

PRODUCTION SHARING AGREEMENT

REPUBLIC OF MALAWI

BLOCK 6

May 2014



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PRODUCTION SHARING AGREEMENT

This **PRODUCTION SHARING AGREEMENT** (the "Agreement") is made and entered into on **12th May 2014** constitutes the agreement BETWEEN:

1. **THE GOVERNMENT OF THE REPUBLIC OF MALAWI** represented for the purpose of this Agreement by the Minister responsible for Mining (the "Minister");

and

2. **Pacific Oil Ltd.**, a company existing under the laws of Seychelles , with office and legal representative in the Republic of Malawi at PO BOX 31656 , Lilongwe 3, Capital City, (the "Contractor").

individually referred to as a "Party" and, collectively, as "Parties".

PREAMBLE:

WHEREAS: The title to all Petroleum resources existing in their natural conditions in the Republic of Malawi is vested in the Government on behalf of the people of Malawi;

WHEREAS the Petroleum (Exploration and Production) Act, No.2 of 1983 enacted by the Parliament of the Republic of Malawi (the "Act") makes provisions with respect to exploring for and producing Petroleum and, for that purpose, subject to certain limitations and conditions, authorises the Minister to grant Licences;

WHEREAS the Government wishes to attract foreign investment and promote and encourage the exploration and development of the potential Petroleum resources within the Contract Area;

WHEREAS Pacific Oil Ltd desires to join and assist the Government in accelerating the exploration and development of the potential Petroleum resources within the contract area and has the necessary financial capacity, technical competence and professional skills for the same;

WHEREAS Pacific Oil Ltd has represented to the Government that it has the requisite technical and financial capabilities to carry out Petroleum Operations and wishes to assist the Government in thoroughly evaluating the Petroleum potential and promptly and efficiently developing Petroleum resources discovered in the Contract Area;

AND WHEREAS the Minister wishes to engage Pacific Oil Ltd to carry out on its behalf Petroleum Operations in the Contract Area;

NOW THEREFORE in consideration of the undertaking and covenants herein contained, **THE PARTIES HEREBY AGREE** as follows:

PART 1 - SCOPE AND INTERPRETATION

1. **DEFINITIONS AND INTERPRETATION**

1.1 In this Agreement:

"Abandonment Fund" has the meaning given in Clause 34;

MINISTRY OF MINING
THE SECRETARY
12 MAY 2014
PRIVATE BAG 350, LILONGWE

"**Accounting Procedure**" means the accounting procedures and requirements set out in Appendix "B" attached hereto and made an integral part hereof;

"**Act**" means Petroleum (Exploration and Production) Act, No.2 of 1983 enacted by the Parliament of the Republic of Malawi and includes any amendments and replacements and any subsidiary laws or regulations;

"**Adjacent Contract Area**" has the meaning given in Clause 24.1 ;

"**Advisory Committee**" has the meaning given in Clause 20;

"**Affiliate**" means a Person directly or indirectly Controlling or Controlled by or under direct or indirect common Control with another Person;

"**Appraisal Operations**" means a programme of the activities carried out after the Discovery to better define the parameters of the Petroleum and the Reservoir to which the Discovery relates and determine its commerciality and includes any activity carried out under an Appraisal Programme;

"**Appraisal Programme**" means a programme of activities after the Discovery that may include:

- (a) Drilling Appraisal Wells and running productivity tests where appropriate;
- (b) Collecting special geological samples and reservoir fluids; and
- (c) Conducting supplementary studies and acquisition of geophysical and other data, as well as the processing of same data;

"**Appraisal Well**" means any Well drilled following a Discovery in the Contract Area for the purpose of ascertaining the quantity and real extent of Petroleum in the Petroleum Reservoir to which that Discovery relates;

"**Arms Length Sales**" means sales made freely in the open market, in freely convertible currencies, between willing and unrelated sellers and buyers and in which such buyers and sellers have no contractual or other relationship, directly or indirectly, or any common or joint interest as is reasonably likely to influence selling prices and shall, inter alia, exclude sales (whether direct or indirect, through brokers or otherwise) involving:

- (a) Affiliates;
- (b) Sales between Companies which are Parties to this Contract;
- (c) Sales between governments and government-owned entities;
- (d) Counter trades;
- (e) Restricted or distress sales;
- (f) Sales involving barter arrangements; and



- (g) Generally any transactions motivated in whole or in part by considerations other than normal commercial practices;

"**Assignment Notice**" has the meaning given in Clause 43.3 ;

"**Associated Natural Gas**" means all Natural Gas produced from any Reservoir the predominant production of which is Crude Oil and which is separated from Crude Oil in accordance with good oilfield practice including free gas cap, but shall exclude any liquid hydrocarbon extracted from such Gas either by normal field separation, dehydration or in a Gas plant;

"**Barrel**" means a quantity consisting of 158.987 litres at standard atmospheric pressure of 1.01325 bars and temperature of fifteen degrees centigrade (15°C);

"**Block**" means the geographical area described as Block as provided in the Petroleum (Prescribed Fees and Annual Charges) (Amendment) Regulations, (2009), and includes part of a block so constituted;

"**BOPD**" has the meaning given at Clause 30.5.2 ;

"**Calendar Quarter**" or "**Quarter**" means a period of three (3) consecutive months commencing with the first day of January, April, July and October;

"**Calendar Year**" means a period of twelve (12) consecutive months commencing with the first day of January in any year and ending the last day of December in that year, according to Gregorian calendar;

"**Change of Control**" means any direct or indirect change in Control of a Party (whether through merger, sale of shares or other equity interests, or otherwise) through a single transaction or series of related transactions, from one (1) or more transferors to one (1) or more transferees;

"**Commercial Discovery**" means a Discovery which, in the opinion of the Contractor, is potentially commercial when taking into account all technical, operational, commercial and financial data collected when carrying out Appraisal Operations or similar operations, including but not limited to: recoverable reserves of Petroleum, sustainable regular production levels and other material technical, operational, commercial and financial parameters, all in accordance with standard practices in the international petroleum industry;

"**Commercial Production**" means regular and substantially continuous production of marketable Petroleum from a Reservoir. If the Petroleum produced is from the test of an Exploration or Appraisal Well and not part of a regular lifting program or if substantially all produced Petroleum is used by the Contractor in Petroleum Operations or re-injected into the Reservoir, there is no Commercial Production;

"**Commissioner**" means the Commissioner for Petroleum Exploration and Production appointed by the Minister pursuant to section 5 of the Act and, if no such person is in office, the Minister;



"**Contract Area**" means the geographic area covered by the Petroleum Exploration Licence, as set out at Appendix A, and any part thereof not previously surrendered;

"**Contract Year**" means twelve (12) consecutive calendar months from the Effective Date or from the anniversary thereof;

"**Contractor**" means, either jointly or individually, Pacific Oil Ltd, its Affiliates, successors or any assignee or assignees of any interest of the signatory under this Contract, provided that the assignment of any such interest is accomplished pursuant to the provisions of Clause 43;

"**Contractor Entity**" means any person which is for the time being an equity participant in the Contractor, and/or any assignee of all or part of the rights and obligations of such person under this Contract in accordance with Clause 43;

"**Control**" means, in relation to a person, the power of another person to secure:

- (a) by means of the holding of shares or the possession of voting power in or in relation to the first person or any other person; or
- (b) by virtue of any power conferred by the articles of association of, or any other document regulating, the first person or any other person,

the power to appoint the majority of the board of directors of that person or otherwise control the affairs of that person;

"**Cost Petroleum**" means the portion of Crude Oil and/or Non-Associated Gas available to the Contractor to cover its Petroleum Costs in accordance with Clause 30.1 ;

"**Crude Oil**", or "**Oil**" or "**Crude**" means all hydrocarbons, regardless of gravity, that are produced at the wellhead in liquid state at atmospheric pressure, asphalt, ozokerites and the liquid;

"**Customs Duties**" has the meaning given in Clause 39.9 ;

"**Decommissioning Plan**" means the plan for the decommissioning, abandonment, recovery and removal, or if applicable redeployment of Wells, flow lines, pipelines, facilities, infrastructure and assets related to Petroleum Operations;

"**Delivery Point**" means the outlet flange of the final fiscal metre prior to conveyance of title for Petroleum from the Contractor to another party located within, or as close as is reasonably practical to, the Development Area and which may be agreed between the Minister and the Contractor;

"**Development Area**" means that area identified and delineated in a Development Plan;

"**Development Costs**" has the meaning given in Appendix B;

"**Development Operations**" mean all development operations or works conducted in accordance with a Development Plan with a view to developing a Petroleum Reservoir in which a Discovery has been made, including but not limited to: drilling of Wells; primary and subsequent recovery projects and pressure maintenance; survey; engineering, building and

erecting or laying of production plants and facilities (including but not limited to: separators; compressors; generators; pumps and tankage; gathering lines; pipelines and all facilities required to be installed for production, pressure maintenance, and treatment, storage and transportation of Petroleum and loading Petroleum in tankers); obtaining of such materials, equipment, machinery, items and supplies as may be required or expedient for the foregoing activities; and all auxiliary operations and activities required or expedient for the better conduct or result of production of Petroleum in the subsurface of the Contract Area;

"**Development Phase**" means the period commencing when the Development Plan is adopted;

"**Development Plan**" means the development plan prepared under Clause 23, by both the Contractor and the Minister with the results of an executed Appraisal Programme;

"**Development Well**" means any Well drilled within a Development Area after the date of approval of the Development Plan for the purpose of producing Petroleum, increasing or accelerating production of Petroleum, including injection Wells and dry Wells;

"**Discovery**" means the discovery of Crude Oil and/or Natural Gas;

"**Discovery Area**" means such area of the Contract Area in which a Discovery has been made or in which there is, in the Contractor's reasonable opinion, a genuine prospect of Discovery;

"**Dispute**" has the meaning given in Clause 48;

"**District**" means one of the administrative districts into which the Republic is divided in accordance with the Regional and District Boundaries and Place Names Act.

"**District Commissioner**" means the administrator having oversight of the affairs of a District;

"**Dollar**" or "**USD**" means the currency of the United States of America;

"**Economic Limit**" means that point in the life of the Reservoir where the Revenue to the Contractor from Petroleum Operations is insufficient to cover the operating costs to continue Petroleum Operations in accordance with the requirements of the Contract. In this context "**Revenue**" means the expected revenues derived from the conveyance and sale of Petroleum at the Delivery Point together with any firm tariff income earned by the Reservoir facilities, if any;

"**Effective Date**" means the date of this Agreement;

"**Environment**" means the physical factors of the surroundings of the human being including land, water, atmosphere, climate, sound, odour, taste, and the biological factors of fauna and flora, and includes the cultural, social and economic aspects of human activity, the natural and the built environment as established in the Environment Management Act;

"**Environmental Damage**" means soil erosion, removal of vegetation, destruction of wildlife, pollution of groundwater or surface water, land contamination, air pollution, noise pollution, bush fire, disruption to water supplies to natural drainage or natural flow of rivers or streams, damage to archaeological, palaeontological and cultural sites and shall include any damage or injury to, or destruction of, soil or water in their physical aspects together



with vegetation associated therewith, aquatic or terrestrial mammals, fish, avi-fauna or any plant or animal life whether in the sea or in any other water or on, in or under land;

"**Exploration and Appraisal Costs**" has the meaning given in Appendix B;

"**Exploration Operations**" means operations carried on in the course of exploring the Contract Area for Petroleum and includes but is not limited to geological, geophysical and geochemical surveys and analyses, aerial mapping, investigations of subsurface geology, stratigraphic tests, drilling Exploratory Wells and work necessarily connected therewith;

"**Exploration Period**" means the Initial Exploration Period or any Extension Periods, as the case may be, during which Exploration Operations are undertaken by the Contractor;

"**Exploratory Well**" means a Well drilled or to be drilled (as the case may be) in search of Petroleum to test a geological feature, which has not been determined to contain producible Petroleum sufficient for Commercial Production;

"**Extension Period**" means all or any of the Exploration Periods following the Initial Exploration Period as may be extended under the terms of this Agreement;

"**First Extension Period**" means the additional period of three (3) Contract Years after the Initial Exploration Period pursuant to Clause 3;

"**Force Majeure**" has the meaning given in Clause 45;

"**Government**" means the Government of the Republic of Malawi and includes any ministry or other executive body and any person appointed or representing any of them;

"**Initial Exploration Period**" means the period of four (4) Contract Years commencing on the Effective Date;

"**International Petroleum Industry Practice**" means all those uses and practices that are, at the time in question, generally practiced by prudent professionals of leading international firms in the petroleum industry as being good, safe, economical, environmentally sound and efficient in exploring for, developing, producing, processing and transporting Petroleum;

"**Joint Account**" means the set of accounts maintained by the Contractor to record all receipts, expenditures and other operations which, under the terms of this Agreement, shall be shared between the entities constituting Contractor and Government in proportion to their paying Participating Interests. Such accounts will distinguish between Exploration and Appraisal Costs, Development Costs and Production Cost. After adoption of a Development Plan, a separate Joint Account shall be maintained for each Development Area;

"**Joint Operating Agreement**" or "**JOA**" means any agreement executed by the Contractor Entities at any time for the purpose of regulating between such entities the terms under which the Petroleum Operations will be conducted, which agreement shall be: (a) consistent with International Petroleum Industry Practice; (b) as between such entities, supplementary to a Licence; (c) consistent with the provisions of that Licence; and (d) substantially based on the 2012 Association of International Petroleum Negotiators model joint operating agreement;

"**Law**" means any constitution, treaty obligation, law, statute, decree, rule, regulation, judicial act or decision, judgment, order, proclamation, directive, executive order or other sovereign act of the Government;

"**LIBOR**" means the London Inter-Bank Offered Rate at which Dollar deposits for one (1) month are offered in the inter-bank market in London, as quoted in the Financial Times of London for the day in question. In the event that such rate is not published in the Financial Times, it shall mean the London Inter-Bank Offered Rate at which Dollar deposits for one (1) month are offered for the nearest day as quoted by a bank in London as agreed by the Parties to this Agreement;

"**Licence**" means the Petroleum Exploration Licence, any other petroleum exploration licence granted pursuant to the Act and any Petroleum Production Licence;

"**Local Business Development Programme**" means the local business development programme which is to be developed in accordance with Clause 38 and approved by the Government, as may be amended or varied by agreement between the Parties;

"**Maximum Effective Rate**" means the rate at which the maximum ultimate economic Petroleum recovery is obtained from a commercial field without excessive rate of decline in Reservoir pressure and consistent with International Petroleum Industry Practice;

"**Minimum Expenditure**" means the minimum expenditure obligations of the Contractor during each of the Exploration Periods as specified in Clause 5;

"**Minimum Work Programme**" means the minimum work programmes set out in Clause 5;

"**Minister**" means the Minister responsible for the regulation and licensing of Petroleum Operations and anyone appointed by the Minister to exercise any functions of the Minister under the Act;

"**Ministry**" means the Ministry of Natural Resources, Energy and Environment or such other body as may, from time to time, be responsible for the regulation and licensing of Petroleum Operations;

"**MMCFD**" has the meaning given in Clause 30.5.1 ;

"**Natural Gas**" or "**Gas**" means hydrocarbons that are in a gaseous phase at standard atmospheric conditions of temperature and pressure, including wet mineral Gas, dry mineral Gas, casing head Gas and residue Gas remaining after the extraction or separation of liquid hydrocarbons from wet Gas, and non-hydrocarbon Gas produced in association with liquid or gaseous hydrocarbons;

"**Non-Associated Gas**" means all gaseous hydrocarbons produced from gas reservoirs, and includes wet Gas, dry Gas and residue Gas remaining after the extraction of liquid hydrocarbons from wet Gas;

"**Normal Cubic Metre**" means the volume of Gas that occupies a cubic metre when this Gas is at a temperature of 15 degrees Celsius (15°C) and a pressure of 1.01325 bar;



"**Offshore**" shall mean any area which lies below the elevation of the highest tide level of the Lake Malawi shoreline in question for the ten (10) years preceding this Agreement;

"**Onshore**" shall mean any area which lies above the elevation of the highest tide level of the lake shoreline in question for the 10 years preceding this Agreement;

"**Operating Costs**" means the operating costs as defined in Appendix B;

"**Operator**" means the entity designated as such under the Joint Operating Agreement;

"**Participating Interest**" means, in respect of any person, its rights to participate in the extraction of Petroleum and its obligations to bear that proportion of Production Costs, expressed as a percentage;

"**Party**" or "**Parties**" means the Government of Malawi and/or the Contractor, as well as their authorised assignees;

"**Petroleum**" means Crude Oil and Natural Gas;

"**Petroleum Costs**" means those expenditures made and obligations incurred by the Contractor and paid into the Joint Account in carrying out Petroleum Operations hereunder, determined in accordance with this Agreement and the Accounting Procedure and which shall include, without limitation, Exploration and Appraisal Costs, Development Costs, Production Costs and Operating Costs;

"**Petroleum Exploration Licence**" means Prospecting Licence no. PEL006/13, granted to the Contractor by the Government on 24 July 2013 pursuant to sections 16 and 20 of the Act, for the exploration of hydrocarbons in Malawi BLOCK 6 (together with any extensions, renewals or amendments and expressly including the letter agreement relating to 'Clarifications – Prospecting Licenses for Block 6 in Malawi, License No. PEL006/13' entered into between Pacific Oil Ltd and the Principal Secretary of the Ministry of Mining on 25 July 2013 which is hereby ratified by the Minister);

"**Petroleum Materials**" has the meaning given in Clause 39.2 ;

"**Petroleum Production Licence**" means a licence granted under section 28 of the Act for operations carried out in the course of developing and producing Petroleum;

"**Petroleum Operations**" means all or any of the operations, authorised under this Agreement, related to the exploration for, finding, appraisal, development, extraction, production, separation and treatment, storage, transportation, and sale or disposal of, Petroleum up to the point of export or the agreed Delivery Point in the Republic of Malawi or the point of entry into a refinery and includes plugging and abandonment of Wells, safety, environmental protection, site restoration and natural Gas processing operations but does not include Petroleum refining operations and shall include, without limitation, Appraisal Operations, Exploration Operations, Development Operations and Production Operations;

"**Point of Sale**" means Delivery Point unless otherwise specified;

"**Possible Reserves**" means additional reserves of Petroleum which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves;

"**Probable Reserves**" means those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves;

"**Production Costs**" means all the costs, expenditure and obligations incurred by the Contractor in carrying out the Production Operations after the start of production from the Reservoir (which are other than Exploration and Development Costs);

"**Production Operations**" shall include, but not be limited to, the running, servicing, maintenance and repair of completed Wells and of the equipment, pipelines, systems, facilities and plants completed during Development. It shall also include all activities related to planning, scheduling, controlling, measuring, testing and carrying out the flow, gathering, treating, transporting, storing and dispatching of Crude Oil and Gas from the underground Petroleum Reservoirs to the Delivery Point, and all other operations necessary for the production and marketing of Petroleum. Production Operations shall further include the acquisition of assets and facilities required for the production of Petroleum hereunder and Oil and Gas field abandonment operations;

"**Profit Petroleum**" means that portion of the total production of Crude Oil and/or Non-Associated Gas from the Contract Area in a particular period, in excess of Cost Petroleum, which is allocated to the Parties under the terms of the Agreement and Crude Oil comprising Profit Petroleum shall be referred to as "**Profit Oil**" and Non-Associated Gas comprising Profit Petroleum shall be referred to as "**Profit Gas**";

"**Prohibited Person**" means a Person:

who is identified on a Sanctions List published by a Sanctions Committee of the United Nations Security Council; or who is (i) identified on the Interpol Red Notice List (<http://www.interpol.int/Public/Wanted/Search/Form.asp>); or (ii) the subject of an arrest warrant issued by the International Criminal Court; or

who is identified on the World Bank ineligible firms list (<http://web.worldbank.org/external/default/main?theSitePK=84266&contentMDK=64069844&menuPK=116730&pagePK=64148989&piPK=64148984>); or

who is identified on the European Union Sanctions list (http://ec.europa.eu/external_relations/cfsp/sanctions/list/consol-list.htm); or

who is identified on any of the following lists maintained by the United States government: (1) the United States Department of Commerce Denied Persons list (located at <http://www.bis.doc.gov/dpl/thedeniallist.asp>) and Entity list (located at <http://www.bis.doc.gov/entities/default.htm>); (2) the United States Department of the Treasury Specially Designated Nationals and Blocked Persons lists (both located at <http://www.treas.gov/offices/enforcement/ofac/sdn/t11sdn.pdf>); (3) United States Department of State Foreign Terrorist Organizations list (located at <http://www.state.gov/s/ct/rls/other/des/123085.htm>) or Debarred Parties list (located at <http://www.pmdtc.state.gov/compliance/debar.html>); or (4) the Financial Action Task Force on Money Laundering list of non-cooperative countries or territories (located at http://www.oecd.org/document/57/0,3343,en_2649_201185_1900665_1_1_1_1,00.html);

any Person Controlling, Controlled by or under Common Control by any Person listed above; or

any Person that issues bearer shares or other instruments to evidence ownership of such Person that do not permit the identification of the owners of such Person;

"Proved Plus Probable Reserves" means Proved Reserves plus Probable Reserves;

"Proved Reserves" means those quantities of Petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known Reservoirs and under defined economic conditions, operating methods, and government regulations PLUS

"Reservoir" or **"Petroleum Reservoir"** or **"Gas Reservoir"** means a subsurface rock formation containing an individual and separate natural accumulation of producible hydrocarbons (Oil and/or Gas) characterised by a single natural pressure system;

"Revenue" means the expected revenues derived from the sale of Petroleum together with any firm tariff income earned by the field facilities, if any;

"R Factor" has the meaning given at Clause 30.5.7 ;

"Second Extension Period" means the additional period of three (3) Contract Years after the First Extension Period as provided for in Clause 3.5.2 ;

"Semester" means a period of six (6) consecutive months commencing with the first day of January or the first day of July of a Calendar Year;

"Social Responsibility Plan" means the social responsibility plan to be developed in accordance with Clause 35 and approved by the Government, as may be amended or varied by agreement between the Parties;

"Stability Period" means the period commencing on the Effective Date and ending, in respect of each Development Area subject to a Petroleum Production Licence, on the earlier to occur of

(i) the date twelve (12) years from the date such Production Licence was granted and

(ii) the date that Petroleum Operations permanently cease;

"Subcontractor" means a specialised person, firm or entity contracted by the Contractor to carry out specific work relative to Petroleum Operations under the supervision of and for the account of the Contractor;

"Tax" means any tax, duty, levy, excise, impost, charge, fee or rate levied, imposed, assessed or collected under any Law or by Government, together with any associated interest, penalty, fine, charge or other amount; **"Taxation"** and **"Taxes"** have a corresponding meaning;

"Taxation Act" means the Taxation Act of the Republic of Malawi;

"Threshold BOPD" has the meaning given at Clause 30.5.2 ; and

"Well" means a hole drilled into the earth for the purpose of locating, evaluating, producing or enhancing production of Petroleum.

- 1.2 In this Agreement, unless the context otherwise requires:
- (a) references to a recital, clause, schedule, annexure or exhibit is to a recital, clause, schedule, annexure or exhibit of or to this Agreement;
 - (b) a reference to this Agreement or another instrument includes any variation or replacement of any of them
 - (c) a reference to any statute shall include any amendment, replacement or reenactment of such statute for the time being in force and any bylaws, statutory instruments, rules, regulations, notices, orders, directions, consents or permissions made under such statute whether by gazetting or by notification to selected parties and any conditions attaching to them;
 - (d) words importing the singular include the plural and vice versa;
 - (e) a reference to any gender includes all genders;
 - (f) a reference to a person includes a reference to the person's executors, administrators, substitutes, successors and permitted assigns;
 - (g) a reference to a person further includes an individual, partnership, company, corporation, trust, society, organization, authority and association;
 - (h) a covenant, representation or warranty in favour of two or more persons is for the benefit of them jointly and severally;
 - (i) the words 'includes' and 'including' shall mean include without limitation and including without limitation; and
 - (i) a covenant representation or warranty on the part of two or more persons binds them jointly and severally.
- 1.3 There shall at all times be an Operator designated by the Contractor.
- (a) Except as otherwise provided herein, the Operator shall be solely responsible for the conduct of operations under this Agreement and to represent the Contractor to the Government.
 - (b) The Operator shall, at the cost of the Ministry, establish an office located in Lilongwe, Malawi within one hundred and eighty (180) days from the Effective Date, or upon cause shown, a later date approved by the Ministry.
- 1.4 Where any provision of this Agreement conflicts with any provision of the Act, this Agreement shall prevail only to the extent of the inconsistency.

PART 2 - SCOPE, TERM, EXPLORATION OBLIGATIONS AND TERMINATION

2. SCOPE

2.1 The Contractor shall, subject to the terms of the Agreement -

- 2.1.1 be responsible to the Government for the execution of the Petroleum Operations contemplated hereunder in accordance with the provisions of this Agreement and is hereby appointed and constituted the exclusive legal entity to conduct Petroleum Operations in the Contract Area for the term of this Agreement;
- 2.1.2 provide all capital, machinery, equipment, technology and personnel necessary for the conduct of Petroleum Operations; and
- 2.1.3 bear the risk of Petroleum Costs required in carrying out Petroleum Operations and shall therefore have an economic interest in the development of the Petroleum deposits in the Contract Area. Such costs shall be included in Petroleum Costs recoverable as provided in Clause 30,

in each case, in accordance with its Participating Interest for the time being.

- 2.2 This Agreement does not authorise the Contractor to process Petroleum beyond the Delivery Point and no expenditure in respect of further processing shall be a Petroleum Cost.

3. TERM

- 3.1 This Agreement shall continue in force from the Effective Date for a period of 25 years from the date on which Commercial Production commences unless terminated earlier on its terms provided, however, that this Agreement shall remain in force to the extent any Petroleum Production Licence remains in force.
- 3.2 The Contractor is authorised to conduct Exploration Operations in the Contract Area during an Initial Exploration Period of four (4) Contract Years from the Effective Date.
- 3.3 The Contractor shall begin Exploration Operations within three (3) months of the Effective Date.
- 3.4 Upon written application by the Contractor made not later than one (1) month prior to the expiry of the Initial Exploration Period, the Minister shall, if the Contractor has fulfilled its work programme obligations under this Agreement, grant a First Extension Period not exceeding three (3) Contract Years.
- 3.5 If the Contractor has fulfilled its work programme for the First Extension Period:
 - 3.5.1 the Contractor shall be deemed to have fulfilled its Minimum Expenditure obligations; and
 - 3.5.2 upon written application by the Contractor made not later than one (1) month prior to the expiry of the First Extension Period hereof, the Minister shall grant a Second Extension Period not exceeding three (3) Contract Years.
- 3.6 In order to enable the Contractor to complete the drilling and testing of an Exploratory or Appraisal Well actually being drilled or tested at the end of the Initial Exploration Period, First Extension Period or Second Extension Period, the Minister shall, on written application by the Contractor made not later than three (3) months before the expiry of that Exploration Period, unless another period of notice is agreed by the Parties, extend the period in which the work is to be expeditiously completed.



- 3.7 In the event of a Discovery in the last year of the Second Extension Period, the provisions of Clause 22 shall apply.
- 3.8 If the Minister has not responded to a request by the Contractor for an extension of the term within thirty (30) days of the relevant request being made, the relevant extension shall be deemed to have been granted and shall be binding on the Government without any requirement for further documentation.
- 3.9 At the expiry of the Initial Exploration Period, provided that the Contractor has completed the Minimum Work Programme, the Contractor shall have the option, exercisable by giving written notice to the Government at least thirty (30) days prior to the expiry of Initial Exploration Period either:
- 3.9.1 to proceed to the First Extension Period; or
 - 3.9.2 to relinquish the entire Contract Area except for any Discovery Area and any Development Area and to conduct Development Operations and Production Operations in relation to any Discovery in accordance with the terms of this Agreement, and the Contractor shall have no further obligation in respect of the Minimum Work Programme under Clause 5.

If neither of the options provided for in sub-clauses 3.9.1 and 3.9.2 hereof is exercised by the Contractor, this Agreement shall terminate at the end of Initial Exploration Period and the relevant Petroleum Exploration Licence shall be automatically cancelled.

- 3.10 If at the end of the Initial Exploration Period the Minimum Work Programme for that period is not completed, the time for completion of the Minimum Work Programme shall be extended for a period necessary to enable completion thereof but not exceeding six (6) months, provided that the Contractor submits a written notice to the Government at least thirty (30) days prior to the expiry of the Initial Exploration Period and can show technical or other good reasons for non-completion of the Minimum Work Programme and provided that the period of such extension shall be subtracted from the succeeding Exploration Period. In case the Minimum Work Programme of the Initial Exploration Period is completed before stipulated time as provided in the Clause 5, the time so saved will be added to the succeeding Extension Period, if so requested by the Contractor giving a notice in writing to the Government thirty (30) days prior to such early completion of the Initial Exploration Period.
- 3.11 If, at the end of the Initial Exploration Period, execution of any Work Programme is in progress and which is in addition to the Minimum Work Programme, such Initial Exploration Period shall be extended for a period not exceeding six (6) months to enable completion thereof provided that the Minimum Work Programme for such period has been completed and the Advisory Committee gives its consent to the said extension as provided in Clause 22. In the event of an extension as provided for herein, the notice referred to in Clause 3.8 shall be given at least thirty (30) days prior to the expiry of the relevant extension.
- 3.12 Where sufficient time is not available prior to the expiry of the Exploration Period to complete an Appraisal Programme, at the request of the Contractor, the Government shall extend the Exploration Period for such period, not less than two (2) years but not exceeding four (4) years, as may be mutually agreed between the Parties for the Appraisal Programme

to be carried out and for the Contractor and the Advisory Committee, to comply with the provisions of Clause 22.

- 3.13 If no Commercial Discovery has been made in the Contract Area by the end of the Exploration Period, this Agreement shall terminate.
- 3.14 If this Agreement is terminated in accordance with its terms, the Petroleum Exploration Licence shall be automatically cancelled.
- 3.15 If at the expiry of the Exploration Period a Development Plan for development of a Commercial Discovery is under consideration by the Advisory Committee or Government, as the case may be, pursuant to Clauses 21 or 22, the Licence shall continue in force with respect to that part of the Contract Area to which the Development Plan relates, pending a decision on the Development Plan and the application for the Lease, but shall cease to be in force and effect with respect to the remainder of the Contract Area.

4. SURRENDER

4.1 Area to be Surrendered

4.1.1 The Contractor shall, within thirty (30) days after the expiration of the Initial Exploration Period, surrender so much of the Contract Area as, together with any part of the Contract Area surrendered under sub-clause 4.1.5, amounts to fifteen per cent. (15%) of the net Contract Area after excluding any Development Areas.

4.1.2 The Contractor shall, within thirty (30) days after the end of the First Extension Period, surrender so much of the Contract Area as amounts to an additional fifteen per cent. (15%) of the remaining net Contract Area after excluding any Development Areas.

4.1.3 In determining the areas to be surrendered pursuant to sub-clauses 4.1.1 and 4.1.2 above:

4.1.3.1 any areas already surrendered pursuant to Clause 4.1.5 shall be deducted from the surrender obligations;

4.1.3.2 the Contractor shall have the right to determine the shape and location of areas to be surrendered, provided that such areas shall be contiguous; and

4.1.3.3 nothing in those sub-clauses shall be taken as requiring the Contractor to surrender any part of the Contract Area within the boundaries of a Development Area (if then determined) and accordingly the reference in those sub-clauses to the Contract Area to be surrendered is a reference to the Contract Area outside the boundaries of the Reservoir.

4.1.4 The Contractor shall, within thirty (30) days or such longer period as the Minister may reasonably allow, after the expiration of the Second Extension Period, surrender any remaining part of the Contract Area that is not within the boundaries of a Reservoir or otherwise the subject of a Petroleum Production Licence.



4.1.5 The Contractor may, at any time, voluntarily surrender any part of the Contract Area by giving not less than sixty (60) days advance written notice of its intention to do so to the Minister and complying with Clauses 4.2 and 5 of this Agreement.

4.1.6 The surrender of any part of Contract Area in accordance with this Clause shall be without prejudice to any obligation incurred by the Contractor in respect of the area relinquished prior to the date of relinquishment and such relinquishment shall not affect the obligations of the Contractor under Clause 34.

4.2 Consultation on Area to be Surrendered

4.2.1 Every part of the Contract Area surrendered under this Agreement by the Contractor shall be bounded by lines of longitude and parallels of latitude expressed in whole degrees, and whole minutes. Except with the approval of the Minister, no boundary line shall be drawn less than one (1) minute of latitude and one (1) minute of longitude.

4.2.2 As far as practicable, each surrendered area of the Contract Area shall form one continuous area and be contiguous with any previously relinquished area of the Contract Area. Subject to sub-clause (3), no single surrendered area of the Contract Area shall be less than three (3) square kilometres or twenty-five per cent. (25%) of any continuous area within the Contract Area, whichever is the lesser.

4.2.3 The Advisory Committee may recommend the surrender of a lesser portion of the Contract Area than the area specified in 4.2.2.

4.2.4 No part of the Contract Area shall be surrendered by the Contractor unless the obligations assumed in respect of that part by the Contractor have been met.

4.2.5 Before surrendering under this Agreement any part of the Contract Area, the Contractor shall consult with the Advisory Committee in order to ensure compliance by the Contractor with all of the relevant requirements of this Agreement.

5. MINIMUM EXPLORATION WORK AND EXPENDITURE OBLIGATIONS

5.1 Save as agreed otherwise in writing with the Government, the Contractor shall carry out the following Minimum Work Obligations:

5.1.1 During the Initial Exploration Period, the Contractor shall undertake the following:

5.1.1.1 Environmental Impact Assessment

Carry out Environmental Impact Assessment to establish in advance, any effects which the project may have on the environment. This will probably be done by local specialists supported by international specialists.

5.1.1.2 Surface Geological Studies

Carryout a comprehensive studies of Geological mapping survey in the area to understand the regional geological trends and lithological characters of the sedimentary sequences exposed in the area. This would provide with a

fairly regional understanding of the orientation, the depositional sequences and the structural framework of the area. These works would involve local specialists, including those on training.

5.1.1.3 Aeromagnetic and Airborne Gravity Survey

A comprehensive airborne gravity and magnetic survey in the block is planned to be carried out. The area of the block is approximately 8,448sqkm. This would help identify regional dip of the underlying strata and structurally high areas in the subsurface. These works would involve specialist international contractors, together with local specialists, including those on training.

5.1.1.4 Regional 2D Seismic Data Acquisition, Processing and Interpretation

The initial exploration period would involve a preliminary 2D seismic acquisition. This programme would not be comprehensive but rather would be focused on those areas considered to have regional structural elements from the aeromagnetic and gravity interpretation. Processing and interpretation of the seismic data would again enable the more attractive areas to be identified and upgraded. Again these works would involve specialist international contractors, together with local specialists, including those on training.

5.1.2 During the First Extension Period the Contractor shall undertake the following:

5.1.2.1 Geochemical Studies

With the data and ideas from the initial exploration period a further phase of exploration would be embarked upon. This phase would involve a detailed study of surface geochemical surveys to map the light hydrocarbons expressed through micro-seeps from active petroleum and natural gas reservoirs at depth. The maps, developed from the survey, serve as a guide to identifying prospective areas in both frontier basins.

5.1.2.2 Detailed 2D Seismic Acquisition, Processing and Interpretation

This phase would involve a more detailed 2D seismic acquisition, processing and interpretation. On the basis of this Prospects and Leads will be identified in the block. The identified prospects will be ranked on the basis of their size, hydrocarbon potential and geological chance of success.

5.1.2.3 Integrated G&G Interpretation

These prospective structures would then be examined in detail to design drilling programmes to test the presence of oil. Having the design



specifications for several drilling locations then there would be a logistic exercise to locate and source the drilling equipment required to undertake a drilling programme on a set number of well locations.

Finally, having located the potential sources of the necessary drilling equipment contracts have to be negotiated with the Subcontractors and timing of delivery of equipment needs to be confirmed such that all the necessary components are in place before drilling commences. Again these works would involve specialist international Subcontractors.

5.1.3 During the Second Extension Period, the Contractor shall undertake the following:

5.1.3.1 Delivery of Drilling Equipment

Most of the equipment and materials required to undertake a multi-well drilling programme would have to be sourced from outside Malawi and therefore warehousing and transportation facilities will need to be in place to take delivery and store material until required.

5.1.3.2 Preparation to drill

The drilling sites would need to be inspected and prepared in advance of a drilling rig.

5.1.3.3 Drilling and evaluating test-wells

Although under the direct supervision of the Contractor, many of these specific services would be undertaken by specialist international contractors, supported by local specialists and trainees. For any well there will be pre-defined targets and objectives, having drilled to penetrate and achieve these targets then the wells are evaluated by running electronic logging tools in the wells. These tools are specifically designed to identify if oil is present, where it is located and approximately how much oil has been identified by that particular well. The most attractive oil bearing zones in the well will then be flow tested to evaluate, the properties of the oil and the potential volumes of oil that the well could produce on a daily basis.

Having achieved satisfactory results then the well will either be abandoned (if no oil has been identified) or suspended (temporarily shut-in) until suitable long term production facilities are available.

The drilling equipment would then be moved to the next programmed well location and this would be continued until the pre-determined number of wells had been drilled.

5.1.4 The Minimum Work Programme shall, to the extent not already started, start within 18 months of the Effective Date.



- 5.2 Save as agreed otherwise in writing with the Government, in discharge of its obligation to carry out Exploration Operations in the Contract Area, the Contractor shall spend not less than sixty per cent. (60%) of the estimated sums specified in the table below which expenditure shall represent the Minimum Expenditure during the Exploration Period:

Initial Exploration Period - 4 Years	
Minimum Work Obligation	Minimum Financial Expenditures (Million USD)
Environment Impact Assessment	0.50
Surface Geological Studies	0.20
Aeromagnetic and Gravity Survey	1.80
2D Seismic API Regional	2.50
Total Initial Exploration Period	5.00
First Extension Period - (3 Years from End of Initial Exploration Period)	
Minimum Work Obligation	Minimum Financial Expenditures (Million USD)
2D Seismic API Detailed	6.00
Geochemical Studies	1.00
Integrated G&G Interpretation	0.50
Total First Extension Period	7.50
Second Extension Period (3 Years from End of Extension Period - 1)	
Minimum Work Obligation	Minimum Financial Expenditures (Million USD)
Drilling of 1 Exploration Well (Firm)	10.00
Drilling of 1 Exploration Well (Optional)	10.00 (Opt)
Total Second Exploration Period	10.00 (Firm) 20.00 (Firm + Optional)

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Development and Production Period (25 Years from Approval of Development Plan)	
Development Activities	
Production Facilities	
Export Facilities	
Budget for Development Period will be based on the result of the discovery and the estimated reserves. Development Activities may include Development Drilling and Additional Seismic Acquisition.	
Production Extension Phase - 1 (5 Years from End of Development and Production Phase)	
Production Extension Phase - 2 (5 Years from End of Production Extension Phase - 1)	

- 5.3 Throughout the Exploration Period, the Contractor and the Minister shall agree an annual work programme reflecting relevant elements of the Minimum Work Programme in accordance with Clauses 5.1 .
- 5.4 The fulfilment of the Minimum Work Programme in respect of each Exploration Period shall relieve the Contractor of the Minimum Expenditure obligation in the relevant Exploration Period.
- 5.5 For the purposes of this Clause, an Exploratory Well shall, unless otherwise provided in the drilling program relating thereto, be drilled to the depth necessary for the testing of the geological formation identified by the available data as the objective formation which the standards of International Petroleum Industry Practice would require the Contractor to attain, unless before reaching the aforementioned target depth:
- 5.5.1 the economic basement is encountered;
- 5.5.2 insurmountable technical problems are encountered which, in accordance with International Petroleum Industry Practice, makes further drilling unsafe or impractical; or
- 5.5.3 impenetrable formations are encountered.
- 5.6 In such circumstances, the drilling of an Exploratory Well may be terminated at a lesser depth and such Well shall, if the circumstances described in Clause 5.4 above occur after the Contractor has attained two-thirds of the target depth, be deemed to have satisfied the minimum depth criteria provided for hereunder. In all other circumstances in which a Well is terminated at a lesser depth, a substitute Exploratory Well shall be drilled.
- 5.7 For the purpose of this Clause "**economic basement**" means any stratum in and below which the geological structure or physical characteristics of the rock sequence do not have the properties necessary for the accumulation of petroleum in commercial quantities and which reflects the maximum depth at which any such accumulation can be reasonably expected.

- 5.8 If during either the Initial Exploration Period or the First Extension Period, the Contractor exceeds the minimum work obligation set out in this Clause 5 or exceeds the minimum expenditure obligations for such Exploration Period, then such excess may be credited toward the respective obligation of the next succeeding Extension Period or Periods, provided however that nothing in this Clause shall be construed as extinguishing or modifying any obligation of the Contractor to drill Exploratory Wells pursuant to this Clause.
- 5.9 If at the end of either the Initial Exploration Period or of any Extension Period or upon the date of termination of this Agreement, whichever occurs first, the Contractor has not fulfilled its Minimum Work obligations under Clause 5, the Contractor shall pay the Government that part of the Minimum Expenditure attributable to the work not carried out multiplied by the Discount Rate calculated on the last month of that Exploration Period less any amount of the Minimum Expenditure that is carried forward into the following Extension Period.

6. **SURFACE FEES**

- 6.1 The Contractor shall pay, on or before the beginning of the relevant Contract Year to the accounting officer of the Ministry, surface fees as stipulated in the Second Schedule of the Regulations or any subsequent enactment relating to surface fees. Surface fees expressed in Kwacha will be calculated in Dollars at a rate equal to the arithmetic average of the daily closing rates for the purchase and sale of said currency at the Reserve Bank of Malawi during the month when the Agreement was signed.
- 6.2 The surface fees shall be calculated on the basis of the surface area of the retained Contract Area and Development Area on the date those payments are due.

7. **TERMINATION AND ITS EFFECTS**

- 7.1 The Contractor may, during any Exploration Period, terminate this Agreement by giving not less than three (3) months' notice in writing to the Minister provided that all its obligations for that Period have been met.
- 7.2 The Contractor may, during the Development Phase, terminate this Agreement by giving not less than twelve (12) months' notice in writing to the Minister provided that all its obligations for that Period have been met.
- 7.3 The Minister may terminate this Agreement by giving written notice to the Contractor, where in the opinion of the Minister, the Contractor has:
- 7.3.1 failed to comply with a material term or condition of this Agreement or with a direction or instruction given under this Agreement with which it is required to comply;
 - 7.3.2 failed to comply with any material term of a Development Plan prepared in accordance with Clause 23; or
 - 7.3.3 failed to comply with any of the material terms or conditions subject to which the Minister gave his consent under Clause 43,



in each case in a manner reasonably likely to have a materially adverse effect on Petroleum Operations.

7.4 the Minister shall not, under sub-clause 7.3 , terminate this Agreement on the ground of any failure referred to in that sub-clause unless:

7.4.1 the Minister gives not less than three (3) months written notice to the Contractor of the intention of the Minister to terminate this Agreement on that ground and that ground remains uncured; and,

7.4.2 in reaching his decision to terminate the Minister must take into account:

7.4.2.1 any action taken by the Contractor to remedy the default within the three month period; and,

7.4.2.2 any information so submitted by the Contractor in the three (3) month period.

7.5 the Minister may terminate this Agreement by immediate written notice if:

7.5.1 the Contractor is insolvent;

7.5.2 an order is made or a resolution is passed winding up the affairs of the Contractor unless (i) the winding up is for the purpose of amalgamation or re-construction; and, (ii) the Minister has been notified of the amalgamation or re-construction and has given its consent; or

7.5.3 a receiver is appointed to administer the assets of the Contractor.

7.6 At any time where the Contractor is more than one Contractor Entity, the Minister shall not terminate this Agreement because of the occurrence of one of the events specified in Clause 7.5 unless the Minister determines, acting reasonably, that the remaining companies are unable to perform the obligations of the Contractor under this Agreement.

7.7 On the termination of this Agreement under any of the provisions hereof, this Agreement and all the respective rights and obligations of the Parties under this Agreement shall altogether cease to have effect, provided that such termination shall be subject to and without prejudice to any rights and obligations of the Parties respectively expressed to arise under this Agreement prior to the termination thereof or any liability of either Party arising out of an earlier failure to comply with any obligation which must be complied with by such Party.

PART 3 - RIGHTS AND OBLIGATIONS OF THE CONTRACTOR

8. RIGHTS OF THE CONTRACTOR

8.1 The Contractor shall have the exclusive right to carry out the Petroleum Operations within the Contract Area, subject to the terms of this Agreement and the provisions of the Act (to the extent not inconsistent with the terms of this Agreement) and the Minister expressly agrees that the terms of this Agreement are not inconsistent with the Act.



8.2 The Contractor shall have the right to construct fixtures and installations as laid out in Clause 14.1 and exercise other ancillary rights as may be reasonably necessary for the conduct of Petroleum Operations subject to such approvals as may be required and the applicable laws in force from time to time for the regulation and control thereof.

8.3 The Ministry shall:

8.3.1 not, without the prior consent in writing of the Contractor, inhibit, limit or cancel the rights of the Contractor in relation to all or any part of the Contract Area or grant, or purport to grant, to any other person a Production Licence or any other rights which are, or may be, in conflict with the rights of the Contractor pursuant to the Contract;

8.3.2 if the Contractor so requests consider reasonable applications, requests, or representations in respect of the Contract Area and including, without limitation, regarding Prospecting Operations, Appraisal Operations, Development Operations and Production Operations consistent with this Agreement;

8.3.3 at the Contractor's expense make available to the Contractor all geological and geophysical data in the possession or under the control of the Government resulting from Petroleum exploration by any other person in the Contract Area and the Contractor shall treat such data as confidential;

8.3.4 permit the Contractor, its servants and agents to have at all reasonable times access to the Contract Area for the purpose of carrying on the Petroleum Operations hereunder and for such purpose to move freely to, from and therein; and

8.3.5 facilitate the grant of, on behalf of the Contractor, any permit necessary to enable the Contractor to use the water in the Contract Area for the purpose of the Petroleum Operations subject to compliance with the Water Resources Act. In no case shall the Contractor deprive local communities of the water usage to which they are accustomed.

9. GENERAL STANDARDS OF CONDUCT

9.1 The Contractor shall:

9.1.1 conduct all Petroleum Operations within the Contract Area diligently, expeditiously, efficiently and in accordance with International Petroleum Industry Practice pursuant to the Work Programme formulated in accordance with the Agreement;

9.1.2 ensure provision of all information, data, samples etc. which may be required to be furnished under applicable Law or under this Agreement;

9.1.3 ensure that all equipment, materials, supplies, plant and installations used by the Contractor, the Operator, and Subcontractors comply with International Petroleum Industry Practice and are of proper construction and kept in safe and good working order;

9.1.4 after the designation of a Development Area, pursuant to this Agreement, forthwith proceed, without unreasonable delay, to take all necessary action for prompt and

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orderly development of the Development Area and for the production of Petroleum in accordance with the terms of this Agreement and International Petroleum Industry Practice;

- 9.1.5 ensure at all times a technically competent and sufficiently experienced representative who shall be resident in Malawi and who shall have authority to take such reasonable steps as may be necessary to implement this Agreement and whose name and twenty-four (24) hour contact information shall be made known to the Government;
- 9.1.6 ensure at all times a safe working environment for all employees in accordance with International Petroleum Industry Practice;
- 9.1.7 provide acceptable living accommodation and access to medical attention and nursing care for all personnel employed in Petroleum Operations;
- 9.1.8 ensure prompt, fair and adequate compensation for injury to persons and businesses or damage to property caused by effects of petroleum operations as established in section 65 of the Act; and
- 9.1.9 except as otherwise expressly provided in this Agreement, conduct all Petroleum Operations at its sole risk, cost and expense and provide all funds necessary for the conduct of Petroleum Operations including funds for the purchase or lease of equipment, materials or supplies required for Petroleum Operations as well as for making payments to employees, agents and Subcontractors.

10. LIABILITY, INDEMNITY AND INSURANCE

- 10.1 Where the Contractor consists of more than one person they shall be jointly and severally liable for any and all obligations pursuant to this Agreement.
- 10.2 The Contractor shall indemnify, defend and render the Government harmless from all claims and damage which, but for the negligence of the Contractor or Subcontractor in connection with the Petroleum Operations, would not have arisen or occurred.
- 10.3 The Contractor shall effect and, at all times during the terms of this Agreement, maintain for Petroleum Operations insurance of such type and in such amount as is customary in accordance with the Insurance Act, 2009 and International Petroleum Industry Practice. Such insurance shall be taken out with insurance company(s) approved by the Government, in accordance with the Insurance Act, 2009 and Regulations made thereunder and shall, without prejudice to the generality of the foregoing, include:
 - 10.3.1 all-risks insurance covering all installations, equipment and goods of whatever nature (other than hydrocarbons prior to extraction) used or intended for use in connection with activities under this Agreement while in the Republic of Malawi or in transit therefrom or thereto;
 - 10.3.2 insurance covering loss of Petroleum and its by-products up to the point in time and location at which title and risk of loss has been transferred in full from the Contractor to a third party;



- 10.3.3 insurance covering clean-up costs for damage to the natural environment, including pollution of the air and water and surface and subsurface soils and waters contained within, under or over the Contract Area and other areas used in connection with activities conducted under or pursuant to this Agreement;
 - 10.3.4 comprehensive general liability insurance covering third-party property damage and bodily injury from all insurable risks arising from or with respect to the Contract Area and other areas used in connection with Petroleum Operations and Contractor's activities under this Agreement;
 - 10.3.5 control-of-Well insurance covering control of Well and re-drill costs following accidents to Wells located in the Contract Area;
 - 10.3.6 the cost of removing wrecks and cleaning up operations pursuant to an accident in the course of or as a result of Petroleum Operations; and
 - 10.3.7 health, life and accident insurance for employees and other individuals engaged by the Contractor in connection with activities under this Agreement.
- 10.4 All insurance policies taken out pursuant to Clause 10.3 shall be made available to the Government for review and approval prior to operations commencing. The Contractor shall provide the Government proof of such insurance annually.
 - 10.5 All costs associated with the insurances required pursuant to this Clause 10 shall be classified as Exploration and Appraisal Costs, Development Costs or Production Costs (as the case may be) and subject to cost recovery in accordance with Clause 30.
 - 10.6 The Contractor shall require its Subcontractors to carry insurance of such type and in such amount as is customary applicable in accordance with the Insurance Act, 2009 and International Petroleum Industry Practice.
 - 10.7 Any deductibles on insurance shall be in line with customary market practice at the applicable time.
 - 10.8 Except in the case of a company which has a minimum credit rating of Standard & Poors' A- or equivalent and where the Minister consents, the Contractor shall not self-insure or insure through Affiliates.

11. **WELLS AND SURVEYS**

- 11.1 Unless such notice is waived, the Contractor shall not drill a Well or borehole, or recommence drilling after a six (6) months' cessation, without thirty (30) days' prior notification to the Minister, which notice shall set forth the Contractor's reasons for undertaking such Well and shall contain a copy of the drilling programme to the extent not already submitted as a stand alone document or as part of an annual work programme pursuant to Clause 5 or a Development Plan.
- 11.2 The design of a Well or borehole and the conduct of drilling shall be in accordance with International Petroleum Industry Practice.



- 11.3 No borehole or Well shall be drilled so that any part thereof is less than one thousand (1,000) metres from a boundary of the Contract Area, without the consent in writing of the Commissioner, as required in Section 50 of the Act.
- 11.4 The Contractor shall not, except where there is danger or a risk of significant economic loss:
- 11.4.1 abandon a Well or remove any permanent form of casing there from, without giving forty-eight (48) hours prior notification to the Minister, and an abandoned Well shall be securely plugged to prevent pollution, sub-lacustrine damage, or water entering or escaping from the strata penetrated; or
- 11.4.2 commence drilling, re-enter or plug a Well unless a representative of the Minister has been given a reasonable opportunity to be present.
- 11.5 The Contractor shall state, in its application to abandon a Well on land, whether that Well is capable, in the reasonable opinion of the Contractor without obligations to consult any specialist technical advisors, of providing a water supply.
- 11.6 The Contractor shall, within two (2) months of termination or expiry of this Agreement or the surrender of part of the Contract Area, deliver up all productive Wells, in said surrendered area, in good repair and working order together with all casings and installations which cannot be moved without damaging the Well, but the Minister may require the Contractor to plug the Well at the Contractor's expense by notifying the Contractor within thirty (30) days after such termination or expiry is effected or at least three (3) months prior to surrender of a Development Area.
- 11.7 Where the Contractor applies to permanently abandon an Exploratory Well in which Petroleum of potentially commercial significant quantities has not been found, the Minister may request the Contractor to deepen or sidetrack that Well and to test the formations penetrated as a result of such operations, or to drill another Exploration Well within the same prospect area, subject to the following provisions:
- 11.7.1 Any such additional Petroleum Operations shall be at the sole cost, risk and expense of the Minister and shall be paid for in accordance with the Accounting Procedure. The Government shall advance the funds necessary to conduct the operations to the Contractor prior to the commencement of any related work.
- 11.7.2 The Contractor shall not undertake such additional work if it will interfere with the conduct of the Contractor's Petroleum Operations or if it is not technically or operationally feasible in the reasonable opinion of the Contractor.
- 11.7.3 In the event that the Petroleum Operations undertaken under Clause 11.7 result in a Discovery which the Contractor elects to appraise and/or develop as a commercial field, the Contractor shall reimburse the Government one hundred per cent. (100%) of the costs and expenses incurred by the Government for the conduct of the operations and such sum shall be paid within sixty (60) days of the notification made by the Contractor. If the Contractor does not make such an election, the Government shall have the right to continue the Petroleum Operations on this Discovery at the sole cost, risk and expense of the Government.



11.8 The Contractor shall give the Minister thirty (30) days' notice of any proposed geophysical survey of the Contract Area, which notice shall contain complete details of the programme to be conducted provided that if any such survey is contemplated in an annual work programme agreed pursuant to Clause 5.3 , that survey shall be deemed notified to the Minister for the purposes of this Clause 11.8 . At the request of the Contractor, the Minister may waive the notice period.

12. OFFSHORE OPERATIONS

12.1 The Contractor shall ensure that works and installations erected Offshore in the Republic of Malawi's territorial waters and exclusive economic zone shall be:

12.1.1 constructed, placed, marked, buoyed, equipped and maintained so that there are safe and convenient channels for shipping;

12.1.2 fitted with navigational aids approved by the Ministry of Transport and Public Infrastructure;

12.1.3 illuminated between sunset and sunrise in a manner approved by the Ministry of Transport and Public Infrastructure; and

12.1.4 kept in good repair and working order and constitute no risk to the health, safety and environmental health of the locality and its environs.

12.2 The Contractor shall pay fair and reasonable compensation for any genuine and documented interference in fishing rights caused by the Petroleum Operations.

13. ONSHORE OPERATIONS

13.1 The Contractor shall ensure that works and installations erected Onshore in the Republic of Malawi shall be:

13.1.1 constructed, placed, marked, equipped and maintained without undue interference to any existing easement to the public;

13.1.2 kept in good repair, working order so as to minimise risk to the health, safety and environmental health of the locality and its environs; and

13.1.3 carried out in a proper, safe and workmanlike manner and in accordance with International Petroleum Industry Practice.

13.2 The Contractor shall take reasonable steps to secure the safety, health and welfare of persons engaged in its operations in and about the exploration and development areas in accordance with International Petroleum Industry Practice.

13.3 The Contractor shall pay fair and reasonable compensation for any genuine and documented interference in economic rights caused by the Petroleum Operations.



14. **FIXTURES AND INSTALLATIONS**

14.1 With the written consent of the Minister, such consent not to be unreasonably withheld, conditioned or delayed, the Contractor shall have the right to construct roads, drill water wells and to place fixtures and installations necessary to conduct the Petroleum Operations, including but not limited to storage tanks, shipment installations, pipelines, cables or similar lines, located inside or outside the Contract Area. The consent of the Minister may be conditional on the use by other producers of the excess capacity, if any, of those facilities.

14.1.1 Where the Minister determines that a mutual economic benefit can be achieved by constructing and operating common facilities, the Contractor shall in cooperation with other affected parties submit within six (6) months, unless otherwise agreed by the Parties, a proposal for the joint construction and operation of such common facilities.

14.1.2 If the proposal is not submitted or approved, the Minister may prepare his own proposal for the joint construction and operation of such facilities. The Minister's proposal unless another proposal is mutually agreed, shall be adopted by the Contractor and other affected parties with the costs allocated to the Contractor and each of the other affected parties in proportion to the economic benefit expected to be realized by the Contractor and each of the other affected parties from the operation of such common facilities.

In no case shall the proposal burden the Contractor or any of the affected parties with charges in excess of those that the Contractor or other affected party would have borne in the absence of such joint construction and operation.

14.2 The Government shall within the limits of its authority use all lawful reasonable endeavours with respect to governmental authorities and third parties, to assist the Contractor in obtaining such rights, privileges, authorizations, approvals and other agreements from authorities and jurisdictions, inside and outside the territory of the Republic of Malawi as the Contractor shall reasonably deem necessary for Petroleum Operations and/or as may be required by such authorities and jurisdictions, but shall not be responsible if such rights, privileges, authorisations and approvals are not obtained provided it has complied with this Clause 14.2 . Such agreements may include, but need not be limited to, such matters as export pipeline rights of way and operation rights, permits and undertakings with respect to the transshipment, storage or staging of Petroleum produced and saved from the Contract Area, materials, equipment and other supplies destined to or from the territory of the Republic of Malawi, and exemptions from national, local and other taxes, transit fees, and other fees and charges on Petroleum Operations being conducted in such other jurisdictions.

14.3 The Government shall make available to the Contractor, and only for the purposes of the Petroleum Operations, any land which it owns that is suitable for the activities intended to be carried out thereon and does not conflict with land use rights already granted to third parties or the existing use by the Government of such land. The Contractor shall have the right to utilize such land to build the facilities necessary for the Petroleum Operations and the obligation to maintain, above and below the ground, such facilities in good working order.



- 14.4 Rights on land held by third parties that the Contractor determines to be necessary for the carrying out of the Petroleum Operations shall be acquired by direct agreement between the Contractor and the private person concerned as follows:
- 14.4.1 The Contractor may acquire, from parties other than the Government and in accordance with Law, land use rights or interests in existing buildings, facilities or structures, sufficient to enable it to construct, install and operate onshore operations that the Contractor deems necessary or appropriate to carry out its Petroleum Operations under this Agreement. If an agreement cannot be reached between the Contractor and the person or persons concerned, the Contractor may request the Government to facilitate the process of negotiation between the private owner and the Contractor for the acquisition of the necessary rights or interests with just compensation.
- 14.4.2 The Contractor must report annually to the Ministry on its land acquisition and compensation activities, specifying all payments made and the purpose of each payment. Such report shall be a public document.
- 14.5 The Contractor shall indemnify the Government for any damage caused to the land by any unauthorised or negligent construction, use and maintenance of its facilities on land provided by the Government directly or through the operation of this Clause 14 and in accordance with Law shall be liable to the owners or users of lands adjacent to lands occupied or used by the Contractor for any damage to such lands and to the improvements or crops thereon caused by such construction, use or maintenance. The responsibilities of the Contractor to third parties who have by contract provided the Contractor with rights or interests in land shall be governed by the terms of those contracts and by generally applicable Law, if any.
- 14.6 The costs and expenses of the Contractor incurred pursuant to this Clause 14 shall be considered cost recoverable and shall be treated as Petroleum Costs.
- 14.7 The Minister may, in consultation with the Contractor, consent to the laying of pipelines, cables and similar lines in the Contract Area by other Persons, but those lines shall not interfere with the Petroleum Operations of the Contractor.
- 14.8 On termination or expiration of this Agreement or surrender of part of the Contract Area, the Contractor shall remove the above-ground plant, appliances and installations from the Contract Area or the part surrendered other than those that are situated in or related to a Development Area or, at the option of the Minister, the Contractor shall transfer them, at no cost, to the Government, in the condition that they are then in.
- 14.9 When the rights of the Contractor in respect of a Development Area terminate, expire or are surrendered, the Contractor shall transfer to the Government, at no cost, the plant, appliances and installations that are situated in the Development Area or that are related thereto, unless such plant, appliances and installations are or may be utilised by the Contractor in Petroleum Operations under this Agreement, but the Government may require the Contractor to remove the surface installations at the cost of the Contractor.



15. **LOCAL EMPLOYMENT AND TRAINING**

- 15.1 Subject to the requirement of Law relating to immigration, the Ministry shall provide the necessary work permits and other approvals required for the employment of expatriate personnel by the Contractor in Malawi. The Contractor, its contractors and Subcontractors shall, to the maximum extent possible and subject to such citizens having the requisite technical capabilities, qualifications, competence and experience, employ Malawi citizens in the Petroleum Operations including in staff positions such as administrative and executive management positions, and until expiry or termination of this Agreement, shall train those citizens. The training programme shall be established in consultation with the Minister.
- 15.2 During each year of the term of the Petroleum Exploration Licence and Petroleum Production Licence or any renewal thereof the Contractor shall spend a sum of no less than USD50,000 for one or more of the following purposes:
- 15.2.1 to provide a mutually agreed number of Government and Ministry personnel with on-the-job training in the Contractor's operations in the Republic of Malawi and overseas, and/or practical training and/or practical institutions abroad, particularly in the areas of natural earth sciences, engineering, technology, Petroleum accounting and economics, economic analysis, contract administration and law as related to the fields of Oil and Gas exploration and production;
 - 15.2.2 to send suitable Malawi personnel selected by the Government and the Ministry on courses at universities, colleges or other training institutions mutually selected by the Contractor, the Government and the Ministry;
 - 15.2.3 to send Malawi personnel selected by the Government and the Ministry to conferences, workshops and seminars related to the Petroleum industry;
 - 15.2.4 to purchase for the Government and the Ministry advanced technical books, professional publications, scientific instruments or other equipment reasonably required by the Government and the Ministry.
- 15.3 Not later than six (6) months after the grant of a Petroleum Exploration Licence, the Contractor shall, in consultation with Ministry, implement the programme proposed in the Development Plan as approved by the Government for the training and employment of Malawi nationals in each phase and level of Petroleum Operations and for the transfer of management and technical skills for the safe and efficient conduct of Petroleum Operations.
- 15.4 In addition to the requirements in Clause 15.2 the Contractor shall ensure that the development of personnel in key areas allows nationals to participate in value-adding, analytical and management areas of:
- 15.4.1 a technical or professional nature including general management, design engineering, project management, seismic data processing, human resource development, legal; and
 - 15.4.2 business strategic skills including leadership, business development, executive management, commercial, analytical, negotiating, strategy development and trading know how and acumen.

- 15.5 The Contractor shall prepare an annual local content plan which shall accompany the annual Work Programme and budget for Petroleum Operations in the Contract Area and which shall include but is not limited to:
- 15.5.1 procurement of Malawian goods, material and services;
 - 15.5.2 a detailed plan and programme for Malawian recruitment, employment and training, including post-graduate training and scholarships; and
 - 15.5.3 a plan for the transfer of skills, knowledge, competence and know-how.
- 15.6 The Contractor shall, together with the annual report on Petroleum Operations in the Contract Area, submit and publish an annual report, which shall be verified by a competent and independent third party, describing the Contractor's activities and results on Malawian content and the local value adding other than the production sharing and fiscal obligations.
- 15.7 The Contractor shall be responsible for the training costs of Malawi personnel it employs, such costs being recovered as Petroleum Costs. Subject to Clause 15.2 , costs incurred by the Contractor for training programmes for Government personnel will be borne by the Government.

16. DATA AND CONFIDENTIALITY

- 16.1 The Contractor shall keep all logs and records of the drilling, deepening, plugging or abandonment of boreholes and Wells, in accordance with International Petroleum Industry Practice and containing particulars of:
- 16.1.1 the strata and sub-soil through which the borehole or Well was drilled;
 - 16.1.2 the casing, tubing and down-hole equipment and alterations thereof, inserted in a borehole or Well;
 - 16.1.3 Petroleum, water, workable mineral or mine workings encountered; and
 - 16.1.4 any other matter reasonably required by the Minister.

In addition, it shall provide the Ministry with the information and data obtained as provided under this Agreement.

- 16.2 The Contractor shall record, in an original or reproducible form of good quality, and on seismic tapes where relevant, all geological and geophysical information and data relating to the Contract Area obtained by the Contractor and shall deliver a copy of that information and data, the interpretations, thereof and the logs and records of boreholes and Wells, to the Minister, in a reproducible form, as soon as practicable after that information, those interpretations and those logs and records come into the possession of the Contractor.
- 16.3 The Government shall have title to all data and information, whether raw, derived, processed, interpreted or analysed, obtained pursuant to this Agreement. Originals of reports and technical data recordings may not be taken out of Republic of Malawi without prior approval of the Minister. The Contractor shall have the right, without any limitation, to send abroad copies of such reports and technical data magnetic tapes and other data

relating to Petroleum Operations. Magnetic tapes or other data, the original of which must be analysed and processed abroad may be shipped out of Republic of Malawi provided that a comparable record is maintained in Malawi, and that they remain available at all times to the Government, which shall be entitled to require their return.

- 16.4 The Contractor shall keep records of any supply information concerning the Petroleum Operations, reasonably requested by the Minister, if the data or information necessary to comply with the request is readily available.
- 16.5 Apart from the exceptions stated in this Clause 16, all the information which the Contractor shall supply to the Government under this Agreement shall be supplied at the expense of the Contractor and both Parties shall keep that information confidential during the entire term of the Agreement, and shall not divulge or disclose such data or information to third parties without the specific consent of the other Party, such consent not to be unreasonably withheld or delayed. The foregoing confidentiality obligation shall not apply to information or data in the public domain, known to the receiving Party at the date of disclosure or with regard to public announcements or press releases required to be made under any applicable law, rules or regulations, by a government agency having jurisdiction over the entity constituting the Contractor, by a court order or pursuant to the regulations of a recognized stock exchange on which the shares of the entity constituting the Contractor or its Affiliate are listed.
- 16.6 Notwithstanding Clause 16.5 , the Minister may use any information supplied, for the purpose of preparing and publishing reports and returns required by law, and for the purpose of preparing and publishing reports and surveys of a general nature.
- 16.7 Any data or information relating to relinquished or surrendered areas shall become the exclusive property of the Ministry, who shall have the right to use the same for any purpose, in particular for the purpose of promoting said areas. The Contractor shall be entitled to keep copies of such data and information and to use such data and information for any purpose. The Minister may publish any information, which relates to a surrendered area at any time after the surrender, and in any other case, three (3) years after the information was received unless the Minister determines, after representations by the Contractor, that a longer period shall apply.
- 16.8 The Government shall not disclose, without the written consent of the Contractor, to any person, other than a person employed by or on behalf of the Government, know-how and proprietary technology which the Contractor may supply to the Minister.
- 16.9 The Contractor may not sell nor exchange any data related to the Petroleum Operations without the approval of the Minister, which approval shall not be unreasonably withheld or delayed where, in the Contractor's reasonable opinion, such sale or exchange would benefit the Petroleum Operations.
- 16.10 The Ministry and the Contractor shall make public (i) this Agreement and any amendments or written interpretations of this Agreement, (ii) any amounts paid by or other economic benefits provided by the Contractor to the Government pursuant to this Agreement or otherwise, and (iii) such other information as may be required by law or regulation to be made public.



16.11 Notwithstanding the above, if such information concerns technical devices, production methods, business analyses and calculations and any other industrial and trade secrets and are of such a nature that others may exploit them in their own business activities, the Ministry may approve that such information may rightfully be subject to confidentiality for a certain period of time provided that in no such case shall payment information be deemed confidential.

17. REPORTS

17.1 The Contractor (in accordance with the Act) shall supply the Minister with monthly reports on, but not limited to, (i) drilling operations, (ii) Production Operations; and (iii) geophysical operations.

17.2 The Contractor shall report in writing to the Minister the progress of the Petroleum Operations according to the following schedule:

17.2.1 within one (1) month of the last day of March, June, September and December, covering the previous three (3) months;

17.2.2 within three (3) months of the last day of December, covering the previous year; and

17.2.3 within three (3) months of the date of expiry or termination of this Agreement, covering the Term of this Agreement.

17.3 A report under Clause 17.1 shall contain, in respect of the period which it covers:

17.3.1 details of the Petroleum Operations carried out and the factual information obtained;

17.3.2 a description of the area in which the Contractor has operated;

17.3.3 an account of the expenditure on Petroleum Operations in accordance with the Accounting Procedure;

17.3.4 a map indicating all boreholes, Wells and other Petroleum Operations; and

17.3.5 on expiry or termination of this Agreement details of the Petroleum Operations including all the matters described in 18.3.1 to 18.3.4.

PART 4 - RIGHTS AND OBLIGATIONS OF THE GOVERNMENT AND THE MINISTER

18. RIGHTS OF THE GOVERNMENT

18.1 The Government may acquire a part of the Contract Area for a public purpose other than searching for or extracting Petroleum by any person other than the Contractor, subject to:

18.1.1 the Contractor being given thirty (30) days' notice;

18.1.2 a reduction in the Minimum Work Programme and the Minimum Expenditure to reflect the so reduced Contract Area; and

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- 18.1.3 such acquisition will not prevent the carrying out of Petroleum Operations within the Contract Area or significantly hinder Production Operations.
- 18.2 The Government shall not, without good cause, acquire a part of the Contract Area on which Petroleum Operations are in progress. The Contractor shall not carry out Petroleum Operations on such an acquired part but may:
- 18.2.1 enter upon that part but not materially interfere with the public purpose; or
- 18.2.2 carry out directional drilling from an adjacent part.
- 18.3 The Minister, or a person authorised by him in writing, may, subject to giving reasonable notice to the Contractor and provided that such inspection does not interfere with the normal course of Petroleum Operations, at all reasonable times inspect any Petroleum Operations, and any records of the Contractor relating thereto, and the Contractor shall provide, where available, facilities similar to those applicable to its own or to sub-Contractors' staff.
- 18.4 The Minister may require the Contractor to perform any obligation under this Agreement by giving reasonable written notice, and if the Contractor fails to comply with the notice or take steps to comply with the relevant notice within three (3) months after its receipt, the Minister may execute any necessary works for which the Contractor shall pay forthwith. The Minister may give notice to execute works at any time but not later than three (3) months after the termination or expiry of this Agreement or the surrender of a part of the Contract Area.

19. **OBLIGATIONS OF THE GOVERNMENT**

- 19.1 The Government may at the request of the Contractor, make available to the Contractor such land as the Contractor may reasonably require for the conduct of Petroleum Operations and:
- 19.1.1 where the land is subject to restrictions set out in Part VI (Restrictions and Surface Rights) of the Act, the President of the Republic of Malawi or Minister if applicable may in accordance with the Act provide access to such land or compensation for the applicable restrictions; and
- 19.1.2 the Contractor shall pay or reimburse the Government any reasonable compensation that may be required for the setting apart, use or acquisition of any land for the Petroleum Operations and as anticipated in Part VI of the Act.
- 19.2 The Government shall grant or cause to be granted to the Contractor, its contractors and Subcontractors such way-leaves, easements, temporary occupation or other permissions within and without the Contract Area as are necessary to conduct the Petroleum Operations and in particular for the purpose of laying, operating and maintaining pipelines and cables, and passage between the Contract Area and the point of delivery of Petroleum.
- 19.3 The Government shall at all times give the Contractor the right of ingress to and egress from the Contract Area and the facilities wherever located for the conduct of Petroleum Operations.

19.4 The Government shall issue and/or renew entry permits for technicians and managers employed in the Petroleum Operations by the Contractor or its Subcontractors and their dependants.

20. ADVISORY COMMITTEE

20.1 The Ministry and the Contractor shall, within ninety (90) days after the Effective Date, establish a committee to be known as the Advisory Committee which shall consist of a minimum of:

20.1.1 a chairman and three (3) other persons appointed by the Ministry; and,

20.1.2 three (3) persons appointed by the Contractor.

20.2 One person appointed by the Contractor shall, as designated by the Contractor, be the Secretary of the Committee;

20.3 The Ministry and the Contractor may each, with due regard to the terms of sub-clause 20.1 , appoint by notice in writing, any person to act in the place of any member of the Advisory Committee appointed by each of the, respectively, due to absence or incapacity to act as a member of the Committee.

20.4 When an alternate member properly acts in the place of any member he/she shall have the powers and perform the duties of such member.

20.5 Without prejudice to the rights and obligations of the Contractor in relation to the management of its operations, the functions of the Advisory Committee shall include, but not be limited:

20.5.1 to monitor all Petroleum Operations carried out by the Contractor;

20.5.2 to consider and make suggestion on all matters relating to general policies, procedures and methods in the conduct of Petroleum Operations

20.5.3 to review any proposed Exploration Work Programme and budgets submitted by the Contractor to the Ministry and to propose any modifications to the Contractor;

20.5.4 to review proposals for surrender or relinquishment of any part of the Contract Area by the Contractor;

20.5.5 to review any Appraisal Programme submitted by the Contractor to the Ministry under Clause 22 of this Agreement, to propose any modifications to it for the Ministry's consideration and to monitor the implementation of such Appraisal Programme;

20.5.6 to review any Development Plan which the Contractor submits for approval by the Ministry pursuant to Clause 23 and to propose any modifications to it for the Ministry's consideration;

20.5.7 to review annual production forecast statements presented by the Contractor pursuant to Clause 23;



- 20.5.8 to review the insurance program and environmental protection program provided under Clause 10;
- 20.5.9 to review the award of major contracts in connection with Petroleum Operations, involving amounts in excess of USD500,000, through competitive tender procedures;
- 20.5.10 to ensure that the accounting of expenditures and the maintenance of operating records and reports kept in connection with the Petroleum Operations are made in accordance with this Agreement, the Accounting Procedure and the accounting principles and procedures in line with International Petroleum Industry Practice;
- 20.5.11 to recommend the appointment of auditors along with scope of audit, approval and adoption of audited reports submitted under Clause 37;
- 20.5.12 to appoint such technical, administrative, financial and other advisory subcommittees as the Advisory Committee determines are necessary or appropriate in connection with the foregoing; and
- 20.5.13 to consider any other matter relating to Petroleum Operations which may be referred to the Advisory Committee by the Parties or any of them (other than any proposal to amend this Agreement) and which is not specifically delegated to the Contractor pursuant to this Agreement.

The Advisory Committee shall take no action or make any decisions not in accordance with Law.

- 20.6 All meetings of the Advisory Committee shall be held in Republic of Malawi, unless the Committee decides otherwise subject to approval by the Ministry. The Advisory Committee shall meet at least four (4) times in every Contract Year. Additional meetings may be called at any time by the Chairman of the Advisory Committee by giving notice to the other representatives on the Advisory Committee at least seven (7) days in advance of such meeting. Any other member of the Advisory Committee may request a meeting of the Advisory Committee by giving notice to the Chairman. Upon receipt of such request, the Chairman shall call a meeting of the Advisory Committee for a date not less than seven (7) days nor more than thirty (30) days after receipt of such request. The above notice periods may be waived with the unanimous written consent of all the members in the Advisory Committee.
- 20.7 All decisions of the Advisory Committee shall be passed on a show of hands by a simple majority of those members present and participating in a meeting. In the event of a deadlock the chairman of the Advisory Committee shall not have a casting vote.
- 20.8 Any member shall be entitled, if either he/she or his/her alternate is unable to attend a meeting, to cast his vote by telex, fax, email or any other effective mode of communication agreed by all the members of the Advisory Committee and received by the Chairman prior to the date on which the vote is taken in the course of the meeting or by giving a prior written notice to all other members, appoint a member, with his/her prior consent, representing another Party in the Advisory Committee as its proxy to attend a meeting and to exercise the appointing member's right to vote at the meeting whether as directed by the appointing member or otherwise. A member appointed as a proxy and attending a meeting shall be



present in two separate capacities and vote accordingly. All such votes shall have the same effect as if that member had been present and so voted at the meeting.

- 20.9 Five (5) members of the Advisory Committee shall form a quorum for a meeting of the Committee, at least three (3) of which members shall be members appointed by the Ministry and at least two (2) shall be a member appointed by the Contractor.
- 20.10 The Ministry and the Contractor shall have the right to call any expert to any meeting of the Advisory Committee to advise the Committee on any matter of a technical nature requiring expert advice.
- 20.11 The Advisory Committee may make recommendations to the Government and the Ministry or the Contractor, as the case may be. Such recommendations shall be given full and proper consideration by all Parties to this Agreement.

PART 5 - WORK PROGRAMME EXPENDITURE, DEVELOPMENT AND PRODUCTION

21. EXPLORATION WORK PROGRAMME

- 21.1 The Contractor shall submit to the Minister, one (1) month after the Effective Date, a detailed statement of the Exploration Work Programme and budget for the first Contract Year. Thereafter, the Contractor shall, at least three (3) months prior to the beginning of each Calendar Year, prepare and submit to the Advisory Committee a detailed annual Work Programme and budget, setting forth the Petroleum Operations which the Contractor proposes to carry out in the ensuing Calendar Year, and the estimated costs thereof.
- 21.2 The Advisory Committee may submit to the Contractor, within thirty (30) days of the receipt of the annual Exploration Work Programme and budget, suggested modifications and revisions thereof. The Contractor shall consider the inclusion of such suggested modifications and revisions in light of International Petroleum Industry Practice and shall provide the Minister with the exploration Work Programme and budget which the Contractor has adopted.
- 21.3 After the adoption of the annual Exploration Work Programme and budget, the Contractor may make changes to that annual Exploration Work Programme and budget if those changes do not materially affect the original objectives of that Exploration Work Programme and budget, and shall state the reasons for those changes to the Minister.
- 21.4 Every Work Programme and budget submitted to the Advisory Committee during the Exploration Period pursuant to this Clause and every revision or amendment thereof shall be consistent with the requirements set out in Clause 5 relating to Minimum Work Programmes and Expenditures for the relevant Exploration Period.
- 21.5 Each proposed annual Work Programme shall include, as a minimum, the following:
 - 21.5.1 a detailed description of the work to be performed during the following Calendar Year, proposals as to subcontractors and suppliers necessary for the implementation of such work and a time schedule for performing it; and



21.5.2 a detailed estimate of the expenditure to be incurred in performing the proposed annual Work Programme and a time schedule for the incurrence of such expenditures.

22. DISCOVERY AND APPRAISAL PROGRAMME

22.1 In the event the Contractor discovers Petroleum, it shall, as promptly as possible, notify the Ministry thereof and submit to it, within ninety (90) days after the date of the temporary plugging or abandonment of the discovery Well, a report including all available information relating to said discovery and the initial conclusions the Contractor believes may be drawn from such discovery. Such report shall by its nature be subject to the work that will be undertaken to determine the extent and nature of the Discovery following more precise studies and appraisal.

22.2 If the Contractor wishes to undertake an Appraisal Programme relating to the abovementioned Petroleum Discovery, it shall promptly notify the Ministry of its intent to do so (without thereby incurring any obligation to do so) and thereafter shall submit for approval to the Ministry, within six (6) months after the date of notification of said Discovery, the Appraisal Programme and the estimate of the related budget.

The provisions of Clause 21 shall be applicable, *mutatis mutandis*, to the Appraisal Programme as regards its approval and performance, it being understood that the submitted Programme shall comply with International Petroleum Industry Practice.

22.3 If the Contractor meets the conditions referred to in Clause 22.2, has complied with its obligation under the Law concerning Petroleum Operations and under this Agreement and so requests, the Ministry shall grant in writing, an exclusive appraisal authorization and Licence extension for a period not exceeding four (4) years from the date of approval or deemed approval of the Appraisal Programme and the related budget, in respect of the appraisal perimeter specified in Appraisal Programme.

Except as otherwise provided by this Clause, the Contractor shall, during the term of said exclusive appraisal period, be subject to the same terms and conditions in this Agreement as that applicable to the Exploration Period.

22.3.1 The Contractor shall diligently carry out the Appraisal Programme for the Discovery in question; in particular it shall drill the appraisal Wells, acquire the seismic data and carry out the production tests specified in the approved Appraisal Programme.

At the Contractor's request, with notification to the Ministry at least thirty (30) days prior to the expiration of the appraisal period above-defined, the duration of said period may be extended by a maximum of six (6) months, provided that the Contractor demonstrates such extension is justified by (i) the results that can reasonably be expected from continuation of the Appraisal Programme, or (ii) delays beyond the reasonable control of the Contractor.

Further extensions of the appraisal period may be requested by the Contractor and reviewed and approved by the Ministry if the Contractor has diligently performed the approved Appraisal Programme up to that time and reasonably demonstrates that further geological, geophysical, subsurface, facilities or commercial work is

justified in order to establish whether the Reservoir corresponding to the Petroleum Discovery is commercial.

- 22.3.2 As soon as practical after the completion of the Appraisal Programme, and no later than thirty (30) days prior to the expiration of the appraisal period, the Contractor shall provide the Ministry with a detailed report giving all the then available information relating to the Discovery and the appraisal thereof. If the Contractor is of the opinion that the discovery is not commercial, the report shall set forth the salient facts causing the Contractor to hold that opinion, including its evaluation of the recoverable reserves and the estimated development and operating costs. An evaluation of the future price of Petroleum is not a requirement of this report. Upon expiration of the appraisal period in the absence of a report indicating that the Contractor is of the opinion the Discovery is commercial, or may become commercial under circumstances which are reasonably foreseeable, the rights of the Contractor with respect to such area shall be the rights of the Contractor with respect to areas within the delimited area prior to the expiration of the Extension Periods unless the Extension Periods have already terminated, in which case the Contractor shall have no further rights with respect to such area. Requests by the Contractor for further extensions of the appraisal period in the event of a Non-Associated Natural Gas discovery will be governed by the terms of Clause 22.7 .
- 22.4 If, after having carried out the Appraisal Programme, the Contractor considers that the Reservoir corresponding to the Petroleum Discovery is of commercial potential, it shall notify the Ministry that the Discovery is a Commercial Discovery and submit to the Ministry, together with the previous report, an application for a Petroleum Production Licence accompanied by a detailed Development Plan for said Reservoir.
- 22.5 Where a Discovery of Non-Associated Gas is made by the Contractor and the Contractor considers that such Discovery of Non-Associated Gas may be a Commercial Discovery but for the time being is not, for reasons such as technical constraints, lack of available outlet markets, a shortage of consuming or other necessary facilities or a need to aggregate the Discovery with other existing or potential Gas discoveries within or without the Contract Area, the Contractor shall notify the Ministry accordingly.
- 22.6 Under the aforesaid circumstances, as reviewed by the Ministry, and in order to allow the Contractor to investigate and attempt to resolve the impediments causing the Discovery not to be for the time being a Commercial Discovery, the Contractor shall be allowed to retain the part of the Contract Area which encompasses such Discovery for a period of two (2) Calendar Years beyond the expiry of the Initial Exploration Period or any Extension Period for the Contractor to be able to conduct investigations and attempts. Within the aforesaid extension and subject to having previously carried out an approved Appraisal Programme and submitted the relevant results, the Contractor shall forward to the Ministry, for review and approval, a detailed report (together with elements, data, estimated recoverable reserves, projects delivery rate and pressure, information on market outlet availability and such other information of a technical and commercial nature as may be required), indicating whether in the Contractor's opinion the Non-Associated Gas Discovery in question is a Commercial Discovery. Upon expiration of the aforesaid extension or earlier, as the case may be, the area covering the Non-Associated Gas Discovery shall be relinquished if it is determined that it is not a Commercial Discovery.

- 22.7 In the event that a Discovery of Non-Associated Gas may become a Commercial Discovery under terms and conditions more favourable, to that effect, than the ones stipulated herein (including such terms as the Cost Recovery Petroleum and the Production Sharing provisions under Clause 31), at the initiative of either Party, the Ministry and the Contractor shall meet in order to discuss and agree on revised terms, such as would allow the Contractor to develop commercially such Non-Associated Gas Discovery and to achieve a net economic return thereon equivalent to the one which would have derived from a comparable Crude Oil accumulation. If agreement is reached on such revised terms and conditions within six (6) months from start up of discussions, then such terms will be incorporated into a supplemental agreement which shall be an integral part thereof and the Discovery shall be a Commercial Discovery from the date of such agreement. Failing agreement within the aforesaid time limit, the Non-Associated Gas Discovery in question shall be treated as non-commercial for all purposes herein.

23. DEVELOPMENT PLAN AND DEVELOPMENT WORK PROGRAMME

- 23.1 The Contractor shall prepare, in consultation with the Advisory Committee, a Development Plan based on sound engineering and economic principles and in accordance with International Petroleum Industry Practice and considering the Maximum Effective Rate of production appropriate to any Commercial Discovery and submit it to the Minister.
- 23.2 The Development Plan shall contain:
- 23.2.1 the planned delimitation of the Development Area applied for by the Contractor, so that it covers the area defined by the seismic closure(s) of the Reservoir concerned, together with all the technical justifications with respect to the extent of the Reservoir;
 - 23.2.2 an estimate of the reserves in place, the proven and probable recoverable reserves and the corresponding annual productions, together with a study on the methods of recovery;
 - 23.2.3 an annual production forecast statement;
 - 23.2.4 the possible valuation of the Petroleum products to be produced for the Crude Oil and Natural Gas;
 - 23.2.5 proposed Delivery Point(s) for Crude Oil and/or Natural Gas;
 - 23.2.6 procedures for measuring total production at the Delivery Point(s);
 - 23.2.7 item by item, the description of major equipment and work necessary for Commercial Production, such as the number of development Wells, the number of platforms, pipelines, production, processing, storage and loading facilities together with their specifications;
 - 23.2.8 as applicable, a marketing plan for Natural Gas pursuant to guidelines in Clause 27 which may include the Contractor's proposal to structure the project as an integrated or segmented Gas project (including gathering, treating, and conditioning of Natural Gas for sale);

- 23.2.9 an estimated schedule for plan implementation including estimated date of the Contractor's final investment decision and the projected date of production start-up;
- 23.2.10 estimates of all capital expenditures and operating costs, including necessary infrastructure; and
- 23.2.11 a plan for developing the environmental impact studies and Social Responsibility Plan required by law and Clauses 33 and 35 of this Agreement.

23.3 Within sixty (60) days after the submission of the Development Plan, the Ministry may propose revisions or modifications by notifying the Contractor of the substance of, and its justifications for, the proposed revision(s) or modification(s) which shall be consistent with International Petroleum Industry Practice, sound economic projections and a reasonable return on investments for the Contractor and the Ministry and the Contractor shall meet as soon as possible in order to consider the proposed revisions or modifications and establish. Any revisions or modifications agreed between the Contractor and the Ministry shall be deemed adopted and incorporated into the Development Plan.

Should the Ministry fail to notify the Contractor of its wish for revision or modification or of its approval within the above-mentioned sixty (60) day or thirty (30) day period (as the case may be), the plan submitted by the Contractor shall be deemed to be accepted by the Ministry at the expiration of said period.

Approval of the Development Plan shall constitute the approval of the Minister to the grant of a Petroleum Production Licence in respect of the Development Area and the Minister shall issue such Licence as soon as reasonably practicable after the date of such approval and, in any event, no later than thirty (30) days after such date.

- 23.4 The Petroleum Production Licence issued pursuant to Clause 23.3 above shall be in respect of the whole of the Development Area for a term of twenty five (25) years with an automatic five (5) year extension and, if Commercial Production of Petroleum remains possible at the end of such initial extension, the Contractor shall be entitled to a further five (5) year extension.
- 23.5 After a Development Plan has been adopted, and a Petroleum Production Licence has been correspondingly granted in accordance with the provisions of this Agreement, the Contractor shall use reasonable efforts to proceed, promptly and without undue interruption, to implement the Development Plan in accordance with International Petroleum Industry Practice. Development work shall commence no later than six (6) months from the date of adoption of the Development Plan.
- 23.6 In connection therewith, the Contractor shall submit to the Minister, prior to the first day of October of each year following the adoption of the Development Plan, a detailed statement of the annual Development Work Programme and budget for the next Calendar Year.
- 23.7 Where the Development Operations result in an extension to the Development Area to which the Discovery relates within the Contract Area, the Minister shall adjust the relevant Development Area to include that extension as determined by the analysis of all the relevant available information.



24. UNITISATION

- 24.1 Where a Reservoir of which a Discovery relates extends into an area adjacent to the Contract Area and which is the subject of a Licence granted under the Act (an "**Adjacent Contract Area**"), the Minister may require the Contractor to produce Petroleum therefrom in co-operation with the contractor of the Adjacent Contract Area. Where non-commercial deposits of Petroleum in the Contract Area if exploited with deposits in an area adjacent to the Contract Area, would be commercial, the Minister may make a similar requirement of the contractor of that Adjacent Contract Area.
- 24.2 If the Minister so requires, the Contractor shall in co-operation with the contractor of the adjacent area, submit within six (6) months, unless otherwise agreed by the Parties, a proposal for the joint exploitation of the deposits, for the approval of the Minister such proposal to be based on reliable technical, operational and economical parameters, all in accordance with standard practice in the international petroleum industry.
- 24.3 If the proposal is not submitted or approved, the Minister may prepare his own proposal, in accordance with International Petroleum Industry Practice, for the joint exploitation of the recoverable reserves. The Minister's proposal unless another proposal is mutually agreed pursuant to Clause 22.2 , shall be adopted by the Contractor subject to the adjacent contractor's acceptance of the same proposal. The reasonable costs of preparing the proposal shall be divided equally between the Contractor and the adjacent contractor.
- 24.4 The provisions of the proposal for joint exploitation shall prevail over this Agreement, where those provisions do not reduce the financial benefits to the Parties under this Agreement.
- 24.5 In the event that the Minister decides the unitisation, and if the Contractor does not agree with the Minister's decision, the Contractor shall be entitled to arbitration pursuant to the provisions of Clause 48.
- 24.6 In the event that a Reservoir extends beyond the boundaries of the Contract Area into an adjacent area which is within the national borders of the Republic of Malawi and is not the subject of another licence granted under the Act, the Government shall, upon the Contractor's request, take the necessary steps to extend the boundaries of Contract Area so as to include the entire Reservoir within the Contract Area, provided that the Contractor can offer the Government a competitive minimum work program for such adjacent area

25. PRODUCTION LEVELS AND ANNUAL PRODUCTION PROGRAMME

- 25.1 The Contractor shall produce Petroleum at the Maximum Effective Rate in accordance with International Petroleum Industry Practice.
- 25.2 Prior to the first day of October of each year following the commencement of Commercial Production, the Contractor shall submit to the Minister, a detailed statement of the annual production programme and budget for the next Calendar Year.
- 25.3 The Contractor shall endeavour to produce in each Calendar Year the forecast quantity estimated in the annual production programme.

- 25.4 The Crude Oil shall be run to storage (constructed, maintained and operated by the Contractor) and Petroleum shall be metered or otherwise measured as required to meet the purpose of this Agreement in accordance with Clause 26.

26. MEASUREMENT OF PETROLEUM

- 26.1 The volume and quality of Petroleum produced and saved from the Contract Area shall be measured by methods and appliances customarily used in International Petroleum Industry Practice.
- 26.2 The Minister may inspect the appliances used for measuring the volume and determining the quality of Petroleum and may appoint an inspector to supervise the measurement of volume and determination of quality.
- 26.3 The Minister may from time to time direct that any weighing or measuring appliance be tested or examined in such manner on such occasions or at such intervals and by such means as may be reasonably specified in such direction.
- 26.4 Where the method of measurement, or appliances used for such measurement, have caused an overstatement or understatement of a share of the production, the error shall be presumed to have existed since the date of the last calibration of the measurement devices, unless the contrary is shown, and an appropriate adjustment shall be made for the period of error.
- 26.5 The Contractor shall not make any alteration in the method or methods of measurement or weighing used by it or any appliances used for that purpose without the consent in writing of the Minister, and the Minister may in any case require that no alteration shall be made save in the presence of a person authorised by the Minister provided that the Minister shall make such person available without undue delay.
- 26.6 The Commissioner and the Contractor shall determine the measurement point at which production shall be measured and the respective shares of Petroleum allocated.

27. NATURAL GAS

- 27.1 The Contractor shall have the right to use Natural Gas extracted from Reservoirs within the Contract Area for the Petroleum Operations in the Contract Area including but not limited to power generation, pressure maintenance and recycling operations.
- 27.2 The terms and conditions relating to the use and production of Associated Natural Gas shall be as follows:
- 27.2.1 In the event the Contractor elects to process and sell Associated Natural Gas, the Contractor shall notify the Ministry and, for the purposes of cost recovery and entitlement of production, such Natural Gas shall be treated by the Parties in the same way as other Natural Gas;
- 27.2.2 In the event the Contractor elects not to process and sell Associated Natural Gas not used for purposes stipulated in Clause 27.1 or sub-clause 27.2.3 below, the Government may offtake without any payment to the Contractor but at the Government's sole risk and cost, such Natural Gas at the Gas/Oil separator;



provided that such offtake does not seriously disrupt or delay the conduct of Petroleum Operations.

- 27.2.3 The Contractor may re-inject any Associated Natural Gas which is not taken by the Government pursuant to sub-clause 27.2.3 , used for Petroleum Operations or processed and sold by the Contractor, or taken by Government in accordance with sub-clause 27.2.2 , and the costs of such disposal Gas shall be recoverable to the extent that such re-injection is included in the Development Plan. and
- 27.2.4 Flaring will be resorted to only in case of an emergency. Where there is insufficient time to request an authorization from the Minister, the Contractor may vent or flare without the prior consent of the Minister but shall ensure that the venting or flaring is done in accordance with a prescribed procedure and International Petroleum Industry Practice, and shall be at the lowest possible level. Where Petroleum has been flared or vented in an emergency, the Contractor shall immediately inform the Ministry of the event
- 27.3 The Contractor shall be deemed to have relinquished all rights to the Discovery of non-Associated Natural Gas if it has not given a notice that a Discovery is a Commercial Discovery within the applicable time limit.
- 27.4 The Contractor shall be responsible, subject to any associate costs being automatically classified as Petroleum Costs recoverable under Clause 30.1 , for investigating market opportunities and seek to develop a market for non-Associated Natural Gas produced from any Development Area and shall sell such non-Associated Natural Gas on a joint dedicated basis on terms common to all the parties constituting the Contractor. Every contract for the sale of such non-Associated Natural Gas made by the Contractor under Clause 27 shall be subject to approval by the Ministry. In applying for such approval the Contractor shall demonstrate to the Ministry that the prices and other terms of sale of such Natural Gas represents the market value obtainable for such Natural Gas taking into consideration a fair market cost for transporting such Natural Gas from the Delivery Point to the purchaser and having regard to the alternative uses and markets that can be developed for such Natural Gas.

28. VALUATION OF CRUDE OIL AND NATURAL GAS

- 28.1 The value of Crude Oil, for all purposes under this Agreement including in relation to any supply of Crude Oil by the Contractor to the Government pursuant to Clause 29, shall be denominated in U.S. Dollars and shall be calculated each month as follows:
- 28.1.1 if there have been Arms Length Sales of Crude Oil produced from the Contract Area during that month, the value shall be the weighted average per unit price actually paid in those sales, at the Delivery Point where title and risk pass to the buyer, adjusted for grade, gravity and quality of such Crude Oil as well as for transportation costs and other appropriate adjustments for grade, gravity, and quality of such Crude Oil transaction;
- 28.1.2 if there have been no Arm's Length Sales of Crude Oil produced from the Contract Area during that Month, the value shall be the "fair market value" determined as the average per unit prevailing market price, actually paid during that Month in Arm's Length Sales for export under term contracts of at least ninety (90) days, for

Crude Oil produced in the Republic of Malawi and in the major Crude Oil producing countries, and adjusted for grade, gravity and quality of such Crude Oil as well as for transportation costs and any other appropriate adjustments.

- 28.1.3 If necessary, the value of Crude Oil shall be determined separately for each volume of Crude Oil of the same gravity, sulphur and metal content, pour point, product yield and other relevant characteristics and for each Delivery Point. The value of Crude Oil shall be mutually agreed at the end of each Month and applied to all transactions that took place during the Month.
- 28.1.4 If the Minister and the Contractor cannot reach an agreement on the value of Crude Oil within thirty (30) days of the end of any Month, such determination shall be made by an internationally recognized expert appointed by the Parties jointly, but if they fail to agree within thirty (30) days on the appointment of such expert, then by the British Institute of Petroleum and the expert shall report his determination within twenty (20) days of his appointment and his determination shall be final and binding upon the Government and the Contractor. The cost of the expert shall be shared equally by the Contractor and the Government.
- 28.1.5 Pending the determination of the value of Crude Oil for a Month, the value of Crude Oil determined for the preceding Month will be provisionally applied to make calculation and payment during such Month until the applicable value for that Month is finally determined pursuant to Clause 28.1.2 . Any adjustment to provisional calculation and payment, if necessary, will be made within thirty (30) days after such applicable value is finally determined.
- 28.2 The Contractor shall endeavour to sell all Natural Gas produced and saved from the Contract Area at arm's length prices to the benefit of Parties to the Agreement.
- 28.3 Notwithstanding the provision of Clause 28.2 , Natural Gas produced from the Contract Area shall be valued for the purposes of this Agreement as follows:
- 28.3.1 Gas which is used as per Clause 27.1 or sold to the Government pursuant to Clause 27.2.2 shall be ascribed a zero value;
- 28.3.2 Gas which is sold or disposed of other than in accordance with Clause 28.3.1 shall be valued on the basis of competitive Arm's Length Sales in the region for similar sales under similar conditions.
- 28.4 The formula or basis on which the prices shall be determined pursuant to Clause 28.3.2 shall be approved by the Ministry prior to invitation of price bids or other price discovery steps by the Contractor for the sale of Natural Gas to buyers. In determining whether or not to approve the formula or pricing basis, the Ministry shall take into account amongst other relevant considerations, the domestic and international prices of comparable Gas and the linkages with traded liquid fuels. Where the Contractor makes sale of Gas at prices higher than the approved formula, then the higher price would be reckoned for the purposes of this Agreement.

PART 6 - DOMESTIC SUPPLY OBLIGATION, COST RECOVERY, PRODUCTION SHARING AND MARKETING

29. DOMESTIC CONSUMPTION

29.1 The Contractor shall have the obligation to supply in priority Crude Oil for domestic consumption in the Republic of Malawi and shall sell to the Government that portion of the Contractor's share of production, which is necessary to satisfy the domestic supply requirements in accordance with the following provisions.

29.2 In each Calendar Year, the Minister shall notify the Contractor not less than three (3) months prior to the beginning of that Calendar Year, of the domestic supply requirement. The maximum amount of Crude Oil that the Minister may require from the Contractor's share of production, once Commercial Production has commenced, in any Calendar Year pursuant to this Clause 29.2 shall be the Contractor's share of the total requirement prorated with that of all other Crude Oil producers in the Republic of Malawi and shall, in any event, be no more seventy five per cent. (75%) of the Contractor's share.

For the purpose of this Clause, "domestic consumption" does not include Crude Oil refined in the Republic of Malawi for export.

29.3 When the Contractor is obligated to supply Crude Oil for domestic consumption in the Republic of Malawi, the price paid by the Government shall be calculated in accordance with Clause 28. Such sales to the Government shall be invoiced monthly and shall be paid within sixty (60) days of receipt of the invoice, unless other terms and conditions are mutually agreed and the Contractor's obligations under this Clause 29 shall be subject to the Government being, at all times, in compliance with its payment obligations.

30. ROYALTY, RECOVERY OF COSTS, PRODUCTION SHARING AND INCOME TAX

30.1 The Contractor shall discharge the obligation to pay royalties under section 45 of the Act in respect of Crude Oil and Natural Gas obtained from the Contract Area, by delivering to the Government five per cent. (5%) of total Crude Oil/Natural Gas production at the Delivery Point and the Minister may direct and the Government may require the Contractor to dispose of such royalties otherwise to be delivered to the Government in such manner as the Government may direct. The Government may elect to receive all royalties in cash or some in form of Oil. The royalty amount due to Government shall be payable on a monthly basis no later than the end of the succeeding month.

30.2 When the Minister elects not to take and receive in kind any part of the royalties, the Minister shall notify the Contractor three (3) months before the commencement of each Semester of a Calendar Year, specifying the quantity of production and such notice shall be effective for the ensuing Semester. Any sale by the Contractor of Government royalties shall not be for a term of more than one (1) year without the Minister's consent.

30.3 The Contractor shall recover the Petroleum Costs, in respect of Petroleum Operations in the respective Development Area, incurred and paid by the Contractor pursuant to the provisions of this Agreement and duly entered in the Contractor's books of account, by taking and separately disposing of an amount equal in value up to a maximum share of seventy per cent. (70%) of the remaining Petroleum and seventy per cent. (70%) of Non-Associated Gas produced and saved from that Development Area during that quarter and not used in Petroleum Operations.

30.4 Cost Recovery

Petroleum Costs may be recovered from Cost Petroleum in the following manner:

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30.4.1 In any Month, the available Cost Petroleum for each Development Area shall be applied first to recover Production Costs from that Development Area, and the Contractor shall be entitled to recover such expenses in proportion to their individual cumulative unrecovered Production Costs. After recovery of Production Costs any excess Cost Petroleum available for distribution shall be applied to recover Exploration and Appraisal Costs from the Development Area and the Contractor shall be entitled to recover such expenses. After recovery of Operating Costs and Exploration and Appraisal Costs any excess Cost Petroleum available for distribution shall be applied to recover any other Petroleum Costs.

30.4.2 If during any year the Cost Petroleum from the Development Area is not sufficient to enable the Contractor to recover in full the Petroleum Costs due for recovery from the Development Area in that year, the payment schedule shall be as follows:

30.4.2.1 Recovery shall first be made of the Production Costs; and

30.4.2.2 Recovery shall next be made of the Exploration Costs; and

30.4.2.3 Recovery shall then be made of the Development Costs; and

30.4.2.4 Recovery shall then be made of any other Petroleum Costs.

The unrecovered portions of Petroleum Costs shall be carried forward to the following year and the Contractor shall be entitled to recover such accumulated Petroleum Costs in that or subsequent years as if such Petroleum Costs were due for recovery in that or succeeding years, until the unrecovered Petroleum Costs have been fully recovered out of Cost Petroleum from the Contract Area.

30.4.3 Any un-recovered cost Petroleum Costs shall be recovered out of Cost Petroleum available in the next succeeding quarter or quarters in the same manner as set out herein but in no case after the termination of this Agreement.

30.4.4 Capital expenditure incurred in respect of each Development Area shall be recoverable at a rate of twenty per cent. (20%) per annum based on amortization at that rate starting either in the year in which such capital expenditure is incurred and paid or the year in which Commercial Production from that Development Area commences, whichever is the later.

30.4.5 Exploration Costs incurred by the Contractor in the Contract Area up to the commencement of Commercial Production – including Exploration Costs incurred under a previous Petroleum Exploration Licence – shall be aggregated, and the Contractor shall be entitled to recover the aggregate of such Exploration Costs out of the Cost Petroleum. Exploration Costs outside the Development Area incurred by the Contractor after the commencement of Commercial Production shall be recoverable from subsequent discoveries and Development Areas.

30.4.6 To the extent that, in a Quarter, the Petroleum Costs recoverable under Clauses 30.4.2 to 30.4.6 are less than the maximum value of the Cost Petroleum as specified in Clause 30.1, the excess shall become part of, and be included in the Profit Petroleum as provided for in Clause 30.5.

30.4.7 For the purpose of valuation of Cost Petroleum, the provisions of Clause 30 shall apply.

30.5 Profit Petroleum & Production Share

From the commencement of Commercial Production, Profit Petroleum and shall be shared, taken and disposed of separately by the Government and the Contractor as follows:

30.5.1 Non-Associated Gas production shall be measured in tranches of daily total production rates (million standard cubic feet per day, "MMCFD") in Onshore areas, as follows:

MMCFD	
0	49,999
50,000	99,999
100,000	199,999
200,000	299,999
300,000 and above	

30.5.2 Crude Oil production shall be measured in tranches of daily total production rates (Barrels of oil per day being "BOPD") in Onshore areas, as follows:

BOPD	
0	12,499
12,500	24,999
25,000	49,999
50,000	74,999
75,000	99,999
100,000	149,999
Above 150,000	

(150,000 BOPD being the "Threshold BOPD").

The tranches of production referred to above shall be specified in terms of average daily production rates.

30.5.3 The average daily production rates shall be determined for each Calendar Quarter and shall be calculated by dividing the total quantity of Crude Oil and or Non-Associated Gas produced and saved from the Contract Area during any Quarter by the total number of days during which Crude Oil and or Non-Associated Gas were produced in such Quarter.

30.5.4 The quantity of Cost Petroleum required to satisfy Petroleum Costs in any Calendar Year shall be allocated to each of the applicable tranches of production in the same proportion as the total production in each tranche of production bears to total production from the Contract Area.

30.5.5 After recovery of Petroleum Expenses, the resulting Profit Petroleum in each tranche of production shall be shared as follows:

Profit Gas:

Tranches of daily total production rates in the Development Area onshore and shelf areas (MMCFD)		Ministry share of Profit Gas	the Contractor's share of Profit Gas
0	49.999	20%	80%
50.000	99.999	22.5%	77.5%
100.000	199.999	25%	75%
200.000	299.999	27.5%	72.5%
300.000 and above		30%	70%

Profit Oil:

Tranches of daily total Production rates in the Contract Area (BOPD)		Ministry share of Profit Oil	Contractor's share of Profit Oil
0 - 12,499		20%	80%
12,500 - 24,999		22.5%	77.5%
25,000 - 49,999		25%	75%
50,000 - 99,999		27.5%	72.5%
100,000 - 149,999		30%	70%

and above the Threshold BOPD, in accordance with the applicable R Factor (as defined below) ratio between cumulative Contract Revenues (as defined below) and cumulative Contract Costs (as defined below), calculated on a monthly basis.

30.5.6 Once the Threshold BOPD has been reached, the R Factor ratio shall apply in respect of all Profit Petroleum in that and all following months, notwithstanding that BOPD subsequently falls below the Threshold BOPD, either temporarily or permanently.

30.5.7 Subject to the provisions of the Accounting Procedure, the "R Factor" shall be calculated as follows:

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Beginning at the Effective Date, the value of the R Factor in respect of a month (n+1) shall be determined at the end of that month (n) accumulated in accordance with the procedure below:

$$R \text{ Factor } (n + 1) = eX / eY$$

where:

"eX" means the cumulative sum of all Contract Revenues earned by the Contractor, either from Cost Recovery Petroleum or from Profit Petroleum, from inception of such earnings up to the end of the month immediately preceding the month in question; and

"eY" means the cumulative sum of all Petroleum Expenses incurred by the Contractor, from inception thereof up to the end of the month immediately preceding the month in question.

"n" means the index number of the relevant month.

- 30.5.8 The R Factor shall be applied to the Petroleum Profit Sharing Table below to find the percentage split between Government and Contractor of Profit Petroleum in each month.

Profit Petroleum Sharing Table

R Factor Band	Government share (%)	Contractor share (%)
0 – 1	20	80
1 – 2	22.4	77.6
2 - 3	24.8	75.2
3 – 4	27.2	72.8
4+	29.6	70.4

- 30.6 The Contractor's accounting shall account separately for all components for the calculation of "X" and "Y" values in the formula provided in Clause 30.5.4 above.
- 30.7 If at any time an error occurs in the calculation of the "R Factor" the necessary correction shall be made and any adjustments shall apply from the month the error occurred. The Party having benefited from a surplus of Profit Petroleum shall surrender such surplus to the other Party, beginning from the first day of the following month. However, each lifting of Crude Oil relating to such error shall not exceed twenty-five per cent. (25%) of the share of Profit Petroleum to which such Party is entitled. Quantities of Crude Oil so lifted shall be valued from the unit value established at the date of the lifting. Interest of LIBOR plus one per cent. (1%) shall be paid to the injured Party, to be applied on the value of un-lifted volumes of Crude Oil at the time the error occurred up to the date of delivery.
- 30.8 The Contractor shall be subject to Tax on income in connection with Petroleum Operations as provided by Law. To the extent that Contractor engages in activity other than Petroleum Operations, Contractor shall account for such activity separately and shall be subject to tax on such activity as provided by Law.

- 30.9 The Government undertakes to do all that is necessary to prevent any local or other authority of the Government or any traditional authority from interfering with or imposing any taxes on Crude Oil or Natural Gas or their movement.
- 30.10 The Government undertakes, at the request of the Contractor made at any time following the expiry of two (2) years from the Effective Date, to negotiate in good faith a reduction in the rate of Tax payable by the Contractor on income in connection with Petroleum Operations.
- 30.11 Within 60 days of the end of each Calendar Year a final calculation of Cost Petroleum and Profit Petroleum based on actual Crude Oil and or Non-Associated Gas quantities, prices and recoverable costs and expenses in respect of that Calendar Year shall be prepared and any necessary adjustments to the Crude Oil and or Non-Associated Gas sharing shall be agreed upon between the Contractor and the Government and made as soon as is practicable.
- 30.12 The Contractor will be free to export any Petroleum received by the Contractor pursuant to this Clause 30 and to retain the proceeds of the sale of such Petroleum outside the Republic of Malawi.

31. LOCAL PARTY FARM-IN

- 31.1 Without prejudice to the rights of the Government pursuant to Clause 32, the Government may exercise an option in favour of a Local Party to acquire a ten per cent. Participating Interest on and subject to the terms of this Clause 31 (the "**Local Farm-in Right**").
- 31.2 The Local Farm-in Right may be exercised by the Government, on behalf of a Local Party, giving written notice to the Contractor at any time prior to the expiry of two (2) year from the Effective Date.
- 31.3 For the purposes of this Clause 31, "**Local Party**" means any corporate entity which is ultimately one hundred per cent. (100%) owned by nationals of Malawi and which is named on a schedule of such entities provided by the Government to the Contractor no later than thirty (30) days prior to exercise of the Local Farm-in Right.
- 31.4 The price paid by the Local Party, or the Government on behalf of the Local Party, in respect of the Local Farm-in Right shall be agreed between the Contractor and the Government within thirty (30) days of receipt by the Contractor of the Government's notice pursuant to Clause 31.2 above, provided that the Local Farm-in Right shall only be exercisable if the Contractor, acting reasonably, agrees the consideration to be paid.
- 31.5 The exercise of the Local Farm-in Right shall be contingent upon:
- 31.5.1 the Local Party having, in the reasonable opinion of the Contractor, suitable skills, experience, financial standing and reputation to acquire a Participating Interest;
- 31.5.2 the conclusion of satisfactory due diligence by the Contractor in relation to the Local Party; and
- 31.5.3 the Local Farm-in Right being exercised prior to the expiry of two (2) years from the Effective Date.

31.6 If the Local Farm-in Right is exercised in accordance with the terms of this Clause 31, the Contractor shall use reasonable efforts to sign all documents and do all things reasonably required to effect the transfer of a Participating Interest to the Local Party. Under no circumstances shall the Local Farm-in Right be exercisable at any time after the expiry of two (2) years from the Effective Date.

32. GOVERNMENT PARTICIPATION

32.1 The Government shall have the option to acquire a ten per cent. (10%) participation in the rights and interests of Licence and the Contract Area. The Government has the right to assign this interest and any obligations of the Government pursuant to such interest to any governmental entity wholly Controlled or owned by the Government.

32.2 The option to participate shall be exercised by the Minister by written notice to the Contractor which shall be given no later than ninety days prior to the start of Commercial Production.

32.3 Any Government participation acquired pursuant to the preceding subsections shall be carried by the Contractor until the start of Commercial Production, which means that (i) all exploration, appraisal and development costs shall be paid by the Contractor; (ii) the Government shall pay its Participating Interest share of all costs of carrying out production operations, and (iii) the non-Government participants comprising the Contractor shall be entitled to recover the Government's Participating Interest share of all or part of the exploration, appraisal and development costs of the Reservoir in question, without interest thereon, as part of Cost Petroleum.

32.4 Any Government participation acquired pursuant to the preceding subsections may be managed by any entity to which the interest is assigned in accordance with Clause 43.2 . The Ministry or entity holding management authority shall become a party to a Joint Operating Agreement between the non-government parties comprising the Contractor. If no Joint Operating Agreement exists, then the Parties shall negotiate such agreement consistent with the standards of International Petroleum Industry Practice.

33. ENVIRONMENT

33.1 The Government and the Contractor recognize that Petroleum Operations will cause some impact on the Environment in the Contract Area. Accordingly, in furtherance of the regulations made under the Petroleum Act and Environmental Management Act or as the Government may otherwise require from time to time, in performance of this Agreement, the Contractor shall conduct Petroleum Operations with due regard to concerns with respect to protection of the Environment and conservation of natural resources and shall in particular:

33.1.1 employ International Petroleum Industry Practice including advanced techniques, practices and methods of operation for the prevention of Environmental Damage in conducting its Petroleum Operations;

33.1.2 take all reasonable steps to: prevent Environmental Damage and, where some adverse impact on the Environment is unavoidable, to minimise such damage and the consequential affects thereof on property and people;

- 33.2 The Contractor shall cause a Person or Persons with special knowledge on environmental matters, to carry out two (2) environmental impact studies in order:
- 33.2.1 to determine at the time of the studies the prevailing situation relating to the Environment, human beings and local communities, the flora and fauna in the Contract Area and in the adjoining or neighbouring areas; and
- 33.2.2 to establish the likely effect on the Environment, human beings and local communities, the flora and fauna in the Contract Area and in the adjoining or neighbouring areas in consequence of the relevant Exploration Period of Petroleum Operations to be conducted under this Agreement, and to submit, for consideration by the Parties, methods and measures contemplated in Clause 33 for minimising Environmental Damage and carrying out site restoration activities.
- 33.3 The first of the aforementioned studies shall be carried out in two (2) parts, namely, a preliminary part which must be concluded before commencement of any field work relating to a seismographic or other survey, and a final part relating to drilling in the Exploration Period. The part of the study relating to drilling operations in the Exploration Period shall be approved by the Government before the commencement of such drilling operations, it being understood that such approval shall not be unreasonably withheld.
- 33.4 The second of the aforementioned studies shall be completed before commencement of Development Operations and shall be submitted by the Contractor as part of the Development Plan, with specific approval of the Government being obtained before commencement of Development Operations, it being understood that such approval shall not be unreasonably withheld.
- 33.5 The studies mentioned in Clause 33.2 shall contain proposed environmental guidelines to be followed in order to minimise Environmental Damage and shall include, but not be limited to, the following, to the extent appropriate to the respective study taking into account the Exploration Period of operations to which the study relates:
- (a) proposed access cutting;
 - (b) clearing and timber salvage;
 - (c) wildlife and habitat protection;
 - (d) fuel storage and handling;
 - (e) use of explosives;
 - (f) camps and staging;
 - (g) liquid and solid waste disposal;
 - (h) cultural and archaeological sites;
 - (i) selection of drilling sites;
 - (j) terrain stabilization;
 - (k) protection of freshwater horizons;
 - (l) blowout prevention plan;
 - (m) flaring during completion and testing of Gas and Oil Wells;
 - (n) abandonment of Wells;
 - (o) rig dismantling and site completion;
 - (p) reclamation for abandonment;
 - (q) noise control; and

(r) protection of natural drainage and water flow.

- 33.6 Subject to the provision of applicable Law and notifications on protection of the Environment, any new project or expansion or modernization projects for Petroleum Operations for which a proposal is submitted by the Contractor, the Government shall complete the assessment of the project within a period of ninety (90) days from the receipt of the requisite documents and data from the project authorities and completion of public hearing. The decision of the Government on the proposal of the Contractor for environmental clearance shall be conveyed within thirty (30) days thereafter.
- 33.7 The Contractor shall use reasonable endeavours to ensure that:
- 33.7.1 Petroleum Operations are conducted in an environmentally acceptable and safe manner consistent with International Petroleum Industry Practice and that such Petroleum Operations are properly monitored;
- 33.7.2 the pertinent completed environmental impact studies are made available to its employees and to its contractors and Subcontractors to develop adequate and proper awareness of the measures and methods of environmental protection to be used in carrying out the Petroleum Operations; and
- 33.7.3 the contracts entered into between the Contractor and its contractors and Subcontractors relating to its Petroleum Operations shall include the provisions stipulated herein and any established measures and methods for the implementation of the Contractor's obligations in relation to the Environment under this Agreement.
- 33.8 The Contractor shall, prior to conducting any drilling activities, prepare and submit for review by the Advisory Committee contingency plans for dealing with Oil spills, fires, accidents and emergencies, designed to achieve rapid and effective emergency response. The plans referred to above shall be discussed with the Government and local stakeholders in the proposed drilling areas and concerns expressed shall be taken into account.
- 33.9 In the event of an emergency, accident, Oil spill or fire arising from Petroleum Operations affecting the Environment, the Contractor shall forthwith notify the Government and shall promptly implement the relevant contingency plan and perform such site restoration as may be necessary in accordance with International Petroleum Industry Practice.
- 33.10 In the event of any other emergency or accident arising from the Petroleum Operations affecting the Environment, the Contractor shall take such action as may be prudent and necessary in accordance with International Petroleum Industry Practice in such circumstances.
- 33.11 The Contractor shall prepare an emergency response plan to deal with such emergencies including but not limited to blowouts, fire, storms, petroleum spills, floods and lightning. The Contractor shall cooperate with the security authorities of the Republic of Malawi that are mandated to protect Petroleum Operations in the Contract Area.
- 33.12 The Contractor shall, in consultation with the Ministry and upon the Minister's approval, establish a safety zone surrounding each Petroleum facility, Well or transportation system including abandoned facilities, or parts of these facilities.

- 33.13 If the Contractor's failure to comply with the provisions of sub-clause 33.1 and the regulations, results in pollution or damage to the environment or lucastrine life or otherwise, the Contractor shall take all necessary measures to remedy the failure and effects thereof. If such pollution or damage is the result of negligence or wilful misconduct of the contractor, the cost of the remedy shall not be a recoverable expense for the purpose of Clause 30.1 .
- 33.14 If the Contractor does not act promptly so as to control or clean up any pollution or make good any damage caused, the Government may, after giving the Contractor reasonable notice in the circumstances, take any action which may be necessary to ensure compliance with such terms and to recover from the Contractor, immediately after having taken such action, all costs and expenditures incurred in connection with such action together with interest.
- 33.15 The Government shall have the right to visit and inspect at reasonable times all sites, plants, facilities, warehouses and offices of the Contractor directly or indirectly serving the Petroleum Operations including visiting personnel associated with those operations to ensure compliance with the Act and Environmental Management Act.
- 33.16 The Minister may, if he has reasonable cause to believe that the Petroleum Operations may endanger persons or property, cause pollution, harm marine life or interfere with navigation and fishing, order the Contractor to take reasonable remedial measures or order the Contractor to discontinue the relevant Petroleum Operations until such measures, or mutually agreed alternatives thereto, are implemented.
- 33.17 The Contractor shall take into account subject to the provisions of Clause 33, relevant Republic of Malawi regulations and the following international safety and industrial hygiene standards in conducting its Petroleum Operations under the Agreement:
- 33.17.1 Oil Industry International Exploration and Production Forum (E&P Forum) Reports – HSE Management;
 - 33.17.2 International Association of Drilling Contractors (IADC) - Drilling Safety Manual;
 - 33.17.3 International Association of Geophysical Contractors (IAGC) - Operations Safety Manual; and
 - 33.17.4 Threshold Limited Values for Chemical Substances in the Work Environment – American Conference of Governmental Industrial Hygienists.

34. ABANDONMENT AND DECOMMISSIONING OPERATIONS

- 34.1 On expiry or termination of this Agreement or relinquishment of part of the Contract Area, the Contractor shall:
- 34.1.1 subject to Clause 14.8 , remove all equipment and installations from the relinquished area or former Contract Area in a manner agreed with the Government pursuant to an abandonment plan; and



- 34.1.2 perform all necessary site restoration in accordance with International Petroleum Industry Practice and take all other action necessary to prevent hazards to human life or to the property of others or the Environment and to restore the Contract Area, as nearly as possible, to the condition in which it existed on the Effective Date.
- 34.2 The Decommissioning Plan is to form part of the Development Plan, and shall include a schedule for the amortization of costs and cost recovery of costs, which are estimated to be incurred when the development is decommissioned.
- 34.3 The Contractor shall establish an "**Abandonment Fund**" in an interest bearing USD escrow account in order to secure the availability of funds required to cover the expenses of future abandonment and decommissioning operations which are expected to be incurred under the Decommissioning Plan in accordance with International Petroleum Industry Practice. The account shall be established at an international bank of good financial standing and a long term debt rating of not less than "AA" by Standard and Poor's or a comparable rating by another mutually agreed rating service. The same Abandonment Fund shall receive the funds for all Reservoirs.
- 34.4 The Abandonment Fund shall be used solely for the purposes of covering the costs of abandonment and decommissioning operations and its establishment shall satisfy the bond requirements provided in Malawi's environmental laws.
- 34.5 The Contractor shall establish the account in the first Calendar Quarter in which the ratio of cumulative production to overall Proved Plus Probable Reserves reaches fifty per cent. (50%) unless otherwise agreed in the Development Plan.
- 34.6 All abandonment and decommissioning costs shall be recovered as Petroleum Costs at the time funds are transferred into the Abandonment Fund.
- 34.7 The Contractor will transfer funds to the Abandonment Fund on a Calendar Quarter basis for the amount of future abandonment and decommissioning costs according to the following formula:

$$FTA = (ECA - AFB) \times CPP/PRR$$

Where:

FTA is the amount to be transferred to the Abandonment Fund for future abandonment and decommissioning costs in respect of the relevant Calendar Quarter.

ECA is the total estimated cost of abandonment and decommissioning operations established pursuant to this abandonment and decommissioning operations set out in this Clause 34.

AFB is the balance of the U.S. Dollar interest bearing Abandonment Fund referenced in Clause 34.3 at the end of the previous Calendar Quarter.

CPP is the volume of Petroleum produced during the Calendar Quarter in which the abandonment and decommissioning accrual was booked.

PRR is the Contractor's estimated remaining Proved Plus Probable Reserves at the end of the Calendar Quarter in which the abandonment and decommissioning funds were transferred; as such estimates may be revised by Contractor from time to time.

34.8 Commencements of Abandonment and Decommissioning Operations

34.8.1 Abandonment and decommissioning will be scheduled to occur after a Commercial Discovery reaches its Economic Limit.

34.8.2 On or before the start of the two (2) year calendar period prior to the expected date of abandonment and decommissioning, the Minister shall notify the Contractor which of the facilities and assets identified in the development and production programme shall not be abandoned and decommissioned, but which shall revert to the ownership of the Government in accordance with Clause 14 of this Agreement. No further funds to cover abandonment and decommissioning costs shall be reserved or accrued for the facilities and assets so identified and a corresponding adjustment shall be made, if necessary, by the Contractor.

34.8.3 If the Minister decides not to use said assets, he shall have the right to require the Contractor to remove them at the latter's expense in accordance with the said Decommissioning Plan, it being understood that the abandonment and decommissioning operations shall be carried out by the Contractor in accordance with International Petroleum Industry Practice, this Agreement and in accordance with the time schedule and conditions defined in the Decommissioning Plan which shall have been approved.

34.9 Abandonment and Decommissioning upon Termination of Development Area

34.9.1 If the Contractor recommends abandonment and or decommissioning of facilities assets or Wells belonging to it in connection with a termination of a Development Area, pursuant to Clause 4 of the Agreement, the Government may elect to take ownership of and continue using such facilities, assets and Wells by giving the Contractor written notice of such decision within sixty (60) calendar days of the Government's receipt of the Contractor's notice of relinquishment. Upon so notifying the Contractor, which notification is effective as of the effective date of the Contractor's relinquishment, the Government shall take ownership of, and be responsible for, abandonment and decommissioning such facilities, assets and Wells.

34.9.2 If the Government does not elect to continue using such facilities, assets or Wells, the Contractor shall be responsible for their abandonment and decommissioning upon termination of this Agreement or of the Development Area within the corresponding Development Area, if earlier. The Contractor may in consultation with the Government defer the abandonment and decommissioning operations for a reasonable length of time if this would result in operational efficiencies, which minimise the cost for all Parties.

34.10 Facilities, Assets and Wells which the Government Continues to Use



34.10.1 With respect to any facilities, assets or Wells which the Government elects to own pursuant to this Agreement or pursuant to these abandonment and decommissioning provisions:

34.10.1.1 the Government shall conduct such continued use and/or abandon or decommission in accordance with International Petroleum Industry Practice and in such a manner that does not interfere with continuing Petroleum Operations; and

34.10.1.2 the Government may abandon and decommission such facilities, assets and Wells as and when the Government decides.

34.10.2 The Government shall indemnify on demand and hold harmless the Contractor in respect of any and all costs, losses and liabilities of any kind arising out of or in connection with any facilities, assets or Wells used by the Government including, without limitation, decommissioning costs.

34.11 Disbursements of Funds for Abandonment and Decommissioning Costs

34.11.1 The Contractor will advise the Government on an annual basis of its best estimate of the projected date of abandonment and decommissioning of the Discovery based on the then current estimate of when the Economic Limit will be reached according to the then current production forecast and realized Oil prices.

34.11.2 As and when the Contractor commences booking accruals pursuant to these provisions, the Contractor will cause the accrued costs of abandonment and decommissioning operations to be set aside in a separate U.S. Dollar interest bearing escrow account in the joint names of the Contractor and the Government, established at a mutually acceptable financial institution in England or the United Arab Emirates to be used solely for paying the decommissioning costs. The account is to be funded on a quarterly basis by each entity constituting the Contractor in proportion to each such entity's then current participating equity interests in this Agreement out of its share of ongoing cost Oil and profit Oil attributable to the Contractor and the Government entities, or by cash payment if production is insufficient. A final reconciliation shall be submitted to all Contractor parties and the Government following completion of all abandonment and decommissioning operations and adjustments made in accordance with the Clause 34.12 below.

34.12 Adjustments to the transfer of funds to the Abandonment Fund

34.12.1 If funds remain in the Abandonment Fund following completion of all abandonment and decommissioning operations, then such excess funds shall be distributed to the Contractor and the Government in the same proportion as the cumulative Profit Petroleum distribution to the Government and the Contractor under Clause 30 of this Agreement during

the years that the funds were transferred by the Contractor into the account to cover abandonment and decommissioning costs.

34.12.2 The projected cost of removing facilities or assets that the Government decides should not be removed shall be paid by the Contractor to the Government out of the Abandonment Fund concurrently with the transfer of ownership of such facility, asset or Well to the Government. The Government represents that the transferred funds shall only be used in conjunction with its abandonment and decommissioning operations.

34.12.3 If the Abandonment Fund is insufficient to complete abandonment and decommissioning activities, additional funds for such activities shall be provided from a portion of Crude Oil which the Contractor is entitled to receive under this Agreement from any Development Area, or if no production is available, by cash payment by the Contractor.

35. **CORPORATE SOCIAL RESPONSIBILITY**

35.1 Content of Corporate Social Responsibility Plan

35.1.1 The Contractor shall prepare a draft Social Responsibility Plan, which will take account of:

35.1.1.1 the relevant proposals in the environmental impact assessments and the Development Programme to the extent they describe appropriate social responsibility projects;

35.1.1.2 consultation with local Malawian residents;

35.1.1.3 consultation with the local District Commissioner; and

35.1.1.4 consultation with the Government,

it being the intention of the Parties that such a draft plan may intentionally not fully utilize the available cash contributions as described in Clause 35.1.2 on the basis that a social responsibility committee created by the Advisory Committee may meet and resolve to introduce programmes which will, amongst other things, utilise any surplus cash. On completion, the draft plan shall be submitted to the relevant Minister for approval.

35.1.2 The Social Responsibility Plan will provide for an annual expenditure on social projects by the Contractor of no more than USD120,000 per Contract Year.

35.2 Implementation of Corporate Social Responsibility Plan

35.2.1 The Contractor shall commence implementation of the Social Responsibility Plan twelve (12) months from the date of issue of the Petroleum Exploration licence.

35.2.2 The Company shall act in a manner to ensure the design of the works proposed in the Social Responsibility Plan is complete in time for the commencement of the physical construction of those works.

- 35.2.3 The Contractor shall provide to the Government regular reports on the works completed, the contracts entered into and the expenditure incurred in implementing the Social Responsibility Plan and the Government may inspect the Contractor's records thereof. Such reports shall be public.
- 35.2.4 Prior to the commencement of the implementation of the Social Responsibility Plan, the Contractor shall seek the assistance of the Advisory Committee regarding the type, location, size and the standard of the works proposed in the Social Responsibility Plan and the Contractor shall have regard to the committee's recommendations and the intent of Clause 35.1.1 in determining the type, location, size and standard of the works proposed in the Social Responsibility Plan.
- 35.2.5 In the implementation of the Social Responsibility Plan, the Contractor shall in no case be required to fund or find funds for that portion of the costs which exceed USD50,000.

36. PROFIT SHARING STATEMENT

The Contractor shall prepare with respect to each month a Profit Sharing Statement containing the following information as in paragraph 24 of Appendix B.

PART 7 - BOOKS, ACCOUNTS, AUDITS, IMPORTS, EXPORTS AND FOREIGN EXCHANGE

37. BOOKS, ACCOUNTS AND AUDITS

- 37.1 The Contractor shall keep books and accounts in original at an office in the Republic of Malawi in accordance with the Accounting Procedure and shall submit to the Minister a statement of those accounts, not more than three (3) months after the end of each Calendar Year.
- 37.2 The Minister shall require, at the Contractor's cost, an annual independent audit (starting, except in the case of manifest error or fraud, within twenty four (24) months after the end of the Calendar Year, and concluding within twelve (12) months of this start) of the Contractor's books and accounts relating to this Agreement for any Calendar Year. The Contractor shall forward a copy of the independent auditor's report to the Ministry within sixty (60) days following the completion of the audit.
- 37.2.1 The appointment of an independent firm of chartered accountants and the scope of audit should have prior approval of the Advisory Committee.
- 37.3 The Government may audit the books and accounts (by itself or as it directs), within two (2) Calendar Years of the period to which they relate, and shall complete that audit within one (1) Calendar Year.
- 37.4 For purposes of auditing, auditors may examine and verify at reasonable times all charges and credits relating to the Petroleum Operations such as books of account, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents, correspondence and records necessary to audit and verify the charges and credits. Furthermore, the auditors shall have the right in connection with such audit to visit and inspect at reasonable times all sites, plants, facilities, warehouses and offices of the

Contractor directly or indirectly serving the Petroleum Operations including visiting personnel associated with those operations.

- 37.5 In the absence of an audit within two (2) Calendar Years or in the absence of notice to the Contractor of a discrepancy in the books and accounts within three (3) Calendar Years of the period to which the audit relates the Contractor's books and accounts shall be deemed correct.

38. PROCUREMENT

- 38.1 When purchasing goods and services related to Operations, the Contractor shall, and shall cause its major contractors to organize their procurement practices of goods and services to give local Malawian businesses a meaningful opportunity to bid for and secure contracts to supply goods and services provided that such goods and services are at least comparable in quality, terms, delivery, service, quantity and price to goods and services obtainable from other sources. This shall include but not be limited to the dissemination of supply opportunities through advertising locally and on the Contractor's website.
- 38.2 As part of such facilitation the Contractor shall develop a Local Business Development Programme to encourage and assist the establishment or expansion, as the case may be, of local Malawian businesses which may be capable of providing consumables, materials, plant, equipment or services from their own resources to the Contractor. Such Programme shall also set out how the Contractor intends to structure its procurement as required in Clause 38.1 . The Local Business Development Programme shall be part of the Development Programme.
- 38.3 The Contractor in consultation with the Government shall at all times designate a responsible person to:
- 38.3.1 assist Malawi citizens who wish to or have set up businesses to service the Contractor and the Project;
 - 38.3.2 implement the Local Business Development Programme;
 - 38.3.3 liaise with the appropriate officials from the Government; and
 - 38.3.4 provide advice and technical assistance in the development and implementation of long term business enterprises which can continue after Petroleum Operations are completed.
- 38.4 The Contractor shall submit annual reports to the Commissioner, the first report to be submitted within three (3) months after the first (1st) financial year end of the Contractor following the approval of the Appraisal Programme. Such reports shall detail (i) progress being made on the implementation of the Local Business Development Programme, (ii) the extent by Malawi Kwacha value and category to which the Contractor and its major contractors acquired during such year goods and services from the local Malawian businesses, (iii) the Contractor's expected procurement from local Malawian businesses in the current fiscal year, and (iv) any recommended modifications of the Local Business Development Programme, and the goals for such procurement during the current fiscal year. Such reports shall be public.

38.5 For purposes of this Clause, "local Malawian businesses" means:

38.5.1 services provided by citizen residents of Malawi; or

38.5.2 entities incorporated or formed in Malawi where citizens of Malawi are entitled to receive sixty per cent. (60%) or more of all profits from such entities. For purposes of this Clause, a "major contractor" is a contractor or subcontractor who received more than two hundred thousand U.S. Dollars (USD \$200,000) directly or indirectly from the Contractor in that year and who had significant operations in Malawi that year.

39. **EXPORTS AND IMPORTS**

39.1 Except as to the Petroleum to be delivered to the Government pursuant to the terms of this Agreement, the Contractor shall own and receive its share of Petroleum produced from the Contract Area and shall be entitled to export such Petroleum without restriction and free of any taxes, customs or other duties and other impositions or charges whatsoever.

39.2 The Contractor and its contractors and Subcontractors engaged in carrying out Petroleum Operations under this Agreement shall be permitted to import into the Republic of Malawi all the materials, equipment and supplies including but not limited to machinery, vehicles, consumable items, movable property and any other articles, used solely and exclusively for the carrying out of Petroleum Operations under this Agreement (the "Petroleum Materials").

39.3 Subject to a relevant representative of the Ministry certifying that the Petroleum Materials are to be used solely and exclusively in carrying out Petroleum Operations, the Contractor; its contractors and Subcontractors shall be entitled to make such imports without:

39.3.1 any approval of import licence, provided, however, that an application has been duly made;

39.3.2 any exchange control approval; or

39.3.3 any inspection outside of the Republic of Malawi by general superintendence or other inspecting body, acting for the time being, appointed by the Government,

and free and exempt from any and all customs or other duties, import taxes and any other charges or impositions on import.

39.4 The Government shall have the right to inspect the records and documents of the physical item or items for which an exemption has been provided to determine that such item or items are being or have been imported solely and exclusively for the purpose for which the exemption was granted. The Government shall also be entitled to inspect such physical items wherever located in Malawi to ensure that such items are being used for the purpose herein specified and any item not being so used shall immediately become liable to payment of the applicable Customs Duties.

39.5 The actual costs of contracts for technical and other services entered into by the Contractor for Petroleum Operations and for materials purchased by the Contractor for use in Petroleum Operations shall be recoverable, provided that those services and materials are

reasonably required for Petroleum Operations and provided further that the prices paid by the Contractor are no higher than those currently prevailing in normal arm's length transactions of the open market for comparable services and materials.

- 39.6 Each expatriate employee of the Contractor, its contractors and Subcontractors shall be permitted to import and, at the end of their service in the Republic of Malawi, re-export, exempt from all Customs Duties household goods and personal effects, including one (1) automobile provided however that such properties are imported within six (6) months of their arrival or such longer period as the Government may in writing determine.
- 39.7 The Contractor and its contractors and Subcontractors and their expatriate employees may sell in the Republic of Malawi all imported items which are no longer needed for Petroleum Operations. However, if such imports were exempt from Customs Duties, the seller shall fulfil all formalities required in connection with the payment of duties, taxes, fees and charges imposed on such sales.
- 39.8 The Contractor and its contractors and Subcontractors and their expatriate employees may export from the Republic of Malawi, exempt of all export duties, taxes, fees and charges, all previously imported items which are no longer required for the conduct of Petroleum Operations under this Agreement.
- 39.9 "Custom Duties", as that term is used herein, shall include any duty, cess or surtax imposed by or under the customs laws as defined in the Customs and Excise Act.

40. **EXCHANGE AND CURRENCY CONTROLS**

- 40.1 The Contractor and its subcontractors and Affiliates shall comply with the procedures and formalities required by the laws and the regulations relating to foreign exchange in force in the Republic of Malawi, provided these procedures and formalities do not affect the rights hereunder set forth.
- 40.2 Funds transferred into the Republic of Malawi for local expenditures, funds utilized abroad to purchase goods and services for Petroleum Operations, charges for services performed by the Contractor or its subcontractors outside the Republic of Malawi as part of Petroleum Operations and all other expenditures and investments made pursuant to this Agreement shall be filed by the Contractor's Malawi bankers with the Reserve Bank of Malawi which shall issue appropriate written confirmation to the Contractor.
- 40.3 Funds required by the Contractor and foreign subcontractors to meet local expenditures shall be imported into the Republic of Malawi in freely convertible currencies and transferred to local banks. If it or they so desire, the Contractor and/or its foreign subcontractors may borrow Malawi currency from local banks in order to meet local expenditures.
- 40.4 Any purchase or sale of foreign exchange shall be affected at the exchange rate to the Contractor, as quoted by the Reserve Bank of Malawi.
- 40.5 The Contractor shall be authorised to open, maintain, control and operate accounts in any currency in foreign banks outside the Republic of Malawi, to have full and complete control of such accounts, and to retain abroad and freely dispose of any funds in such accounts. Among other reasons, withdrawals may be made for payments for goods and services

acquired abroad, for payments to subcontractors engaged in Petroleum Operations, and for transferring funds to local banks in the Republic of Malawi to meet local expenditures, all in connection with the Contractor's activities under this Agreement.

- 40.6 The Contractor shall be granted the following exchange rights:
- 40.6.1 To provide in freely convertible foreign currencies all funds to conduct Petroleum Operations;
 - 40.6.2 To hold such funds abroad with no obligation to transfer funds or assets to the Republic of Malawi except such funds as are necessary to meet Contractor's need for Malawi currency, in the case that Contractor does not borrow such funds from local banks;
 - 40.6.3 To freely dispose of any funds held outside the Republic of Malawi;
 - 40.6.4 To export any and all Petroleum to which it is entitled pursuant to this Agreement;
 - 40.6.5 To retain abroad and freely dispose of all proceeds, received outside from the export, sale or exchange of Petroleum with no obligation to remit such export proceeds except as may be needed to meet the Contractor's expenses in the Republic of Malawi, in the case that the Contractor does not borrow funds from local banks for that purpose;
 - 40.6.6 To remit and/or repatriate abroad and freely dispose of (i) all proceeds received within the Republic of Malawi from the sale or exchange of Petroleum within the Republic of Malawi, (ii) proceeds received from other operations and activities within the Republic of Malawi, and (iii) any other funds accruing to the Contractor within the Republic of Malawi, including, without limiting the generality of the foregoing, all profits and or dividends and the Government shall ensure that all such remittance and/or repatriation shall be free of any currency and/or exchange control whether pursuant to applicable laws which may be in force or otherwise;
 - 40.6.7 To pay its international subcontractors and expatriate employees in foreign currencies, either inside or outside of the Republic of Malawi. Expatriate employees shall be authorised to remit and/or repatriate any personal funds or proceeds in any currency received in the Republic of Malawi from the sale of personal belongings. All payments to resident Subcontractors shall be made exclusively in the Republic of Malawi; and
 - 40.6.8 To maintain a special account or accounts for non-Malawi funds in a local bank or banks chosen by the Contractor from which funds can be disbursed for the purpose of making any payments required in conducting Petroleum Operations, or making payments to, or for the benefit of the Contractor's employees, whether local or expatriate.
- 40.7 Any payments made by any Party to another Party shall be made in U.S. Dollars unless the Parties mutually agree upon another currency.
- 40.8 In the event the laws and the regulations relating to foreign exchange in force in the Republic of Malawi at the Effective Date are amended prior to or during, the Stability Period

and to the extent the effect of the amendment is to vest discretion in relation to the imposition of exchange controls in the Reserve Bank as exchange control authority, the Government shall in good faith urge the Reserve Bank as exchange control authority to exercise its discretion such that the Contractor and Affiliates shall, notwithstanding such amendment and without requiring further approvals from the Government, continue to have the rights set out in this Clause 40.

- 40.9 The Contractor's Subcontractors and their employees shall have the same rights as the Contractor and its employees under this Clause 40.

PART 8 - GENERAL

41. REPRESENTATIONS AND WARRANTIES

41.1 Representations and Warranties of the Contractor

The Contractor represents and warrants to the Government on the Effective Date as follows:

41.1.1 The Contractor is a corporation duly organized, validly existing and in good standing under the laws of Malawi, and has the corporate power and authority to execute, deliver and perform its obligations under this Agreement.

41.1.2 This Agreement has been duly authorised by all necessary corporate action on the part of the Contractor, and this Agreement constitutes a legal, valid and binding obligation of the Contractor enforceable against the Contractor in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

41.1.3 As far as the Contractor is aware, none of the Affiliates, directors, officers or other Persons is a Prohibited Person.

41.1.4 The execution, delivery and performance by the Contractor of this Agreement will not (i) contravene, result in any breach of, or constitute a default under, any agreement or instrument to which the Contractor is a party or by which it or any of its properties are bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or governmental authority, applicable to the Contractor or (iii) violate any provision of any statute or other rule or regulation of any governmental authority applicable to the Contractor.

41.1.5 As far as the Contractor is aware, there are no actions, suits, investigations or proceedings pending or, to the knowledge of the Contractor, threatened, against or affecting the Contractor or any property of the Contractor in any court or before any arbitrator of any kind or before or by any governmental authority that call into question the right of the Contractor to enter into and perform its obligations under this Agreement or that, if resolved against the Contractor, would materially adversely affect its ability to perform its obligations under this Agreement.

41.1.6 Neither the Contractor nor any of the Contractor's Affiliates, has been determined under any order, judgment, decree or ruling of any court, arbitrator or governmental authority to be in material violation of (i) any applicable law, ordinance, rule or regulation relating to the protection of the environment of any governmental authority or (ii) any agreement pursuant to which it is entitled to extract minerals or hydrocarbons under the laws of any jurisdiction.

41.1.7 The Contractor has, or has the means to access, the experience, finance, expertise, technical know-how and systems required for the conduct of the activities contemplated by this Agreement.

41.1.8 None of the Contractor, any Affiliate of the Contractor or any Person acting on behalf of the Contractor or any Affiliate of the Contractor has made or promised to make any payment or transfer of anything of value, directly or indirectly, to or for the benefit of an Official or an Official's family member or to an intermediary for payment to or for the benefit of an Official or an Official's family member in connection with this Agreement or the transactions contemplated hereby. (For the purposes of this paragraph, "Official" means (i) any employee or officer of the Government, including any regional or local department or agency or instrumentality thereof, (ii) any employee or officer of any enterprise owned or Controlled by the Government, (iii) any official of a political party in Malawi, (iv) any official or employee of a public international organization, (v) any other person acting in an official capacity for, or on behalf of, any of the entities described in clauses (i) through (iv), or (vi) any candidate for political office in Malawi.)

41.2 Other Undertakings of the Contractor

41.2.1 The Contractor shall notify the Government of any transfer of any ownership interest in the Contractor or in any Person which Controls the Contractor (other than in any Person whose shares are publicly listed on a stock exchange having reporting and disclosure requirements substantially similar to those imposed in any of the leading international stock exchanges) within 30 days following such Transfer. Such notice shall be accompanied by the certification of the chief executive officer of the Contractor that, immediately after giving effect to such Transfer, the representations and warranties of the Contractor as set forth in Clause 41.2 are true and correct as of a time immediately after giving effect to such Transfer and updating the information required by Clause 41.1.3 .

41.2.2 At all times during the Term, (i) the Contractor shall be a corporation organized under the laws of Malawi, (ii) none of the Affiliates, directors or officers may be a Prohibited Person, (iii) the Contractor shall be eligible to hold a license under the Act, and (iv) the representation made in Clause 41.1 shall be true and correct. On each annual anniversary of the Agreement Date, the chief executive officer of the Contractor shall provide to the Government a certification that the Contractor is in compliance with the requirements of this Clause 41.2.1 .

42. PAYMENTS

All sums due to the Government or the Contractor shall be paid in U.S. Dollars or other currency agreed to by the Government and the Contractor. Any late payment shall attract interest at 1 percentage point above LIBOR per annum.



43. **ASSIGNMENT**

- 43.1 Except with the consent of the Minister in accordance with this Clause 43, no assignment or other dealing by the Contractor in respect of this Agreement shall be of any force or effect. Any Change of Control of any company comprising the whole or part of the Contractor shall also be subject to these provisions and in the event.
- 43.2 The Government may only assign its rights or obligations to a company owned and Controlled by the Government.
- 43.3 To be effective, any deed of sale, assignment, transfer or other disposal to a third party provided under Clause 43 shall be subject to the following procedure, which must be implemented within thirty (30) days following notification (an "Assignment Notice") to the Government:
- 43.3.1 the third party shall demonstrate to the Minister's satisfaction evidence of its technical and financial capabilities;
 - 43.3.2 the third party shall demonstrate proof of incorporation in Republic of Malawi;
 - 43.3.3 the assigning party or party subject to the Change of Control shall have paid all capital gains taxes to the Government and in the event that the gain or any part of it accrues to an offshore entity shall pay to the Government a sum equivalent to the amount which would have been paid had the gain accrued to a Malawian party; and
 - 43.3.4 the deed of assignment shall include an undertaking by such third party to fulfill any obligations of the Contractor under this Agreement on a joint and several basis.
- 43.4 If the Minister has not responded to an Assignment Notice or notification of the Change of Control within the thirty (30) day period referred to in Clause 43.3 , his consent to the relevant assignment shall be deemed to have been given (provided that the obligations set out in Clause 43.2 have been complied with).
- 43.5 In case of an assignment, the Contractor shall provide the Government with a Deed of Assignment in which the main conditions and liabilities assumed by the assignee are set out and a copy of the assignment agreement or transfer agreements as well as any other document relevant to the assignment or transfer. Furthermore, the assignor or transferor shall submit an evaluation by an independent expert and all material terms of the assignment.
- 43.6 The Minister reserves the right to employ the services of an independent consultant, at the cost of the Contractor or any of the entities comprising the Contractor, to be mutually agreed by the Minister and such entity:
- 43.6.1 to carry out an independent valuation of the transaction; and
 - 43.6.2 to carry out an independent due diligence of the assignment or transaction including an evaluation of the technical competence and financial capacity of the assignee or transferee.

- 43.7 Should an assignment or Change of Control referred to under this Clause occur without such entity first obtaining the required consent of the Minister, the assignment will be null and void and the Contractor will cease to hold an interest under this Agreement.
- 43.8 No assignment or transfer shall in any way absolve the assignor from the obligations undertaken by it under the Agreement except to the extent such obligations are in fact assigned to the assignee or transferee.
- 43.9 Any entity or entities comprising Contractor shall apply for consent, at least ninety (90) calendar days before the proposed effective date of the Transfer; which application shall include evidence to the Minister of the financial and technical competence of the Transferee together with a valuation and all material terms of the Transfer.
- 43.10 Where the Contractor assigns or transfers the participating interest under this Agreement, the Contractor shall have a secondary liability for financial obligations for the cost of implementing site clean-up, decommissioning and abandonment. Such financial obligation shall be limited to possible costs related to installations, sites, petroleum facilities and Wells, which existed at the time of the assignment, and is limited to a share of the costs calculated on the basis of the size of the Participating Interest assigned. The Contractor shall put in place an adequate security for such secondary liability.

44. JOINT OPERATING AGREEMENT

44.1 Where the Contractor consists of more than one Contractor Entity, the Contractor shall execute a Joint Operating Agreement between those entities, within forty-five (45) days of the Effective Date, or such longer period as may be agreed to by the Government. The said agreement shall be consistent with the provisions of this Agreement and shall provide for, among other things:

44.1.1 the appointment, resignation, removal and responsibilities of the Operator;

44.1.2 the establishment of an operating committee comprising of an agreed number of representatives of the companies comprising the Contractor chaired by a representative of the Operator;

44.1.3 functions of the said operating committee taking into account the provisions of the Agreement, procedures for decision making, frequency and place of meetings; and

44.1.4 contribution to costs, default, sole risk, disposal of Petroleum and assignment as between the Parties to the Joint Operating Agreement

The JOA shall be considered to include any other agreements (i) made between the Parties to the JOA or their affiliates and (ii) relating to Petroleum Operations and the rights and obligations detailed in this Agreement.

44.2 Operator shall provide to the Ministry a copy of the duly executed JOA within thirty (30) days of its execution date or such longer period as may be agreed to by the Government.

44.3 In case a single Person constitutes the Contractor, the provisions of Clauses 44.1 and 44.2 shall not be applicable. However, in case of increase in the number of persons of the

Contractor, the provisions of Clauses 44.1 and 44.2 shall apply from the date of such increase in the number of persons.

45. **FORCE MAJEURE**

45.1 In this Clause, "**Force Majeure**" shall mean any event or circumstance or combination of events or circumstances beyond the reasonable control of a Party occurring on or after the Effective Date that materially and adversely affects the performance by such affected Party of its obligations under or pursuant to this Agreement; provided, however, that such material and adverse effect could not have been prevented, overcome or remedied by the affected Party through the exercise of diligence and reasonable care.

45.1.1 Force Majeure shall include Acts of God; fires; epidemics; storms; floods; earthquakes; any act, event, happening or occurrence due to natural causes; unavoidable accidents, strikes, riots or labour disturbances; acts of war or conditions attributable to or arising out of war (declared or undeclared); insurrections, hostile acts of hostile forces constituting direct and serious threat to life and property, , terrorism or sabotage of a political nature; and all other matters or events of a like or comparable nature beyond the control of a Party which prevents that Party (the "**Affected Party**") from performing one or more obligation(s) under this Agreement.

45.2 If the Affected Party desires to invoke Force Majeure as a cause for relief or failure in performance of any of its obligations under this Agreement (other than payment of money), it shall:

45.2.1 as soon as reasonably practicable and, in any event, no later than ten (10) days following the time at which performance of the Affected Party's obligations is impacted by the occurrence or ongoing prevalence of Force Majeure, give notice to the other Party of the circumstance, event or condition which it alleges constitutes the Force Majeure Event and an estimate of its likely duration. If the Affected Party does not deliver such notice in accordance with the terms hereof, such Affected Party shall not be entitled to invoke the benefits of this Clause 45;

45.2.2 continue to perform its obligations under this Agreement to the extent not prevented by such Force Majeure;

45.2.3 use all reasonable endeavours to mitigate the effects of the Force Majeure Event and to resume full performance of its obligations, as it becomes possible, without undue delay;

45.2.4 at the request of the other Party, use its reasonable endeavours to allow access at all reasonable times for a reasonable number of representatives or experts to examine the scene of the Force Majeure Event;

45.2.5 within twenty (20) days of the date of a notice issued pursuant to Clause 45.2.1 , provide a report concerning the Force Majeure and its effects, including particulars of the circumstance, event or condition, a general description of the obligations likely to be affected, an estimate of its likely duration and a statement of the actions to be taken in order to comply with its obligations under this Clause 45;

- 45.2.6 from time to time at reasonable intervals and upon any reasonable request from the other Party, provide updates as to the matters set out in Clause 45.2.5 ;
- 45.2.7 within seventy two (72) hours following the permanent cessation of any Force Majeure, submit to the other Party reasonable proof of the nature of such delay and its effect upon the performance of its obligations under this Agreement;
- 45.2.8 as soon as reasonably possible, and in accordance with International Petroleum Industry Practice, ensure the resumption of normal performance of this Agreement after the cessation of any Force Majeure Event.
- 45.3 The Affected Party shall not be liable for any delay or failure in performing its obligations under this Agreement due to a Force Majeure Event, provided that no relief shall be granted to the Affected Party pursuant to this Clause 45 to the extent that such failure or delay would have nevertheless been experienced by the Affected Party had the Force Majeure Event not occurred.
- 45.4 Where the non-Affected Party disputes the existence of Force Majeure, the relevant Dispute shall be referred to arbitration in accordance with Clause 48.
- 45.5 The Contractor may terminate this Agreement upon a three (3) month written notice to Minister if the fulfilment of the obligation of either Party under this Agreement is affected by a Force Majeure event during the Exploration Period or any extension thereof for a continuous period exceeding one hundred and eighty (180) days without further obligation and liabilities of any kind.
- 45.6 Subject to Clause 45.5 , the term of the Agreement shall be automatically extended for the period of the Force Majeure.

46. WAIVER

- 46.1 No waiver by either Party of any default by the other Party in the performance of any of the provisions of this Agreement:
- 46.1.1 shall operate or be construed as a waiver of any other or further default or defaults whether of a like or different character; or
- 46.1.2 shall be effective unless in writing duly executed by a duly authorised representative of such Party.
- 46.2 Neither the failure by a Party to insist on any occasion upon the performance of the terms, conditions and provisions of this Agreement nor time or other indulgence granted by one Party to the other Party shall act as a waiver of such breach nor as an acceptance of any variation, or as the relinquishment of any such right or any other right hereunder.

47. GOVERNING LAW

- 47.1 This Agreement and any disputes arising out of or in relation to it (including any non-contractual dispute) shall be governed by, interpreted and construed in accordance with the laws of England and Wales.



47.2 The Contractor agrees that it will obey and abide by all Laws.

48. **SETTLEMENT OF DISPUTES**

- 48.1 Except as otherwise specified in this Agreement, if any dispute or difference of any kind whatsoever (a "**Dispute**") shall arise between the Parties arising out of or in connection with this Agreement, or the breach, termination or validity hereof, the Parties shall attempt, for a period of thirty (30) days after the receipt by one Party of a notice from the other Party of the existence of the Dispute, to settle such Dispute in the first instance by mutual discussions between the Parties.
- 48.2 If a Dispute cannot be settled by mutual discussion with such period of thirty (30) days, then such Dispute shall be finally settled by, and the Parties consent to submit to, arbitration pursuant to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the "**Convention**") at the International Centre for Settlement of Investment Disputes (the "**Centre**").
- 48.3 It is hereby stipulated that the transaction to which this agreement relates is an investment.
- 48.4 It is hereby agreed that the Contractor is Controlled by nationals of the United Arab Emirates and shall be treated as a national of those States for the purposes of the Convention.
- 48.5 Any arbitral tribunal constituted pursuant to this Agreement shall consist of one arbitrator appointed by each Party, and an arbitrator, who shall be President of the Tribunal, appointed by jointly by the two Party-appointed arbitrators.
- 48.6 Any arbitral tribunal constituted pursuant to this Agreement shall apply the laws of England and Wales.
- 48.7 Without prejudice to the power of the arbitral tribunal to recommend provisional measures, either party hereto may request any judicial or other authority to order any provisional or conservatory measure, including attachment, prior to the institution of the arbitration proceeding, or during the proceeding, for the preservation of its rights and interests.
- 48.8 In any arbitration proceeding conducted pursuant to this Agreement, the fees and expenses of the members of the arbitral tribunal as well as the charges for the use of the facilities of the Centre shall be allocated in such manner as the arbitral tribunal shall finally determine.
- 48.9 Notwithstanding the existence of any Dispute or the pending of any procedures pursuant to this Clause 48, the Parties agree and undertake that all payments not in dispute shall continue to be made and all obligations not in dispute shall continue to be performed.
- 48.10 The Parties hereby, to the fullest extent permitted by law, irrevocably waive any right to challenge or contest the validity or enforceability of the arbitration agreement set out in this Clause 48 or any arbitration proceeding or award brought in conformity with this Clause 48, including any objection based on venues or inconvenient forum.
- 48.11 The Government hereby irrevocably and unconditionally:



- 48.11.1 agrees not to claim any immunity from proceedings brought by the Contractor against the Government in relation to this Agreement and to ensure that no such claim is made on its behalf
- 48.11.2 consents generally to the giving of any relief or the issue of any process in connection with those proceedings; and
- 48.11.3 waives any right of sovereign immunity as to it and its property in any jurisdiction including in respect of any proceedings contemplated, and the enforcement and execution of any award rendered by an arbitral tribunal constituted pursuant to, this Clause 48.

49. STABILITY PERIOD

- 49.1 The obligations of the Contractor resulting from this Agreement shall not be aggravated by the Government and the general and overall equilibrium between the Parties under this Agreement shall not be affected in a substantial and lasting manner.
- 49.2 Without limitation to the generality of the preceding sub-clause, the Contractor's and its Affiliates' capital, property and assets shall not be expropriated except for public purposes or interest and only in accordance with due process of law on a non-discriminatory basis and with the condition of prompt, adequate and effective compensation by the Government according to applicable laws.
- 49.3 The Government guarantees to the Contractor, for the entire duration of this Agreement, that it will maintain the stability of the fiscal and economic conditions of this Agreement, as they result from this Agreement and as they result from the Laws in force on the Effective Date. The Contractor has entered into this Agreement on the basis of the legal, fiscal and economic framework prevailing at the Effective Date. If there are any changes with respect to any provisions of any Law which may detrimentally and unfairly affect the Contractor's economic position during the Stability Period, this Agreement shall be amended as may be necessary to restore the Contractor to the economic position it would have enjoyed during the Stability Period but for such changes.
- 49.4 If the Contractor believes that its economic position has been detrimentally and unfairly affected as provided in Clause 49.3 , upon the Contractor's written request, the Parties shall meet to agree on any additional necessary measures with a view to re-establishing the economic equilibrium between the Parties and restoring the Contractor to the position it was in prior to the occurrence of the change having such detrimental effect. Should the Parties be unable to agree on the merit of amending this Agreement and/or on any amendments to be made to this Agreement within ninety (90) days of Contractor's request (or such other period as may be agreed by the Parties), the Contractor may refer the matter in dispute to arbitration as provided in Clause 48.
- 49.5 Without prejudice to the generality of the foregoing, the Contractor shall be entitled to request the benefit of any future changes to petroleum legislation or any other legislation complementing, amending or replacing it.
- 49.6 The Parties agree to cooperate in all possible ways with a view to fully achieving the objectives of this Agreement. The Government shall facilitate the performance of the Petroleum Operations by promptly granting to the Contractor any necessary authorisation,

permit, licence or access right and making available any existing facilities and services with a view to the Parties obtaining maximum mutual benefit from the Contract.

- 49.7 For the avoidance of doubt, nothing in this Agreement shall be read to affect or limit the power of the Government to tax gains realized by domestic or non-resident persons relating to the sale or other disposition of any interest, direct or indirect, in the Contractor or Crude Oil or Natural Gas.

50. **NOTICES**

- 50.1 Any notice, consent, demand, approval, request or other communication required or permitted to be given shall be in writing in the English language and shall be:

50.1.1 in the case of a notice, consent, demand, approval, request or other communication given by the Government, signed on behalf of the Government by either the Minister or permanent or principal secretary to the Ministry as their respective responsibilities require; or

50.1.2 in the case of a notice, consent, demand, approval, request or other communication to be given by the Contractor, signed by a director or by the secretary of the Contractor.

- 50.2 Each such notice, consent, demand, approval, request or other communication shall, as elected by the Party giving such notice, be personally delivered or by international courier to the other Party as follows:

Government
If by hand delivery —

Principal Secretary
Ministry of Mining
Private Bag 350
Capital Hill,
Lilongwe
Malawi

Contractor
If by hand delivery —

Mr. Golak Bihari Patnaik,
Senior-VicePresident
P.O.Box:31656
Telephone:+265111630770
E-mail: g.patnaik@pacificoiltd.com
Lilongwe
Malawi

- 50.3 Except as otherwise specified in this Agreement, all notices, consents, demands, approvals, requests or other communication shall be deemed to have been duly given:

50.3.1 if delivered by email, upon production of a read receipt; and

50.3.2 if delivered personally, on the date of receipt.



50.4 Either Party may change its address by notice, consent, demand, approval, request or other communication to the other Party in accordance with the provisions of this Clause.

50.5 The Contractor shall at all times maintain an address in Lilongwe for the purpose of service of notice.

51. **AMENDMENTS**

51.1 This Agreement shall not be amended, modified or supplemented except by an instrument in writing signed by the Parties.

IN WITNESS WHEREOF, the representatives of the Parties being duly authorised have hereunto executed this Agreement on the date which first appears on page



For the Government and the Republic of Malawi:

The Minister of Mining

Hon. John Bande (MP)

In the Presence of:

Witness

Signature

Dr. Leonard Kalindekafa

Title: Principal Secretary, Ministry of Mining

For Pacific Oil Ltd:

Signature:

Mr. Golak Bihari Patnaik

In the Presence of:

Witness

Signature

Name Debbie Manati

Date: 12/5/2014



APPENDIX "A"

Contract Area: **BLOCK 6**

Coordinates of License Area for Block - 6:

Projection System: Universal Transverse Mercator

Zone: 36 South

Datum: WGS 84

Points	Easting (m)	Northing (m)
A	760000	8218000
From A follow border between Malawi and Mozambique to D in clock-wise direction		
D	640000	8259000
E	716000	8259000
F	716000	8218000



APPENDIX "B"

ACCOUNTING PROCEDURE

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PART I - GENERAL PROVISIONS

The purpose of this Accounting Procedure is to establish methods and rules of accounting for Petroleum Operations and the principles set forth herein shall apply to Petroleum Operations pursuant to the production sharing contract (hereinafter referred to as the "**Agreement**"), to which this Appendix is attached.

1.0 INTERPRETATION

1.1 Definitions

"**Contractor**" means, either jointly or individually, Pacific Oil Ltd , its Affiliates, successors or any assignee or assignees of any interest of the signatory under this Agreement, provided that the assignment of any such interest is accomplished pursuant to the provisions of Clause 43 of the Agreement;

"**Controllable Material**" means Material which the Contractor subjects to record control and inventory. A list of types of such material shall be furnished to the Government and Non-Contractor(s);

"**Development Costs**" shall consist of all expenditures directly or indirectly incurred in:

- (a) studies of the subsurface for the purpose of determining the best manner of recovering hydrocarbons, which include 2D and 3D geophysical surveys, production geology, modeling and simulation of deposits as an integral part of economic Reservoir exploitation and conservation;
- (b) drilling Wells which are completed as producing Wells and drilling Wells for purposes of producing from a Petroleum Reservoir already discovered whether these Wells are dry or producing, and drilling wells for the injection of water or gas to enhance recovery of Petroleum;
- (c) completing Wells by way of installation of casing or equipment or otherwise, after a Well has been drilled for the purpose of bringing the Well into use as a producing Well, or as a Well for the injection of water or Gas to enhance recovery of Petroleum;
- (d) the cost of Petroleum production, storage and transport facilities such as pipelines, flow lines, production and treatment units, wellhead equipment, subsurface equipment, enhanced recovery systems, Offshore platforms, Petroleum storage facilities and access roads for production activities;
- (e) the costs of engineering and design studies for facilities referred to in subsection; and
- (f) any allocated indirect costs and services.

"**Exploration and Appraisal Costs**" means all direct and indirect expenditures incurred in the Exploration Operations and Appraisal Operations in an area which is or was, at the time when such were incurred, part of the Contract Area including;

- (a) aerial, geophysical, geochemical, paleontological, geological, topographical and seismic surveys and studies and their interpretation;
- (b) core hole drilling and water Well drilling including:
 - (i) labour, materials and services used in drilling Wells with the object of finding new Petroleum Reservoirs, or for the purposes of appraising the extent of Petroleum provided such wells are not completed as producing Wells;
- (c) facilities and assets used solely in support of the Exploration Operations and Appraisal Operations; and
- (d) any allocated indirect costs and services.

"**General and Administrative Expenses**" means those expenses set out at paragraph 10 of this Appendix;

"**Joint Account**" means the set of accounts maintained by the Contractor to record all expenditure and other transactions under the provisions of the Agreement. Such accounts will distinguish between Exploration and Appraisal Costs, Development Costs and Production Costs. After adoption of a Development Plan, a separate Joint Account shall be maintained for each Development Area.

"**Joint Property**" means all property acquired and held in connection with Petroleum Operations under the Agreement;

"**Material**" means moveable property, including supplies and equipment, acquired and held for use in Petroleum Operations;

"**Net cost**" has the meaning prescribed to it in Paragraph 13.1.1 of this Accounting Procedure;

"**Non-Contractor**" means the entities constituting the Contractor other than the Contractor, and the Government when it participates;

"**Operating Costs**" means all and any costs directly or indirectly associated with the day to day operations of the Contractor as they relate to Commercial Production and include Service Costs and General and Administrative Expenses; and

"**Service Costs**" means those costs set out at paragraph 9 of this Appendix.

Words not defined herein, but which are defined in the Agreement, shall have the meanings ascribed to them therein.

1.2 Precedence of Document

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

2. ACCOUNTING OBLIGATIONS OF THE CONTRACTOR



- 2.1 The Contractor shall maintain financial accounts necessary to record in reasonable detail the transactions relating to Petroleum Operations which shall be prepared in accordance with generally accepted standards of the International Petroleum Industry Practice, as more particularly, but not exclusively set out in this Accounting Procedure.
- 2.2 The Contractor shall provide the Government with a description of its accounting classifications and the Contractor shall use such classifications when preparing its accounts.
- 2.3 The Contractor shall provide details of the financial accounts in the form of monthly statements which shall:
 - 2.3.1 reflect all charges and credits related to Petroleum Operations;
 - 2.3.2 be prepared on accrual basis so that expenditure is recorded as incurred when title to goods passes or when work is executed; and
 - 2.3.3 present the total accounts for the Contract Area and each Development Area and the share of each Non-Contractor.

3. LANGUAGE AND UNITS OF ACCOUNTS

- 3.1 The Contractor shall maintain accounts in Malawi Kwacha and U.S. Dollars; however, the U.S. Dollar accounts will prevail in case of conflict. Metric units and barrels shall be employed for measurements required under the Agreement and this Appendix. The language employed shall be English. Where necessary for clarification the Contractor may also maintain accounts and records in other units of measurement and currencies.
- 3.2 It is the intent of this Accounting Procedure that neither the Government nor the Contractor should experience an exchange gain or loss at the expense of, or to the benefit of, the other. However, should there be any gain or loss from exchange of currency, it will be credited or charged to the accounts under the Agreement.

4. AUDITS AND INSPECTION RIGHTS OF THE GOVERNMENT

- 4.1 The Government, upon at least thirty (30) days' advance written notice to the Contractor, shall have the right at its sole expense to audit the Joint Account and related records for any Calendar Year or portion thereof within the twenty-four (24) month period following the end of such year. Notice of any exception to the accounts for any Calendar Year shall be submitted to the Contractor within ninety (90) days of receipt by Government of the report of its auditors.
- 4.2 For the purposes of auditing, the Government may examine and verify, at reasonable times, all charges and credits relating to the Petroleum Operations such as books of account, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents, correspondence and records necessary to audit and verify the charges and credits. Furthermore, the auditors shall have the right in connection with such audit, to visit and inspect at reasonable times, all sites, plants, facilities, warehouses and offices of the Contractor directly or indirectly serving the Petroleum Operations including visiting personnel associated with those operations.



- 4.3 All adjustments resulting from an audit agreed shall be rectified promptly in the Contractor's accounts. Any unresolved Dispute arising in connection with an audit shall be referred to arbitration in accordance with Clause 48 of the Agreement.
- 4.4 The Minister shall require, at the Contractor's cost, an independent audit (starting, except in the case of manifest error or fraud, within twenty four (24) months after the end of the Calendar Year, and concluding within twelve (12) months of this start) of the Contractor's books and accounts relating to this Agreement for any Calendar Year. The Contractor shall forward a copy of the independent auditor's report to the Ministry within sixty (60) days following the completion of the audit.

5. REVISION OF ACCOUNTING PROCEDURE

- 5.1 By mutual agreement between the Government and the Contractor, this Accounting Procedure may be revised from time to time by an instrument in writing signed by the Parties.
- 5.2 The Parties agree that if any procedure established herein proves unfair or inequitable to any Party, the Parties shall meet and in good faith endeavour to agree on the changes necessary to correct that unfairness or inequity.

PART II CLASSIFICATION, DEFINITION AND ALLOCATION OF COSTS AND EXPENDITURES

Petroleum Costs incurred in connection with Petroleum Operations carried out hereunder shall be classified, defined and allocated as follows:

6. Exploration Expenditures are all direct and allocated indirect costs incurred in the search for Petroleum in the Contract Area, including:
 - 6.1 Aerial, geophysical, geochemical, paleontological, geological, topographical and seismic surveys and studies and their interpretations;
 - 6.2 Core hole drilling and water Well drilling;
 - 6.3 Labour, materials and services used in drilling Wells with the object of finding new Petroleum Reservoirs or for the purpose of appraising the extent of Petroleum Reservoirs already discovered provided that such Wells are not completed as producing Wells;
 - 6.4 Facilities used solely in support of these purposes including access roads and purchased geological and geophysical information;
 - 6.5 A portion of all Service Costs (as hereinafter defined) allocated to exploration Operations on an equitable basis agreed to between the Advisory Committee and the Contractor;
 - 6.6 A portion of all General and Administrative Expenses (as hereinafter defined) allocated to exploration of Operations based on projected budget expenditures subject to adjustment on the basis of actual expenditure at the end of the Calendar Year concerned; and
 - 6.7 Any other Contract Expenses incurred prior to the commencement of Commercial Production in a Development Area and not otherwise covered by Paragraph 7 below.

7. Development and Production Expenditures shall consist of all expenditures incurred in Development Operations in relation to a Development Area including:
 - 7.1 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;
 - 7.2 Completing Wells by way of installation of casing or equipment or otherwise after a Well has been drilled for the purpose of bringing the Well into use as a producing Well;
 - 7.3 Intangible drilling costs such as labour, consumable materials and services having no salvage value which are incurred in drilling and deepening of Wells for production purposes;
 - 7.4 The costs of field facilities including field gathering systems, field production and treatment units, wellhead equipment, subsurface equipment, enhances recovery systems, offshore platforms, Petroleum storage facilities in the field and related facilities, and field access roads for production activities;
 - 7.5 Engineering and design studies for field facilities;
 - 7.6 A portion or all Service Costs allocated to the Development Operations on an equitable basis in a manner agreed by the Advisory Committee;
 - 7.7 A portion or all General and Administrative Expenses allocated to the Development Operations based on projected budget expenditures which will be adjusted to actual at Calendar Year end; and
 - 7.8 Any other expenditures incurred in Development Operations prior to the commencement of Commercial Production in a Development Area, other than those incurred in respect of operations carried out beyond the Delivery Point.
8. Operating Expenses are all expenditures incurred in the Petroleum Operations hereunder after the start of the Commercial Production which are other than exploration expenditures. Development and Production Expenditures and General and Administrative Expenses and Service Costs otherwise allocated to Exploration Expenditures or Development and Production expenditures pursuant to Paragraph 6 and 7 above; Operating expenses shall not, however, include tariff charges associated with the transportation of Petroleum from the Delivery Point to the land or seaboard terminal point of export.
9. Service Costs are direct and indirect expenditures in support of the Petroleum Operations including warehouse, pier, marine vessels, vehicles, motorized rolling equipment, aircraft, fire and security stations, workshops, water and sewage plants, power plants, housing, community and recreational facilities and furniture, tools and equipment used in these activities. Service Costs in any Calendar Year shall include the total costs incurred in such year to purchase and/or construct said facilities as well as the annual costs to maintain and operate the same and includes the following:
 - 9.1 The actual cost of contract services, professional consultants, and other services performed by third parties other service provided by the Contractor or its Affiliate(s), but the prices paid by the Contractor shall not be higher than those generally charged for comparable services.



- 9.2 Costs of technical services, such as but not limited to, engineering, and related data processing, performed by the Contractor and its Affiliate(s) for the direct benefit of Petroleum Operations, engineering, and related data processing, performed by the Contractor provided such cost shall not exceed those currently prevailing if performed by third parties in normal arm's length transaction for like services;
- 9.3 Costs of use of equipment and facilities for the direct benefit of the Petroleum Operations, furnished by Contractor or its Affiliate(s) at rate commensurate with the costs of ownership, or rental, and the cost of operation thereof, but such rates shall not exceed those currently prevailing in the general vicinity of the Contract Area in normal arm's length transactions on the open market for like services and equipment; and
- 9.4 Costs associated with the Contractor's main office or seat of management outside the Republic of Malawi and its administration, including staff benefits, that are reasonably allocable to the activities envisioned in, and undertaken further to, this Agreement.

All Service Costs will be regularly allocated as specified in subParagraphs 6.5, 7.6 and 8 to Exploration Expenditures, Development and Production Expenditures and Operating Expenses.

10. General and Administrative Expenses

General and Administrative Costs are expenditures incurred on general administration and management primarily and principally related to Petroleum Operations in or in connection with the Contract Area, and shall include:

- 10.1 expenditures related to main office, field office and general administrative expenditures in the Republic of Malawi including supervisory, accounting and employee relations services; and
- 10.2 an annual overhead charge for services rendered by the parent company or an Affiliate to support and manage Petroleum Operations under the Agreement, and for staff advice and assistance including financial, legal, accounting and employee relations services, but excluding any remuneration for services charged separately under this Accounting Procedure, provided that:
 - 10.2.1 for the period from the Effective Date until the date on which the first Development Plan under the Agreement is approved by the Government, the charge shall be the Contractor's verifiable expenditure limited to two per cent. (2%) of Petroleum Costs per month.
 - 10.2.2 from the date on which the first Development Plan is approved, the charge shall be verifiable expenditures restricted to the rate of one per cent. (1%) of Petroleum Costs per month.

PART III - COSTS, EXPENSES, EXPENDITURE AND CREDITS OF THE CONTRACTOR

Subject to the provisions of the Agreement, the Contractor shall bear and pay the following costs and expenses necessary to conduct Petroleum Operations. These costs and expenses will be classified under the headings referred to in Part II of this Appendix. Such Petroleum Costs are recoverable by the Contractor in accordance with the provisions of the Agreement.

11. SURFACE RIGHTS

All direct costs necessary to acquire and to maintain surface right to the Contract Area when such costs are paid by the Contractor according to the provisions of the Agreement, including surfaces fees laid out in Paragraph 8, shall be borne by the Contractor.

12. LABOUR AND RELATED COST

- 12.1 Gross salaries and wages, including bonuses, of the Contractor's employees directly and necessarily engaged in the Petroleum Operations, irrespective of the location of such employees, it being understood that in the case of those employees, only a portion of whose time is wholly dedicated to Petroleum Operations, only that pro rata portion of applicable salaries and wages will be charged.
- 12.2 Cost to the Contractor of established plans for employees' group life insurance, hospitalization, Contractor pension, retirement and other benefits of a like nature customarily granted to the Contractor's employees and the Contractor's expenditure regarding holiday, vacation, sickness and disability payments applicable to the salaries and wages chargeable under subparagraph (12.1) above shall be allowed at actual cost, provided however that such total expenditure shall not exceed thirty-five per cent. (35%) of the Contractor's total labour expenditure under subparagraph (12.1) above.
- 12.3 Expenditure or contributions made pursuant to assessments or obligations imposed under the Laws which are applicable to the Contractor's expenditure on salaries and wages chargeable under subparagraph (12.1) above.
- 12.4 Reasonable travel and personal expenditure of employees of the Contractor, including those made for travel and relocation of the expatriate employees assigned to Republic of Malawi and relocation costs from the Contract Area vicinity, except when an employee is reassigned to another location classified as a foreign location by the Contractor, all of which shall be in accordance with the Contractor's normal practice, provided such is consistent with International Petroleum Industry Practice.
- 12.5 Charges for Services
- 12.5.1 the actual cost of contracts for technical and other services entered into by the Contractor for the Petroleum Operations, made with third parties other than Affiliates are recoverable, provided that the prices paid by Contractor are no higher than those generally charged by other international or domestic suppliers for comparable work and services;
- 12.5.2 Without prejudice to the charges to be made in accordance with this Paragraph 12.5 of this Appendix, in the case of services rendered to the Petroleum Operations by an Affiliate the charges will be based on actual costs without profits and will be competitive. The charges will be no higher than the most favourable prices charged by the Affiliate to third parties for comparable services under similar terms and conditions elsewhere. The Contractor will, if requested by the Advisory Committee or Government specify the amount of the charges which contributes an allocated proportion of the general material, management, technical and other costs of the Affiliate, and the amount which is the direct cost of providing the services concerned. As requested by the Advisory Committee or Government certified

evidence regarding the basis of prices charged may be obtained from the auditors of the Affiliate such evidence to be certified by the Chief Financial Officer of the Contractor or in the case of affiliates the Chief Financial Officer of the Contractor's Parent.

13. MATERIAL

13.1. So far as it is reasonably practical and consistent with efficient and economical operations, only such Material shall be purchased or furnished by the Contractor as may be required for immediate use and/or for approved Work Programmes and the accumulation of surplus stock shall be avoided.

13.1.1 Except as otherwise provided in sub-part 13.1.2 below, Material purchased, leased or rented shall be charged at the actual Net Cost incurred by the Contractor. "Net cost" shall include, but shall not be limited to, the invoice price less trade and cash discount (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 where practicable handling and transportation expenses from point of importation to warehouse or operating site, and it should not exceed that currently prevailing in normal arms length transactions on the open market.

13.1.2 Material purchased or transferred from Affiliates shall be charged at the prices specified here below:

13.1.2.1 New Material (condition "A") shall be valued at the current international Net Cost which shall not exceed the price prevailing in normal arms length transactions on the open market.

13.1.2.2 Used Material (conditions "B", "C" and "D").

13.1.2.2.1 Material which is in sound serviceable condition and is suitable for reuse without reconditioning shall be classified as condition "B" and priced at seventy-five per cent. (75%) of the current price of new Material defined in sub-Paragraph 13.1.2.1 above.

13.1.2.2.2 Material which cannot be classified as condition "B" but which after reconditioning will be further serviceable for its original function as good second hand material or is serviceable for original function but substantially not suitable for reconditioning shall be classified as condition "C" and priced at fifty per cent. (50%) of the current price of new Material as defined in (13.1.2.1), above. The cost of reconditioning shall be charged to the reconditioned Material provided that the value of condition "C" Material plus the cost of reconditioning do not exceed the value of condition "B" Material.

13.1.2.2.3 Material which cannot be classified as condition "B" or condition "C" shall be classified as condition "D" and priced at a value commensurate with its use.

13.1.2.2.4 Material involving erection costs shall be charged at the applicable conditions percentage of the current knocked-down price of new Materials as defined in 13.1.2.1 above;

13.1.2.2.5 When the use of Material is temporary and its service to the Petroleum Operations does not justify the reduction in price as provided for in 13.1.2.2.2, such material shall be priced on a basis that will result in a net charge to the accounts under the Agreement consistent with the value of the services rendered.

13.1.3 The Contractor doesn't warrant Material beyond the supplier's or manufacturer's guarantee and, in case of defective material or equipment, any adjustment received by the Contractor from the supplier/manufacturer or their agents will be credited to the accounts under the Agreement.

13.1.4 Inventories

13.1.4.1 At reasonable intervals, inventories shall be taken by the Contractor of all Controllable Material. The Contractor shall give thirty (30) days' written notice of intention to take such inventories to allow the Minister and Non-Contractor(s) to be represented when any inventory is taken. Failure of any party to be represented after due notice given shall bind such party to accept the inventory taken by the Contractor.

13.1.4.2 The Contractor shall clearly state the principles upon which valuation of the inventory has been based.

13.1.4.3 Whenever there is a sale or change of interest in the Joint Property, a special inventory may be taken by the Contractor, provided the seller and/or purchaser of such interest to bear all of the expense thereof. In such cases, both the seller and the purchaser shall be entitled to be represented and shall be governed by the inventory so taken.

14. TRANSPORTATION AND EMPLOYEE RELOCATION COSTS

Transportation of Material and other related costs such as origin services, expediting, crating, dock charges, forwarder's charges, surface and air freight, and customs clearance and other destination services.

15. DAMAGES AND LOSSES TO JOINT PROPERTY

All reasonable costs or expenses necessary for the repair or replacement of Joint Property resulting from damages or losses incurred by fire, flood, storm, theft, accident, or any other cause, except insofar as those costs and expenses are caused by the negligence or willful misconduct of the Contractor. The Contractor shall furnish the Government and Non-Contractor(s) written notice of



damages or losses for each damages or loss in excess of fifty thousand U.S. Dollars (USD50,000) as soon after the loss as practicable.

16. INSURANCE

Insurance premiums and expenditure incurred for insurance pursuant to Clause 10 of the Agreement are deductible. Expenditure and losses incurred as a consequence of events which are, and in so far as, not made good by insurance are deductible, unless such expenditure has resulted solely from an act of wilful misconduct or negligence of the Contractor.

17. LEGAL EXPENSES

17.1 All reasonable costs and expenses resulting from the handling, investigating, asserting, defending, or settling of any claim or legal action necessary or expedient for the procuring, perfecting, retention and protection of the Contract Area and in defending or prosecuting lawsuits involving the Contract Area or any third party claim arising out of Petroleum Operations under the Agreement, or sums paid in respect of legal services necessary for the protection of the joint interest of Government and the Contractor, shall be recoverable. Such expenditures shall include attorney's fees, court costs, costs of investigation and procurement of evidence and amounts paid in settlement or satisfaction of any such litigation and claims provided such costs are not covered elsewhere in the Accounting Procedure.

Where legal services are rendered in such matters by salaried or regularly retained lawyers of the Contractor or an Affiliate, such compensation will be included instead under Paragraph 12 above.

18. RENTALS, DUTIES AND TAXES

All rentals, taxes, levies, charges, fees, contributions and any other assessments and charges levied by the Government in connection with Petroleum Operations, and paid directly or indirectly by the Contractor, other than Tax on income imposed on the Contractor and its employees and Government's share attributable pursuant to Clause 31 of the Agreement.

19. TRAINING COSTS

All costs and expenses incurred by the Contractor in training of Malawi employees engaged in Petroleum Operations and such other training as is required under Clause 15 of the Agreement.

20. COSTS NOT RECOVERABLE UNDER THE AGREEMENT

20.1 Ineligible Costs are:

- 20.1.1 Costs incurred before the date of the Petroleum Exploration Licence;
- 20.1.4 Costs relating to formation of corporations or of any partnerships or joint venture arrangements, other than in respect of a unitisation as required by the Act;
- 20.1.5 Payments of dividends or the cost of issuing shares;
- 20.1.6 Repayments of equity or loan capital;

- 20.1.7 Payments of private override royalties, net profits interests and the like;
- 20.1.9 Payments of taxes under the taxation law of Malawi, and all other taxes on income, profit or gain wherever arising;
- 20.1.11 Costs incurred as a result of non-compliance by the Contractor with the law or this Agreement, including costs incurred as a result of any negligent act or omission, or wilful misconduct, of the Contractor, its agents or Subcontractors, including any amount paid in settlement of any claim alleging negligence or willful misconduct, whether or not negligence or misconduct is admitted or whether such sum is stated to be paid on an ex-gratia or similar basis;
- 20.1.12 Payment of compensation or damages under this Agreement;
- 20.1.13 Costs relating to the settlement of Disputes, which are not approved in advance by the Minister, including all costs and expenses of arbitration or litigation proceedings under this Agreement;
- 20.1.16 Except with the consent of the Minister, costs, including donations, relating to public relations or enhancement of the Party's corporate image and interests;
- 20.1.17 Costs associated with local offices and local administration, including staff benefits, which are excessive;
- 20.1.18 Costs which are not adequately supported and documented; and
- 20.1.21 Costs not falling within any of the above items which are stated elsewhere in this Agreement not to be recoverable (including costs incurred without the consent or approval of the Minister (where such is required)).

21. EMERGENCY AND OTHER EXPENDITURES OUTSIDE WORK PROGRAMMES AND BUDGETS

- 21.1 Without further approval by the Minister, the Contractors may over-expend by ten per cent. (10%) on any line item in an approved Work Programme and budget for a Contract Year.
- 21.2 Without further approval by the Minister, the total of all over-expenditures under Paragraph 21.1 under that Work Programme and budget for that Contract Year shall not exceed 10 per cent. (10%) of the total expenditures in that Work Programme and budget.
- 21.3 The Contractors shall promptly inform the Ministry if they anticipate (or should reasonably anticipate) that any such limit in Paragraph 21.1 (in the accounting procedure) will be exceeded and seek, in the manner provided in Paragraph 21.4, an amendment to the appropriate Work Programme and budget.
- 21.4 In determining whether to approve the over-expenditures contemplated at Paragraph 21.1 (in the accounting procedure) and Paragraph 21.2 (in the accounting procedure) the Minister shall consider whether such increases are necessary to complete the Works Programme, provided that such increase is not the result of any failure of the Contractors to fulfil their obligations under this Agreement.



21.5 Nothing in Paragraph 21.1 (in the accounting procedure) precludes or excuses the Contractor from taking all necessary and proper measures for the protection of life, health, the environment and property if there is an emergency (including a significant fire, explosion, Petroleum release, or sabotage incident involving loss of life, serious injury to an employee, contractor or third party, or serious property damage; strikes and riots or evacuation of the Contractor's personnel). As soon as reasonably practicable, the Contractor will inform the Minister of the details of the emergency and of the actions it has taken and intends to take.

22. MISCELLANEOUS INCOME AND CREDITS UNDER THE AGREEMENT

22.1 The proceeds received from or in connection with Petroleum Operations shall be credited to the accounts under the Agreement and shall be treated as miscellaneous gross income chargeable to both petroleum income tax and additional profits tax pursuant to the Taxation Act. Such proceeds include but are not limited to the following:

22.1.1 The value of the Contractor's share of Profit Petroleum produced and saved and sold, or otherwise disposed of, from a Development Area and from any revenue realized on the sale of Associated or Non-Associated Natural Gas;

22.1.2 Revenue received from outsiders for the use of property or assets charged to the accounts under the Agreement;

22.1.3 Rentals, refunds or other credits received by the Contractor which apply to any charge which has been made to the accounts under the Agreement;

22.1.4 Proceeds from all sales of surplus Material or assets charged to the account under the Agreement;

22.1.5 The proceeds from the sale or exchange by the Contractor of plant or facilities from the Block or plant or facilities the acquisition expenditure of which have been charged to the accounts under the Agreement.

22.1.6 The proceeds from the direct or indirect sale or exchange by the Contractor or any Affiliates of any Petroleum rights being an interest in its Block(s).

22.1.7 The proceeds from the sale of any Petroleum information which relates to the Block(s) provided that the expenditure incurred in respect of the acquisition of such information has been charged to the accounts under the Agreement; and

22.1.8 The proceeds derived from the sale or licence of any intellectual property the development costs of which were incurred under the Agreement.

23. NO DUPLICATION OF CHARGES AND CREDITS

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

PART IV - FINANCIAL REPORTS TO THE MINISTER

The reporting obligations provided for in this part shall, unless the contrary is stated, apply to the Contractor.

24. COST RECOVERY AND PROFIT PETROLEUM REPORTS

Not later than forty five (45) days after the end of the month in which the date of commencement of commercial production first occurs, and not later than forty five (45) days after the end of each succeeding month, the Contractor shall supply to the Ministry a monthly Profit Petroleum report for each Development Area showing:

- 24.1 unrecovered Operating Costs and capital expenditures as at the beginning of the preceding month;
- 24.2 Operating Costs and capital expenditures incurred during such preceding periods;
- 24.3 the value and volume of Cost Recovery Petroleum lifted by the Contractor during the preceding periods;
- 24.4 unrecovered Operating Costs and capital expenditures carried forward for recovery in succeeding periods;
- 24.5 the value and volume of Petroleum produced, used in Petroleum Operations, available for lifting and actually lifted by the Parties, as at the end of the preceding month;
- 24.6 Profit Petroleum allocated to each of the Contractor Parties constituting the Contractor, and the Ministry, during the preceding month.

25. OTHER FINANCIAL REPORTS

The Contractor shall submit annually to the Minister the following:

- 25.1 The annual Work Programme and budget three (3) months before the beginning of the year to which they apply and the budget shall be analysed by item within the exploration programme, Appraisal Programme, development programme and production programme and show for each major budget item, with reasonable detail, the following:-
 - 25.1.1 Latest forecast cumulative costs anticipated at the start of the budget year
 - 25.1.2 Cumulative expenditure anticipated at the end of each quarter of the budget year;
 - 25.1.3 Expenditure anticipated in future years to complete the budget item.
 - 25.1.4 A schedule of the service and supply contracts, to be let during the forthcoming year which require payment in foreign currency exceeding the equivalent of five hundred thousand U.S. Dollars (USD500,000.00) per contract, showing the anticipated tender date and approximate value and the goods or services to be provided; and
 - 25.1.5 The audit report required by sub-part 1.5.4. of this Accounting Procedure, stating whether in the opinion of the auditors of the Agreement:



- 25.1.5.1 The last annual expenditure report records the expenditure of the Contractor truly and fairly in accordance with the provisions of the Agreement; and
 - 25.1.5.2 The reports on Revenue submitted truly and fairly determined the arm's length value of disposals of Petroleum during the year.
- 25.2 The Contractor shall submit quarterly within thirty (30) days of each Calendar Quarter to the Minister:
- 25.2.1 A report of expenditure and receipts under this Agreement analysed by budget item showing:
 - 25.2.1.1 Actual expenditure and receipts for the Calendar Quarter in question;
 - 25.2.1.2 Actual cumulative cost to date;
 - 25.2.1.3 Latest forecast cumulative cost at the year end;
 - 25.2.1.4 Variations between budget costs and actual costs, and explanations thereof; and
 - 25.2.1.5 With effect from adoption of the Development Plan, the total payroll costs segregated between Malawi and non-Malawi personnel and the total expenditure segregated between Malawi and non-Malawi goods and services.
 - 25.2.2 A cost recovery statement containing the following information:
 - 25.2.2.1 Recoverable Petroleum Costs carried forward from the previous Calendar Quarter, if any;
 - 25.2.2.2 Recoverable Petroleum Costs incurred and paid during the Calendar Quarter;
 - 25.2.2.3 Total recoverable Petroleum Costs for the Calendar Quarter (25.2.2.1) plus (25.2.2.2) above;
 - 25.2.2.4 Quantity and value of Cost Oil taken and separately disposed of by the Contractor for the quarter;
 - 25.2.2.5 Amount of Petroleum recovered for the Calendar Quarter;
 - 25.2.2.6 Amount of recoverable Petroleum Costs to be carried forward into the next Calendar Quarter, if any; and
 - 25.2.2.7 Value of Government's share of production taken by the Contractor pursuant to Clause 30 of the Agreement.



25.3 A copy of each contract for goods or services, requiring a foreign currency payment, shall be provided to the Minister as soon as practicable after its execution, together with a contract summary containing:

25.3.1 a description of the goods or services to be provided;

25.3.2 the approximate consideration for the contract;

25.3.3 the names of proposed bidders, contractors or suppliers; and

25.3.4 a brief description of the efforts made to find a Malawi supplier or contractor including the names of businesses considered and the reasons for rejecting them.

25.4 Annual Statement

Each Contractor shall prepare a final end-of-year statement. The statement will contain information as provided in the production statement, value of production and pricing statement, cost recovery statement and statement of expenditure and receipts, but will be based on actual quantities of Petroleum produced and costs incurred. This statement will be used to make any adjustments that are necessary to the payments made by the Contractor under this Agreement. The final end-of-year statement of each Calendar Year shall be submitted to the Minister within ninety (90) days of the end of such Calendar Year.

25.5 After the commencement of production the Contractor shall, within fifteen (15) days after the end of each month, submit a production report to the Minister showing for each Development Area the quantity of Petroleum:

25.5.1 held in stocks at the beginning of the month;

25.5.2 produced during the month;

25.5.3 lifted, and by whom;

25.5.4 lost and consumed in Petroleum Operations; and

25.5.5 held in stocks at the end of the month.

25.6 A lifting party shall submit, within fifteen (15) days after the end of each month, a report to the Minister stating:

25.6.1 The quantities and sales value of Arm's Length Sales of Petroleum made in that month;

25.6.2 The quantities, sales value and arm's length value of disposals of Petroleum other than by sale at Arm's Length Sales during the month;

25.6.3 and the total Revenue for that month.