

Оффшорное соглашение о разделе продукции

Offshore Production Sharing Agreement

Образец соглашения, заключенного между зарубежными инвесторами и
государственной компанией

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MODEL OFFSHORE PRODUCTION SHARING AGREEMENT

THIS AGREEMENT made and entered into between:

THE PRESIDENT OF THE ISLAMIC REPUBLIC OF PAKISTAN (which expression shall include his successors and assigns) (hereinafter referred to as the "President"

- and -

GOVERNMENT HOLDINGS (PVT) LIMITED (which term shall include its successors and assigns), existing under laws of Pakistan and having its office at -----, Islamabad, Pakistan (hereinafter referred to as "Government Holdings", as hereinafter defined)

- and -

(XYZ Company) (which term shall include its successors and assigns), existing under the Laws of Y* Y* having its principal office at Y'Y'Y'Y' (hereinafter referred to as "Contractor")

WITNESSETH:

WHEREAS, the President is desirous that Exploration be undertaken for the Discovery, Development and Production of Petroleum in the Offshore region of Pakistan; and

WHEREAS, the President, in accordance with Section 3A of the Act No. LXXXIII of 1976 (*An Act to further amend the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act, 1948*) and the rules made thereunder, has granted a License (as hereinafter defined) to the Government Holdings.

WHEREAS, the President, in the lawful exercise of the authorities vested in him and in particular by virtue of his powers under the *Regulation of Mines and Oilfield and Mineral Development (Government Control) Act, 1948* (XXIV of 1948) as amended and the *Territorial Waters and Maritime Zones Act, 1976*, as amended, has granted Government Holdings the exclusive right to enter into this Production Sharing Agreement with Contractor;

WHEREAS, the Contractor has represented that it has and will obtain and provide the financial resources, technical competence and experience, and professional skills necessary to carry out Petroleum Operations in accordance with good international Petroleum industry practices and the Rules (as hereinafter defined) and has indicated its commitment to carry out Petroleum Operations with due regard to the objectives, rights and welfare of Pakistan; and

WHEREAS, Contractor is desirous of undertaking Petroleum Operations in the Offshore area under a Production Sharing Agreement with Government Holdings; and

WHEREAS, Government Holdings is desirous of entering into a Production Sharing Agreement with Contractor;

NOW THEREFORE, the President, Government Holdings and Contractor agree as follows:

ARTICLE II DEFINITIONS

Whenever used in this Agreement, the following terms shall have the meanings set forth below:

- 1.1 "*Accounting Procedure*" means the accounting procedure as contained in Annex- I of this Agreement.
- 1.2 "*Affiliate*" means a company or other entity directly or indirectly effectively controlling, or effectively controlled by, or under direct or indirect effective common control of a specified entity. For the purposes of this definition, "control", when used with respect to any company or specified entity, means the power to direct, administer and dictate policies of such a company or specified entity (it being understood and agreed that it is not necessary to own directly or indirectly fifty percent (50%) or more of such company's or entity's voting securities to have effective control over such entity, but ownership, direct or indirect, of fifty percent (50%) or more of such entity's voting securities shall automatically indicate effective control), and the terms "controlling" and "controlled" shall have meanings corresponding to the foregoing.
- 1.3 "*Agreement*" means this Production Sharing Agreement.
- 1.4 "*Appraisal Area*" means an area of no more than 150 contiguous Sections selected by Contractor, subject to the limitations of the Contract Area, whereby the Sections are connected and have in common at least one side of thirty (30) seconds latitude or longitude and that is sufficient in the reasonable opinion of the Contractor to cover the vertical projection to the surface of any discovered reservoirs of a Discovery; but if Contractor can provide conclusive evidence based on geological and geophysical data that 150 Sections is not sufficient to cover the vertical projection to the surface of the discovered reservoirs then the DGPC has the discretion to approve an Appraisal Area of more than 150 Sections covering the vertical projection to the surface of the discovered reservoirs within the boundaries of the Contract Area.
- 1.5 "*Appraisal*" or "*Appraisal Programme*" means an activity or programme carried out to evaluate and appraise a Discovery in the Contract Area pursuant to this Agreement.
- 1.6 "*Appraisal Well*" means a well drilled pursuant to an approved Appraisal Programme.
- 1.7 "*Arm's Length Sales Value*" means the value of 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 the value

of sales (whether direct or indirect, through brokers or otherwise) involving Affiliates, Parties to this Agreement, sale between Government to Government entities, counter trades, restricted or distress sales, sales involving barter arrangements and generally any transactions motivated in whole or in part by considerations other than normal commercial practices.

- 1.8 "*Associated Gas*" means Natural Gas associated with Crude Oil and produced by separation at surface from a Liquid Reservoir.
- 1.9 "*Available Gas*" means the volume of Natural Gas defined for production sharing in Article 6.1 hereof.
- 1.10 "*Available Oil*" means the volume of Crude Oil including Condensate and LPG defined for production sharing in Article 6.1 hereof.
- 1.11 "*Barrel*" or "*BBL*" means a quantity equivalent in volume to forty-two (42) United States Gallons adjusted to sixty degrees (60°) Fahrenheit after correction for basic sediments and water.
- 1.12 "*Barrel of Oil Equivalent*" or "*BOE*" means the volume of Crude Oil, Condensate, Natural Gas or LPG determined in Million British Thermal Units (MMBTU's) on heat content basis in accordance with the Rules.
- 1.13 "*Bid Obligation*" has the meaning given in Article 3.3 which will be established through a bidding process.
- 1.14 "*Calendar Month*" or "*Month*" means any of the twelve months of the Calendar Year.
- 1.15 "*Calendar Year*" means the period from January 1 to December 31, both inclusive, according to the Gregorian Calendar.
- 1.16 "*Commencement of Commercial Production*" means the first occurrence of Commercial Production in a Contract Area.
- 1.17 "*Commercial Discovery*" means a Discovery of Petroleum by one or more Appraisal Wells which, in the opinion of the Contractor, would yield a reasonable profit on the funds invested in Development and Production Operations and has been declared a Commercial Discovery after consideration of all pertinent operating and financial data such as recoverable reserves, sustainable Production levels, estimated Development and Production Expenditures, prevailing prices and other relevant technical and economic factors according to good international Petroleum industry practices and the Rules and would justify its economic Development and Commercial Production.
- 1.18 "*Commercial Production*" means production of Petroleum out of a Commercial Discovery, which production ensures at least the recovery of all Expenditure

directly attributable to such discovery within a reasonable time and the earning of a reasonable profit.

- 1.19 "*Condensate*" means liquid Petroleum, excluding Crude Oil and LPG, produced at surface by processing or separation of Natural Gas from a Gaseous Reservoir and which for the purposes of this Agreement shall also include natural gas liquids.
- 1.20 "*Contract Area*" means the entirety of the area or areas outlined and more particularly described in Annex-II, less any portion thereof which may be relinquished or Surrendered under the terms of this Agreement.
- 1.21 "*Contract Year*" means a period of one Year from the Effective Date or any anniversary thereof.
- 1.22 "*Contractor*" means the entity identified as Contractor in the preamble of this Agreement.
- 1.23 "*Cost Recovery Gas*" means the Natural Gas available to Contractor for the recovery of its Expenditure pursuant to Article 6.2 hereof.
- 1.24 "*Cost Recovery Oil*" means the Crude Oil, Condensate and LPG available to Contractor for the recovery of its Expenditure pursuant to Article 6.2 hereof.
- 1.25 "*Crude Oil*" means the liquid Petroleum, other than Condensate and LPG produced by separation at surface from a Liquid Reservoir in its natural state before the same has been refined but after extraction of water and foreign substances, and "*Crude Oil LPG Condensate*" means Crude Oil or LPG or Condensate or a mixture of any two or more of them.
- 1.26 "*Date of Commercial Discovery*" means the date when Contractor formally notifies the Director General, Petroleum Concessions in accordance with Article 5.4 hereof that a Commercial Discovery has been made.
- 1.27 "*Date of Significant Gas Discovery*" means the date when Contractor formally notifies the Director General, Petroleum Concessions in accordance with Article 5.4 hereof that a Significant Gas Discovery has been made.
- 1.28 "*Day*" means a continuous period of twenty-four (24) hours beginning at 8 A.M. Pakistan Standard Time or such other time as may be mutually agreed by the Parties.
- 1.29 "*Designated Area*" means the area pertaining to a Discovery that does not merit Appraisal or is not a Commercial Discovery or a Significant Gas Discovery, as provided for in Article 5.2.
- 1.30 "*Development* or "*Development Operations*" means the preparation of a Development Plan, in accordance with the Rules the building and installation of

facilities for Production and includes drilling of Development Wells, construction and installation of equipment, pipelines, facilities, plants and systems, in and outside the Contract Area, which are required for achieving Production, treatment, transport, storage and lifting of Petroleum, and preliminary Production and testing activities carried out prior to the commencement of Commercial Production, and includes all related planning and administrative work, and may also include the construction and installation of secondary and tertiary recovery systems.

- 1.31 "*Development Area*" means the portion of the Contract Area as defined by Contractor pursuant to Article 5.6 covering a Commercial Discovery.
- 1.32 "*Development Plan*" means the plan submitted to DGPC for approval pursuant to Article 5.7(b) hereof and the Rules.
- 1.33 "*Development Well*" means a well drilled in accordance with the approved Development Plan for the purpose of producing Petroleum or injecting fluids into the reservoirs.
- 1.34 "*Director General, Petroleum Concessions*" or "*DGPC*" means any officer or authority appointed by the Government to exercise the powers and perform the functions of the Director General, Petroleum Concessions, under the Rules.
- 1.35 "*Discovery*¹" means the finding of a deposit of Petroleum not previously known to have existed within the Contract Area which produces a flow of Petroleum which is measurable by conventional Petroleum industry testing methods.
- 1.36 "*Dollar*" or "*US*" means the lawful currency of the United States of America.
- 1.37 "*Effective Date*" means the date on which the License has been granted and this Agreement has been executed by the President and the Parties hereto.
- 1.38 "*Expenditure*" means, for the purpose of defining Cost Recovery Oil and Cost Recovery Gas, capital and operating expenditures, both recoverable and nonrecoverable, incurred in connection with or incidental to the conduct of Petroleum Operations, as more particularly classified, identified and set forth in the Accounting Procedure attached hereto as Annex-I.
- 1.39 "*Exploration*" or "*Exploration Operations*" means the search for Petroleum in the Contract Area previously not known to have existed, using geological, geophysical and other methods and the drilling of Exploration Well(s) more particularly defined in the Rules and includes any activity in connection therewith or in preparation therefor and any relevant processing and Appraisal work, including technical and economic feasibility studies.
- 1.40 "*Exploration Period*" means the Initial Term plus any renewals or extensions granted pursuant to Article 3.1(a) to (d).

- 1.41 "*Exploration Well* means a well (that is neither a Development Well nor an Appraisal Well) as defined in the Rules drilled in search of Petroleum not previously known to have existed within the Contract Area in a new and separate geological structure or feature.
- 1.42 "*First Renewal* means renewal of the License as defined in Article 3.1 hereof.
- 1.43 "*Gaseous Reservoir* means a Petroleum reservoir which under reservoir conditions of original temperature and pressure is predominantly in the gaseous phase.
- 1.44 "*Grid Area* means an area of five (5) minutes longitude by five (5) minutes latitude, based on a general block system as per the Rules.
- 1.45 "*Government'* means the Federal Government of the Islamic Republic of Pakistan.
- 1.46 "*Initial Term* means the initial period of the license not exceeding five (5) Contract Years from the Effective Date.
- 1.47 "*Lease*" means a lease for the Development and Production of Petroleum granted pursuant to Article 5.8 of this Agreement and in accordance with the Rules.
- 1.48 "*license*" means a license granted in respect of the Contract Area in accordance with the Rules.
- 1.49 "*Liquid Reservoir* means a Petroleum reservoir which under reservoir conditions of original temperature and pressure is predominantly in the liquid phase.
- 1.50 "*Liquefied Petroleum Gas*" or "*LPG*" means a mixture of Propane and Butane separated from Natural Gas by compression, extraction or other processes as per standard specification laid down by the relevant governmental organization.
- 1.51 "*Management Committee*" means the Committee constituted pursuant to Article XV of this Agreement.
- 1.52 "*Measurement Point* means the point or points where all Crude Oil, Condensate, Natural Gas and LPG are measured, as more specifically defined in Article 8.4.
- 1.53 "*Minimum Work*" means the minimum work programme referred to in Article 3.3 in respect of the Initial Term or First or Second Renewal thereof.
- 1.54 "*Natural Gas*" means Petroleum which at standard atmospheric conditions of pressure and temperature is in a gaseous phase including non-hydrocarbon gas which is in association with and produced at the surface together with such gaseous hydrocarbons.

- 1.55 "*Offshore*" means the area consisting of all Sections which are located completely seawards from the high water mark along the coast of Pakistan and within the Territorial Waters, Historic Waters, Contiguous Zones, Continental Shelf or Exclusive Economic Zone, as those terms are more specifically defined in the *Territorial Waters and Maritime Zones Act, 1976* (Act No. LXXXII of 1976).
- 1.56 "*Original Contract Area*" means the entirety of the area or areas as outlined and more particularly described in Annex-II on the Effective Date.
- 1.57 "*Party*" means Government Holdings or Contractor, as the case may be, and "*Parties*" means both Government Holdings and Contractor.
- 1.58 "*Petroleum*" means all liquid and gaseous hydrocarbons existing in their natural condition in the strata, as well as all substances, including sulfur, produced in association with such hydrocarbons, but excluding basic sediments and water.
- 1.59 "*Petroleum Operations*" means all activities conducted by Contractor under this Agreement related to Petroleum Exploration, Appraisal, Development and Production activities and any ancillary activities reasonably related thereto and that occur upstream of the Measurement Point. But it does not include any gas processing, pipeline and other transportation, storage or other ancillary activities necessary to facilitate the Production, processing, storage, transportation and disposal of Petroleum which occur downstream of the Measurement Point.
- 1.60 "*Production*" or "*Production Operations*" means activities, not being Development Operations, undertaken in order to extract, save, treat, measure, handle, store and transport Petroleum to storage or loading points or both and to carry out any type of primary and secondary operations, including recycling, recompression, maintenance of pressure and water flooding and all related activities such as planning and administrative work and shall also include maintenance, repair and replacement of facilities, and well workovers, conducted after the commencement of Commercial Production of the respective Development Area upstream of the Measurement Point.
- 1.61 "*Profit Gas*" means the Natural Gas to be shared between Government Holdings and Contractor pursuant to Article VI hereof.
- 1.62 "*Profit O/7*" means the Crude Oil, Condensate and LPG to be shared between Government Holdings and Contractor pursuant to Article VI hereof.
- 1.63 "*Retention Period*" means the period during which a Significant Gas Discovery can be retained pursuant to Article 5.9 hereof.
- 1.64 "*Royalty*" means the payment to the Government pursuant to Article 9.1 hereof and the Rules.

- 1.65 "Rules" means the *Pakistan Petroleum (Exploration and Production) Offshore Rules, 2000*, as amended from time to time including all schedules in effect on the Effective Date.
- 1.66 "Rupee" or "Rs." means the lawful currency of Pakistan.
- 1.67 "Section" means an area of thirty (30) seconds latitude by thirty (30) seconds longitude, based on a general block system as provided for in the Rules.
- 1.68 "Second Renewal" means the renewal of the License as provided for in Article III hereof.
- 1.69 "Significant Gas Discovery" means a Discovery of Natural Gas from an Exploration Well in the Contract Area which has tested significant flow rates of Natural Gas (predominantly methane) from one or more reservoirs, and which is estimated to be capable of continuous Production from the said reservoir(s) over a reasonable period and which in the opinion of the Contractor could be declared a Commercial Discovery in the future, provided inter-alia that:
- (a) adequate gas pipeline transportation facilities are installed, or
 - (b) markets have been sufficiently developed for sale of Natural Gas on a commercial basis, or
 - (c) the requirements of both (a) and (b) have been met.
- 1.70 "Significant Gas Discovery Area" means the portion of the Contract Area defined by Contractor pursuant to Article 5.6 covering a Significant Gas Discovery.
- 1.71 "Subcontractor" means any company or person contracted by the Contractor to provide services with respect to Petroleum Operations.
- 1.72 "Surrender" means the termination of rights with respect to the whole or any part of the Contract Area.
- 1.73 "Surrendered Area" means whole or a part of the Contract Area with respect to which the rights of the Contractor stand terminated by Surrender.
- 1.74 "Term" means the duration of this Agreement as defined in Article 3.1 hereof.
- 1.75 "Value" means the well-head value of the Petroleum as defined in the Rules and elaborated in Article VIII hereof.
- 1.76 "Work Unit" has the meaning given in Annex-III to this Agreement.
- 1.77 "Yeah" means a period of twelve consecutive Months according to the Gregorian calendar.

ARTICLE III
RIGHTS AND OBLIGATIONS

- 2.1 The object of this Agreement is for the Contractor to undertake the Exploration, Development and Production of Petroleum in the Contract Area at Contractor's sole risk and expense and subject to the right of the Government and Government Holdings to share in Production according to the terms of Article VI,
- 2.2 The President confirms that a license has been granted to Government Holdings to carry out Exploration for Petroleum in the Contract Area, and shall, upon notification of a Commercial Discovery and approval of a Development Plan, grant Leases for Development and Production of Petroleum for each Development Area pursuant to Article 5.8 hereof and in accordance with the Rules. The License and subsequent grant of a Lease or Leases confer exclusive rights, subject to the rights of holders of pre-existing (Permits) as specified in the Rules, to conduct the respective Petroleum Operations in the Contract Area.
- 2.3 The Original Contract Area comprises a total area of ----- square kilometers, as described in Annex-II attached hereto.
- 2.4 This Agreement grants no other rights in favor of Contractor to the surface area, seabed, sub-soil or to any natural resources or aquatic resources in Offshore except for the rights expressly provided by this Agreement.
- 2.5 This Agreement does not create a partnership, taxable entity or any relationship other than a production sharing arrangement between Government Holdings and Contractor.
- 2.6 Title of Petroleum to which Contractor and Government Holdings are entitled under this Agreement shall pass at the Measurement Point. Contractor shall be responsible for all costs and risk upstream of the Measurement Point and each Party shall be responsible for all costs and risks associated with such Party's share downstream of the Measurement Point and where Government Holdings or its nominee purchases all or some of Contractor's share of Petroleum then Government Holdings or its nominee shall be responsible for all costs and risks downstream of the Measurement Point in respect of Petroleum purchased.
- 2.7 Government Holdings, following written request from the Contractor, and subject to relevant laws, regulations and policies, agrees to provide necessary assistance to the Contractor as far as possible to obtain the required permissions and approvals.
- 2.8 Contractor shall have the right to conduct Petroleum Operations in the Contract Area for a period as stipulated in Article III in accordance with this Agreement, the Rules, good international Petroleum industry practices and all applicable Pakistani laws, in case of conflict between the provisions of Pakistani laws and good international Pakistan industry practice, the forum shall prevail.

- 2.9 Contractor shall be responsible to Government Holdings for the execution of the Petroleum Operations in accordance with the provisions of this Agreement. Without prejudice to Contractor's position hereunder, the Petroleum Operations to be conducted pursuant to this Agreement by Contractor shall be subject to the general supervision and review by Government Holdings through the Management Committee in accordance with this Agreement.
- 2.10 Contractor is obligated to bear the expenses on all Petroleum Operations under this Agreement. Contractor shall not receive compensation for its services or any reimbursement of its Expenditure under this Agreement except for the Petroleum to which Contractor is entitled to under Article VI of this Agreement. If there is no Commercial Discovery in the Contract Area or if the Production achieved by Contractor is insufficient, Contractor shall bear its own losses.
- 2.11 Where Contractor is comprised of more than one entity, one of such entities subject to prior written approval of Government Holdings shall act as operator to manage the Petroleum Operations. In such a case Contractor shall promptly provide a copy of the operating agreement and any amendment thereto to Government Holdings. However, nothing contained in this Article shall absolve Contractor from its obligations towards the Government or Government Holdings for which Contractor will be solely and exclusively responsible.
- 2.12 Contractor shall in addition to its obligations under other provisions of the Agreement be obliged to:
- a) Establish within 90 days of the Effective Date a branch or representative office within the territory of Pakistan in accordance with the relevant provisions of applicable law;
 - b) Designate a representative residing in Pakistan who shall have full authority to represent it in respect of matters related to the Agreement in respect of the Contract Area and to receive notices addressed to Contractor;
 - c) Provide all necessary funds for Petroleum Operations, including but not limited to funds required for purchase or lease of all assets, materials and supplies to be purchased or leased pursuant to work programme and such other funds for the performance of work programme including payment to third parties who may perform any contractual services and to provide technical services, technology and such expatriate personnel as may be required for the performance of the work programme;

- d) Conduct all Petroleum Operations in a diligent, conscientious and workmanlike manner, in accordance with the applicable laws and the Agreement, and generally accepted standards of the international Petroleum industry designed to achieve efficient and safe Exploration, Development and Production of Petroleum and prevent loss or waste of Petroleum above or below the surface and to maximize the ultimate economic recovery of Petroleum from the Contract Area;
- e) Ensure that all materials, equipment, technologies and facilities used in Petroleum Operations comply with generally accepted engineering standards in the international Petroleum industry, and are kept in good working order;
- f) While conducting Petroleum Operations, take necessary measures for consideration, safety of life, property, crops, fishing and fisheries, navigation, protection of environment, prevention of pollution and safety and health of personnel;
- g) Unless otherwise instructed by Government Holdings, ensure that any Exploratory or Appraisal Well technically capable of production, is left in a condition that it may be reentered for further testing and/or completion;

**ARTICLE III
TERM AND EXPLORATION WORK PROGRAMME**

- 3.1 The following provisions establish the term (the "Term") of this Agreement, the License and any Lease that is granted pursuant to this Agreement in accordance with the Rules:
- (a) This Agreement and the License shall be valid for an Initial Term of five (5) Contract Years, and subject to Article 3.1(b) and Contractor meeting the requirements under this Agreement and the Rules, shall be renewed, for two (2) renewal periods of two Contract Years each (hereinafter called the First Renewal and the Second Renewal respectively or Renewal(s) collectively) provided Contractor requests such a renewal in writing at least ninety (90) Days prior to expiry of the Initial Term or the First Renewal period. The Initial Term shall be divided into three phases (each referred to as a "Phase"), the first two having a duration of two Contract Years and the third having a duration of one Contract Year.
 - (b) Contractor shall be entitled to First Renewal or Second Renewal if Contractor:
 - (i) has complied with the Minimum Work during the Initial Term or First Renewal as the case may be, and all other obligations under this Agreement;
 - (ii) has committed himself to the Minimum Work for the subsequent period as per the Rules;
 - (iii) has provided the related guarantees contemplated by Article 26 of this Agreement; and
 - (iv) has made the mandatory relinquishments contemplated by this Agreement and the Rules.
 - (c) This Agreement and the License may be extended as it relates Twenty- two points, plus triple-word-score, plus fifty points for using all my letters. Game's over. I'm outta here, to an Appraisal Area for the purpose of carrying out an Appraisal Programme for a period of two (2) Contract Years provided Contractor has committed to the drilling of at least one Appraisal Well and has complied with the Minimum Work and other obligations under this Agreement.
 - (d) The Initial Term or First Renewal or Second Renewal may be extended for drilling an Exploration Well in progress for a period not exceeding one hundred and eighty (180) Days, which shall be considered to be part of the Initial Term, First Renewal or Second Renewal, as the case may be and any subsequent Phase or Renewal, where applicable, shall be

reduced by the period of time of any such extension. Upon completion of such Exploration Well, credit will be given to the Minimum Work obligation related to the Phase or Renewal that was extended.

- (e) Pursuant to Article 5.9 hereof, the duration of this Agreement and the License for any Significant Gas Discovery Area shall be extended up to a period equal to the applicable Retention Period.
 - (f) If a Commercial Discovery is made during the Initial Term, First Renewal, Second Renewal or the extension contemplated under Article 3.1(c) for which a Lease has been granted, this Agreement shall remain valid for a period not exceeding thirty-three (33) Contract Years with effect from the Effective Date provided the duration of this Agreement shall, in accordance with the Rules, be extended by a period equal to the Retention Period, if applicable, in respect of any part of Contract A 1ea which has been declared a Significant Gas Discovery Area.
 - (g) This Agreement, the License and any Lease granted pursuant to this Agreement are subject to earlier termination pursuant to Article VII and in accordance with the provisions of the Rules.
- 3.2 At the expiry of the Term, this Agreement and any Lease may be renewed for a further five (5) Contract Years as per the Rules provided:
- (a) Commercial Production from the Contract Area is continuing; and
 - (b) Contractor agrees to the new terms and other conditions as per the Rules in effect at that time.
- 3.3 The minimum work (the "Minimum Work") to be carried out shall be as follows:
- (a) **INITIAL TERM:**
 - (i) **Phase One:** Contract Years 1 and 2: * Work Units plus 3 Work Units per Grid Area in the Original Contract Area, for each of Contract Years 1 and 2.
 - (ii) **Phase Two:** Contract Years 3 and 4: * Work Units plus 5 Work Units per Grid Area in the Contract Area, for each of Contract Years 3 and 4.
 - (iii) **Phase Three:** Contract Year 5: ___ * _ Work Units plus 7 Work Units per Grid Area in the Contract Area.

1 Work Units to be accomplished at any time prior to the end of the Initial Term.

(b) **FIRST RENEWAL:**

Contract Years 6 and 7 : 20 Work Units per Grid Area in the Contract Area.

(c) **SECOND RENEWAL:**

Contract Years 8 and 9: _____ Work Units plus _____ Work Units per Grid Area in the Contract Area.

For the purposes of determining the Minimum Work, the number of Grid Areas included in a Contract Area will be determined as follows:

- (i) for Phase One, the number of Sections in the Original Contract Area divided by 100;
- (ii) for Phase Two and Three of the Initial Term and the First and Second Renewal, the number of Sections in the Contract Area at the beginning of respective Phase or Renewal period as the case may be, divided by 100.

If the number of Grid Areas resulting from the above determination is a fraction, then the Minimum Work will be determined based on the fraction, rounded to the nearest whole number of Work Units.

- 3.4 Contractor hereby agrees to pay to Government Holdings as compensation for non-performance an amount of Ten Thousand Dollars (\$10,000) for every Work Unit not accomplished during relevant Phase of the Initial Term or during the First Renewal or Second Renewal. In addition, if Contractor does not carry out the Minimum Work during any Phase of the Initial Term or the First Renewal or Second Renewal, this Agreement shall automatically terminate upon the termination of the respective Phase or Renewal in which the Minimum Work was not carried out and Contractor shall not have any right to further extensions or Renewals provided however, this Agreement will continue to be valid for any Commercial Discovery(ies) pursuant to Article 3.1(f).
- 3.5 Contractor shall keep the DGPC informed of the progress of each well and shall:
 - (a) promptly or forthwith inform DGPC of their proposals for testing;
 - (b) test as per good international Petroleum industry practices, potentially productive horizons indicated by wireline recording or otherwise; and
 - (c) promptly undertake the technical evaluation of the test results and of all other relevant subsurface data and submit the same to the DGPC as soon as possible.
- 3.6 Where the number of Work Units accomplished during Phase One or Phase Two of the Initial Term exceeds the number of Work Units specified in Article 3.3(a) or

(b) respectively, the amount of such excess shall first be credited against the Work Units of the Bid Obligation. Where the number of Work Units accomplished during any period exceeds the Minimum Work for that Phase and the Bid Obligation, the amount of such excess shall be carried forward and credited against the Minimum Work obligation of the next succeeding Phase.

- 3.7 Neither Appraisal Wells nor seismic surveys carried out as part of an Appraisal Programme drawn up pursuant to Article V shall discharge the Minimum Work set out in Article 3.3.
- 3.8 (a) On the Effective Date and prior to the first Day of commencement of each Phase, and where this Agreement has been renewed pursuant to Article 3.1, prior to the first Day of commencement of each Renewal, Contractor shall provide a legal opinion pursuant to Article XXVI along with an irrevocable and unconditional bank guarantee or a parent company guarantee, substantially in the form specified in Annex-IV&V hereto as required and notified by Government. The amount of the unconditional bank guarantee shall be equal to the product of US \$10,000 and Work Units and:
- (i) for the Initial Term, the total number of Work Units included in the relevant Phase as specified in Article 3.3(a), (b) and (c), plus the number of Work Units of the Bid Obligation; and
 - (ii) for the First Renewal or Second Renewal, the total number of Work Units as specified in 3.3(b) and (c) respectively period.
- (b) The amount of bank guarantee submitted pursuant to Article 3.8(a) may be reduced at the request of Contractor, provided that the requirements set forth in Article 26.2 are met.
- 3.9 Contractor shall commence Petroleum Operations within ninety (90) Days of the Effective Date.

**ARTICLE IV
RELINQUISHMENT**

- 4.1 On or before the end of the Initial Term of the License, Contractor shall relinquish Sections representing not less than 20% of the Original Contract Area.
- 4.2 Contractor shall relinquish further Sections representing not less than 30% of the Original Contract Area, on or before the end of the First Renewal period of the License subject to Article 3.1(d) hereof.
- 4.3 Contractor shall relinquish further Sections representing to not less than 30% of the Original Contract Area on or before the end of the Second Renewal period of the License subject to Article 3.1 (d) hereof.
- 4.4 Except as otherwise provided herein, Contractor shall relinquish the remainder of the Original Contract Area, on or before the expiration of the Exploration Period.
- 4.5 The configuration of the Sections to be relinquished shall be determined by Contractor, provided, however, that:
 - (a) Contractor shall inform the DGPC in writing at least ninety (90) Days in advance of the date of relinquishment, of the description and the portion or portions of the Original Contract Area to be relinquished; and
 - (b) the Sections to be relinquished shall form not more than two (2) separate groups. Each group shall be a contiguous area of a compact nature whereby all Sections shall be connected and have in common at least on one of their sides of thirty (30) seconds longitude or latitude, subject to the configuration of the Original Contract Area, and the longest east/west and north/south dimensions of a relinquished area are such as to establish a viable possible future Contract Area.
- 4.6 During the hitial Term and any renewal thereof, Contractor shall not be obliged to relinquish any part of the Contract Area which has been made subject to an Appraisal Area or Development Area or Significant Gas Discovery Area.
- 4.7 Upon at least ninety (90) Days written notice to the DGPC, Contractor shall have the right to Surrender any portion of the Contract Area. Such surrender shall comply with the requirements of Article 4.5(b). Any acreage relinquished in excess of the relinquishments made pursuant to Articles 4.1 and 4.2 may be credited against the relinquishment obligations for the next Phase or Renewal as the case may be.
- 4.8 No relinquishment or Surrender made in accordance with this Article IV shall relieve Contractor of:

- (a) any obligations to make payments due prior to such relinquishment or Surrender, and
- (b) any other obligations under in this Agreement,

that directly relate to the relinquished or Surrendered area. A relinquishment or Surrender during any Phase or Renewal shall not reduce the Minimum Work applicable to such Phase or Renewal.

**ARTICLE V
DISCOVERY AND DEVELOPMENT**

- 5.1 In the event of a Discovery of Petroleum in the Contract Area, Contractor shall promptly inform the DGPC, and, by further notice in writing within three (3) Months from the date of termination of drilling and testing of the respective Exploration Well inform the DGPC whether or not the Discovery, in the opinion of Contractor, merits Appraisal.
- 5.2 If Contractor notifies the DGPC that the Discovery does not merit Appraisal, DGPC shall have the option, on three (3) Months written notice, to require Contractor to immediately relinquish the Designated Area unless the Contractor has provided valid justification to retain the area covering the Discovery. The Designated Area shall:
- (a) not exceed 150 Sections;
 - (b) not comprise more than the vertical projection to the surface of the geological structure on which the Discovery Well was drilled; and
 - (c) be determined based on geophysical and other technical information obtained from the Discovery.
- 5.3 If Contractor notifies DGPC that the Discovery merits Appraisal, Contractor shall submit to the DGPC for approval within six (6) Months from the date of completion of the Exploration Well resulting in the Discovery, an Appraisal Programme which highlights the Appraisal Area and provides for the Appraisal of the Discovery within a period of two (2) Years from the date of approval of such Appraisal Programme, consisting of the drilling of a minimum of one Appraisal Well to the estimated depth of the reservoir discovered in the Discovery well.
- 5.4 Not later than three (3) Months from the date on which the Appraisal Programme has been completed, or within such further period as the DGPC may reasonably allow (taking into account the relevant technical and economic conditions), Contractor shall by notice in writing inform the DGPC, whether or not, in the opinion of Contractor, the Discovery is a Commercial Discovery or a Significant Gas Discovery.
- 5.5 Where Contractor has informed the DGPC that the Discovery is not a Commercial Discovery or Significant Gas Discovery, the DGPC may, by notice in writing, require Contractor to immediately relinquish the Designated Area. The Designated Area shall be determined as specified in Article 5.2 unless the Contractor has provided valid justification to retain the area covering the Discovery.
- 5.6 Where Contractor has informed the DGPC that the Discovery is a Commercial Discovery or a Significant Gas Discovery, Contractor will select the Development

Area or Significant Gas Discovery Area, as the case may be, in the following manner

- (i) it will not exceed the geological entity covering the Commercial Discovery or a Significant Gas Discovery and
 - (ii) the Development Area or the Significant Gas Discovery Area shall be an area of no more than 150 contiguous Sections selected by Contractor, subject to the limitations of the Contract Area, whereby the Sections are connected and have in common at least one side of thirty (30) seconds latitude or longitude and. If Contractor can provide conclusive evidence based on geological, geophysical and other data that 150 Sections are not sufficient to cover the vertical projection to the surface of the discovered reservoirs, then DGPC may at its discretion approve a Development Area covering more than 150 Sections to account for the vertical projection to the surface of the discovered reservoirs within the boundaries of the License.
- 5.7 Where Contractor has by written notice informed the DGPC that the Discovery is a Commercial Discovery, Contractor shall, no later than six (6) Months from the date of such notice or within such time period as may be allowed by DGPC, present:
- (a) a detailed report on each Commercial Discovery as provided for in Article 5.10 to DGPC and
 - (b) a Development Plan for the Commercial Discovery for approval by DGPC.
- 5.8 Upon the approval of each Development Plan, the Government shall subject to the terms of this Agreement and the Rules grant a Lease to Government Holdings for a period not exceeding twenty five (25) Years covering the Development Area within three (3) Months of the approval of the Development Plan.
- 5.9 Contractor shall subject to the terms of this Agreement and the Rules be entitled to the Retention Period of each Significant Gas Discovery Area of a Significant Gas Discovery for a maximum period of up to ten (10) Years following the Date of a Significant Gas Discovery. The application for the Retention Period in respect of the Significant Gas Discovery Area shall be submitted for approval of DGPC. in accordance with the Rules. If the Contractor does not declare a Significant Gas Discovery as a Commercial Discovery during the Retention Period, the Contractor shall relinquish the significant Gas Discovery Area and the License shall terminate automatically upon the termination of the Retention Period. If Contractor declares a Commercial Discovery during the Retention Period, Contractor will select the Development Area out of the Significant Gas Discovery Area, and the provisions of Articles 5.6, 5.7 and 5.8 shall apply.

5.10 The report on each Commercial Discovery referred to in Article 5.7 shall cover all the relevant factors including, but not be limited to:

- (a) the chemical composition, physical properties and quality of Petroleum discovered;
- (b) the thickness and extent of the production strata;
- (c) petrophysical properties of the reservoirs;
- (d) the productivity indices for wells tested at various rates of flow;
- (e) permeability and porosity of the reservoirs; and
- (f) the estimated Production capacity of the reservoirs; and
- (g) all relevant economic and commercial information which is necessary for the determination of a Discovery as a Commercial Discovery.

5.11 Each Development Plan referred to in Article 5.7 shall contain detailed proposals by Contractor for the construction, establishment of all facilities and services for and incidental to the recovery, storage and transportation of Petroleum from the Contract Area, including but not limited to:

- (a) description of the nature and characterization of reserves, data, statistics, interpretation and conclusion of all aspects of the geology, reservoir evaluation, Petroleum engineering factors, reservoir models, estimates of reserves in place, possible Production estimates, nature and ratio of Petroleum fluids and analysis of producible Petroleum;
- (b) proposals for the Development and Production of the Commercial Discovery including possible alternatives, work programmes and budgets and proposals relating to the disposition of Associated Gas. Contractor should make specific recommendations as to the particular Development proposal that it would prefer. This should include information regarding projections of the economics and profitability of the Petroleum Operations as well as indication of the proposed financing arrangements and terms of funding the Development.
- (c) proposals relating to the spacing, drilling and completion of wells, the Production and storage installations, and transport and delivery facilities required for the Production, storage and transport of Petroleum. Such proposals will include, but not be limited to:
 - (i) the estimated number, size and Production capacity of Production facilities/platforms, if any;

- (ii) estimated number of Production wells;
 - (iii) particulars of Production equipment and storage facilities;
 - (iv) particulars of feasible alternatives for the transportation of Petroleum including pipelines;
 - (v) particulars of equipment required for the Petroleum Operations;
 - (d) estimate of the rates of Production to be established and projection of the possible sustained rate of Production in accordance with good international Petroleum industry practices under proposed Development proposal and/or alternative Development proposals;
 - (e) cost estimates under such Development proposed and alternative Development proposals, if any;
 - (f) proposals related to the establishment of processing facilities (if any);
 - (g) safety measures to be adopted in the course of the Petroleum Operations, including a contingency plan and measures to deal with emergencies;
 - (h) anticipated adverse impact on environment and measures proposed to be taken for prevention thereof and for general protection of the environment;
 - (i) a description of the organizational set up of Contractor in Pakistan;
 - (j) an estimate of the time required to complete each phase of the proposed Development;
 - (k) a description of the measures to be taken regarding the employment and training of Pakistani personnel;
 - (l) a description of the abandonment plan, to be implemented whenever a piece of equipment, facility or a platform needs to be abandoned prior to or on termination of this Agreement;
 - (m) a map or maps of the outline of the discovered reservoir(s) together with technical or other back up justification; and
 - (n) a plan for utilization of local goods and services.
- 5.12 Each Development Plan requires approval of the DGPC in accordance with the Rules. Such approval will not be unreasonably withheld or delayed. The DGPC may only disapprove of the Development Plan, where such plan is not materially in accordance with the terms and conditions of this Agreement and the Rules.

- 5.13 After approval of a Development Plan, Contractor shall carry out the Petroleum Operations substantially in accordance with this plan, subject to such modifications which may be necessary from time to time which are approved by the DGPC in accordance with the Rules.
- 5.14 Contractor shall with the approval of DGPC amend the Development Plan as required or where a new Commercial Discovery is made as a result of further Exploration in the Development Area.
- 5.15 Not less than ninety (90) Days prior to the beginning of each Calendar Year following the commencement of regular shipments of Crude Oil, Condensate, LPG or Natural Gas, Contractor shall prepare and furnish to DGPC and Government Holdings a forecast statement, and the basis thereof, setting forth by quarters the total quantity of Crude Oil, Condensate, LPG and Natural Gas (by quality, grade and gravity) that Contractor estimates can be produced, saved and transported hereunder during such Calendar Year.
- 5.16 Contractor shall, with respect to each Lease:
- (a) annually update and submit to DGPC maps required under Article 5.11(m) on the basis of the then most recent well, geological, and geophysical information indicating on such maps which reservoirs are in Commercial Production including such parts of reservoirs which are required for water injection;
 - (b) within ten (10) Years of the commencement of Commercial Production from each Commercial Discovery, relinquish from the Development Area all Sections which do not cover wholly or partially the vertical projections to the surface of reservoirs from which Commercial Production is being obtained or which are not required for water injection as per approved Development Plan; and
 - (c) provide DGPC with a map with description of the relinquished Sections and map referred to in Article 5.16(a) and (b) upon such relinquishment.
- 5.17 DGPC shall, within ninety (90) Days of receipt of the maps specified in Article 5.16(c) inform Contractor in writing of:
- (a) DGPC approval of the relinquished Sections, or
 - (b) the need for Contractor to relinquish further Sections which are not vertical projections to the surface of reservoirs from which Commercial Production is being obtained, or which are not required for water injection.

Contractor shall, within sixty (60) Days of DGPC notification under Article 5.17(b) relinquish such Sections unless Contractor disputes such notification in writing to

DGPC in which case dispute resolution proceedings may be initiated by Contractor through a sole expert unless mutually agreed otherwise.

The Contractor shall have an organization in Pakistan with sufficient competence and capacity to conduct the Petroleum Operations.

**ARTICLE VII
PRODUCTION SHARING**

- 6.1 All Crude Oil/LPG/Condensate and Natural Gas produced and saved from the Contract Area and not used in the Petroleum Operations (hereinafter referred to as "Available Oil" or "Available Gas") shall be measured at the applicable Measurement Point and allocated as set forth hereinafter. Test or experimental Production shall require approval in accordance with the Rules.
- 6.2 Subject to the Accounting Procedure, Contractor shall recover Expenditure not excluded by the provisions of this Agreement or the Accounting Procedure in respect of all Petroleum Operations hereunder to the extent of and out of a maximum of 85% of all Available Oil and all Available Gas (hereinafter referred to as "Cost Recovery Oil" and "Cost Recovery Gas" respectively). Available Oil and Cost Recovery Oil shall include LPG and Condensate. Any Royalty payments as well as any payment referred to Article IX shall be part of the Expenditure and shall be recoverable as Cost Recovery Oil or Cost Recovery Gas.
- 6.3 All Expenditure permitted for cost recovery under this Agreement shall be treated as an expense (and not capitalized) for purposes of cost recovery and shall be allocated to Cost Recovery Oil or Cost Recovery Gas on the date such costs are incurred in accordance with the Accounting Procedure.
- 6.4 The cost recovery shall be determined on a Monthly basis and any Expenditure in excess of the limit established in Article 6.2 shall be carried forward for cost recovery during the following Month, and such procedure shall be repeated until the Expenditure is fully recovered.
- 6.5 The Crude Oil, LPG and Condensate remaining after the deduction of the Cost Recovery Oil from the Available Oil (subject to the limit provided for in Article 6.2) shall be considered Profit Oil. The Natural Gas remaining after the deduction of the Cost Recovery Gas from the Available Gas (subject to the limit provided for in Article 6.2) shall be considered Profit Gas.
- 6.6 Profit Oil and Profit Gas from the Contract Area shall be allocated on a Monthly basis between Government Holdings and Contractor in accordance with a sliding scale based on cumulative Production from the Contract Area during the term of this Agreement as follows:
 - (a) Where the Petroleum is obtained from a Shallow Grid Area(s) (description of which is given in Annex-VII) from geological formation(s) encountered at depths less than 4000 meters below sea level:

| Cumulative Available Oil/Available Gas On BOE Basis from Contract Area (MMBBLs) | Government Holdings Share of Profit Oil/Profit Gas in Contract Area | | Contractor Share of Profit Oil/Profit Gas in Contract Area | |
|----------------------------------------------------------------------------------------|---------------------------------------------------------------------|-------------|------------------------------------------------------------|-------------|
| | Crude Oil/LPG/Condensate | Natural Gas | Crude Oil/LPG/Condensate | Natural Gas |
| 0-100 | 20% | 10% | 80% | 90% |
| > 100 -200 | 25% | 15% | 75% | 85% |
| >200 -400 | 40% | 35% | 60% | 65% |
| > 400 - 800 | 60% | 50% | 40% | 50% |
| >800 - 1200 | 70% | 70% | 30% | 30% |
| > 1200 | 80% | 80% | 20% | 20% |

(b) Where the Petroleum is produced from geological formation(s) encountered at depths deeper than 4000 meters below sea level in a Shallow Grid Area(s) or where the Petroleum is produced from geological formation(s) from Deep Grid Area(s) (description of which is given in Annex-VI) irrespective of the depth of the geological formation(s):

| Cumulative Available Oil/Available Gas On BOE Basis from Contract Area (MMBBLs) | Government Holdings Share of Profit Oil/Profit Gas in Contract Area | | Contractor Share of Profit Oil/Profit Gas in Contract Area | |
|----------------------------------------------------------------------------------------|---------------------------------------------------------------------|-------------|------------------------------------------------------------|-------------|
| | Crude Oil/LPG/Condensate | Natural Gas | Crude Oil/LPG/Condensate | Natural Gas |
| 0-200 | 5% | 5% | 95% | 95% |
| > 200 - 400 | 10% | 10% | 90% | 90% |
| > 400 - 800 | 25% | 25% | 75% | 75% |
| > 800 - 1200 | 35% | 35% | 65% | 65% |
| > 1200 -2400 | 50% | 50% | 50% | 50% |
| > 2400 | 70% | 70% | 30% | 30% |

(c) Where the Petroleum is produced from geological formation(s) from Ultra Deep Grid Area(s) (description of which is given in Annex-VI) irrespective of the depth of the geological formation(s):

| Cumulative Available Oil/Available Gas On BOE Basis from Contract Area (MMBBLs) | Government Holdings Share of Profit Oil/Profit Gas in Contract Area | | Contractor Share of Profit Oil/Profit Gas in Contract Area | |
|----------------------------------------------------------------------------------------|---------------------------------------------------------------------|-------------|------------------------------------------------------------|-------------|
| | Crude Oil/LPG/Condensate | Natural Gas | Crude Oil/LPG/Condensate | Natural Gas |
| 0-300 | 5% | 5% | 95% | 95% |
| > 300 - 600 | 10% | 10% | 90% | 90% |
| >600 - 1200 | 25% | 25% | 75% | 75% |
| > 1200 -2400 | 35% | 35% | 65% | 65% |
| > 2400 - 3600 | 45% | 45% | 55% | 55% |
| > 3600 | 60% | 60% | 40% | 40% |

(d) Where Crude Oil/LPG/Condensate Production is obtained from different parts of the Contract Area or from different depths, and a portion of the Production meets the requirements of Article 6.6(a) above and a portion meets the requirements of Article 6.6 (b) above, the Profit Oil share of Government Holdings will be determined by the following three steps:

- (i) First determine cumulative Profit Oil Share ("PSOS") the total cumulative Available Oil production (Qs + QD as defined hereunder) from Contract Area as if it meets the criteria set forth in Article 6.6(a) above;
- (ii) Then, determine the cumulative Profit Oil share (PSOD) based on the total cumulative Available Oil production (Qs + Cb as defined hereunder) from the Contract Area as if it meets the criteria set forth in Article 6.6(b) above;
- (iii) Finally the weighted average Profit Oil share of Government Holdings will be determined on the basis of following formula:

$$((Qs * PSos) + (QD * PSOD)) * (Qs + QD)$$

in which

"Qs" means the cumulative quantity of Available Oil production from the shall Grid Areas within the Contract Area that meets the requirements of Article 6.6(a) above;

"QD" means the cumulative quantity of Available Oil production from the Deep Grid Area within the Contract Area that meets the requirements of Article 6.6(b) above;

The Profit Oil Share of the Contractor will be the remainder.

- (e) Where Crude Oil/LPG/Condensate Production is obtained from Shallow Grid Area, Deep Grid Area and Ultra Deep Grid Area, the same procedure as provided for in Article 6.6(d) above shall be applicable.
- (f) Where Natural Gas Production occurs in the different parts of the Contract Area, the Profit Gas share of Contractor and Government Holdings shall be determined in the same manner as for Profit Oil in Article 6.6(d) above.

- 6.7 Where the Production consists partially of Crude Oil/LPG/Condensate and partially of Natural Gas, the Profit Oil and Profit Gas share of Government Holdings and Contractor will be determined based on the total joint cumulative Production from the Contract Area expressed in BOE. The portion of the Production that is Crude Oil/LPG/Condensate will be shared based on the Crude Oil/LPG/Condensate percentage applicable to the amount of total joint cumulative Production expressed in BOE, and the portion of the Production that is Natural Gas will be shared based on the Natural Gas percentage applicable to that amount of total joint cumulative Production expressed in BOE, subject to the provisions of Article 6.6(d), (e) and (f).
- 6.8 For the purpose of determining the water depth of a Grid Area, the map attached to this Agreement as Annex-VI shall be used. The location of the wellhead shall be used for determining the Grid Area where Production occurs. For determining the depth of the reservoir, the top of the productive horizon shall be used, with all depths measured vertically below sea level.
- 6.9 In addition to amounts otherwise payable under this Agreement, Contractor shall pay to Government Holdings within fifteen (15) Days of the end of each Calendar Month a share of any windfall price based on the following formula:

- (a) for Crude Oil/LPG/Condensate Production:

$$WPS_0 = 0.5 \times (P_0 - R_0) \times (R_{po} - Bp_0)$$

where:

WPS_0 is the windfall price share for Crude Oil/LPG/Condensate, expressed in \$;

P_0 is the Crude Oil/LPG/Condensate Production, expressed in BBLs;

R_0 is the Crude Oil/LPG/Condensate Royalty, expressed in BBLs;

R_{po} is the Value of Crude Oil, LPG and Condensate expressed in \$ per BBL;
and

Bp_0 is the base price of \$24 per BBL which will be increased at each Contract Year anniversary by US\$ 0.50 per BBL starting from the

Contract Year immediately following the grant of first Lease in the Contract Area.

(b) for Natural Gas Production:

$$WPSg = 0.5 \times (Pg - Rg) \times (Rpg - Bpg)$$

where:

WPSg is the windfall price share for Natural Gas, expressed in \$;

P_g is the Natural Gas Production, expressed in MMBtu;

R_g is the Natural Gas Royalty, expressed in MMBtu;

Rpg is the Value of Natural Gas, expressed in \$ per MMBtu; and

Bpg is the base price of US\$2.5/MMBTU per BBL which will be increased at each Contract Year anniversary by US\$ 0.10 per MMBTU starting from the Contract Year immediately following the grant of first Lease in the Contract Area.

Where the Value is less than the base price, the windfall price share shall be zero.

- 6.10 Subject to Article X and XI, Contractor shall have the right to export freely its share of Petroleum.
- 6.11 The volume and quality of Petroleum produced and saved from the Contract Area shall be measured by methods and measurement devices complying with good international Petroleum industry practices, approved by the DGPC and in compliance with the Rules. Contractor shall not make any alteration in the agreed method or procedures for measurement or to any of the approved measurement devices used for that purpose without the prior written consent of the DGPC.
- 6.12 Government Holdings and the DGPC may, at all reasonable times, inspect and test the measurement devices used for measuring the volume and determining the quality of Petroleum, provided that any such inspection or testing shall be carried out in such a manner so as not to unduly interfere with Petroleum Operations.
- 6.13 Before commencement of Commercial Production from the Contract Area, the Parties shall mutually agree on the precise location of the point at which Petroleum shall be measured in accordance with Article 8.4.
- 6.14 The Government Holdings shall have the option to take its entitlement to Profit Oil and Profit Gas either in cash or in kind subject to the following:

- (a) if the Government Holdings elects to take all or part of Profit Oil in kind, it shall initially so notify Contractor in writing not less than one hundred eighty (180) Days prior to the commencement of deliveries of such Profit Oil, and thereafter, not less than one hundred eighty (180) Days prior to the commencement of each Calendar Year specifying the quantity and designating the grade and quality of Profit Oil that it elects to take, based upon Contractor's estimates of Production. Final adjustments shall be made within ninety (90) Days of the end of each Calendar Year on the basis of actual quantities. Such notice shall be effective for the ensuing Calendar Year. Failure to give such notice shall be deemed to be the election by the Government Holdings not to take any Profit Oil in kind.
- (b) if the Government Holdings elects to take all or part of Profit Gas in kind, it shall so notify Contractor within one hundred eighty (180) Days after approval of Development Plan under Article 5.7. Failure to give such notice shall be deemed to be the election by the Government Holdings not to take any Profit Gas in kind.

**ARTICLE VIII
ASSIGNMENT AND TERMINATION OF
LICENCE, LEASE AND AGREEMENT**

- 7.1 Contractor shall not sell, assign, transfer, convey or otherwise dispose of all or any part of the rights under this Agreement, to a third Party or an Affiliate, without the previous consent in writing of the Government, which shall not be unreasonably withheld provided that:
- (a) the prospective assignee or transferee has sound financial standing and technical competence and the capacity or ability to meet obligations hereunder and is willing to provide an unconditional undertaking to assume the obligations of the assignor and to provide guarantees in respect thereof as provided in this Agreement;
 - (b) the assignment or transfer will not adversely affect the performance or obligations under this Agreement or be contrary to the best interests of Pakistan; and
 - (c) as a condition to any assignment, Contractor shall provide to the Government an unconditional undertaking of the assignee to assume all rights, privileges and obligations of this Agreement. In the case of a partial assignment, notwithstanding such undertaking, the Contractor remains jointly and severally liable with the assignee for performance of its obligations.
 - (d) The prospective assignee or transferee should not be a company incorporated in a country with which the Government for national security or policy reasons has restricted economic relations or which is known to be hostile or unfriendly.
- 7.2 If the Government establishes a Government-owned entity other than Government Holdings that will hold the Production sharing rights granted under this Agreement, the Government shall notify Contractor and advise that the rights of the Government in respect thereof under this Agreement have been assigned to such entity. Promptly upon receiving such notice, Contractor will deal with such new entity in the place and stead of Government Holdings under this Agreement.
- 7.3 The Government shall have the right to terminate this Agreement and to take without payment all property of whatever nature of Contractor in Pakistan if Contractor:
- (a) fails to make any payments required by law or under this Agreement within a specified period after the due date.

- (b) fails to conform to the provisions of an arbitration award under Article XXIX hereof within the period stipulated in such award;
- (c) has knowingly provided false information to the Government which was in any manner a material consideration in the execution of this Agreement;
- (d) has intentionally and knowingly extracted or authorized the extraction of any mineral not authorized to be extracted by this Agreement or without the authority of the Government, except such exemption as may be unavoidable as a result of Petroleum Operations conducted hereunder in accordance with good international Petroleum industry practices, which when so extracted was immediately notified to the Government;
- (e) makes an arrangement or composition with its creditors or a receiver is appointed, or the Contractor or the legal owner having effective control of Contractor goes into liquidation whether compulsory or voluntary; or is adjudged bankrupt by a competent court or enters into any agreement or scheme of composition with its creditors or takes advantage of any law for the benefit of debtors;
- (f) has assigned any interest under this Agreement, without the prior written consent of the Government;
- (g) is on notice of cancellation as provided in Article 26.4;
- (h) fails to fulfill the obligations under Articles III hereof; or
- (i) fails to deliver the guarantees contemplated by Article XXVI.

The rights of the Government under paragraphs (a), (c), (d), (h) or (i) of this Article 7.3 are subject to the provisions of Article 7.4.

- 7.4 If either Party commits a material breach of this Agreement, the other Party shall have the right to terminate this Agreement based on the following procedure:
- (a) In the event that either Party declares its intention to terminate this Agreement pursuant to this Article 7.4, it shall give to the other Party notice in writing specifying the particular material breach complained of and requiring the other Party, within three (3) Months of such notice or within such extended time as the Party giving notice deems fair having regard to the circumstances of the particular case (the "Specified Period"), to remedy the same or pay reasonable compensation to the complaining Party, as the case may be, in a manner acceptable to that Party;
 - (b) if the Party receiving the notice shall fail to comply with said notice, the complaining Party may, after the expiration of the Specified Period, terminate this Agreement provided, however, that such termination will not take effect where there is any dispute between the Parties as to:

- (i) whether there has been any material breach by the Party to which notice was given, of any term, obligation, or condition of this Agreement, or
- (ii) whether any breach was remediable or as to the manner in which it should be remedied,

either Party may, within the Specified Period, refer the dispute to arbitration under Article XXIX, and neither Party shall exercise its power of termination until the result of the arbitration is known, provided, however, that the Party which elects to refer the dispute to arbitration shall be diligent in pursuing its claim in the arbitration proceedings.

7.5 If the circumstance or circumstances that would otherwise result in termination under Articles 7.3(h) or 7.4 are the result of *force majeure*, then termination shall not take place so long as such *force majeure* continues or for such period as the Parties may determine to be reasonable except as provided in Article 28.6 hereof.

7.6 This Agreement shall automatically and immediately terminate, where:

- (a) Contractor has not declared a Significant Gas Discovery or a Commercial Discovery during the Initial Term of this Agreement or the First Renewal or the Second Renewal or any extensions thereof, or
- (b) Contractor has not established Commercial Production from at least one of the Commercial Discoveries within seven (7) Years of the first declaration of a Commercial Discovery, or
- (c) Contractor has only declared one or more Significant Gas Discoveries, and has not made a Declaration of Commercial Discovery for at least one (1) of such Significant Gas Discoveries during the Retention Period, or
- (d) Contractor has not requested or has not been granted an extension of the Initial Term or First Renewal in accordance with this Agreement and has not made a declaration of Commercial Discovery or a Significant Gas Discovery.

the termination of this Agreement, for whatever reason shall be without prejudice to the obligation(s) or liability(ies) incurred and not discharged by Contractor prior to the date of termination.

Within 90 Days of termination of this Agreement or within such a period as may be agreed with the Government, Contractor shall take and complete all reasonable and necessary action at Contractor's own cost:

- (a) to avoid environmental damage or hazard to human life or third party property, and

- (b) remove such installations and equipment as are no longer required for the Petroleum Operations.

Any cost incurred by Contractor after termination of this Agreement is not a recoverable cost.

- 7.9 Assets purchased by Contractor for use in the Petroleum Operations shall be owned by the Parties provided that Government Holdings shall have the right to require vesting of full title and ownership in it, free of charge and encumbrance of any or all assets, whether fixed or moveable acquired and owned by Contractor for use in Petroleum Operations inside or outside the Contract Area, such right to be exercisable at the option of Government Holdings upon expiry or earlier termination of this Agreement. Upon expiry or earlier termination of this Agreement, the title and ownership of all assets including but not limited to machinery, equipment and facilities in the Contract Area necessary for the Production and transportation of Petroleum shall be transferred to Government Holdings, together with the abandonment funds provided for in Article 7.12, without compensation aid with automatic cancellation of any security for debt related to such assets(s). Contractor shall be responsible for proper maintenance, insurance and supply of all machinery, equipment and facilities acquired for Petroleum Operations and for keeping them in good repair, order and working condition at all times. Contractor shall have the exclusive right to use all machinery, equipment and facilities mentioned in this Article 7.9 if required for the conduct of Petroleum Operations under this Agreement.
- 7.10 At least one (1) Year prior to termination of Production from any Lease, Contractor shall submit to the Government Holdings a plan for the smooth transfer of Petroleum Operations to Government Holdings if Commercial Production is likely to continue.
- 7.11 Where any Gaseous or Liquid Reservoir is capable of continued Commercial Production upon the termination of this Agreement, Government Holdings may at its sole discretion elect to: (a) negotiate a new production sharing agreement with respect to Contract Area, or (b) take over Petroleum Operations of the Contract Area. If a new production sharing agreement is negotiated on the basis of a bidding process, Contractor shall have the right to participate in such bidding process unless this Agreement has been terminated due to breach of its provisions by Contractor. Where Government Holdings is of the opinion that the continuation of Commercial Production is no longer possible and there is no other likely use of those facilities then Contractor shall abandon Petroleum Operations in accordance with the good international Petroleum industry practices and applicable laws of Pakistan pursuant to an abandonment plan approved by the Government (Abandonment Plan) which shall be submitted for approval after exhaustion of 50% of Initial Gas in Place (IGIP)/Initial Oil in Place (IOIP) or seven (7) Years before the likely termination of Production from the Development Area whichever is later.

- 7.12 For abandonment of any well, platform, facility or other asset related to Petroleum Operations in the Contract Area, Contractor shall establish an escrow account for the estimated cost of implementing Abandonment Plan (Abandonment Costs). Unless otherwise agreed by Government Holdings and Contractor, the full amount of the Abandonment Costs shall be placed in the escrow account as per Article 7.11. Any escrow account so approved shall be opened in a reputable international bank agreed upon by the Parties. This escrow account shall be titled "Abandonment Fund" and administered and disbursed as agreed by the Parties. When Abandonment Costs are incurred, they will be paid first out of any amounts available in the Abandonment Fund. Amounts contributed to the Abandonment Fund shall be recoverable for Cost Recovery Gas and Cost Recovery Oil purposes, but disbursements from the Abandonment Fund shall not be so recoverable. Any amounts contributed to the Abandonment Fund but not ultimately expended on Abandonment Costs will result in an appropriate recalculation of Cost Recovery Oil, Cost Recovery Gas, Profit Oil and Profit Gas utilizing a "first in, first out" basis for amounts contributed to the Abandonment Fund, and appropriate payments of Profit Oil and Profit Gas shares shall be made to Government Holdings reflecting that calculation.

ARTICLE VIII

VALUE FOR ROYALTY AND PRODUCTION SHARING PURPOSES

- 8.1 For the purposes of determination of Royalty, Cost Recovery Oil and Cost Recovery Gas, the Value of Petroleum shall be established at the Measurement Point in accordance with the Rules, and it shall subject to Article X be the Arm's Length Sales Value at the Measurement Point. The Value shall not be reduced for the costs of any operations downstream of the Measurement Point. Where the Government requires Contractor to meet the internal Petroleum requirements in Pakistan pursuant to Article X, then the Value shall be determined in accordance with Article X.
- 8.2 To facilitate computations, the Value of Crude Oil, Natural Gas, LPG and Condensate shall be determined as of the last Day of each Month as the weighted average value of all such transactions that took place during the Month.
- 8.3 Contractor is expressly permitted the reasonable use upstream of the Measurement Point, Petroleum produced hereunder for the Petroleum Operations free of all costs, Excise Duty and Royalty, provided that Contractor shall not be entitled to include any notional cost of Petroleum so used for Cost Recovery Oil or Cost Recovery Gas purposes.
- 8.4 Except as provided in Article 21.3 the Measurement Point shall be at the outlet flange of the Offshore platform within the Contract Area where Crude Oil/LPG/Condensate or Natural Gas are being processed in order to make this Crude Oil, Condensate or Natural Gas suitable for transportation from the Contract Area. This shall not preclude the establishment of several Measurement Points in a Contract Area, each related to a specific Production facility. Where Production does not take place on an Offshore platform, the Parties shall mutually agree to an appropriate Measurement Point.

**ARTICLE IX
ROYALTY AND RENTALS**

- 9.1 Contractor shall pay royalty to the Government equal to a percentage of the Value of gross Production of Petroleum produced and saved from the Contract Area in each Calendar Month at the rate specified below (hereinafter called the "Royalty"):

| Period after Commencement of Commercial Production | Royalty Percentage |
|-----------------------------------------------------------|---------------------------|
| First 48 Calendar Months | 0.0% |
| Calendar Months 49 to 60 inclusive | 5.0% |
| Calendar Months 61 to 72 inclusive | 10.0% |
| Calendar Months 73 and greater | 12.5% |

- 9.2 The Royalty shall be payable in cash or kind, or partly in cash and partly in kind, at the option of the Government.
- 9.3 The Royalty in cash shall be payable Monthly, within ten (10) Days of the expiry of the Calendar Month in which Production occurs. Payment shall be accompanied by detailed statements from Contractor setting forth the basis for computation of the Royalty. Such statements shall contain the details as may be notified by the Government in accordance with the Rules.
- 9.4 For the purposes of determining the amount of Royalty due, Petroleum shall be valued in accordance with the Rules and Article VIII hereof.
- 9.5 Royalty in kind shall not be subject to the recovery by Contractor of the gathering, processing, treatment and transport costs incurred by Contractor upstream of the Measurement Point.
- 9.6 Contractor shall pay an annual acreage rental on the Effective Date and prior to each anniversary of the Effective Date of Fifty Thousand Dollars (\$50,000) plus Ten Dollars (\$10) per square kilometer area included in the Contract Area.
- 9.7 Where the Royalty is to be provided in kind, the Royalty shall be transferred directly at the Measurement Point to Government Holdings or its designated entity and Contractor shall only retain the remaining Cost Recovery Oil and Cost Recovery Gas.

**ARTICLE X
RIGHT OF ACQUISITION OF PETROLEUM!**

- 10.1 If the Government requires Contractor to meet the internal Petroleum requirements of Pakistan, the following provisions shall apply. If the Government does not require Contractor to meet the internal Petroleum requirements of Pakistan, then Contractor is entitled to sell Contractor's share of Petroleum produced from the Contract Area in Pakistan or elsewhere at Contractor's election. The provisions set out below regarding the price for Petroleum delivered in Pakistan apply only where the Government has required Contractor to meet the internal Petroleum requirements of Pakistan.
- (a) If, in any Calendar Year, there is domestic demand in excess of Crude Oil available to Government Holdings as its share and Royalty, Government may require Contractor to sell Crude Oil in Pakistan on a pro-rata basis with other producers in Pakistan, according to the Crude Oil Production of each producer in a Calendar Year. Government shall give Contractor at least six (6) Months written notice in advance of such requirement and the term of the supply will be on an annual basis.
 - (b) Wherever Contractor is selling Crude Oil to Government Holdings or its designee to meet Pakistan's internal requirements, the Contractor shall be entitled to receive the Arm's Length Sales Value set out in US\$ per BBL at the Measurement Point subject to Article 10.1 (e) hereof.
 - (c) Government may require Contractor to provide the Natural Gas Production from a Lease area to meet Pakistan's internal requirements, provided, however, such requirement be notified in writing to Contractor in accordance with the Rule.
 - (d) Whenever Contractor is selling pipeline quality Natural Gas of acceptable specifications to the Government Holdings or its designee to meet Pakistan's internal requirements, it shall receive the Arm's Length Sales Value of Natural Gas set out in per Million British Thermal Units (MMBTU) at the Measurement Point subject to Article 10.1 (e) hereof.
 - (e) During the period when the local market is regulated or is not developed on free market principles, the price to be paid to the Contractor for sales to meet Pakistan's internal requirements in accordance with the Rules, will conform to policy guidelines issued by the Government from time to time or the Arms Length Sales Value whichever is Lower..
- 10.2 If Government Holdings or its designee purchases Crude Oil, Condensate, LPG and Natural Gas at the Measurement Point, title to and risk of loss of Petroleum purchased by Government Holdings or its designee shall pass at the Measurement Point as provided for in Article 2.5.

- 10.3 In the event that Government Holdings or its designee is unwilling to purchase all or a portion of Contractor's share of Crude Oil, Condensate, LPG or Natural Gas to which Government Holdings is entitled pursuant to Article 10.1 hereof, Contractor shall have the right to export or otherwise dispose of such Petroleum in accordance with this Agreement.
- 10.4 Government shall have the right to purchase all or any portion of the Petroleum produced in case of a national emergency or war.
- 10.5 The Government Holdings or its designee shall make the payment in US\$ for Petroleum purchased from Contractor, within sixty (60) Days of receiving invoice from the Contractor to the bank designated by the Contractor. In case the designated bank is closed on the due date, the payment shall be made on the next business Day. In the event payments for all amount due are not timely made, the Contractor shall have no further obligation to sell and deliver Petroleum to the Government Holdings or its designee until such time as all past due amounts are paid. Any past due payment shall bear interest after the due date at the rate per annum of 1.5 percent (1.5%) above the London Interbank Offer Rate ("LIBOR") for one Month deposits of US Dollars as reported in the London Financial Times, or any other agreed publication.

**ARTICLE XI
DISPOSAL OF PETROLEUM**

- 11.1 Contractor hereby agrees to refrain from exporting Petroleum from Pakistan to countries with which the Government for policy reasons or otherwise has severed or restricted trade in accordance with Government's generally applicable destination restrictions.
- 11.2 Associated Gas which is not used in the Petroleum Operations, and the processing and utilization of which, in the opinion of Contractor, is not economical, shall be returned to the subsurface structure, or may be flared with the prior approval of DGPC in accordance with the Rules. In the event Contractor elects not to process and sell Associated Gas and if it is not required for the Petroleum Operations, Government Holdings may elect to off-take such Associate Gas at the Measurement Point and use either itself or through its designee. There shall be no charge to Government Holdings or its designee for such Associated Gas, provided however that any costs downstream of the Measurement Point shall be incurred by Government Holdings or its designee.

**ARTICLE XIII
FOREIGN EXCHANGE**

- 12.1 Contractor shall contribute all funds required for the Expenditure in respect of Petroleum Operations in foreign exchange and in Pakistani Rupees as required.
- 12.2 If Contractor assigns an interest to a foreign entity with the consent of the Government under Article VII hereof, Contractor shall be allowed to retain abroad all proceeds resulting from such assignment.
- 12.3 Subject to Article XI and Article XIII, Contractor shall be entitled to export the Petroleum acquired by Contractor under this Agreement, in accordance with the relevant foreign exchange laws.
- 12.4 Contractor shall have the right to retain abroad and to freely make use of sale proceeds from the export of its share of Petroleum produced hereunder.
- 12.5 Contractor shall have the right to remit funds received from the sale of Petroleum in accordance with applicable regulations of the State Bank of Pakistan. The State Bank of Pakistan shall permit all remittances of funds under this Article XII without any delay or additional cost to Contractor.
- 12.6 Contractor shall remit funds to Pakistan through normal banking channels sufficient to meet all Pakistani Rupee obligations under this Agreement to the extent Pakistani Rupees are not available to Contractor in Pakistan.
- 12.7 Contractor shall not avail of any Pakistani Rupee borrowing facilities.
- 12.8 For all currency conversion transactions and calculations under this Agreement the rate of exchange shall be the rate as established by the State Bank of Pakistan prevailing on the date of each transaction hereunder.
- 12.9 Subject to the provision of this Agreement, Contractor shall have full right of control over movement of funds out of bank accounts established for the purpose of Petroleum Operations but may be required to provide to the State Bank of Pakistan or any Government designated office, with a copy to Government Holdings, Monthly bank statements with an explanation of each deposit, or payment from such account, and shall supply on a quarterly basis, in a form acceptable to the State Bank, or such designated office full particulars of foreign exchange transactions pursuant to this Agreement in order to facilitate monitoring of such accounts. Such particulars shall include:
 - (a) details of deposits of proceeds from sales of Petroleum, including quantity of Petroleum sold, date of sale and unit price;
 - (b) the repayment of principal amount of loans in foreign currency for purposes of Petroleum Operations;

- (c) payments of interest, charges, fees and expenses in respect of loans referred to in paragraph (b) above;
- (d) payments in foreign currency to persons not resident in Pakistan for the supply of capital goods required for the purpose of Petroleum Operations;
- (e) payments in foreign currency to persons not resident in Pakistan for the supply of goods and services, other than capital goods, required for Petroleum Operations (including services of foreign employees and consultants);
- (f) amounts remitted to Pakistan or paid elsewhere at the request of the Government to meet obligations under this Agreement; and
- (g) retention or disbursement to Affiliates in foreign currency representing the excess of net profits, depreciation and amortization over the payments made under paragraphs (b) through (f) above.

The Government shall have the right to verify any statements and reports submitted by Contractor pursuant to this Article 12.10 and Contractor shall promptly respond to any query made to the reasonable satisfaction of the State Bank of Pakistan or the designated Government office.

**ARTICLE XIII
IMPORTS, EXPORTS AND LOCAL PROCUREMENT**

- 13.1 (a) The Contractor and its Subcontractors engaged in Petroleum Operations under this Agreement shall be permitted to import, export, transfer and dispose the machinery, equipment, materials, specialized vehicles, accessories, spares, chemicals and consumable etc. in accordance with the provisions of this Agreement and SRO 400(I)/ 97 dated 31st May, 1997 (Annex-VII) read with SRO 749 (I)/98 (Annex-VIII) and SRO 750 (I)/98 both dated 29.6.1998 (Annex-IX) and SRO 984 (I) / 99 dated 30th August, 1999 (Annex-X) and provisions of CGO-7/98 dated 23.3.1998. No License or import-cum-export authorization fee shall be levied on such imports /exports in accordance with Import Fee Order, 1993 as amended by SRO 336 (I) / 94 dated 26th April, 1994 (Annex-XI).
- (b) The initial list of machinery, equipment, materials, specialized vehicles, accessories, spares, chemicals and consumables etc. required for Petroleum Operations under Article 13.1(a) above is attached as Annex XII hereto. For classification of items imported by Contractor and its Subcontractors, the harmonized system of classification will be followed.
- 13.2 In the conduct of Petroleum Operations, Contractor shall:
- (a) give preference to the purchase and use of goods manufactured and produced in Pakistan provided that such goods are of acceptable specifications and are available on comparable terms;
- (b) employ Pakistani Subcontractors having the required skills or expertise, to the maximum extent possible, insofar as their services are available on comparable standards with those obtained elsewhere on competitive terms; provided that where no such Subcontractors are available, preference shall be given to non-Pakistani Subcontractors who will use Pakistani goods to the maximum extent possible;
- (c) co-operate with domestic companies in Pakistan to enable them to develop skills and technology to service the Petroleum industry; and
- (d) ensure that provisions in terms of paragraphs (a) to (c) above are contained in contracts between Contractor and its Subcontractors.
- 13.3 Contractor shall establish appropriate procedures, including tender procedures in consultation with Government Holdings, for the acquisition of goods and services which shall ensure that suppliers and Subcontractors in Pakistan are given adequate opportunity to compete for the supply of such goods and services. The tenders shall be awarded on the basis of open competitive bidding and the procedures for such bidding and the exceptions to bidding in cases of emergency

shall meet, and be subject to, all other requirements for tenders set out in this Agreement.

- 13.4 Within one hundred and twenty (120) Days after the end of each Calendar Year, Contractor shall submit to the Government with a report containing its Local Procurement Statement outlining its achievements in utilizing Pakistani goods and services during that Calendar Year.
- 13.5 In this Article XIII, "goods" include machinery, equipment, materials and supplies.
- 13.6 Foreign employees and consultants of Contractor and its Subcontractors will be entitled to import/export used and bonafide personal and household effects, excluding passenger vehicles, in accordance with instructions contained in Central Board of Revenue's letter No. 10(14)/93-ICM&CON dated 13th June, 1994 (Annex XIII).
- 13.7 Contractor and its Subcontractors shall be entitled, subject to provisions of this Agreement, to export such of their items as have been imported into Pakistan and are not required for the Petroleum Operations without restriction and without the payment of any fee, tax or export duty. Draw backs if admissible will be available as per relevant rules. Contractor shall ensure that equipment/material imported by it, and its Subcontractors under this Article 13.7 against its import- cum-export authorization are exported if all the Petroleum Operations under this Agreement are terminated unless otherwise provided for or permitted in accordance with this Agreement.
- 13.8 Import of items permitted under this Article XIII shall be allowed subject to the following conditions:
 - (a) a condition shall be stamped on the import authorizations that the imported items shall not be sold in Pakistan except with prior permission of the Government;
 - (b) Contractor and its Subcontractors shall maintain proper accounts, statements and records of all consumable goods received and expended and send copies thereof (in duplicate) to the Ministry of Commerce and Collector of Customs by the 15th of January each Calendar Year and finally within fifteen (15) Days of the closing of Petroleum Operations in Pakistan;
 - (c) (i) commissary goods can be imported after the first arrival of an expatriate employee of Contractor and its Subcontractors in accordance with instructions contained in the Central Board of Revenue's letter No. 10(14)/93-ICM&CON dated 13th June, 1994 (Annex XIII). Such imports shall be confined to the items shown in Annex XIV excepting such items as are locally available of proper standard;

- (ii) as soon as an expatriate employee arrives in Pakistan, an application will be made for grant of import authorization for the commissary goods required by him indicating the duration of his programmed stay in Pakistan;
 - (iii) accounts for the sale of tobacco and liquor (if imported) and medicines will be maintained for each individual while those of the other items will be maintained on an over-all basis;
 - (iv) items of food and other commissary goods will be stamped clearly to avoid resale in the market;
 - (v) CBR booklets will be maintained by individuals; and
 - (d) import of items of personal use, e.g. arms, ammunition etc. as well as pets will not be permitted unless the conditions for their import such as arms Licenses from district authorities, quarantine requirements etc., are fulfilled.
- 13.9 Subject to the rights granted under the provisions of this Agreement and particularly those granted under this Article XIII, any items banned for import into Pakistan under the import or trade policy in force from time to time shall not be permitted without specific permission to be obtained from the Government before shipment of goods from abroad.
- 13.10 Contractor and its Subcontractors shall not be liable to pay any tax, assessment, levy, octroi or charge imposed or levied on the transportation or movement of the scheduled goods to and from the Contract Area or on any item imported under this Article XIII.
- 13.11 Imports/exports under this Article XIII except as provided in Article 13.4 shall be affected in accordance with the import/export or trade policy in force from time to time.
- 13.12 At least ten percent (10%) of the computer software contracts shall be awarded by the Contractor to use the local software capabilities, subject to such software capabilities being available at a competitive price

**ARTICLE XIV
TAXATION!**

- 14.1 The profits or gains of Contractor from the Petroleum Operations under the Agreement shall be computed in accordance with the provisions of the *Income Tax Ordinance, 1979* (No. XXXI of 1979) as amended and in force on the Effective Date (the Ordinance). The sum of payments to the Government and taxes on income shall be forty percent (40%) of the profit and gains in accordance with the Ordinance.
- 14.2 With respect to the application to this Agreement of the Fifth Schedule of the Ordinance, the following principles shall apply:
- (a) this Agreement shall be construed as an "agreement" for the purpose of the Fifth Schedule;
 - (b) the term "payments to Government" shall have the same meaning as ascribed to it in the Ordinance;
 - (c) "Petroleum" shall mean Petroleum as defined in this Agreement;
 - (d) "surrender" shall mean Surrender as defined in this Agreement;
 - (e) "surrendered area" shall mean Surrendered Area as defined in this Agreement; and
 - (f) "well-head value" shall mean the Value established pursuant to the Rules and Article 8.1 of this Agreement.

Where any Expenditure allocable to a Surrendered Area or to the drilling of a dry hole is deemed to be lost under Rule 2(2) of the Fifth Schedule, such Expenditure shall be allowed as provided in Rule 2(3) of the Fifth Schedule in relation to the Expenditure in question when incurred in the Contract Area in the relevant Petroleum Operation; provided, however, that, in accordance with clause (3) of Schedule to the *Regulation of Mines and Oilfields and Mineral Development (Government Control) Act, 1948* (hereinafter referred to as the "Schedule to Regulations"), all Expenditure deemed to have been lost in terms of Rule 2(2) of the said Schedule to Regulations shall be allowed to be set off against all other income of the Contractor (other than dividend income) accruing or arising from or under any separate agreement entered into by the Contractor with the President for Petroleum Exploration and Production or from any other activity, on a fully consolidated basis in accordance with Rule 2(3)(*) of the Fifth Schedule as hereby elected by Contractor.

**ARTICLE XV
MANAGEMENT COMMITTEE**

- 15.1 Within sixty (60) Days from the Effective Date, a committee shall be constituted to be called the Management Committee (MC) with functions as stated herein below.
- 15.2 Government Holdings shall nominate two (2) members on the Management Committee whereas each company constituting Contractor shall nominate one member on the Management Committee provided however, the collective representation of the companies constituting Contractor shall not exceed a total of three members including the Chairman.
- 15.3 Each Party may nominate alternate members with full authority to act in the absence of the members nominated under Article 15.2 and may at any time, nominate another member or alternate member to replace any member nominated earlier by notice to other members of the Management Committee.
- 15.4 The member representing the Contractor in the Management Committee shall be designated as the Chairman of the Committee. One of the representatives of the Government Holdings shall be designated as the Deputy Chairman of the Management Committee.
- 15.5 The Contractor shall submit following matters to the Management Committee for review and approval:
 - (a) annual work programme and budgets together with employment plan for Petroleum Operations and any modification or revisions thereto;
 - (b) procurement procedures in accordance with Article 13.3 and terms of contracts with Subcontractors;
 - (c) determination of a Development Area and proposals for the approval of Development Plans, or revisions or additions to a Development Plan.
 - (d) Progress of Contractors' work
 - (e) Proposed Production levels and allocation mechanism.
 - (f) appointment of auditors, approval and adoption of audited accounts;
 - (g) claims or settlement of claims for or on behalf of or against the Contractor in excess of limits fixed by the Management Committee from time to time;
 - (h) proposal about abandonment plan/site restoration as required to be submitted under Articles 7.11 & 7.12;
 - (i) any other matter required by the terms of this Agreement to be submitted

for the approval of the Management Committee;

- (j) any other matter which the Contractor decides to submit to it;
- (k) any matter, which Government Holdings refers to the Management Committee.

- 15.6 The Management Committee shall meet at least once every six (6) Months during the Exploration Period and thereafter at least once every three (3) Months or more frequently at the request of any member. The Chairman, in consultation with the Deputy Chairman, shall convene each meeting by notifying the members twenty eight (28) Days prior to such a meeting (or a shorter period of notice if the members unanimously so agree) of the time and place of such meeting and the purpose thereof and shall include in such notice a provisional agenda for such meeting. The Chairman shall be responsible for processing the final agenda for such meeting and the agenda shall include all items of business requested by the members to be included, provided such requests are received at least ten (10) Days prior to the date fixed for the meeting. The Chairman shall forward the agenda along with supporting material to the members at least nine (9) Days prior to the date fixed for the meeting. Matters not included in the agenda may be taken up at the meeting by any member with the unanimous consent of all the members whether present or not present at the meeting.
- 15.7 The Chairman or Deputy Chairman, as the case may be, shall preside over the meetings of the Management Committee and, in their absence, any other member who is present in the meeting could be elected with the consent of other members to preside over the meeting.
- 15.8 The Chairman shall appoint one of the members nominated by the Contractor as Secretary to the Management Committee with responsibility, inter-alia, for preparation of the minutes of every meeting in the English language and provision to every member of the Management Committee with two copies of the draft minutes not later than fourteen (14) Days after the date of the meeting.
- 15.9 Within fourteen (14) Days of the receipt of the minutes of a meeting, members shall notify the Chairman and the other members of their approval of the minutes by putting their signatures on one copy of the minutes and returning the same to the Chairman or by indicating such approval to the Chairman by telex, cable, or facsimile, with copies to the other members. Any member may suggest any modification, amendment or addition to the minutes by telex, cable or facsimile to the Chairman and other members or by indicating such suggestions when returning the copy of the minutes to the Chairman. If the Chairman or any other member does not agree with the modification, amendment or addition to the minutes suggested by any member, the matter shall be brought to the attention of the other members and resubmitted for approval to the Management Committee at the next meeting. If a member fails to appropriately respond within the aforesaid fourteen (14) Days period as herein provided, the minutes shall be

deemed to have been approved by such member.

- 15.10 The meetings of the Management Committee shall be held in Pakistan unless otherwise mutually agreed by the members of the Management Committee. All expenses of the members of the Management Committee attending the meetings shall be borne by the Contractor.
- 15.11 All matters requiring the approval of the Management Committee shall be generally approved by a unanimous vote of the members of the Management Committee present as well as the views of the members received by some other mode of communication as specified elsewhere in this Article. However, in case, unanimity is not achieved in decision making process within a reasonable period as may be required under the circumstances, the decision of the Management Committee may be approved by a majority vote of more than 60% provided Government Holding has a positive vote in favor of the decision. There shall be a quorum of the Management Committee comprising at least one representative of the Government Holdings and the Contractor for holding a meeting and taking decisions.
- 15.12 Any member shall be entitled, if either he or his alternate is unable to attend a meeting, to cast his vote by telex or transmission received by the Chairman prior to; the date on which the vote is taken in the course of the meeting. Such vote shall have the same effect as if that member was present and so voted at the meeting.
- 15.13 A member of the Management Committee who is unable to attend a meeting may by giving prior written notice to all other members appoint a member representing another Party who consents to such appointment as its proxy to attend a meeting and to exercise the appointing member's right to vote at that meeting. A member appointed as a proxy and attending a meeting shall be present in two separate capacities and vote accordingly.
- 15.14 Where the Contractor has agreed that a recommendation be made to the Management Committee, the Chairman and Deputy Chairman may, when in their reasonable opinion it is not practical or appropriate to incur a delay in convening a meeting, submit the recommendation (together with the reasons for the recommendation) for consideration by the Management Committee by giving each member notice by telex or facsimile transmission, receipt of which shall be confirmed by telephone by the Chairman (or, in case of an emergency, by telephone confirmed by telex or facsimile transmission not later than the next Day on which official business is transacted.
- 15.15 In the case of any recommendation submitted to the members for decision pursuant to Article 15.15;
 - (I) the members shall subject to paragraph (ii) of this Article 15.15 vote by telex or facsimile transmission to the Chairman, with a copy to the other

members:

- (a) Within 48 hours of service of notice in the case of an emergency or
 - (b) In any other case, within a time nominated in the notice being reasonable in the circumstances but not less than five (5) Days on which official business is transacted, from the date of service of the notice.
- (ii) Except in the case of an emergency, a member may, within 48 hours of the service of the notice of the proposal, require by further notice that the proposal be submitted for consideration of the Management Committee pursuant to Article 15.6.
 - (iii) Any member failing to vote within the time limits set out in Article 15.15(i) shall be deemed to have voted in favor of the proposal.
 - (iv) The result of any such vote shall be notified by the Chairman to all the members.
- 15.16 The Management Committee may, if it considers necessary, appoint legal, financial or technical subcommittees comprising such representatives as may be decided by it to consider any matter requiring its approval or decision. The expense of such subcommittees shall be cost recoverable except as decided by the Management Committee in accordance with the Accounting Procedure.

**ARTICLE XVII
MANAGEMENT AND OPERATIONS**

- 16.1 All Petroleum Operations conducted by Contractor hereunder and all costs incurred in connection therewith, shall be conducted and incurred only pursuant to an approved work programme and budget.
- 16.2. Contractor shall submit to the Management Committee the proposed work programme and budget for each Calendar Year prepared in such detail as required by the Management Committee and in accordance with the Accounting Procedure. The initial budget shall be submitted as soon as possible after activities hereunder have commenced. All budgets thereafter shall be submitted not later than seventy-five (75) Days prior to the beginning of each Calendar Year. The work programme and budget requires the approval of the Management Committee before it becomes effective. The Management Committee shall use all reasonable efforts to meet and consider the work programme and budget therefor within thirty (30) Days prior to the beginning of each such Calendar Year. Contractor is hereby authorized to conduct all work and to incur all costs to the extent that such work and costs are included within a work programme and budget, which has been approved by the Management Committee. The approved budget shall be the basis for the determination of costs, which are eligible for recovery in accordance with the provisions of the Accounting Procedure and this Agreement.
- 16.3. Contractor shall not undertake any Petroleum Operations, which are not included in an approved work programme, or make any Expenditure in excess of an approved budget therefor except as follows:
 - (a) if necessary to carry out an approved work programme Contractor is authorized to make Expenditure in excess of the budget adopted therefor up to but not exceeding ten percent (10%) of such budget, provided that such actual or foreseen excess Expenditure shall be reported promptly to the Management Committee, giving the details and justification for such excess Expenditure; and
 - (b) notwithstanding other provisions hereof, in case of explosion, fire, flood or other emergency, Contractor may take all action deemed advisable by Contractor to protect and safeguard life and property. Contractor shall immediately report to the Management Committee a full description of the emergency, the action taken, the damage (if any) suffered and the Expenditure incurred.
- 16.4 Contractor shall establish an office in Pakistan with sufficient competence and capacity to conduct and perform the Petroleum Operations.
- 16.5 Contractor shall have the right to lift and transport Petroleum from the Contract Area, either through transportation facilities owned wholly or partly by Contractor or

through transportation facilities owned by a third party or parties. In the case Contractor is of the opinion that new pipelines or terminals are required for the transport of Petroleum, Contractor must submit an application for the proposed transport system as per applicable rules.

16.6 The Government may, while according its approval for a pipeline or terminal stipulate such conditions as are reasonable and necessary to secure a rational system for transportation of Petroleum. The Government may in accordance with applicable rules, for example, but without limitation:

- (a) require that several Contractors install jointly owned transportation facilities; and
- (b) grant to Government Holdings or its nominee or any third party access to transportation capacity at approved tariffs on a non-discriminatory basis.

The Government may decide that Production and transportation facilities owned by Contractor shall be available for utilization by others, if this is deemed to be desirable for the purpose of efficient Petroleum Operations, or if required by the national or public interest. Such utilization must not unreasonably interfere with the activities of the Contractor. The user shall pay compensation for such utilization, the amount of which, failing agreement between the parties, will be settled by DGPC.

16.7 (a) Contractor undertakes to abide by and comply with the instructions issued by the Government from time to time in relation, inter alia, to the matters set out below:

- (i) foreign nationals employed by Contractor before arriving in Pakistan shall possess complete and authorized travel documents for their stay in Pakistan. In case they wish to extend their stay in Pakistan beyond the specified period, they shall obtain prior permission from the appropriate authorities. Foreign nationals will be security cleared prior to their arrival in Pakistan. Foreign nationals working in the Contract Area will be cleared by the concerned security agencies and should be registered with FRO under the *Foreigners Act* and full particulars including photographs shall be supplied to the relevant Government agencies. Instructions issued by the Ministry of the Interior from time to time regarding work in the area, employment of foreign nationals and movement of local/foreign nationals shall be strictly followed.
- (ii) foreign nationals shall be employed in accordance with a plan prepared by the Contractor and approved by DGPC;
- (iii) the employees of Contractor shall refrain from taking photographs of prohibited and restricted sites;

- (iv) all mapping information including sketches and photography prepared by Contractor concerning the Contract Area shall not be released to any person except as permitted under this Agreement and the Rules, and all data and test results shall not be exported outside Pakistan without prior written clearance from the DGPC;
 - (v) the program of visits and movements of field survey parties shall be forwarded to appropriate authorities, local civil administration, Government Holdings and DGPC well in advance;
 - (vi) the employees of Contractor shall not visit prohibited areas, and will ensure that no border violations occur, and Contractor will ensure that no activity is carried out within 4000 meters of the International Border (Zero Line/Maritime Boundary);
 - (vii) flying over the Contract Area shall not be allowed without the prior permission of concerned security agencies; and
 - (viii) investment in social welfare schemes and training will be made in accordance with the provisions of the Petroleum Policy as amended from time to time. Contractor will provide the manpower requirements (Category-wise) during different phases of Petroleum Operations to DGPC for approval.
- (b) Contractor will ensure to include in any contract for the Petroleum Operations with any Subcontractor a provision requiring the employees of such Subcontractors to abide by and comply with the instructions contained in this Article.
- 16.7 In performing Petroleum Operations, Contractor shall provide all financial requirements and employ advanced scientific methods, procedures, technologies and equipment generally utilised and accepted as per good international Petroleum industry practices.
- 16.8 Subject to the provisions of this Agreement, Contractor shall have the sole authority and responsibility for the direct management and supervision of all Petroleum Operations and shall have sole custody and control of all property under its care.
- 16.9 In order to carry out or perform any Petroleum Operations as aforesaid, and in connection therewith, Contractor shall have the following exclusive rights, duties and obligations:
- (a) to conduct all Petroleum Operations by its duly authorized officers, employees or agents, or by such independent and qualified Subcontractors, consultants or service companies as Contractor may engage in accordance with this Agreement and to make every reasonable

effort to obtain such required goods, materials, equipment and services on most favor able terms and conditions;

- (b) to enter into contracts including services and purchases of goods, materials and equipment which are necessary to carry out the Petroleum Operations. Contractor shall subject to Article 13.3, let for bid any contract which will require Expenditure of more than Five Hundred Thousand Dollars (\$500,000); and
 - (c) to acquire any surface rights.
- 16.11 Petroleum Operations will in no way affect or abridge the rights of o/vners of private property, and Contractor will comply with necessary procedures relating to private property rights according to relevant laws of Pakistan.
- 16.12 Any damage claim caused by or arising out of Petroleum Operations shall be handled by Contractor and its attorneys and may be settled by Contractor in the best interest of the Parties, provided that no such claim shall be settled for an amount exceeding One Hundred Thousand Dollars (\$100,000) without first obtaining the approval of the Management Committee.

**ARTICLE XVIII
INFORMATION, DATA, CONFIDENTIALITY, INSPECTION AND SECURITY**

- 17.1 The Contractor shall, promptly after it becomes available, provide the Government with all data obtained as a result of Petroleum Operations under the Agreement including, but not limited to, geological, geophysical, geochemical petrophysical, engineering, well logs, maps, magnetic tapes, cores, cuttings and production data as well as all interpretative and derivative data, including reports, analyses, interpretations and evaluation prepared in respect of Petroleum Operations (hereinafter referred to as "Data"). Data shall be the property of the Government, provided, however, that the Contractor shall have the right to make use of such Data, free of cost, for the purpose of Petroleum Operations under this Contract as provided herein.
- 17.2 Contractor may, for use in Petroleum Operations, retain copies or samples of material or information constituting the Data and, with the approval of the Government, original material, except that where such material is capable of reproduction and copies have been supplied to the Government, Contractor may, subject to the right of inspection by the Government, export in accordance with any applicable regulations samples or other original Data for processing or laboratory examination or analysis, provided that representative samples equivalent in quality, size and quantity, or, where such material is capable of reproduction, copies of equivalent quality, have first been delivered to the Government.
- 17.3 Contractor shall keep the Government currently advised of all developments taking place during the course of Petroleum Operations and shall furnish the Government with full and accurate information and progress reports relating to Petroleum Operations (on a daily, Monthly, Yearly or other periodic basis) as Government may reasonably require including but not limited to those listed in Annex XV provided that this obligation shall not extend to proprietary technology. Contractor shall meet with the Government at a mutually convenient location in Pakistan to present the results of all geological and geophysical work carried out as well as the result of all engineering and drilling operations as soon as such Data becomes available to it.
- 17.4 All Data, information and reports obtained or prepared by, for or on behalf of, the Contractor pursuant to this Agreement shall be treated as confidential and, subject to the provisions herein below, a party shall not disclose the contents thereof to any third party without the consent in writing of the other Party.
- 17.5 The obligation specified in this Article shall not apply in respect of disclosure:
- (a) to Affiliates, or Subcontractors for the purpose of Petroleum Operations;
 - (b) to employees, professional consultants, advisers, data processing centres and laboratories, where required, for the performance of functions in

connection with Petroleum Operations for any company comprising the Contractor;

- (c) to banks or other financial institutions, in connection with Petroleum Operations;
 - (d) to bonafide intending assignees or transferees of the rights of a Party under this Agreement or in connection with the sale of stock or shares of a company comprising the Contractor or Government Holdings;
 - (e) to the extent required by any applicable law or in connection with any legal proceedings or by the regulations of any stock exchange upon which the shares of a company comprising Contractor are quoted;
 - (f) to Government departments for, or in connection with, the preparation by or on behalf of the Government of statistical reports with respect to Petroleum Operations, or in connection with the administration of this Agreement or any relevant law or for any purpose connected with Petroleum Operations;
 - (g) by a Party with respect to any Data or information which, without disclosure by such Party, is generally known to the public.
- 17.6 Any Data, information or reports disclosed by the Parties comprising the Contractor or Government Holdings to any other person pursuant to Article 17.5 (a) to (d) shall be disclosed on the terms that such Data, information or reports shall be treated as confidential by the recipient. Prompt notice of disclosures made by Contractor pursuant to Article 17.5 shall be given to the Government.
- 17.7 Any Data, information and reports relating to the Contract Area which, in the opinion of the Government, might have significance in connection with the promotion by the Government of open acreage or an exploration programme to be conducted by a third party in another area, may be disclosed by the Government for such purposes under intimation to the Parties.
- 17.8 Where an area ceases to be part of the Contract Area, the Contractor shall deliver to the Government copies and originals of all Data and information in its possession with respect to the said area. The Government shall, however, have the right to freely use the said Data and information in accordance with the Rules.
- 17.9 The Government shall, at all reasonable times, through its duly authorized representatives, be entitled to observe Petroleum Operations and to inspect all assets, books, records, reports, accounts, contracts, samples and Data kept by the Contractor in respect of Petroleum Operations covering the Contract Area, provided, however, that the Contractor shall not be required to disclose any proprietary technology. The duly authorized representatives of the Government shall be given reasonable assistance by the Contractor for such functions and

the Contractor shall afford such representatives reasonable use of all facilities and privileges as afforded to its own personnel in the field including the use of office space and housing for a period not exceeding 30 Days and thereafter such facilities will be provided at the cost of Government. The said representatives of the Government shall be entitled to make a reasonable number of surveys, measurements, drawings, tests and copies of documents, take samples, and make reasonable use of the equipment and instruments of the Contractor provided that such functions shall not unduly interfere with the Contractor's Petroleum Operations.

- 17.10 Contractor shall after obtaining necessary approvals and on reasonable advance notice to the Government, or to any other authority designated by the Government for such purpose, of its programme of conducting surveys by aircraft or by ships, indicating, inter-alia, the name of the survey to be conducted, approximate extent of the area to be covered, the duration of the survey, the commencement date, and the name of the airport or port from which the survey aircraft or ship will commence its voyage and the like particulars of the crew on board.

The Government, or the authority designated by the Government for such purpose, shall have the right to inspect any aircraft or ship used by the Contractor or a Subcontractor carrying out any survey or other Petroleum Operations in the Contract Area and shall have the right to put on board such aircraft or ship officers nominated by the Government in such number as may reasonably be necessary to ensure compliance by the Contractor or the Subcontractor with the security requirements of Pakistan.

ARTICLE XVIII
TITLE TO PETROLEUM, DATA AND ASSETS

- 18.1 The title to Crude Oil, Condensate, LPG or Natural Gas shall pass on to the Contractor or any other person in accordance with the provisions of this Agreement.
- 18.2 Title to all Data specified in Article XVII shall be vested in the Government and the Contractor shall have the right to use it as provided herein.
- 18.3 Assets purchased by the Contractor for use in Petroleum Operations shall be owned by the parties comprising Contractor in proportion to their participating interest provided that the Government Holdings shall have the right to require vesting of full title and ownership in it, free of charge and encumbrances, of any or all assets, whether fixed or movable, acquired and owned by the Contractor for use in Petroleum Operations, inside or outside the Contract Area, such right to be exercisable at the Government Holdings' option upon expiry or earlier termination of the Contract.
- 18.4 Contractor shall be responsible for proper maintenance, insurance and safety of all assets acquired for Petroleum Operations and for keeping them in good repair, order and working condition at all times, and the costs thereof shall be recoverable in accordance with Accounting Procedure.

**ARTICLE XIX
TRAINING AND EMPLOYMENT**

- 19.1 Contractor agrees to employ to the maximum extent possible qualified nationals of Pakistan in its Petroleum Operations and to provide their schooling and training for staff positions, including administrative and executive management positions. Contractor will require its Subcontractors operating in Pakistan to do the same. Contractor undertakes to gradually replace its expatriate staff with qualified nationals as they become available. An annual programme for employment and training of nationals of Pakistan shall be established by Contractor and submitted for approval to the DGPC. Such programme shall be included in the annual work programme and budget. Within thirty (30) Days of the end of each Calendar Year, Contractor shall submit a written report to DGPC describing, *inter alia*, the number of personnel employed, their nationality and positions and the status of training programmes for nationals of Pakistan.
- 19.2 Contractor shall also be required to establish a programme, satisfactory to the Government to train personnel of the DGPC, Government Holdings and the Government locally and abroad to develop the capability of such personnel to effectively perform their duties. Such training programme shall cover both technical and management disciplines (including but not limited to geology, geophysics, engineering, project management, accounting, economics and legal) and shall include on-the-job training and participation in in-house seminars.
- 19.3 Contractor shall spend on training a minimum amount of Twenty Thousand US Dollars (\$20,000) per Contract Year during Exploration Period and One Hundred Thousand US Dollars (\$100,000) per Contract Year during the Development and Production phases. The unspent training amount during a Year, unless agreed otherwise, shall be deposited into a special account maintained for the purpose by the DGPC.
- 19.4 Contractor shall associate and involve a mutually agreed number of Government Holdings personnel in the technological aspects of the then ongoing Petroleum Operations without charging any fee for such association or involvement.

**ARTICLE XX
DEVELOPMENT FINANCING**

- 20.1 Any interest payment or other financing cost for Petroleum Operations shall not be a cost recoverable expense for Cost Recovery Oil or Cost Recovery Gas purposes.
- 20.2 Any funds borrowed by Contractor shall not constitute income for purposes of the determination of Profit Oil or Profit Gas and any repayments of principal amount shall not constitute Expenditure.

ARTICLE XXII

PIPELINES, PROCESSING FACILITIES AND REFINERIES

- 21.1 Contractor is entitled to construct and operate pipelines, storage and terminal facilities, processing facilities and refineries downstream of the Measurement Point in accordance with the relevant policies and the laws of Pakistan then in effect.
- 21.2 Contractor renounces any claim to participate, on grounds of Production of Crude Oil in Pakistan, in a refinery which may be set up by the Government.
- 21.2 In order to accelerate the Development of first Commercial Discovery in the Contract Area under conditions sufficient pipeline capacity or other infrastructure is not available, the Contractor may propose a plan as part of the Development Plan to the Government that pipelines or other infrastructure be included under the purview of this Agreement as cost recoverable. The Government may at its discretion, approve such a plan on such terms and conditions as set out in the approval which may at least include the following:
- (a) the obligation to locate the Measurement Point at the shore exit of a pipeline or infrastructure and to determine Value of Petroleum at such Measurement Point; and
 - (b) rights of a third party or parties to access any available pipeline or processing capacity under conditions set out in the Government approval. Any income from such third Party(ies) access shall be credited by the Contractor against Cost Recovery Oil or Cost Recovery Gas.
 - (c) Notwithstanding any other provision of this Agreement, the Government Holdings will have right to require vesting in it of full title and ownership of such pipeline or infrastructure owned by Contractor free of charge and encumbrances. Such right shall however be exercisable at the Government Holdings' option upon expiry or earlier termination of this Agreement or after cost recovery of Expenditure on such pipeline or infrastructure.

ARTICLE XXIII
OTHER MINERALS

- 22.1 Contractor shall promptly report to the DGPC the Discovery of any potentially producible minerals. Contractor shall also promptly report to the Pakistan Atomic Energy Commission and the DGPC the Discovery of any minerals necessary for the generation of nuclear energy. Nothing in this Agreement, entitles the Contractor to develop or exploit such minerals.

ARTICLE XXIII
ACCOUNTS AND AUDITS

- 23.1 Contractor shall maintain at its registered office in Pakistan accounts, books, reports, and records of all its activities for and in connection with Petroleum Operations so as to present a clear and accurate record of actual Expenditure and receipts in accordance with this Agreement. The accounts will also include all revenues obtained from and Expenditure incurred for Petroleum Operations, of all Production obtained from the Contract Area and of all property acquired and sold in accordance with good international Petroleum Industry practices and the Accounting Procedure. The accounts shall be audited for the period from the Effective Date to the end of the Calendar Year, and thereafter annually through firms of qualified independent chartered accountants as may be approved by Management Committee. Copies of the audit reports shall be delivered to the President and Government Holdings within six (6) Months of the end of each Calendar Year. If neither the President nor the Auditor General of Pakistan on his behalf, or Government Holdings shall take written exception to any such audited accounts within six (6) Months after the receipt of copies of the report relating thereto, the same shall be final and binding on Contractor, Government Holdings and the President, provided however, that the accounts and support vouchers and documents, together with such reasonable facilities as may be required for the audit of the Petroleum Operations, shall be made available to the Auditor General of Pakistan (with notification to DGPC that this has been done) who may take such action as he deems fit within two (2) Years from the date of receipt of the said report and (notwithstanding the above provision regarding finality after 2 Years, the President, Government Holdings and Contractor shall, where necessary, take appropriate action with regard to any matter arising out of the Auditor General's report.
- 23.2 Government Holdings shall have the right, at the expense of Contractor which will be recoverable as Cost Recovery Oil or Cost Recovery Gas, to audit the Contractor accounts related to the Contract Area and related records for any Calendar Year or portion thereof up to five (5) prior Years from the date of submission of relevant audit report to the Government Holdings, at any time provided thirty (30) Days advance notice is given to Contractor.
- 23.3 The accounting and auditing provisions and procedures specified in this Agreement are without prejudice to any other requirements imposed by any statute in Pakistan, including, without limitation, any specific requirements of the statutes relating to taxation of companies.
- 23.4 For the purpose of any audit referred to above, Contractor shall make available to the auditor all such books, records, accounts and other documents and information as may be reasonably required by the auditor.

- 23.5 In accordance with Article 23 of this Agreement, the account shall be audited for the period commencing with the Effective Date to December 31, 20__ and thereafter annually by one independent firm of chartered accountants with the appropriate level of Petroleum auditing experience., to be selected by the Contractor with the approval of the Management Committee. The selected firm will submit a detailed audit plan for approval of Management Committee before commencement of the aforementioned audit. Copies of the audited accounts and report shall be delivered to THE PRESIDENT and Contractor and Government Holdings. The cost of audit shall be charged borne by the Contractor.
- 23.6 An audit committee will be appointed through the authority of the Management Committee which will consist of one member representing the Contractor and the Government Holdings. The function of such committee shall be the selection of the auditor and approval of the audit plan per 23.5 above. In addition, receive the audit report, resolution of exceptions resulting from the audit and presentation of the final audit report to the Management Committee.
- 23.7 Any claims of discrepancies disclosed by such audit shall be made in writing to the Contractor by the chairman of the audit committee within two (2) months of the completion of the field work unless the Contractor has consented to a reasonable time extension, which consent shall not unreasonably withheld.
- 23.8 The Contractor shall respond in writing to any claims of discrepancies within six (6) months of the receipt of any claims arising from the afore-mentioned audit. If the Contractor is unable to respond the claims during the six (6) months period, an adjustment to the account for the till amount of the unanswered queries shall be processed unless a request for a time extension supported by a clear work plan and a definite date for resolution is submitted and agreed upon, with approval shall not be unreasonably withheld. If the Contractor does not agree with the claim, then the Contractor shall include with its response a detailed and relevant explanation. If the Contractor agrees with the claim, then adjustment shall be made by the Contractor within third (3) days of such agreement. Evidence of such adjustment shall accompany the Contractor's response. If adjustment cannot be made within thirty (30) day period. The response shall include an explanation and an anticipated date for adjustment.
- 23.9 The status of all claims discrepancies issued by the audit committee shall be reported to the Owners within six (6) months of the date the claims were issued. Claims reported as unresolved shall be submitted forthwith by the Contractor to the Government Holdings in accordance with the provisions of this Agreement for resolution of disputes. All necessary adjustments resulting from the audit resolution shall be reported by the Contractor to the audit committee and adjustments processed within thirty (3) days of the date of resolution.

**ARTICLE XXIV
PRODUCTION BONUSES**

24.1 Contractor shall pay the President on a Contract Area basis, the following Production bonuses:

| Daily Production of Crude Oil, Condensate, Natural Gas and LPG On BOE Basis | Production Bonus Amount (US \$Million) |
|------------------------------------------------------------------------------------|-----------------------------------------------|
| 90 Days after Commencement of Commercial Production | 1.0 |
| Upon reaching a production of 200 MMCFD or 33,000 BOE | 2.0 |
| Upon reaching a production of 600 MMCFD or 100,000 BOE | 5.0 |

24.2 Second and third payment due under Article 24.1 shall be made upon first achieving or exceeding the aforesaid daily Production level and shall be made promptly within thirty (30) Days of the date on which the respective Production bonus becomes payable.

24.3 Expenditure incurred on Production bonuses shall not be recoverable as Cost Recovery Oil or Cost Recovery Gas.

**ARTICLE XXV
INSURANCE AND INDEMNIFICATION!**

25.1 Contractor shall comply with all applicable workmen compensation and employers liability laws and insurance laws of Pakistan.

25.2 Contractor shall, during the term of this Agreement, obtain insurance coverage for and in relation to Petroleum Operations for such amounts and against such risks as are customarily or prudently insured in the international Petroleum industry in accordance with good international Petroleum industry practices, and shall furnish to the Government certificates evidencing that such coverage is in effect. Such insurance policies shall include DGPC, the Government and Government Holdings as additional insured and shall waive subrogation against DGPC, the Government and Government Holdings. The said insurance shall, without prejudice to the generality of the foregoing, cover:

- (a) loss or damage to all installations, equipment and other assets for so long as they are used in or in connection with Petroleum Operations; provided, however, that if for any reason Contractor fails to insure any such installation, equipment or assets, it shall replace at its own cost any loss thereof or repair any damage caused thereto;
- (b) loss, damage or injury caused by pollution or adverse environmental impact in the course of or as a result of Petroleum Operations;
- (c) loss of property or damage or bodily injury suffered by any third party in the course of or as a result of Petroleum Operations;
- (d) any claim for which the Government may be liable on account of the loss of property or damage or bodily injury suffered by any third party in the course of or as a result of Petroleum Operations for which Contractor is liable to indemnify DGPC, the Government and Government Holdings;
- (e) the cost of removing wrecks and cleaning up operations following any accident in the course of or as a result of Petroleum Operations; and
- (f) Contractor's liability to its employees engaged in Petroleum Operations.

To the extent that such third party liability insurance is not available, or is not obtained, or does not cover part or all of any claims or damage caused by or resulting from Petroleum Operations, Contractor shall remain fully responsible and shall defend, indemnify and hold the Government harmless against all such claims, losses and damages of any nature whatsoever as set forth in Article 25.3.

25.3 Contractor shall indemnify, defend and hold harmless, Government Holdings, DGPC, the Government and the President at all times against all proceedings, costs, charges, claims, losses, damages and demands whatsoever, including,

without limitation, claims for loss or damage to property or injury or death to persons, caused by or resulting from any Petroleum Operations conducted by or on behalf of Contractor by any third party, or anything done or purporting to be done in pursuance thereof provided that Contractor shall not be held responsible to Government Holdings, DGPC, the Government or the President under this Article 25.3 for any loss, claim, damage or injury caused by or resulting from any negligent action of any concerned personnel of the latter.

- 25.4 For the purposes of this Article XXV, each reference to the "Government" includes the concerned "Provincial Government".
- 25.5 Contractor shall require its Subcontractors to obtain and maintain insurance against the risks referred to in Article 25.2 and 25.3 and the provisions of this Article shall apply *mutatis mutandis* to such Subcontractors.

**ARTICLE XXVII
PARENT COMPANY AND RANK GUARANTEE**

- 26.1 Subject to Article 3.8, Contractor shall procure and deliver to the Government on the Effective Date of this Agreement and refer the first day of any subsequent renewal.
- (a) either an irrevocable, unconditional bank guarantee from a reputable bank of good standing in Pakistan acceptable to the Government for nonperformance compensation as specified in Article 3.4, in a form and substance (acceptable to the Government) as set out in Annex-IV; or
- a guarantee in favor of the Government, from the ultimate parent company of the Contractor acceptable to the Government, in form and substance set out in Annex-V as required and notified by Government; and
- (b) a legal opinion from its legal advisors, in a form satisfactory to the Government, to the effect that the aforesaid guarantees have been duly signed and delivered on behalf of the guarantors with due authority and are legally valid and enforceable and binding upon them.
- 26.2 All guarantees shall provide:
- (a) that the amount referred to in Article 26.1(a) shall be reduced during each Contract Year in an amount equal to any remaining non-performance compensation payments that would be required to be paid by Contractor in accordance with Article 3.4 for the value of remaining Work Units, on presentation to the bank of a certificate signed by DGPC on behalf of the Government that the said guarantee may be reduced in accordance with its terms; and
- (b) that, at the end of the each Phase, the guarantee will be released in favor of Contractor on presentation to the bank of a certificate from the Government that the Minimum Work obligation of Contractor for that Phase has been fulfilled and the guarantee may be released.
- 26.3 If Contractor elects to proceed to the next Phase or to the Renewal(s) of the Exploration Period outlined in Article 3.1 hereof, a bank guarantee for the succeeding Phase or Renewal as the case may be, shall be delivered to the Government with the notice of such election and if such guarantee is not so delivered, the provisions of Article 7.3 shall apply.
- 26.4 If any of the documents referred to in Article 26.1 are not delivered within the period specified, this Agreement, may be terminated by the Government as per the provisions of Article 7.3 hereof.

- 26.5 Notwithstanding any change in the composition or shareholding of the ultimate parent company furnishing the guarantees herein, it shall, under no circumstances, be absolved of its obligations contained in the guarantees provided pursuant to this Agreement.

**ARTICLE XXVIII
EFFECTIVENESS AND DURATION!**

- 27.1 This Agreement shall be and remain in full force, application and effect from the Effective Date until the expiration, Surrender of the entire Contract Area, or termination of this Agreement.

ARTICLE XXVIII
FORCE
MAJEURE

- 28.1 For the purposes of this Article XXVIII, "*force majeure*" means an occurrence beyond the reasonable control of the Party claiming suspension of an obligation hereunder, which has not been caused by such Party's negligence and which such Party was unable to prevent by exercise of reasonable diligence at a reasonable cost and includes, without limiting the generality of the foregoing, an act of God, war, revolution, insurrection, blockage, riot, strike, a lockout or other industrial disturbance, fire, lightning, unusually severe weather, storms, floods, explosion, accident or Government restraint, action, delay or inaction.
- 28.2 If any Party is prevented by *force majeure* from fulfilling any obligation hereunder, the obligations of that Party, insofar only as its obligations are affected by the *force majeure*, shall be suspended while the *force majeure* continues to prevent the performance of such obligation and for such time thereafter as that Party may reasonably require to commence to fulfil such obligation. A Party prevented from fulfilling any obligation by *force majeure* shall promptly give the other Party a notice of the *force majeure* and the affected obligations, including full particulars in respect thereof.
- 28.3 The Party claiming suspension of an obligation as aforesaid shall promptly remedy the cause and effect of the applicable *force majeure*, insofar as it is reasonably able so to do, and such Party shall promptly give the other Party a notice when the *force majeure* ceases to prevent the performance of the applicable obligation. However, the terms of settlement of any strike, lockout or other industrial disturbance shall be wholly at the discretion of such Party, notwithstanding Article 28.1. That Party shall not be required to accede to the demands of its opponents in any strike, lockout or industrial disturbance solely to remedy promptly the *force majeure* thereby constituted.
- 28.4 Notwithstanding anything contained in this Article XXVIII, lack of finances shall not be considered a *force majeure event*, nor shall any *force majeure event* suspend any obligation for the payment of money due hereunder.
- 28.5 The term of this Agreement shall be extended for the duration of the *force majeure* and for such further period as determined by the Government to resume Petroleum Operations, subject to Article 28.1.
- 28.6 In the event *force majeure* exceeds a period of two (2) Years continuously during the Term of this Agreement any of the Parties may terminate this Agreement on three (3) Months written notice without any further obligation.
- 28.7 Notwithstanding anything contained herein above, if an event of *force majeure* occurs and is likely to continue for a period in excess of sixty (60) Days, the Parties shall meet to discuss the consequences of the *force majeure* and the

course of action to be taken to mitigate the effects thereof or the course to be adopted in the circumstances.

- 28.8 Notwithstanding any other provision of this Article, the Parties may agree under mutually acceptable conditions to continue Petroleum Operations in a part of the Contract Area other than a certain specific part affected by the force majeure event..

ARTICLE XXIX
Settlement of Disputes

- 29.1 The Parties shall use their best efforts to settle amicably all disputes, differences or claims arising out of or in connection with any of the terms and conditions of this Agreement or concerning the interpretation or performance thereof.
- 29.2 Subject to the terms of this Agreement, the Parties may agree to refer any matter to a sole expert who shall be an independent and impartial person of international standing with relevant qualifications and experience, appointed by an agreement between the Parties. Such person shall not have any conflict of interest by virtue of nationality, personal connection or on account of commercial considerations. Any sole expert appointed shall act as an expert and not as an arbitrator and the findings of the sole expert on matters referred to him/her shall be final and binding on the Parties and not subject to arbitration.
- 29.3 Subject to the provisions of this Agreement, the Parties hereby agree that any question, controversy, difference, disagreement or claim for damages, compensation or otherwise between the Parties (hereinafter referred to as a "Dispute") arising of or in connection with the terms of this Agreement (regardless of the nature of the Dispute), which is not settled amicably within ninety (90) Days after the Dispute arises it may be submitted to the International Center for Settlement of Investment Disputes (ICSID) established under the "Convention on the Settlement of Investment Disputes Between States and Nationals of Other States" and The President and the Parties to the extent required by the said Convention, hereby consent to arbitration thereunder. If, for any reason, the request for arbitration proceedings is not registered by ICSID, or if the ICSID fails or refuses to take jurisdiction over such Dispute, such Dispute shall be finally settled by an Arbitral Tribunal established under the Rules of Arbitration of the International Chamber of Commerce (the "Chamber Rules"). The arbitrators shall not be nationals of the country of any of the Parties to the arbitration proceedings nor any of such arbitrators be employees or agents or former employees or agents of any of the Parties to the proceedings. This Article is only applicable in case of a Dispute between foreign Working Interest Owners inter se, or between foreign Working Interest Owners and THE PRESIDENT. In the event of a Dispute between the Pakistani companies inter-se, or between the Pakistani companies and THE PRESIDENT, the arbitration shall be conducted in accordance with the Arbitration Act, 1940.
- 29.4 The arbitration award rendered pursuant to this Article/or in case of difference among arbitrators, the decision of the majority shall be final, conclusive and binding upon the Parties. The judgment on the award rendered may, however, be entered in any court having jurisdiction or application may be made in such court for a judicial acceptance of the award and/or for an order of enforcement as the case may be. The official language of arbitration will be English.
- 29.5 The right to submit Disputes to arbitral tribunal under this Agreement shall

survive expiry or the termination of this Agreement.

- 29.6 The investigation by sole expert or arbitration proceedings pursuant to this Article, unless the Parties agree otherwise, shall be Islamabad, Pakistan and shall be conducted in the English language. Insofar as practicable, the Parties shall continue to implement the terms of this Agreement notwithstanding the initiation of investigation by a sole expert or proceedings before arbitral tribunal and any pending Dispute.
- 29.7 The fees and expenses of the sole expert shall be borne equally by the Parties. The cost and expenses of arbitrator appointed by a Party in accordance with the provisions of this Article shall be borne by the respective Party and the cost and expense of third arbitrator and other expenses of the Tribunal shall be equally shared by the Parties as determined by the arbitrators.
- 29.8 The venue of the investigation by the sole expert or arbitration proceedings pursuant to this Article, shall be Islamabad, Pakistan.

**ARTICLE XXX
PROTECTION OF THE ENVIRONMENT**

- 30.1 The Parties recognize that Petroleum Operations will cause some impact on the environment in the Contract Area. Accordingly, in performance of this Agreement, Contractor shall conduct Petroleum Operations with due regard to concerns with respect to protection of the environment and conservation of natural resources. Towards this end, and in furtherance of any laws promulgated or as the Government may require from time to time, Contractor shall:
- (a) employ advanced techniques, practices and methods of operation for the prevention of environmental damage in conducting Petroleum Operations; and
 - (b) take necessary and adequate steps to prevent environmental damage and, where some adverse impact on the environment is unavoidable, to minimize such damage and the consequential effects thereof to persons, property or otherwise.
- 30.2 If the Contractor fails to comply with the provisions of Article 30.1(b) or contravenes the provisions of the relevant laws, and such failure or contravention results in any environmental damage, the Contractor shall forthwith take all necessary and reasonable measures to remedy the failure and the effects thereof.
- 30.3 If the Government has, on reasonable grounds, good reason to believe that any works or installations erected by the Contractor or any Petroleum Operations conducted by the Contractor are endangering or may endanger persons or the property of any person, or are causing or may cause pollution, or are harming or may harm wildlife or the environment to a degree which the Government deems unacceptable, the Government may require the Contractor to take remedial measures within such reasonable period as may be determined by the Government and to rectify any damage to the environment. If the Government deems it necessary, it may also require the Contractor to discontinue Petroleum Operations in whole or in part until the Contractor has taken such remedial measures or has repaired any damage caused.
- 30.4 The measures and methods to be used by the Contractor for the purpose of compliance with the terms of Article 30.1(b) shall be determined in consultation with the Government upon the commencement of Petroleum Operations and whenever there is a significant change in the scope or method of conducting Petroleum Operations and shall take into account the good international Petroleum industry practices as applicable in similar circumstances and the relevant environmental impact study carried out in accordance with the relevant laws as provided for in Article 30.5 below. The Contractor shall notify the

Government, in writing, of the measures and methods finally determined by the Contractor and shall cause such measures and methods to be reviewed from time to time in the light of prevailing circumstances.

- 30.5 In addition to any requirements under the laws of Pakistan, the Contractor shall cause a person or persons with special expertise and knowledge on environmental matters, approved by the Government, to carry out two environmental impact studies in order:
- (a) to determine at the time of the studies the prevailing situation relating to the environment, human beings and local communities, the wildlife and marine life in the Contract Area and in the adjoining or neighboring areas; and
 - (b) to establish the likely effect on the environment, human beings and local communities, the wildlife and marine life in the Contract Area and in adjoining or neighboring areas in consequence of the relevant Petroleum Operations to be conducted under this Agreement, and to submit, for consideration of the Parties, methods and measures contemplated in Article 30.4 for minimising environmental damage and carrying out site restoration activities.

The first of the aforementioned studies shall be carried out in two parts, namely, a preliminary part which must be concluded before commencement of any 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. The second of the aforesaid studies shall be completed before commencement of Petroleum Operations under an approved Development Plan and shall be submitted by the Contractor as part of the Development Plan, with specific approval of Government being obtained before commencement of Petroleum Operations under the Development Plan.

The studies mentioned in this Article 30.5 shall contain the details of the measures which are required to be taken in order to minimise environmental damage and shall include, but not be limited to, the following, to the extent appropriate to the respective study:

- (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) blow-out prevention plan;
- (m) flaring during completion and testing of wells;
- (n) abandonment of wells;
- (o) rig dismantling and site completion;
- (p) reclamation for abandonment;
- (q) noise control; and
- (r) mud and debris disposal.

30.6 The Contractor shall ensure that:

- (a) Petroleum Operations are conducted in an environmentally acceptable and safe manner consistent with good international Petroleum industry practices and are properly monitored;
- (b) the pertinent completed environmental impact studies are made available to its employees and to its 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
- (c) the contracts entered into between the Contractor 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.

30.7

- (a) The Contractor shall, prior to conducting any drilling activities, prepare and submit contingency plans for dealing with oil spills, fires, accidents and emergencies, designed to achieve rapid and effective emergency response for review by the Government. The plans referred to above shall be discussed with the Government and concerns expressed shall be taken into account.
- (b) 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 and damage control activities as may be necessary in accordance with good international Petroleum industry practices.

- (c) 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 good international Petroleum industry practices in such circumstances.
- 30.8 In the event that the Contractor fails to comply with any of the terms contained in Article 30.7 within a period specified by the Government, the Government, after giving the Contractor reasonable notice in the circumstances, may take any action which may be necessary to ensure compliance with such terms to recover from the Contractor, immediately after having taken such action, all costs and Expenditure incurred in connection with such action together with such interest as may be determined in accordance with this Agreement.

**ARTICLE XXXII
APPLICABLE LAW AND MISCELLANEOUS MATTERS**

- 31.1 (a) The Government undertakes to uphold the fiscal stability of this Agreement and specifically guarantees that the payments to Government stipulated in Articles 6.6, 6.9, 9.1, 9.6, XIII, XIV and XXIV shall not be amended or changed with respect to the application of this Agreement.
- (b) Where any agency or authority of the Government imposes any tax, cess, fee, duty, levy, or other ancillary payment in addition to the guaranteed payments in Article 31.1(a) as required by the laws of Pakistan other than those concerning health, safety and environmental and related matters of public interest, Government Holdings shall consult with Contractor on appropriate measures in order to compensate Contractor for such unfavorable impacts caused by such amendments. After having quantified the unfavorable impacts, the Government Holdings share of Profit Oil and Profit Gas shall be adjusted in such a manner that the overall fiscal balance is maintained.
- 31.2 This Agreement shall be governed by and shall be given effect in accordance with the laws of Pakistan. Nothing in this Agreement shall entitle any person, natural or legal, to exercise the right, privileges and powers conferred by this Agreement in a manner which contravenes the laws of Pakistan.
- 31.3 All headings used herein are for the purpose of reference only and shall not be construed as in any way defining or limiting the meaning of any provision.
- 31.4 Contractor shall pay to the Government the following minimum amounts during the term of this Agreement for the purposes of marine research:

| Period | Marine Research Minimum Amount |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|
| Each Contract Year from the Effective Date until the announcement of the first Discovery | US \$50,000 |
| Each Contract Year from the announcement of the first Discovery until the Date of Commercial Discovery/Commencement of Development Operations | US\$100,000 |
| Each Contract Year during Development Operations phase | US \$250,000 |
| Each Contract Year during Production phase | US \$500,000 |

- 31.5 The English language shall be the language of this Agreement. All communications, hearing or visual materials or documents relating to this Agreement shall be written or prepared in English.
- 31.6 Contractor shall furnish, prior to execution of this Agreement, a duly authorized copy of a resolution properly and legally passed by the Board of Directors of its ultimate parent company authorizing an executive officer of the Contractor to execute this Agreement along with a certificate duly signed by the Secretary or an Assistant Secretary of the Contractor under its seal in this regard and to the effect that the Contractor has the powers and authority to enter into this Agreement and to perform its obligations thereunder and has taken all necessary action to authorize the execution, delivery and performance of this Agreement.
- 31.7 If there are two or more persons or companies comprising the Contractor, they shall be liable jointly and severally to the other Parties for all of the obligations and liabilities resulting from their activities carried out pursuant to this Agreement.

**ARTICLE XXXIII
NOTICES**

- 32.1 Any notice or advice required to be given to or by the President, the Government, DGPC, Government Holdings or Contractor shall be given in writing in the English language and delivered by hand, by courier, by fax or telex. The Parties shall have the right to change their address by giving the other Party written notice thereof.
- 32.2 Such notices or other communications shall be deemed to be effectively given or made:
- (a) if delivered by hand, at the time of receipt;
 - (b) if delivered by fax, on confirmation of fax transmitted by the sender;
 - (c) if delivered by telex, with correct confirmation of receipt; and
 - (d) if delivered by courier within three (3) working Days of sending.
- 32.3 The addressees for such communication are as follows: (b) In the case of the President/Government to:

The Secretary, Ministry of Petroleum and Natural Resources,
3rd Floor, Secretariat Block 'A', Islamabad (Pakistan).
Telephone: 92-51-9211220
Fax 92-51-9201770

- (b) In the case of DGPC to:

The Director General (Petroleum Concessions),
Department of Petroleum and Energy Resources,
Ministry of Petroleum and Natural Resources,
1019-A, Pak Plaza, Fazal-e-Haq Road, Blue Area,
Islamabad (Pakistan)

Attention: Director General, Petroleum Concessions,
Telephone: 92-51-9204176
Telex: 54089 TWPETPK
Fax 92-51-9213245

- (c) In the case of Government Holdings to:

Attention:
Telephone:
Telex

- (d) In the case of Contractor to:
 - Attention:
 - Telephone:
 - Telex:

IN WITNESS WHEREOF this Agreement has been executed by all Parties hereto as of the Day of

For and on behalf of THE PRESIDENT OF THE REPUBLIC OF
PAKISTAN

WITNESS:

- 1.
- 2.

For and on behalf of
THE GOVERNMENT HOLDINGS

WITNESS:

- 1.
- 2.

For and on behalf of THE CONTRACTOR

WITNESS:

- 1.
- 2.

ACCOUNTING PHOCEOUHE
(OFFSHORE PRODUCTION SHARING AGREEMENT)

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ACCOUNTING PROCEDURE

ANNEX TO THE OFFSHORE PRODUCTION SHARING AGREEMENT
(the "Agreement")

ARTICLE 1
GENERAL PROVISIONS

1.1 Purpose

The purpose of this Accounting Procedure is to set out the principles and procedures of accounting which will enable the Government to monitor effectively the Contractor's costs, Expenditure, production and income so that Government's entitlement to Profit Oil and Profit Gas can be accurately determined pursuant to the terms of the Agreement. More specifically, the purpose of the Accounting Procedure is to:

- (a) classify costs and Expenditure and to define which cost and Expenditure shall be allowable for recovery;
- (b) determine the precise manner of production sharing and the detailed procedures for determining the amounts of Profit Oil and Profit Gas;
- (c) specify the manner in which the Contractor's accounts shall be prepared and approved; and
- (d) address other related accounting matters.

This Accounting Procedure is intended to apply to the provisions of the Agreement and is without prejudice to the computation of income tax under applicable provisions of *Income Tax Ordinance 1979*, as amended.

The Agreement establishes the provisions that govern the costs which may be recovered as Cost recovery Oil and Cost Recovery Gas. The provisions of this Accounting Procedure requiring Contractor to maintain and report certain costs does not mean that such costs are recoverable as Cost Recovery Oil and Cost Recovery Gas.

1.2 Definitions

The definitions of Article I of the Production Sharing Agreement (hereinafter referred to as "Agreement") shall apply to this Accounting Procedure and have the same meaning except that references herein to Articles refer to Articles hereof unless otherwise indicated.

- 8 9 In addition, the following

terms will have the meaning given below:

- (a) *"Abandonment Costs"* means, subject to Article 7.12 of PSA and expressly includes a cost, expense or other amount incurred in closing down, decommissioning, abandoning, or wholly or partly removing assets in the Contract Area, keeping assets in the Contract Area in a safe condition following cessation of production pending abandonment and restoration of land or seabed in the Contract Area. A cost, expense or other amount shall constitute an Abandonment Cost only to the extent that it is a cost, expense or other amount that is performed in accordance with good international Petroleum industry practice or expressly approved by the DGPC for inclusion as an Abandonment Cost of the Contractor for the Contract Area, and is incurred prior to, or within reasonable time after the cessation of Commercial Production as per approved Abandonment Plan;
- (b) *"Calendar Quarter"* means three consecutive Calendar Months ending on March 31, June 30, September 30 and December 31;
- (c) *"Credit"* means an amount of income associated with Petroleum Operations that is not resulting from the sale of Petroleum, and is to be applied as a reduction of recoverable costs; and *"Credited"* or other variations of that term shall have similar meanings; and
- (d) *"Included Risk"* means a risk relating to Petroleum Operations, other than political risks, abandonment, business interruption or any other risks that do not affect or result from the ongoing Petroleum Operations.

1 3 Precedence of Documents

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

1 4 Statements

Within thirty (30) days from the end of each Calendar Month, the Contractor shall supply to Government Holdings:

- (a) a Statement of Expenditure classified in accordance with Articles 2, 3 and 5 hereof containing the information required by Article 11;
- (b) a Cost Recovery and Profit Sharing Statement pursuant to Article 10 hereof;
- (c) a Production Statement pursuant to Article 8 hereof;
- (d) a Value of Production Statement pursuant to Article 9; and

- (e) a Budget Statement pursuant to Article 12.

Further, the Contractor shall provide to Government Holdings each Calendar Quarter an Inventory Statement containing the information required by Article 7.3 and a Quarterly Statement containing the information required by Article 13.

1 5 Books of Account

Contractor's books for Petroleum Operations shall be kept on an accrual basis in Pakistani Rupees or Dollars or such other currency as is mutually agreed by the Parties. Such books of account shall be kept in Pakistan, in the English language and in accordance with internationally accepted accounting principles as published from time to time by the International Accounting Standards Committee and consistent with good Petroleum industry practice and provisions of the Agreement and this Accounting Procedure. All Expenditure shall be charged in the amount expended. Necessary currency conversions shall be made at the time the Expenditure or receipt occurs. Contractor shall maintain a record and documentation of the exchange rates used in translating Expenditure to Pakistani Rupees or Dollars or other selected currency. Any realized gains or losses from the exchange of currency in respect of Petroleum Operations shall be Credited or charged to the accounts. Accounts should show current month as well year to date amounts

1 6 Revision of Accounting Procedure

This Accounting Procedure may be revised from time to time by written agreement of Government Holdings and Contractor.

1 7 Detailed Outline of Accounting System

Within ninety (90) days after the Effective Date, Contractor shall present to Government Holdings a proposed outline of charts of accounts (including detailed classifications of costs and detailed nature of cost centers as specified in Articles 2 and 3 hereof) to be used. Following discussion and approval of such draft by the Government Holdings, Contractor shall promptly prepare and provide Government Holdings with its:

- (a) comprehensive charts of accounts and a Licensed copy of the Accounting Software that the Contractor is using;
- (b) organization chart showing recording and reporting functions; and
- (c) manuals to be used in implementing this Accounting Procedure.

1.8 Procurement Procedure

Within ninety (90) days after the Effective Date, Contractor shall furnish to Government Holdings for approval, the procurement procedures to be followed thereafter by Contractor for obtaining materials, equipment and services.

1.9 Basis for all Charges and Revenues

Subject to Articles VIII and X of the Agreement, all transactions, purchases or sales, giving rise to charges, Credits, revenues, costs, Expenditure, prices and values which will be charged or Credited to the accounts prepared, maintained or submitted hereunder, for the purpose of determining the value of the Available Oil and Available Gas and the value of the Cost Recovery Oil and Cost Recovery Gas, shall be on the basis of fair market value as would apply in transactions among independent "arm's length" third parties in the framework of a free market system or on such basis as will ensure that all such revenues, costs or Expenditure will not be lower or higher, as the case may be, than would result from a transaction contracted at arm's length basis on competitive terms with third parties. Notwithstanding any provision to the contrary in the Accounting Procedure, it is the intention that there shall be no duplication of charges or Credits to the accounts under the Agreement.

ARTICLE 2

COSTS AND

EXPENDITURE 2.1 Classification of Costs and

Expenditure

The chart of accounts referred to in Article 1.7 shall contain as a minimum the following detailed classifications of costs:

(a) **Surface Use Rights**

All direct costs attributable to the acquisition, renewal or relinquishment of surface use rights for areas required by Contractor for installations and operations forming part of Petroleum Operations.

(b) **Labor**

- (i) Actual salaries and wages of Contractor's employees directly engaged within the Contract Area in Pakistan in the Petroleum Operations under the Agreement. Salaries and wages paid to employees temporarily assigned to and employed in such activities shall be allocated on the basis of approved time sheets or other methods approved by Government Holdings. (This clause should be used to allow for charging of first level supervision, technical services and Production engineering for employees located on site).
- (ii) Actual salaries and wages of employees of Contractor's Affiliates, whose services are not covered by paragraph (i) or (f)(ii) hereof, attributable to time for which they worked within or outside of Pakistan on Petroleum Operations under the Agreement and documented by time sheets or other methods and approved by Government Holdings. Any off-site technical work should be approved in writing by the Government Holdings.
- (iii) Cost of overseas service premiums, living and housing allowances, and other customary allowances if applicable to salaries and wages of expatriate employees chargeable under paragraph (b)(i) hereof.
- (iv) Paid bonuses, overtime and other customary allowances if applicable to salaries and wages of national employees chargeable under paragraph (b)(i) hereof.
- (v) Expenditure or contributions made pursuant to law or assessments imposed by Government which are applicable to labor costs chargeable under paragraph (b)(i) hereof.

(c) Employee Benefits

- (i) Cost of Contractor's established plans and policies (copies of which will be made available if required by Government Holdings) for employee group life insurance, social security, hospitalization, pension, retirement, stock purchase, thrift, expatriate tax equalization, dependent education and other benefits of a like nature attributable to salaries and wages chargeable under paragraphs (b)(i) or (b)(ii) hereof.
- (ii) Severance pay to national employees charged at a fixed rate applied to the national payroll, which will equal an amount equivalent to the maximum liability for such severance payments under applicable Pakistan law.

(d) Materials, Equipment and Supplies

- (i) Material, equipment and supplies purchased or furnished by Contractor which should be valued in accordance with Article 4 of this Accounting Procedure
- (ii) Material and equipment rented.

(e) Transportation

- (i) Transportation of equipment, materials, and supplies necessary for the conduct of Contractor's activities within the Contract Area under the Agreement.
- (ii) Business travel and transportation expenses to the extent covered by established policies of Contractor, as incurred and paid by or for expatriate and national employees in the conduct of Contractor's business for employees chargeable pursuant to sub-clause 2.1 (b), (f) (ii), and f (iii)
- (iii) Employee relocation costs for expatriate and national employees to the extent covered by established policy of Contractor; for expatriates, this will include all travel and relocation costs of such employees and their families to and from the employee's point of origin at the time of employment, at time of separation and for vacations, and travelling expenses for employees and their families incurred as a result of transfer from one location to another within Pakistan. Transportation costs chargeable for employees and their families incurred as a result of a transfer from Pakistan to a location other than the point of origin shall not be charged as a cost under the Agreement.

(t) **Services [Services, equipment and utilities required for Petroleum Operations under the Agreement pursuant to contracts entered into by the Contractor]**

- (i) *Outside Services:* The cost of consultants, contract services and utilities procured from third parties.
- (ii) *Affiliated Services:* Cost of services including laboratory analysis, drafting, geophysical treatment and interpretation, geological interpretation, engineering and data processing, performed by Contractor's Affiliates in facilities inside or outside Pakistan that are not covered by paragraphs (b)(ii) or (k) hereof.

Cost of professional and administrative services provided by Affiliates for the direct benefit of Petroleum Operations, including but not limited to services related to exploration, production, legal, financial, insurance, accounting and computer which the Contractor may use if prior approval is given by Government Holdings.

(g) **Damages and Losses**

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident or any other cause not controllable by Contractor through the exercise of reasonable diligence and not resulting through Contractor's failure to file timely claims and to diligently pursue such against the insurers. Contractor shall furnish Government Holdings written notice of damages or losses incurred in excess of ten thousand (\$10,000) Dollars per occurrence, as soon as practicable after report of the same has been received by Contractor.

(h) **Insurance and Claims**

The cost of insurance against Included Risks, including public liability, property damage and other insurance, as may be carried by Contractor or required by the Agreement. Contractor shall not provide such insurance through Affiliates or self-insure for a premium without prior specific written approval of Government Holdings. The proceeds of any such insurance or claim collected shall be Credited against the appropriate Expenditure account and reduce recoverable costs. If no insurance is carried for a particular Included Risk, all related actual Expenditure incurred and paid by Contractor in settlement of any and all losses, claims, damages, judgements and any other expenses, including legal services, shall be charged to the appropriate Expenditure account, provided such loss, claim or damage did not result from Contractor's failure to operate in accordance with the standards required by the Agreement.

(i) **Reid Offices, Camps, Warehouses, Miscellaneous Facilities**

Field offices, camps and other facilities such as shore bases, warehouses, water systems, and road or other transportation systems as Government Holdings and Contractor may agree.

III Lena! Expenses

All reasonable costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the Contract Area, Petroleum Operations and facilities against third party claims, including outside attorney's fees and expenses, together with all judgements obtained against the Parties or any of them on account of the operations under the Agreement, and actual expenses incurred by a Party in securing evidence for the purpose of defending against any action or claim prosecuted or urged in connection with the Petroleum Operations or the subject matter of the Agreement. In the event actions or claims affecting the interests hereunder shall be handled by the legal staff of Contractor or its Affiliates, the cost of such personnel shall be chargeable under paragraph (b)(i) or (ii) hereof.

(i) **Administration and Overhead**

(i) Contractor's administrative overhead for functions which shall be agreed with Government Holdings applicable to the Petroleum Operations under the Agreement prior to the Commencement of Commercial Production in the Contract Area shall be charged in accordance with the following rates with respect to all Expenditure other than the following administrative overheads:

- (A) Five per cent (5%) of the first two million (\$2,000,000) Dollars paid during the Calendar Year;
- (B) Three per cent (3%) of the subsequent three million (\$3,000,000) Dollars of such Expenditure paid during the Calendar Year; and
- (C) One per cent (1%) of amounts exceeding five million (\$5,000,000) Dollars but up to thirty million (\$30,000,000) Dollars of such Expenditure paid during the Calendar Year.
- (D) One quarter of one per cent (0.25%) for any amounts over thirty million (\$30,000,000) Dollars.

(ii) Contractor's administrative overhead for functions which shall be agreed with Government Holdings applicable to Petroleum Operations under the Agreement after the date of Commencement of Commercial Production in the Contract Area shall be up to ten percent (10%)

of all Expenditure incurred subsequent to the Commencement of Commercial Production allowable for cost recovery.

- (iii) Contractor shall make monthly charges to the accounts based on the above rates for each Calendar Month.

(m) **Taxes**

All taxes, duties, levies or any other imposts paid in Pakistan by Contractor and referred to in Article XIII and XIV of the Agreement other than the Royalty and corporate income tax.

(n) **Bank Charges**

Bank charges for guarantees required under the Agreement and routine bank charges for transfers of funds and currency exchange.

(o) **Government Holdings Audit**

The audit expenses of Government Holdings pursuant to Article XXIII of the Agreement.

(p) **Escrow**

Amounts paid to the escrow account maintained for the Abandonment Fund contemplated in Article 7.12 of the Agreement.

(P) **Other Expenses**

Any costs, expenses or Expenditure, other than those which are covered by this Article 2, incurred by Contractor for the proper conduct of the Petroleum Operations with prior approval of the Management Committee.

- 2.2
- (a) For the purpose of cost recovery, all recoverable costs shall be recoverable from the date such costs are incurred in accordance with the Agreement and the Accounting Procedure.
 - (b) The chart of accounts shall be organized so that goods and services which have been procured from Pakistani suppliers can be identified.
 - (c) Use of an Affiliate's services or wholly owned equipment shall be charged in accordance with the principles set out in Article 1.9.

ARTICLE3
CHARTOFACCOUNTS

3.1 The chart of accounts mentioned in Article 1.7 shall contain as a minimum the following divisions:

- (a) The costs shall be allocated in the following manner:
 - (e) Exploration Operations;
 - (ii) Appraisal Operations;
 - (i) Development Operations;
 - (ii) Production Operations; and
 - (v) costs that cannot be related to any of the above.
- (b) The costs shall be allocated according to the nature of Petroleum Operations in the following manner:
 - (i) Exploration Operations and Appraisal Operations, sub-divided further into:
 - (A) aerial, geological, geochemical, geophysical surveys; and other
 - (B) each individual seismic survey;
 - (C) each individual Exploration Well;
 - (D) infrastructure (roads, airstrips, etc.);
 - (E) support facilities (Warehouses, etc), including an allocation of common service costs (costs related to various Petroleum Operations);
 - (F) an allocation of the administrative overhead and general expenses; and
 - (G) other costs.
 - (ii) Development Operations, sub-divided further into:
 - (A) geological, geochemical, geophysical, and other surveys;
 - (B) each individual Development Well and other wells;

- (C) gathering lines;
 - (D) field facilities and pipelines;
 - (E) tank farms and other storage facilities for Petroleum;
 - (F) platforms, facilities and infrastructure within the Contract Area;
 - (G) support facilities, including an allocation of common service costs (cost related to various Petroleum Operations);
 - (H) an allocation of the administrative overhead and general expenses;
 - (I) Abandonment Costs; and
 - (J) other costs.
- (iii) Production Operations, sub-divided in the same manner as for Development Operations.
- (c) (i) Costs shall be allocated to all petroleum products in these two categories:
- (A) Crude Oil/LPG/Condensate; and
 - (B) Natural Gas.
- (ii) The costs attributable to Petroleum Operations shall be applied to the Crude Oil/LPG/Condensate and Natural Gas categories on the following basis:
- (A) all costs attributable to Crude Oil shall be allocated to Crude Oil/LPG/Condensate category;
 - (B) all costs attributable to Natural Gas shall be allocated to the Natural Gas category; and
 - (C) all common costs shall be allocated pro rata on the basis of the gross revenue received between the Crude Oil/LPG/Condensate and Natural Gas categories on a Monthly basis. Allocations of common costs shall occur at the time of recovery of costs, and not when the costs are incurred.

ARTICLE4
VALUATION OF MATERIALS

4.1 Materials either charged to the accounts pursuant to Article 3 hereof or Credited to the accounts pursuant to Article 5 hereof shall be valued in accordance with the principles of this Article.

4.2 Purchases

- (a) Material purchased and services obtained directly for Petroleum Operations shall be charged at the price paid by the Contractor, however, such price shall not exceed the values established pursuant to the principles of Article 1.9 (the "Current Price"). The price shall include such costs as broker's fees, transportation charges, loading and unloading fees, demurrage, import duties, surcharges and License fees associated with the procurement of materials and equipment, and applicable taxes.
- (b) If material is not obtainable at recognized current list prices from general supply sources, due to national emergency, strikes, Governmental regulations or other unusual circumstances over which Contractor has no control and it is so established, provisions relating to pricing of material and costs of transportation shall not apply and the Contractor may supply materials from any available source for prices that are reasonable and competitive under the circumstances.

Materials transferred from Contractor's warehouse or staging areas to the Contract Area shall be priced based on the following provisions.

- (a) "Material" means equipment or supplies acquired or held for use in the conduct of Petroleum Operations and to which the following shall apply:
 - (i) Condition "A" means that which is new;
 - (ii) Condition "B" means that which has been used but is sound and is suitable for its original function without reconditioning;
 - (iii) Condition "C" means that which has been used and would be suitable for its original function after reconditioning or that which cannot be reconditioned for, but has a limited service in, its original functions;
 - (iv) Condition "D" means that which is not suitable for its original function but is usable for another function; and
 - (v) Condition "E" means that which is junk.

- (b) All Material furnished for Petroleum Operations from Contractor's warehouse or staging areas, unless otherwise agreed to by Government Holdings, shall be priced on the following basis and charged or credited as recoverable costs:
- (i) Condition "A" Material at Current Price;
 - (ii) Condition "B" Material at seventy-five (75%) percent of Current Price of Condition "A" Material;
 - (iii) Condition "C" Material at fifty (50%) percent of Condition "A" Material;
and
 - (iv) Condition "D" and "E" Material at a value commensurate with its use at Current Prices.

There may be cases where some items of Material, due to their unusual condition, shall be fairly and equitably priced by Contractor subject to approval of the Management Committee.

- (c) Contractor shall only supply Material for Petroleum Operations from the Contractor's warehouse if the ultimate cost of such Material is equivalent to the most economical cost of the same or similar Material currently prevailing in normal arm's length transactions in the open market.

ARTICLE 5
RECEIPTS

5.1 All Credits received from Petroleum Operations under the Agreement including but not limited to the items listed below, shall be Credited to the accounts under the Agreement and shall be Credited against cost recovery in the manner described in the Agreement:

- (a) the proceeds of any insurance for Included Risks or claim or judicial awards in connection with Petroleum Operations under the Agreement or any assets charged to the accounts under the Agreement where such operations or assets have been insured and the premia charged to the accounts under the Agreement;
- (b) revenue received from third parties for the use of property or assets, the cost of which has been charged to the accounts under the Agreement;
- (c) any adjustment received by the Contractor from the suppliers/manufacturers or their agents in connection with defective Material, the cost of which was previously charged by the Contractor to the accounts under the Agreement;
- (d) rentals, refunds or other credits received by the Contractor which apply to any charge which has been made to the accounts under the Agreement;
- (e) prices originally charged to the accounts under the Agreement for materials subsequently exported from Pakistan;
- (f) proceeds from the sale or exchange by the Contractor of plant or facilities, the acquisition costs of which have been charged to the accounts under the Agreement;
- (g) revenue received from third parties for services provided by Contractor to third parties and in respect of which costs have been charged to the accounts under the Agreement;
- (h) legal costs charged to the accounts under this Accounting Procedure and subsequently recovered by the Contractor; and
- (i) any unutilized portion of an Escrow Account for Abandonment Costs.

ARTICLE 6
NOH-RECOVERABLE COSTS

6.1 The following costs shall be non-recoverable (whether directly as such or indirectly as a part of any other charges or expenses) for purpose of either Cost Recovery Oil or Cost Recovery Gas under Article VI of the Agreement:

- (a) cost and charges incurred before the Effective Date including costs in respect of preparation, signature or execution of the Agreement, and costs and charges incurred after the termination of the Agreement, other than Abandonment Costs;
- (b) Expenditure in respect of any financial transaction to negotiate, float or otherwise obtain or secure funds for Petroleum Operations including but not limited to interest, commission, brokerage and fees related to such transaction as well as exchange losses on loan or other financing whether between Affiliates or otherwise;
- (c) Expenditure incurred in obtaining, furnishing and maintaining the guarantees required under the Agreement and any other amount spent on indemnities with regard to non-fulfilment of contractual obligations;
- (d) costs related to administrative overhead outside of Pakistan for the following types of assistance (which are considered to be fully compensated by the appropriate overhead charges detailed in Article 2.1(1)):

Executive: time of executive officers above the rank of regional exploration manager;

Treasury: financial and exchange problems and payment of invoices;

Purchasing and Forwarding: procuring and forwarding equipment and supplies;
and

Exploration and Production: directing, advising and controlling the entire project;

- (e) costs for which records do not exist;
- (f) costs of goods and services in excess of the values established from the principles in Article 1.9. Costs shall include such costs as export broker's fees, transportation charges, loading and unloading fees, import duties, surcharges and License fees associated with the procurement of materials and equipment, and applicable taxes;
- (g) charges for goods and services which are not in accordance with the relevant agreement with a Subcontractor or supplier;

- (h) charges for goods in excess of the amount allowed by Article 4 hereof or which the condition of the material does not accord with their prices;
- (i) any costs not reasonably required for the Petroleum Operations;
- (j) all costs including marketing, transportation and processing incurred downstream of the Measurement Point;
- (k) royalties, income taxes and other taxes, payments, levies (other than those referred to in Article 6.2 of the Agreement) incurred outside Pakistan;
- (l) amounts paid under Article XXIV of the Agreement;
- (m) costs and taxes of expert determination or arbitration pursuant to Article XXIX of the Agreement;
- (n) fines and penalties imposed by any authority or Court of Law in Pakistan;
- (o) donations or contributions, unless previously approved by Government Holdings;
- (p) costs involved in creation and management of any partnership or joint venture arrangement, or costs of acquisition of an interest in the Agreement or the Contract Area;
- (q) amounts paid with respect to non-fulfilment of a contractual obligation;
- (r) costs incurred which:
 - (i) are covered by insurance for Included Risks;
 - (ii) are a result of failure to insure where insurance is required pursuant to the Agreement;
 - (iii) are receivable for any insured loss that is an Included Risk and which was not claimed by Contractor under its policies of insurance; or
 - (iv) would have been receivable by Contractor where Contractor has self-insured with Government Holdings' approval within Article 2.1(h);
- (s) costs and Expenditure incurred as a result of willful misconduct or negligence of Contractor; and
- (t) Expenditure made from an escrow account maintained for the purpose of abandonment as provided for in Article 7.12 of the Agreement.

6.2 Costs in Emergencies

Costs which are otherwise non-recoverable under Articles 6.1(f), (g), (h) or (i) may be recovered if they were incurred in accordance with Article 16.3(b) of the Agreement.

ARTICLE 7

IHWENTORIES AND INVENTORY STATEMENT 7.1

Periodic Inventories, Notice end Representation

At reasonable intervals as agreed between Government Holdings and Contractor, but in any event at least once a year and on termination of the Agreement, inventories of the material shall be taken by Contractor, which shall include all material, physical assets and construction projects.

Written notice of intention to take an inventory shall be given by Contractor to Government Holdings at lease thirty (30) days before any inventory is to begin so that Government Holdings may be represented when any inventory is taken.

Failure of Government Holdings to be represented at an inventory shall bind Government Holdings to accept the inventory taken by Contractor who shall, in that event, furnish Government Holdings with a copy.

7 2 Reconciliation and Adjustmentof Inventories

Reconciliation of inventory shall be made by Contractor and Government Holdings, with a list of shortages and overages being jointly determined, and the inventory shall be accordingly adjusted by Contractor.

7 3 Inventory Statement

- (a) Contractor shall maintain detailedrecords of property acquired for Petroleum Operations.
- (b) On a Quarterly basis, Contractor shall provide Government Holdings an Inventory Statement containing:
 - (i) description and codes of all controllable assets and materials;
 - (ii) amount charged to the accounts for each asset; and
 - (iii) date on which each asset was charged to the account.

7 4 Identification

To the extent possible and reasonable, all assets shall be identified for easy inspection with the respective codes specified in the manuals prepared by Contractor.

75 Special Inventories

Whenever there is an assignment or other major change in the ownership of the Petroleum Operations, Government Holdings may require the taking of a special Inventory.

ARTICLE 8
PRODUCTION STATEMENT

8.1 Contractor's Production Statement shall contain details of the quantity of Crude Oil/LPG/Condensate and Natural Gas produced and saved, lost or flared during the Calendar Month, and the additions to and withdrawals from production inventory during the Calendar Month. The Production Statement shall be prepared in accordance with the following principles:

- (a) the production sharing shall be determined on the basis of all Crude Oil/LPG/Condensate and Natural Gas produced and saved from the Contract Area and measured at the Measurement Point or Points during the respective Month;
- (b) the production in BOE, for the purpose of applying the provision of Article 6.6 of the Agreement, shall be determined using the lower or net heating value of Crude Oil, Condensate, Natural Gas and LPG; and
- (c) the volumes of Petroleum shall be corrected for water and sediments, and shall be determined on the basis of standard temperatures and pressures. The energy content, gravity, sulphur content, and other quality indicators of the Petroleum shall be determined and registered regularly.

ARTICLE 9
VALUE OF PRODUCTION STATEMENT

9.1 Government Holdings and Contractor shall prepare a Statement providing calculations of the value of the Available Oil and Available Gas produced and sold at the Measurement Point(s) in accordance with the Agreement. This Value of Production Statement shall include:

- (a) the quantities and prices realized by the Contractor as a result of sales of Crude Oil, Condensate, LPG and Natural Gas, to third parties during the Calendar Month in question;
- (b) the quantities and prices realized by the Contractor as a result of sales of Crude Oil, Condensate, LPG and Natural Gas, during the Calendar Month in question to parties other than third parties;
- (c) information available to the Contractor concerning the prices of Crude Oil, Condensate LPG and Natural Gas, produced by the main petroleum exporting countries of relevance for the determination of the value of those products, including contract prices, discounts and premiums and prices obtained in the spot market, in accordance with the Agreement; and
- (d) the quantities and prices realized by the Contractor and Government Holdings as a result of the sales of Natural Gas.

ARTICLE 10
COST BECOWEBY AMD PROFIT SHARING STFITEMEHT

10.1 Contractor shall render to Government Holdings not later than thirty (30) days after each Calendar Month a statement for that Calendar Month showing:

- (a) recoverable costs carried from the previous Calendar Month if any;
- (b) recoverable costs incurred during the Calendar Month;
- (c) total recoverable costs for the Calendar Month;
- (d) quantity and value of Cost Recovery Oil and Cost Recovery Gas taken and separately disposed of by Contractor during the Calendar Month;
- (e) amount of costs recovered for the Calendar Month;
- (f) total cumulative amount of costs recovered up b the end of the Calendar Month in question;
- (g) amount of recoverable costs carried into the succeeding Calendar Month, if any;
- (h) quantity of Profit Oil and Profit Gas taken and separately disposed of by Contractor and Government Holdings during the Calendar Month;
- (i) the allocation of recoverable costs to Cost Recovery Oil and Cost Recovery Gas; and
- (j) the amount of costs remaining to be recovered (if any).