise cause harm to fresh water, marine, plant or animal life, Licensee shall, in accordance with accepted Petroleum Industry practice, promptly take all necessary measures to control the pollution, to clean up Petroleum or released material, or to repair, to the maximum extent feasible, damage resulting from any such circumstances. The cost of clean-up and repair activities shall be borne by Licensee.

**17.9** For the purposes of Article 17.1, the Licensee shall send to the Director General all logs, operational reports and incident reports on their activities by the 10<sup>th</sup> day of the end of each month.

**17.10** If it is determined that a particular petroleum operation may endanger the lives of persons or the preservation of the environment, the Director General, after consulting Licensee, may:

- (a) order such petroleum operation to be suspended;
- (b) order the withdrawal of all persons from the locations deemed dangerous, in coordination with the relevant State authorities;
- (c) order the suspension of the use of any machine or equipment which may jeopardize the said values.

**17.11** Licensee shall notify the Director General immediately in the event of any emergency or major accident and shall take such action as may be prescribed by its emergency procedures and by accepted Petroleum Industry practices.

## ARTICLE 18

### DECOMMISSIONING

- 18.1** The Licensee may at any time relinquish and/or abandon any portion of the Contract Area or any Well not included in a Field subject to having given three (3) months prior notice to the Director General, provided that the Licensee shall have fulfilled all of its obligations under this Contract and that it has given the Director General full details of the state of any reservoir and the facilities equipment in such area in addition to any plans for the removal or dismantling of such facilities and equipment including all technical and financial information. All decommissioning operations must be undertaken in accordance with the Petroleum Law.
- 18.2** The decommissioning of a Field by the Licensee, and its corresponding decommissioning plan shall require the prior approval of the Director General. At the time the Licensee presents a development plan according to Article , the Licensee shall also prepare and deliver to the Director General a plan for the decommissioning of all Wells, facilities and equipment, the rehabilitation of the landscape and the continuation of Petroleum Operations, if applicable.
- 18.3** Unless the Director General elects to keep the facilities and equipment in order to continue Petroleum Operations in accordance with Article 18.4, the Licensee is obligated to fully decommission all Fields within the Contract Area.
- 18.4** Upon receipt by the Director General of the notice referred to in Article 18.1 or upon the decommissioning of any Field, the State shall be entitled to take over any Discovery or Field whose decommissioning is proposed by the Licensee. If the Director General does not communicate its desire to take over Petroleum Operations within three (3) months of receipt of the relevant notice, it shall be deemed to have elected not to do so.
- 18.5** In order to implement the decommissioning of a Field, the Licensee shall contribute to a reserve fund set up for the estimated decommissioning costs, (the Reserve Fund) in accordance with the the approved decommissioning plan.
- 18.6** In the event that the total amount of the Reserve Fund is greater than the actual cost of decommissioning, the account balance shall be distributed between the State and the Licensee in equal amounts. In the event that the amount of the Reserve Fund is less than the actual cost of decommissioning operations, the Licensee shall be liable for the remainder.
- 18.7** In the event that the State elects to keep the facilities and equipment in order to continue Petroleum Operations after the withdrawal of the Licensee, the Reserve Fund so established together with the related interest shall be put at the States disposal to cover the later decommissioning. The Licensee shall be released from any further decommissioning liability in respect of such facilities and equipment.

- 18.8** The State undertakes not to interfere with the conduct of Petroleum Operations in the Contract Area retained by the Licensee in the event that the State should elect to take over a Discovery or Field pursuant to Article 18.4. If requested by the Director General, the Licensee shall undertake to continue all operations for a fee and on terms to be agreed between the Director General and the Licensee.
- 18.9** The Licensee shall duly plug all the Wells and decommission all facilities and equipment in order to avoid contamination and harm to the environment and possible damage to the reservoir, in accordance with generally accepted practice of the international petroleum industry.

## ARTICLE 19

### ACCOUNTING AND AUDITING

- 19.1** Licensee shall maintain, at its offices in Sierra Leone, books of account and supporting records in the manner required by applicable law and accepted accounting principles generally used in the petroleum industry and shall file reports, tax returns and any other documents and any other financial returns which are required by applicable law.
- 19.2** In addition to the books and reports required by Article 18.1 above, Licensee shall maintain, at its office in Sierra Leone, a set of accounts and records relating to Petroleum Operations under this License. Such accounts shall be kept in accordance with the requirements of the applicable law and accepted accounting principles generally used in the industry.
- 19.3** The accounts required by Articles 18.1 and 18.2 shall be kept in United States Dollars.
- 19.4** Licensee will provide the Director General with quarterly summaries of the Petroleum Costs incurred under this License.
- 19.5** The Director General shall review all financial statements submitted by the Licensee as required by this License, and shall signify its provisional approval or disapproval of such statements in writing within ninety (90) days of receipt, failing which the financial statements as submitted by Licensee shall be deemed approved by the Director General.
- 19.6** Notwithstanding any provisional approval pursuant to Article 18.5 the Director General shall have the right at its sole expense and upon giving reasonable notice in writing to Licensee to audit the books and accounts of Licensee relating to Petroleum Operations within two (2) years from the submission by Licensee of any report of financial statement. The Director General shall not, in carrying out such audit, interfere unreasonably with the conduct of Petroleum Operations. Any such audit shall be completed within nine (9) months after commencement. Licensee shall provide all necessary facilities for auditors appointed hereunder including working space and access to all relevant personnel, records, files and other materials.
- 19.7** Subject to any adjustments resulting from such audits, Licensee's accounts and financial statements shall be considered to be correct on expiry of a period of two (2) years from the date of their submission unless before the expiry of such two year period the Director General has notified Licensee of any exceptions to such accounts and statements.

## **ARTICLE 20**

### **PURCHASING AND PROCUREMENT**

- 20.1** In the acquisition of plant, equipment, services and supplies for Petroleum Operations, Licensee shall give preference to materials, services and products produced in Sierra Leone, of the same or approximate quality, if such materials, services and products can be supplied in due time at prices, which are no more than 10% higher than the imported items including transportation, insurance costs and customs charges due.
- 20.2** For the purposes of the provisions of Article 19.1, Sierra Leonean companies shall be mandatorily consulted on the same terms as those used for consulting companies on the international market.
- 20.3** The Licensee shall always Contract local service providers, to the extent to which the services they provide are similar to those available on the international market, and their prices, when subject to the same tax charges, are no more than ten percent higher than the prices charged by foreign contractors for similar services.

## ARTICLE 21

### EMPLOYMENT AND TRAINING

- 21.1** Licensee shall pay to the State the sum of two hundred thousand US dollars (US\$200,000) every year from the effective date during the exploration and development period, and five hundred thousand US dollars (US\$500,000) for each contract year during the production period, which the State may use at its sole discretion to train Sierra Leonean personnel and transfer the management and technical skills required for the efficient conduct of Petroleum Operations, and for other general and educational training purposes. This sum shall be paid to the Director General on the effective date, and at the latest, on January 15th each calendar year thereafter and shall not be prorated.
- 21.2** Licensee shall be required to employ Sierra Leone citizens in all categories and functions, except if there are no Sierra Leone citizens in the national market with the required qualifications and experience, under terms to be regulated.
- 21.3** National and foreign workers employed by Licensee who occupy identical professional categories and carry out identical functions shall enjoy the same rights of remuneration and the same working and social conditions, without any type of discrimination.
- 21.4** Licensee shall, if so requested by the Director General, provide opportunities for a mutually agreed number of employees nominated by the Director General to be seconded for on-the-job training or attachment to all phases of its Petroleum Operations under a mutually agreed secondment contract.
- 21.5** Licensee shall regularly provide to the Director General information and data relating to worldwide Petroleum science and technology, Petroleum economics and engineering available to Licensee.
- 21.6** It is agreed that there will be no disclosure or transfer of any documents, data, know-how, technology or other information owned or supplied by Licensee, its Affiliates, or Non-Affiliates, to third parties without Licensee's prior written consent, and then only upon agreement by the recipients to retain such information in strict confidence during the life of this Agreement.

## **ARTICLE 22**

### **PROTECTION OF RIGHTS**

- 22.1** The State shall take all necessary and possible steps to facilitate the implementation by the Licensee of the objectives of this License, and to protect the property and operations of the Licensee, its employees and agents in the territory of Sierra Leone.
- 22.2** At the duly justified request of the Licensee, the State shall prohibit the construction of dwelling or business buildings in the vicinity of installations which the Licensee may declare dangerous as a result of its operations. It shall take all necessary precautions to prohibit anchoring in the vicinity of submerged pipelines at river passages, and to prohibit any hindrance to the use of any other installation necessary for the Petroleum Operations whether on land or offshore.
- 22.3** The Licensee shall take out and cause to be taken out by its contractors and subcontractors, in respect of the Petroleum Operations, all insurances of the type and for such amounts customarily used in the international petroleum industry, including without limitation third party liability insurance and insurances to cover damage to property, facilities, equipment and material.
- 22.4** Upon the entry into Sierra Leone of all Foreign National Employees of Contractors, its Affiliates, Non-Affiliates and Subcontractors and their Agents, the Director General shall facilitate the issue of the documents necessary for the entry to all such Foreign National Employees, such as entry visas, working permits, exit visas and other related documents.
- 22.5** At the request of the Licensee, the Director General shall facilitate any immigration formalities at the points of entry into and exit from Sierra Leone in respect of all such Foreign National Employees and their families.
- 22.6** All the Foreign National Employees required for the conduct of the Petroleum Operations shall be under the Licensee's authority or that of its Affiliates, Non-Affiliates, Subcontractors and Agents, in their capacity as employers. Their work, number of working hours, salaries and any other matters relating to their employment conditions shall be determined by the Licensee or its Affiliates, Non-Affiliates, Subcontractors and Agents.

## **ARTICLE 23**

### **FORCE MAJEURE**

- 23.1** No delay or default of a Party in performing any of the obligations resulting from this License shall be considered as a breach of this License if such delay or default is caused by a case of Force Majeure.
- 23.2** If in the event of Force Majeure the performance of any of the obligations under this License is delayed, that delay, extended by the period of time required to repair the damage caused during such delay and resume the Petroleum Operations, shall be added to the period provided by this Agreement for the performance of said obligations, and the Exploration or Production authorizations shall be extended by that period as regards the Contract Area concerned by Force Majeure.
- 23.3** Force Majeure shall have the meaning set forth in Article 1 herein.
- 23.4** Where a Party considers it is prevented from performing any of its obligations by the occurrence of a case of Force Majeure, it shall forthwith notify the other Party thereof by specifying the grounds for establishing Force Majeure and take, in agreement with the other Party, all necessary and useful steps to ensure the normal resumption of the performance of the concerned obligations upon termination of the event constituting the case of Force Majeure.
- 23.5** Obligations other than those affected by Force Majeure shall continue to be performed in accordance with the provisions of this License.

## **ARTICLE 24**

### **TERM OF AGREEMENT**

- 24.1** The term of this License shall be either thirty (30) years commencing from the Effective Date or for the duration of production from the Contract Area, whichever shall be earlier.
- 24.2** At the end of the term provided for in Article 24.1, provided that this License has not earlier been terminated, the Parties may negotiate concerning the terms and conditions of a further License with respect to the Contract Area or any part thereof.

## ARTICLE 25

### CONSULTATION, ARBITRATION AND INDEPENDENT EXPERT

- 25.1** Any dispute or difference arising between the State on one hand and Licensee on the other in relation to or in connection with or arising out of any terms and conditions of this License shall be resolved by consultation and negotiation. In the event that no agreement is reached within thirty (30) days after the date when either Party notifies the other that a dispute or difference exists within the meaning of this Article or such longer period specifically agreed to by the Parties or provided elsewhere in the License, any Party shall have the right subject to Article 24.8 to have such dispute or difference settled through international arbitration under the rules and procedures and under the auspices of UNCITRAL/ICSID.
- 25.2** The tribunal shall consist of three (3) arbitrators. Each Party to the dispute shall appoint one (1) arbitrator and those so appointed shall designate an umpire arbitrator. If a Party's arbitrator and/or the umpire arbitrator is not appointed within the periods provided in the rules, such Party's arbitrator and/or the umpire arbitrator shall at the request of any Party to the dispute be appointed by UNCITRAL/ICSID.
- 25.3** No arbitrator shall be a citizen of the home country of any Party hereto, and shall not have any economic interest or relationship with any such Party.
- 25.4** The arbitration proceedings shall be conducted in London, England, or at such other location as selected by the arbitrators unanimously. The proceedings shall be conducted in the English language.
- 25.5** If the opinions of the arbitrators are divided on issues put before the tribunal, the decision of the majority of the arbitrators shall be determinative. The award of the tribunal shall be final and binding upon the Parties. The award may be submitted to a court of appropriate jurisdiction to implement as a judicial decree.
- 25.6** The right to arbitrate disputes arising out of this License shall survive the termination of this License.
- 25.7** In lieu of resorting to arbitration, the Parties to a dispute arising under this Agreement, including the Accounting Guide, which such Parties by mutual agreement may consider appropriate may be referred for determination by a Sole Expert to be appointed by agreement of the Parties. In such case, the Parties shall agree on the terms of reference for such proceeding, the schedule of presentation of evidence and testimony of witnesses, and other procedural matters. The decision of the Sole Expert shall be final and binding upon the Parties. The Sole Expert shall have ninety (90) days after his appointment to decide the case, subject to any extensions mutually agreed to by the Parties to the dispute. Upon

failure of the Sole Expert to decide the matter timely, any Party may call for arbitration under Article 24.1 above.

- 25.8** Each Party to a dispute shall pay its own counsel and other costs of litigation; however, costs of the arbitration tribunal shall be allocated in accordance with the decision of the tribunal. The costs and fees of the Sole Expert shall be borne equally by the Parties to the dispute.

## ARTICLE 26

### ASSIGNMENT

- 26.1** All or part of the rights and obligations arising from this License may be assigned by any of the entities constituting the Licensee to third parties whose technical and financial reputation is well established; the assignees with the other entities constituting the Licensee shall thereafter be jointly and severally liable for the obligations arising from this License.
- 26.2** The terms of any joint and several assignment and ownership shall be subject to the prior approval of the Director General,
- 26.3** All or part of the joint and several rights and obligations arising from this License may be freely assigned at any time by any of the entities constituting the Licensee to one or more Affiliated companies or other entities constituting the Licensee. Said assignments shall be notified to the State by the Licensee prior to the effective date thereof.
- 26.4** To enable consideration to be given to any request for the Director General's consent referred to in Article 26.2, the following conditions must be fulfilled:
- (a)** All the obligations of the assignor deriving from this License must have been duly fulfilled as of the date such request is made.
  - (b)** The instrument of assignment must include provisions stating precisely that the assignee is bound by all covenants contained in this License and any modifications or additions in writing that up to such time may have been made. A draft of such instrument of assignment shall be submitted to the Director General for review and approval before being formally executed.
  - (c)** The assignor(s) must submit to the Director General reasonable documents that evidence the assignee's financial and technical competence.
  - (d)** Once the assignor and a proposed third party assignee, other than an Affiliated Company, have agreed the final conditions of an assignment, the assignor shall disclose in details such final conditions in a written notification to the Director General. The State shall have the right to acquire the interest intended to be assigned, if, within Ninety (90) days from assignor's written notification, the Director General delivers to the assignor a written notification that it accepts the same conditions agreed to with the proposed third party assignee. If the Director General does not deliver such notification within such Ninety (90) day period, the assignor shall have the right to assign to the proposed third party assignee, subject to the Director General's approval under Article 26.2 this agreement.

- (e) As long as the assignor shall hold any interest under this License, the assignor together with the assignee shall be jointly and severally liable for all duties and obligations of Licensee under this License.

**26.5** If :

- (a) any of the entities constituting the Licensee (“Assignor”) assigns all or a part of its Participating Interest to a third party (“Assignee”) in accordance with Article 26;
- (b) the Assignee provides an irrevocable, unconditional bank guarantee from a reputed bank of good standing, acceptable to the State, in favour of the State, for an amount equal to the assignee’s Participating Interest share of the estimated expenditure of the Minimum Work Programme of the Exploration Phase current at the Effective Date of the assignment;
- (c) the Assignee provides performance guarantee and legal opinion in terms of Article 4; and
- (d) the assignment of Participating Interest is executed by all Parties;

then the Government shall release the guarantee given by the assignor under Article 4 to the extent of the amount of the guarantee provided by the assignee

## **ARTICLE 27**

### **BONUSES**

- 27.1. Licensee shall pay to the State as a signature bonus the sum of U.S. Dollars (\$ 000 000) on the Effective Date.
- 27.2. Licensee shall pay to the State as a Development bonus the sum of U.S. Dollars (\$ 000 000) on the date of the approval of each Commercial Development.
- 27.3. Licensee shall pay to the State the sum of U.S. Dollars (\$ 000 000) as a Lease extension bonus on the approval date of entry into any of the extension periods, or on the extension of any period pursuant to Article 3.
- 27.4. Licensee shall pay to the State as an assignment fee of on the date of approval of each assignment requested by any of the entities constituting the Licensee to any assignee in accordance with Article 26, in the following cases:
  - a) During any Exploration period, in case Licensee assigns in whole or in part of it's rights, privileges, duties and obligations to any assignee other than an Affiliate Company of the same Licensee, Licensee shall pay to the State the sum equivalent to ten percent (10%), valued in US Dollars, of the total financial commitment of the Exploration phase during which the assignment is made and according to the assigned percentage.....(Or an Assignment Fee of US\$750,000)
  - b) During any Development or Production Period, in case Licensee assigns in whole or in part of it's rights, privileges, duties and obligations to any assignee other than an Affiliate Company of the same Licensee or member, Licensee shall pay to the Director General the sum of ten percent (10%), valued in US Dollars, of the value of each Assignment Deal which could be any of the following: The financial value to be paid by the Assignee to the Assignor; or The financial value of shares or stocks to be exchanged between the Assignor and the Assignee; or The financial commitments for technical programs; or The financial value of the reserves, to be swapped between the assignor and the assignee from the Development areas; or Any other type of deal to be declared. (Or an assignment Fee of US\$1,500,000)
  - c) In case of an assignment to an Affiliate company of any of the entities constituting the Licensee during any Exploration or Development phase; Licensee shall pay to the State the sum of Five hundred Thousand U.S. Dollars (US\$ 500,000).
- 27.5. Licensee shall pay to the State the sum of U.S. Dollars (\$ 000 000) as a production bonus when the total average daily production from the Area first

reaches the rate of five thousand (5,000) Barrels of Oil or equivalent per day as for a period of thirty (30) consecutive producing days. Payment shall be made within fifteen (15) days thereafter.

- 27.6. Licensee shall also pay to the State the additional sum of U.S. Dollars (\$000 000) as a production bonus when the total average daily production from the Area first reaches the rate of ten thousand (10,000) Barrels of Oil or equivalent per day for a period of thirty (30) consecutive producing days. Payment shall be made within fifteen (15) days thereafter.
- 27.7. Licensee shall also pay to the State the additional sum of U.S. Dollars (\$ 000000) as a production bonus when the total average daily production from the Area first reaches the rate of twenty five thousand (25,000) Barrels of Oil or equivalent per day for a period of thirty (30) consecutive producing days. Payment will be made within fifteen (15) days thereafter.
- 27.8. Licensee shall also pay to the State the additional sum of U.S. Dollars (\$ 000 000) as a production bonus when the total average daily production from the Area first reaches the rate of fifty thousand (50 000) Barrels of Oil or equivalent per day for a period of thirty (30) consecutive producing days. Payment shall be made within fifteen (15) days thereafter.
- 27.9. Gas shall be taken into account for purpose of determining the total average daily production from the Area under this Article 27 by converting daily Gas delivered into equivalent barrels of daily Crude Oil production in accordance with the following formula for each unit of one thousand (1,000) standard Cubic Feet of Gas: Equivalent Barrels of Oil Per MSCF =  $H \times 0.167$  Where: MSCF = one thousand Standard Cubic Feet of Gas. H = the number of million British Thermal Units (MMBTU) per MSCF.
- 27.10. Licensee shall pay to the State the sum of Five Hundred Thousand U.S. Dollars (US\$ 500,000) as a technology bonus, which the State may use to acquire leading edge technology and equipment for the efficient conduct of Petroleum Operations. Payment shall be made on the first anniversary of the effective date.
- 27.11. The Director General shall act as agent for the State in the collection of all Petroleum or money accruing to the State under this Article and delivery or payment to Director General by Licensee shall discharge Licensee's liability.
- 27.12. All the above mentioned bonuses shall in no event be recovered by Licensee.

## Article 28

### IMPLEMENTATION OF LICENSE

- 28.1** The Parties agree to cooperate in every possible manner to achieve the objectives of this License. The Director General shall facilitate the grant of any permits, licenses, access rights, appropriate services and facilities required by the Licensee for the performance of the Petroleum Operations.
- 28.2** If the State considers that the Licensee has committed a breach in the performance of any of its obligations, it shall so notify the Licensee in writing and the Licensee shall have sixty (60) days to remedy the breach or refer the matter to Arbitration in accordance with the provisions of this License.
- 28.3** The breach by the Licensee of the provisions of this License may give rise to the termination thereof by the State upon the uncorrected occurrence of any of the events or failures to act listed below:
- (a) the submission by Licensee to the Director General of a written statement which the Licensee knows or should have known to be false in a particular material matter;
  - (b) the assignment or purported assignment by Licensee of this License contrary to the Assignment provisions hereunder;
  - (c) the insolvency or bankruptcy of Licensee or the entry of the Licensee into liquidation or receivership, whether compulsory or voluntary, and there is justifiable anticipation that the obligations of Licensee hereunder will not be performed;
  - (d) the failure of Licensee to fulfill its minimum work obligations hereunder unless the Director General has waived the default;
  - (e) the substantial and material failure by Licensee to comply with any of its obligations pursuant to Article 6 hereof;
  - (f) the failure of the Licensee to provide the required Performance Security within Sixty (60) days of the effective date for the Initial Exploration Period or within Sixty (60) days of entrance into any extension period.
  - (g) the failure by Licensee to make any payment of any sum due to the Director General or the State pursuant to this Agreement within sixty (60) days after receiving notice that such payment is due.
- 28.4** If the Director General or the State believes an event or failure to act as described in Article 29.3 above has occurred, a written notice shall be given to Licensee describing the event or failure. Licensee shall have sixty (60) days from receipt

of said notice to commence and pursue a remedy of the event or failure cited in the notice. If after said sixty (60) days Licensee has failed to commence appropriate remedial action, the Director General or the State may then issue a written Notice of Suspension or Termination to Licensee unless the Licensee has referred the matter to Arbitration under this Agreement. Disputes regarding non-payment of Annual License Fees, Annual Training Fees and non-receipt of bank guarantees shall not be referred to Arbitration and such written Notice of Termination shall be effective without delay. If so referred to Arbitration, the Director General and/or the State may not terminate this License in respect of such event except in accordance with the terms of any resulting Arbitration Award.

- 28.5** Upon termination of this License, all rights of Licensee hereunder shall cease, except for such rights as may at such time have accrued, and without prejudice to any obligation or liability imposed or incurred under this License prior to termination and to such rights and obligations as the Parties may have under applicable law.
- 28.6** The terms and conditions of this License may be modified only in writing and by mutual agreement between the Parties.
- 28.7** The Director General shall represent the State under this License and is empowered to grant, in the name and on behalf of the State, any consent necessary or useful for the implementation of this Agreement.
- 28.8** The Petroleum Directorate shall act as an agent for the State in the collection of all petroleum or money apart from Duties and Taxes, accruing to the State under this License, and delivery or payment to the Director General by Licensee shall discharge Licensee's liability.
- 28.9** Headings in this License are inserted for purposes of convenience and reference and in no event shall define, restrict or describe the scope or object of the Agreement or of any of its clauses.
- 28.10** Annexes 1, 2 and 3 attached hereto shall form an integral part of this License.
- 28.11** Any waiver of the State concerning the performance of any obligation of the Licensee shall be in writing and signed by the Director General, and no waiver shall be implied if the Director General does not exercise any of its rights to which it is entitled under this License.

**ARTICLE 29**

**NOTICE**

**29.1** Any Notice, Application, Requests, Licenses, Consent, Approval, Instruction, Delegation, Waiver or other communication required or permitted to be given hereunder shall be in writing and shall be deemed to have been properly given when delivered in person to an authorized representative of the Party to whom such notice is directed or when actually received by such Party through registered mail, telefax or telegram at the following address or at such other address as the Party shall specify in writing fifteen (15) days in advance:

<u>ADDRESS:</u>	<u>TELEPHONE:</u>	<u>TELEFAX:</u>
Director General	232 22 222714	232 22 290405
Petroleum Directorate	232 76 610131	
43 Siaka Stevens Street	_____	_____
Freetown,	_____	_____
Sierra Leone		

**For Licensee:**

<u>ADDRESS:</u>	<u>TELEPHONE:</u>	<u>TELEFAX:</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

IN WITNESS WHEREOF the parties have caused this agreement to be executed by their duly authorized representatives as of the date first written above.

**FOR THE STATE represented by  
The Director General, Petroleum  
Directorate, Office of The  
President**

**WITNESSED:**

By: \_\_\_\_\_

By: \_\_\_\_\_

**FOR LICENSEE:**

**WITNESSED:**

By: \_\_\_\_\_

By: \_\_\_\_\_

## ANNEX 1

Attached to and made part of this Agreement between the Republic of Sierra Leone and the Licensee.

### CONTRACT AREA

On the Effective Date, the Contract Area, designated as SL- Block, is formed by the area included inside the perimeter constituted by the points indicated .... on the map attached hereto.

The geographical coordinates of those points are the following, with reference to the Greenwich meridian.

**Point**

**Latitude**

**Longitude**

Those coordinates are only given for purposes of illustration and shall not be considered as the boundaries of the national jurisdiction of Sierra Leone.

The surface of the Contract Area above-defined is deemed to be equal to about ... square kilometers.

## **MAP OF THE CONTRACT AREA**

## **ANNEX 2**

### **ACCOUNTING GUIDE**

The purpose of this Accounting Guide is to establish equitable methods as between the Parties for determining charges and credits applicable to operations under the License. Principles established by this Accounting Guide shall reflect the Licensee's actual costs.

## **SECTION 1**

### **1.1 GENERAL PROVISIONS**

Words and terms appearing in this Annex shall have the same meaning as in the License and to that end shall be defined in accordance with Article 1 of the License.

In the event of a conflict between the provisions of the Accounting Guide and the provisions of the License, the provisions of the License shall prevail.

### **1.2 STATEMENTS REQUIRED TO BE SUBMITTED BY LICENSEE**

Within forty-five (45) days from the Effective Date, Licensee shall propose to the Director General an outline of the chart of accounts, operating records and reports to be prepared and maintained, which shall describe the basis of the accounting principles and procedures to be used during the term of the License, and shall be consistent with normal practice of the international petroleum industry.

Within ninety (90) days of the receipt of such proposal the Director General shall either accept it or request such revisions as the Director General deems necessary. Failure to notify Licensee of any requested revisions within a ninety (90) day period shall be deemed acceptance of such proposal.

Within one hundred and eighty (180) days from the Effective Date, the Parties shall either agree on such outline or submit any outstanding issue for determination by a Sole Expert pursuant to the Arbitration provisions of this License.

Following agreement over the outline Licensee shall prepare and submit to the Director General formal copies of the chart of accounts relating to the accounting, recording and reporting functions listed in such outline. Licensee shall also permit the Director General to inspect its manuals and to review all procedures which are to be followed under the License.

Without prejudice to the generality of the foregoing, Licensee shall make separate statements relating to Petroleum Operations for each Development and Production Area as follows:

- (a) Production Statement (see Section 5)
- (b) Value of Production Statement (see Section 6)
- (c) Cost Statement (see Section 7)
- (d) Statement of Expenditures and Receipts (see Section 8)
- (e) Final End-of-Year Statement (see Section 19)
- (f) Budget Statement (see Section 10)

- (g) Local Procurement Statement (see Section 11)
- (h) Local Employment Statement (see Section 12)
- (i) Long Range Plan and Forecast (see Section 13)

### **1.3 LANGUAGE MEASUREMENT, AND UNITS OF ACCOUNTS**

the U.S. Dollar being the currency unit for investments and compensation hereunder shall therefore be the unit of currency for all bookkeeping and reporting under the License. When transactions for an asset or liability are in currency other than the U.S. Dollar, the respective accounts shall be kept in such other currency as well as the U.S. Dollar.

Measurement required under this Annex shall be in the metric system and Barrels.

The English language shall be employed.

Where necessary for purposes of clarification, Licensee may also prepare financial reports in other languages, units of measurement and currencies.

It is the intent of the Parties that no Party shall experience any gain or loss at the expense of or to the benefit of the other as a result of exchange of currency. Where any such gain or loss arises it shall be charged or credited to the accounts under the License.

The rate of exchange for the conversion of currency shall be the rate quoted by the Bank of Sierra Leone, or, where buying and selling rates are quoted, the arithmetic average of those rates, at the close of business on the date of such currency conversion.

Current Assets and Liabilities shall be translated at the rate prevailing on the date of settlement of the account.

To translate revenue received and expenditures made in currencies other than U.S. Dollars, the average of the monthly rate between the currencies shall be used.

Expenditures made in U.S. Dollars or other currencies in respect of capital items shall be translated at the rate prevailing at the date of acquisition.

## **SECTION 2**

### **CLASSIFICATION AND ALLOTMENT OF COSTS AND EXPENDITURE**

**2.1** Expenditure relating to Petroleum Operations shall be classified, as follows:

- a)** Exploration Expenditure;
- b)** Development Expenditure;
- c)** Production Expenditure;
- d)** Service Costs; and
- e)** General and Administrative expenses

and shall be defined and allotted as herein below provided.

### **2.2 EXPLORATION EXPENDITURE**

Exploration Expenditure shall consist of all direct, indirect and allotted costs incurred in the search for Petroleum in the Contract Area, including but not limited to expenditure on:

- a)** aerial, geographical, geochemical, paleontological, geological, topographical and seismic surveys, and studies and their interpretation;
- b)** borehole drilling and water drilling;
- c)** labor, materials and services used in drilling wells with the objective of finding new Petroleum reservoirs or for the purpose of appraising of Petroleum reservoirs already discovered provided such wells are not completed as producing wells;
- d)** facilities used solely for Exploration Operations, including access roads, where applicable, and purchased geological and geophysical information;
- e)** service costs allotted to the Exploration Operations on an equitable basis;
- f)** General and Administrative Expenses allotted to Exploration Operations based on the percentage share of projected budget expenditure which will be adjusted to actual expenditure at the end of each year.

## **2.3 DEVELOPMENT EXPENDITURE**

Development Expenditure shall consist of expenditure incurred in Development Operations, including but not limited to expenditure on:

- a) drilling wells which are completed as producing wells and drilling wells for purposes of producing a Petroleum reservoir already discovered, whether these wells are dry or producing;
- b) completing wells by way of installation of casing or equipment or otherwise after a well has been drilled for the purpose of bringing such well into use as a producing well;
- c) intangible drilling costs such as labor, consumable material and services having no salvage value which are incurred in drilling and deepening of wells for producing purposes;
- d) field facilities such as pipelines, flow lines, production and treatment units, wellhead equipment, subsurface equipment, enhanced recovery systems, offshore platforms, Petroleum storage facilities and access roads for production activities;
- e) engineering and design studies for field facilities;
- f) service costs allotted to Development Operations on an equitable basis;
- g) General and Administrative Expenses allotted to Development Operations based on the percentage projected budget expenditure which will be adjusted to actual expenditure as the end of the year.

## **2.4 PRODUCTION EXPENDITURE**

Production Expenditure shall consist of but not limited to expenditure incurred in Petroleum Operations after the Date of Commencement of Commercial Production, such expenditure being other than Exploration Expenditure, Development Expenditure, General and Administrative Expenses and Service Costs. The balance of General and Administrative Expenses and Service Costs not allotted to Exploration Operations or to Development Operations under Section 2.2 and 2.3 shall be allotted to Production Expenditure.

## **2.5 SERVICE COSTS**

Service Costs shall consist of but not be limited to direct and indirect expenditure incurred in support of Petroleum Operations, including the construction or installation of warehouses, piers, marine vessels, vehicles, motorized rolling equipment, aircraft, fire security stations, workshops, water and sewage plants, power plants, housing community and recreational facilities and furniture, tools and equipment used in such construction or installation.

Service Costs in any Calendar Year shall include the total costs incurred in such year to purchase and construct or install such facilities as well as the annual costs of maintaining and operating such facilities.

Service Costs will be regularly allotted on an equitable basis to Exploration Expenditure, Development Expenditure and Production Expenditure.

## **2.6 GENERAL AND ADMINISTRATIVE EXPENSES**

General and Administrative Expenses shall consist of:

main office, field and general administrative costs, in the Republic of Sierra Leone, including but not limited to supervisory, accounting and employee relations services;

An overhead charge for the actual cost of services rendered outside the Republic of Sierra Leone by Licensee and its Affiliates for managing Petroleum Operations and for staff advice and assistance, including but not limited to financial, legal, accounting and employee relations services.

General and Administrative Expenses will be regularly allotted as specified in subsections 2.2 (f), 2.3 (g) and 2.4 to Exploration Expenditure, Development Expenditure and Production Expenditure.

## SECTION 3

### 3.1 COSTS NOT ALLOWABLE UNDER THE AGREEMENT

The following costs and expenses shall not be recoverable or allowable (whether directly as such or indirectly as part of any other charges or expense) under the License:

- (a) commission paid to intermediaries by Licensee;
- (b) costs and charges incurred before the Effective Date including costs in respect of preparation, signature or ratification of this Contract;
- (c) expenditures in respect of any financial transaction to negotiate, float or otherwise obtain or secure funds for Petroleum Operations including, but not limited to, interest, commission, brokerage and fees related to such transactions, as well as exchange losses on loans or other financing, whether between Affiliates or otherwise;
- (d) expenditures incurred in obtaining, furnishing and maintaining the guarantees required under the Contract and any other amounts spent on indemnities with regard to non-fulfillment of contractual obligations;
- (e) attorney's fees and other costs and charges in connection with arbitration proceedings and sole expert determination pursuant to the Contract;
- (f) amounts paid with respect to non-fulfillment of contractual obligations;
- (g) costs incurred as a result of failure to insure where insurance is required pursuant to the Contract, or of failure to follow procedures laid down by an insurance policy or where the Licensee has elected to self insure, or has under-insured;
- (h) financing cost of inventory and loss on disposal of inventory
- (i) Costs which are not adequately supported and documented.
- (j) any bonus payments made by the Licensee;
- (k) any unapproved over-expenditures that exceed the limits of Article 4.4 of this Contract;
- (l) any payments made to the State for failure to fulfill the minimum Exploration work obligations pursuant to Article 3 of the Contract;
- (m) any fines and sanctions incurred for infringing the laws and regulations of Sierra Leone;

- (n) any donation to the State or other similar expenses unless otherwise agreed;
- (o) the State's audit and inspection expenses incurred as a result of the absence of original documents in the Licensee's offices in Sierra Leone;
- (p) costs related to the assignment from the Licensee to any of its Affiliates or other Persons.
- (q) petroleum marketing costs or costs of transporting petroleum beyond the Delivery Point;
- (r) cost of arbitration under the Agreement or dispute settlement by any independent expert under the terms of the Agreement;
- (s) fines and penalties imposed by a competent Court of Law;
- (t) costs incurred as a result of gross negligence or willful misconduct chargeable to Licensee or the Operator under the terms of the Agreement.

### **3.2 ALLOWABLE AND DEDUCTIBILITY**

The costs and expenses set forth herein shall be for the purpose of determining allowable or non-allowable costs and expenses only and shall have no bearing on Licensee's eligibility or otherwise for deductions in computing Licensee's net income from Petroleum Operations for income tax purposes under the License.

### **3.3 CREDITS UNDER THE LICENSE**

The net proceeds of the following transactions will be credited to the accounts under 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 premiums charges to the accounts under the License;
- b) revenue received from third parties for the use of property or assets charged to the accounts under this License;
- c) any adjustment from the suppliers or manufacturers or their agents in connection with a defective equipment or material the cost of which was previously charged to the account under the License;
- d) the proceeds received for inventory materials previously charged to the account under the License and subsequently exported from the Republic of

Sierra Leone or transferred or sold to third parties without being used in the Petroleum Operations;

- e) rentals, refunds or other credits received which apply to any charge which has been made to the account under the License, but excluding any award granted under arbitration or Sole Expert proceedings;
- f) the proceed from the sale or exchange of plant or facilities from the Development and Production Area;
- g) the proceeds derived from the sale or issue of any intellectual property the development costs of which were incurred pursuant to this License;
- h) the proceeds from the sale of any petroleum information derived from Petroleum Operations under this License.

### **3.4 DUPLICATION OF CHARGES AND CREDITS**

Notwithstanding any provision to the contrary in this Annex, it is the intention that there shall be no duplication of charges or credits in the accounts under the License.

## **SECTION 4**

### **MATERIAL**

#### **4.1 VALUE OF MATERIAL CHARGED TO THE ACCOUNTS UNDER THE LICENSE**

Material purchased, leased or rented by Licensee for use in Petroleum Operations shall be valued at the actual net cost incurred by Licensee. The net cost shall 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, customs duties, consular fees, other items chargeable against imported material, and any other related costs actually paid.

#### **4.2 VALUE OF MATERIAL PURCHASED FROM AN AFFILIATE**

Licensee shall notify the Director General of any goods supplied by an Affiliate of Licensee. Material purchased from Affiliate of Licensee shall be charged at the prices specified in Sections 4.2.1, 4.2.2 and 4.2.3.

##### **New Material (Condition “A”)**

New material shall be classified as Condition “A”. Such material shall be valued at the prevailing market price, plus expenses incurred in procuring such new materials, and in moving such materials to the locations where the material shall be used.

##### **Used Material (Condition “B”)**

Used material shall be classified as Condition “B” provided that it is in sound and serviceable condition and is suitable for reuse without reconditioning. Such material shall be valued at not more than seventy five percent (75%) of the current price of new material valued according to Section 4.2.1 above.

##### **Used Material (Condition “C”)**

Used material which is serviceable for original function as good second hand material after reconditioning and cannot be classified as Condition “B” shall be classified as Condition “C”. Such material shall be valued at not more than fifty percent (50%) of the current price of new material valued according to Section 4.2.1 above. The cost of reconditioning shall be charged to the reconditioned material provided that the value of such Condition “C” material plus the cost of reconditioning does not exceed the value of Condition “B” material.

#### **4.3 CLASSIFICATION OF MATERIALS**

Material costs shall be charged to the respective Exploration Expenditure, Development Expenditure, Operating Expenditure accounts at the time the material is acquired and on

the basis of the intended use of the material. Should such material subsequently be used other than as intended, the relevant charge will be transferred to the appropriate account.

#### **4.4 DISPOSAL OF MATERIALS**

Sales of property shall be recorded at the net amount collected by the Licensee from the purchaser.

#### **4.5 WARRANTY OF MATERIALS**

In the case of defective material or equipment, any adjustment received by Licensee from the suppliers or manufacturers of such materials or their agents will be credited to the accounts under the License.

#### **4.6 CONTROLLABLE MATERIALS**

The Licensee shall control the acquisition, location, storage and disposition of materials which are subject to accounting record control, physical inventory and adjustment for overages and shortages (hereinafter referred to as Controllable Material).

Licensee shall conduct one physical inventory of the Controllable Material each Calendar Year which shall be completed prior to the end of the year.

The gain or loss resulting from the physical inventory shall be reflected in the stock records of Controllable Materials. The Licensee shall compile a reconciliation of the inventory with a reasonable explanation for such gains or losses. Failure on the part of the Director General to object to Licensee's reconciliation within thirty (30) days of compilation of said reconciliation shall be regarded as approval by the Director General.

## **SECTION 5**

### **PRODUCTION STATEMENT**

**5.1** Subsequent to the Date of Commencement of Commercial Production from the Contract Area, Licensee shall submit a monthly Production Statement to the Director General showing the following information for each Development and Production Area as appropriate:

- a)** the quantity of Crude Oil produced and saved ;
- b)** the quantity of Natural Gas produced and saved;
- c)** the quantities of Petroleum used for the purpose of conducting drilling and Production Operations, pumping to field storage and re-injection;
- d)** the quantities of Natural Gas flared;
- e)** the size of Petroleum stocks held at the beginning of the Month;
- f)** the size of Petroleum stocks held at the end of the Month.

**5.2** The Production Statement of each Calendar Month shall be submitted not later than ten (10) days after the end of such Month.

## **SECTION 6**

### **6.1 VALUE OF PRODUCTION STATEMENT**

Licensee shall prepare a statement providing calculations of the value of Crude Oil produced and saved during each Quarter based on the Market Price established under the Agreement. Such Statement shall be submitted to the Director General not later than thirty (30) days following the determination, notification and acceptance of the World Market Price to the Director General according to the License.

## **SECTION 7**

### **COST STATEMENT**

**7.1** Licensee shall prepare with respect to each Quarter, a Cost Statement containing the following information:

- a)** Total Petroleum Costs in previous Quarters, if any;
- b)** Petroleum Costs for the Quarter in question;
- c)** Total Petroleum Costs as of the end of the Quarter in question (subsection 7.1 (a) plus subsection 7.1 (b)).

Petroleum Costs for Exploration, Development and Production Operations as detailed above shall be separately identified for each Development and Production Area. Petroleum Costs for Exploration Operations not directly attributable to a specific Development Area shall be shown separately.

**7.2** The Cost Statement of each Quarter shall be submitted to the Director General no later than forty-five (45) days after the end of such Quarter.

## **SECTION 8**

### **STATEMENT OF EXPENDITURES AND RECEIPTS**

**8.1** Subsequent to the Date of Commencement of Commercial Production from the Contract Area, Licensee shall prepare with respect to each Quarter a Statement of Expenditures and Receipts. The Statement will distinguish between Exploration Expenditure and Development Expenditure and Production Expenditure and will identify major items of expenditure within these categories. The statement will show the following:

- a)** actual expenditures and receipts for the Quarter in question;
- b)** cumulative expenditure and receipts for the budget year in question;
- c)** latest forecast of cumulative expenditures at the year end; and
- d)** variations between budget forecast and latest forecast and explanations therefore.

**8.2** The Statement of Expenditures and Receipts of each Calendar Quarter shall be submitted to the Director General not later than forty-five (45) days after the end of such Quarter for provisional approval by the Director General.

## **SECTION 9**

### **FINAL END-OF-YEAR STATEMENT**

**9.1** The Licensee will prepare a Final End-of-Year Statement. The Statement will contain information as provided in the Production Statement, Value of Production Statements, Cost Statement and Statements of Expenditures and Receipts, as appropriate. The Final End-of-year Statement of each Calendar Year shall be submitted to the Director General within ninety (90) days of the end of such Calendar Year.

## SECTION 10

### BUDGET STATEMENT

**10.1** The Licensee shall prepare an annual budget Statement. This will distinguish between Exploration Expenditure, Development Expenditure and Production Expenditure and will show the following:

- a) forecast Expenditures and Receipts for the budget year under the Agreement;
- b) cumulative Expenditures and Receipts to the end of said budget year, and
- c) the most important individual items of Exploration, Development and Production Expenditures for said budget year.

**10.2** The Budget may include a budget line or lines for unforeseen expenditures which, however, shall not exceed ten percent (10%) of the total budgetary expenditure.

**10.3** The Budget Statement shall be submitted to the Director General with respect to each budget year no less than ninety (90) days before the start of such year except in the case of the first year of the License when the Budget Statement shall be submitted within sixty (60) days of the Effective Date.

**10.4** Where Licensee foresees that during the budget period expenditures have to be made in excess of the ten percent (10%) pursuant to Section 10.2 hereof, Licensee shall submit a revision of the budget to the Director General.

## **SECTION 11**

### **LOCAL PROCUREMENT STATEMENT**

**11.1** In furtherance of the obligation in Article 20 of the Contract for the Licensee to give preference to the procurement of Sierra Leonean goods and services, the Licensee shall prepare in respect of each Year a local procurement statement, containing the following information:

- a.** The amount of expenditure incurred by the Licensee directly, or indirectly through its Subcontractors, on goods supplied, produced or manufactured in Sierra Leone
- b.** the amount of expenditure incurred by the Licensee directly, or indirectly through its Subcontractors, on services provided by Sierra Leonean entities;
- c.** the respective percentages that the expenditures recorded under items (a) and (b) above represent of the Licensee's total expenditures;
- d.** a detailed description of the procedures adopted during the Year to identify and purchase goods and services from Sierra Leonean suppliers; and
- e.** a detailed exposition of how the local purchases for the Year as recorded under items (a) and (b) above compared with the projected purchases included in the budget statement for that Year, with explanations for any significant variations;

**11.2** The local procurement statement shall be submitted to the Government within sixty (60) days after the end of each Year.

## **SECTION 12**

### **LOCAL EMPLOYMENT STATEMENT**

**12.1** In furtherance of the obligation in Article 21 of the Contract for the Licensee to give preference to the employment of Sierra Leonean citizens, the Licensee shall prepare in respect of each Year a local employment statement, containing the following information:

- a.** the number of Sierra Leoneans employed by the Licensee directly, or indirectly through its Subcontractors, their level within the organization and their salary scale;
- b.** the mean salary of foreign employees hired by the Licensee directly, or indirectly through its Subcontractors, on at the same levels as the Sierra Leonean workers;
- c.** the percentage that the number of Sierra Leoneans employed by Licensee or Subcontractor represent of the total number of Licensee and Subcontractors' employees respectively;
- d.** the percentage that the total salaries of Sierra Leoneans employed under items (a) above represents of the Licensee and Subcontractor's total salaries.
- e.** a detailed description of the procedures adopted during the Year to identify and purchase goods and services from Indian suppliers; and
- f.** a detailed exposition of how the number of new Sierra Leoneans hired and trained for the Year compared with the projected recruitment for that Year and how the total number of Sierra Leoneans employed compared with the previous two years, with explanations for any significant variations;

**12.2** The local procurement statement shall be submitted to the Government within sixty (60) days after the end of each Year.

## **SECTION 13**

### **LONG RANGE PLAN AND FORECAST**

**13.1** Licensee shall prepare and submit to the Director General the following:

During Exploration Period, an Exploration Plan for each year commencing as of the Effective Date which shall contain the following information:

- i) Estimated Exploration Costs showing outlays for each of the years or the number of years agreed and covered by the Plan.
- ii) Details of seismic operations for each such year,
- iii) Details of drilling activities planned for each such year;
- iv) Details of infrastructure utilization and requirements.

**13.2** The Exploration Plan shall be revised on each anniversary of the Effective Date. Licensee shall prepare and submit to the Director General the first Exploration Plan for the Initial Exploration Period of two (2) years within sixty (60) days of the Effective Date and thereafter shall prepare and submit to The Director General no later than forty-five (45) days before each anniversary of the Effective Date a revised Exploration Plan.

- a) In the event of a Development Plan being approved, the Licensee shall prepare a Development Forecast for each calendar year of the Development Period, which shall contain the following information:
  - i) forecast of the capital expenditure portions of Development and Production expenditures for each Calendar Year of the Development Period;
  - ii) forecast of operating costs for each Calendar Year;
  - iii) forecast of Petroleum production for each Calendar year;
  - iv) description of main technologies employed; and
- b) The Development forecast shall be revised at the beginning of each Calendar Year commencing as of the second year of the first Development forecast. Licensee shall prepare and submit to the Director General the first Development forecast within one hundred and twenty (120) days of the date when the first Development Plan is approved by the Director General no later than forty-five (45) days before each Calendar Year commencing as of the second year of the first Development forecast.

### **13.3 CHANGES OF PLAN AND FORECAST**

It is recognized by Licensee and The Director General that the details of the Exploration Plan and Development forecast may require changes in the light of existing circumstances and nothing herein contained shall limit the flexibility to make such changes. Consistent with the foregoing the said Plan and Forecast may be revised annually.

## Form of Guarantee

1. In consideration of the Government of Sierra Leone represented by the Director General of the Petroleum Directorate (hereinafter referred to as “the State”) having entered into a Petroleum License for the block \_\_\_\_\_ dated \_\_\_\_\_ (hereinafter referred to as “License”, which expression shall include all the amendments agreed to between the State and the Licensee, thereto), with M/s \_\_\_\_\_ having its registered office at \_\_\_\_\_ (hereinafter referred to as “Licensee”, which expression unless repugnant to the context or meaning thereof include all its successors, administrators, executors and assigns), and the State have agreed that the Licensee shall furnish to the State, a bank guarantee (hereinafter referred to as “Guarantee”) towards its minimum financial obligations as provided in the Contract for US\$(xxx) for the performance of its obligations under the License.

2. We \_\_\_\_\_ (name of the Bank) registered under the Law of \_\_\_\_\_ and having its registered office at \_\_\_\_\_ (hereinafter referred to as “the Bank”, which expression shall unless repugnant to the context or meaning thereof includes all its successors, administrators, executors and assigns) do hereby guarantee and undertake to pay to the State, immediately on the first demand in writing, any/all money(s) to the extent of US\$ \_\_\_\_\_ (in figures) and (US\$ \_\_\_\_\_ in words) without any demur, reservation, contest or protest and/or without any reference to the Licensee. Any such demand made by the State on the Bank by serving a written notice shall be conclusive and binding, without any proof, on the Bank as regards the amount due and payable, notwithstanding any dispute(s) pending before any court, tribunal, arbitrator, sole expert, conciliator or any other authority and/or any other matter or thing whatsoever, as liability under these presents being absolute and unequivocal. We agree that the Guarantee herein contained shall be irrevocable and shall continue to be enforceable until it is discharged by the State in writing. This Guarantee shall not be determined, discharged or affected by the liquidation, winding up, dissolution or insolvency of the Licensee and shall remain valid, binding and operative against the Bank.

3. The Bank also agree that the State at its option shall be entitled to enforce this Guarantee against the Bank as a principal debtor, in the first instance, without proceeding against the Licensee and notwithstanding any security or other guarantee that the State may have in relation to the Licensee’s liabilities.

4. The Bank further agree that the State shall have fullest liberty without our consent and without affecting in any manner our obligations hereunder to vary any of the terms and conditions of the said Contract or to extend time of performance by the said Licensee from time to time or to postpone for any time or from time to time exercise of any of the powers vested in the State against the said Licensee and to forebear or enforce any of the terms and conditions relating to the said Contract and we shall not be relieved from our liability by reason of any such variation, or extension being granted to the said Licensee or for any forbearance, act or omission on the part of the State or any indulgence by the State to the said Licensee or any such matter or thing whatsoever which under the law relating to sureties would, but for this provision, have effect of so relieving us.

5. The Bank further agree that the Guarantee herein contained shall remain in full force during the period that is taken for the performance of the License and all dues of the state under or by virtue of this License have been fully paid and its claim satisfied or discharged or till the State discharges this Guarantee in writing, whichever is earlier.

6. This Guarantee shall not be discharged by any change in our constitution, or in the constitution of the Licensee.

7. The Bank confirm that this Guarantee has been issued with observance of appropriate laws of the country of issue.

8. The Bank also agree that this Guarantee shall be governed and construed in accordance with Sierra Leone Laws and subject to the exclusive jurisdiction of Sierra Leone courts

9. Notwithstanding anything contained herein above, our liabilities under this Guarantee is limited to US\$ \_\_\_\_\_ (in figures) US\$ \_\_\_\_\_ (in words) and our Guarantee shall remain in force up to \_\_\_\_\_ and including sixty (60) days after the expiry date/extended date. Any claim under this Guarantee must be received before the expiry of sixty (60) days after the expiry date, or before the expiry of sixty (60) days from the extended date if any. If no such claim has been received by us within sixty (60) days after the said date/extended date the PRU's right under this guarantee will cease. However, if such a claim has been received by us within and up to sixty (60) days after the said date/extended date, all the PRU's rights under this Guarantee shall be valid and shall not cease until we have satisfied that claim.

In witness whereof, the Bank through its authorized officers has set its hand and stamp on this \_\_\_\_\_ day of \_\_\_\_\_ 200\_ at \_\_\_\_\_. The seal of \_\_\_\_\_ was hereto duly affixed by \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 200\_ in accordance with its bye-laws and this Guarantee was duly signed by \_\_\_\_\_ and \_\_\_\_\_ as required by the said bye-laws.

\_\_\_\_\_  
Secretary

\_\_\_\_\_  
President & Director

Witness: